FITCH AFFIRMS ABN AMRO BANK AT 'A+'; OUTLOOK STABLE

Fitch Ratings-London-24 November 2017: Fitch Ratings has affirmed ABN AMRO Bank N.V.'s Long-Term Issuer Default Rating (IDR) at 'A+' with a Stable Outlook, Viability Rating (VR) at 'a' and Short-Term IDR at 'F1'. A full list of rating actions is at the end of this rating action commentary.

The rating actions are part of a portfolio review of major Dutch banking groups rated by Fitch.

KEY RATING DRIVERS
IDRS, DERIVATIVE COUNTERPARTY RATING AND SENIOR DEBT
ABN AMRO's Long-Term IDR and senior debt ratings are one notch above the bank's VR because Fitch believes the risk of default on senior obligations, as measured by the Long-Term IDR, is lower than the risk of the bank failing, as measured by its VR.

The one-notch uplift reflects the bank's significant qualifying junior debt buffer, which could be made available to protect senior obligations from default in case of failure, either under a resolution process or as part of a private-sector solution (ie distressed debt exchange) to avoid a resolution action.

Without such a private sector solution, we would expect a resolution action to be taken on ABN AMRO when it breaches minimum capital requirements. We have assumed that the intervention point would be around the bank's current minimum common equity Tier 1 (CET1) requirement of 6.25% (Pillar 1 and Pillar 2 - excluding the combined buffer requirements (CBR)).

We further assume ABN AMRO would need to meet its total minimum capital requirements immediately after a resolution action, which on a fully loaded basis, including the CBR, currently amounts to 15.25%. Taking also into account additional undisclosed Pillar 2 guidance as well as potential risk weight increase in a stress scenario, a qualifying junior debt buffer of 10% of total risk-weighted assets (RWA) would most likely be sufficient to restore the bank's viability without affecting senior credits.

At end-September 2017, the qualifying junior debt buffer was 11.7% of RWAs. The bank has been building up its buffer of eligible liabilities to meet the upcoming minimum requirement for own funds and eligible liabilities (MREL) through capital and subordinated instruments. Fitch therefore expects some continued issuance of subordinated instruments. The bank will potentially also use non-preferred senior debt in the future for the same purpose.

The Derivative Counterparty Rating (DCR) is at the same level as the Long-Term IDR because under Dutch legislation, derivative counterparties have no preferential status over other senior obligations in a resolution scenario.

The Short-Term IDR of 'F1' maps to the lower of the two options of an 'A+' Long-Term IDR. While Fitch believes ABN AMRO's funding and liquidity is sound, it is not outperforming similarly rated peers.

VR
ABN AMRO's VR reflects a strong Dutch franchise, complemented by the bank's international private banking and energy, commodities and transportation franchises (ECT), which provide

ABN AMRO with resilient revenue generation. The ratings take into account the bank's solid risk-weighted capital ratios, expected gradual asset quality improvements and a sound funding and liquidity profile. The ratings also factor in ABN AMRO's predominantly Dutch focus and thus limited geographical diversification.

We expect the bank to maintain conservative credit standards as the Dutch government gradually divests its holdings in the bank (currently 56%), and that the strategic direction will not change materially. Asset quality has improved so far in 2017, with a decrease in impaired loans reported across all lending segments, particularly in corporate banking. The ratio of impaired loans-to-gross loans was 2.9% at end-September 2017, down from 3.3% at end-2016. Low-risk Dutch mortgage loans represent over half the bank's loan book. We expect that ABN AMRO's asset quality will improve further as the bank benefits from sound economic growth, decreasing unemployment and a growing housing market in the Netherlands.

ABN AMRO's profitability is healthy and compares well with that of similarly rated peers. Its operating profit/RWAs stood at 3.5% at end-9M17, and return on average equity of 16.2% was well above the bank's target range of 10%-13%. Fitch expects the bank to continue to benefit from healthy revenue generation and low loan impairment charges while maintaining a largely flat cost base.

ABN AMRO's risk-weighted capitalisation is sound and compares well with peers'. Its Fitch Core Capital (FCC)/RWA ratio stood at 17.5% at end-September 2017, and the fully loaded CET1 ratio was a solid 17.6%. Leverage is moderate, with a leverage ratio of 4%. The leverage ratio is affected by the regulatory treatment of certain derivative exposures in ABN AMRO's clearing business. A change in regulatory approach is possible and could result in a 45-55bp increase in the leverage ratio, making it more in line with similarly rated peers'. Fitch expects the bank to maintain solid capital ratios, underpinned by resilient internal capital generation and a moderate dividend payout ratio (50% from 2017).

The bank's funding is fairly diverse. Reliance on wholesale funding has reduced in recent years, but the large mortgage loan market in the Netherlands, combined with significant pension savings (resulting in limited inflow of deposits into the banking system), means ABN AMRO is likely to maintain some wholesale reliance. Access to wholesale markets is diversified. Its liquidity buffer is ample and of high quality.

SUPPORT RATING AND SUPPORT RATING FLOOR
The Support Rating of '5' and Support Rating Floor of 'No Floor' reflect Fitch's view that senior creditors can no longer rely on receiving full extraordinary support from the sovereign in the event that ABN AMRO becomes non-viable. The EU's Bank Recovery and Resolution Directive and the Single Resolution Mechanism for eurozone banks provide a framework for resolving banks that is likely to require senior creditors participating in losses, if necessary, instead of or ahead of a bank receiving sovereign support.

SUBORDINATED DEBT AND OTHER HYBRID SECURITIES
Subordinated debt and hybrid securities issued by ABN AMRO are notched off the bank's VR. Subordinated (Tier 2) debt is rated one notch below ABN AMRO's VR to reflect above- average loss severity of this type of debt.

ABN AMRO's CRD IV-compliant perpetual non-cumulative additional Tier 1 instruments are notched five times below the bank's VR. The notes are subject to automatic temporary write-down if ABN AMRO Group N.V.'s consolidated CET1 ratio falls below 7% or ABN AMRO's standalone CET1 falls below 5.125%, and any coupon payments may be cancelled at the discretion of the bank. The notching reflects two notches for loss severity in light of the notes' deep subordination and three notches for additional non-performance risk relative to the VR given a high write-down trigger and fully discretionary coupons.

SUBSIDIARY AND AFFILIATED COMPANY
ABN AMRO Funding LLC is a US-based funding vehicle fully owned by ABN AMRO. The rating of the US commercial paper debt securities issued by the vehicle is aligned with ABN AMRO's Short-Term IDR, based on Fitch's view of an extremely high probability of support from ABN AMRO if required. This view is underpinned by ABN AMRO's guarantees on the securities issued by ABN AMRO Funding LLC.

RATING SENSITIVITIES
IDRS, DCR AND SENIOR DEBT
As the Long-Term IDR and senior debt ratings are notched up from the ABN AMRO's VR, they are sensitive to a change in the bank's VR.

The Long-Term IDR and senior debt ratings are also sensitive to a material reduction in the size of the qualifying junior debt buffer, in particular should it fall below 10% of RWAs. The notching is sensitive to changes in assumptions on resolution intervention point and post-resolution capital needs, and the development of resolution planning more generally.

The Long-Term IDR will be downgraded if the bank replaces a substantial amount of qualifying junior debt with non-preferred senior notes, but preferred senior debt may in this case receive a one-notch uplift from the Long-Term IDR, provided the combined buffer of qualifying junior debt and non-preferred senior notes exceeds 10% of RWAs.

VR
Downward pressure, although not expected, would most likely result from a material deterioration in the bank's earnings generation or asset quality, affecting capital or access to/cost of wholesale funding.

ABN AMRO's long-term strategy includes maintaining a moderate risk appetite. Fitch does not expect changes to the bank's strategy, but significant deviations from the moderate risk appetite and/or operating with reduced liquidity or capital buffers could be rating-negative.

The current high VR, particularly given ABN AMRO's limited geographical diversification, mean upside is limited.

SUPPORT RATING AND SUPPORT RATING FLOOR
An upgrade of the Support Rating or upward revision of the Support Rating Floor would be contingent on a positive change in the Dutch sovereign's propensity to support its banks. While not impossible, this is highly unlikely, in Fitch's view.

SUBORDINATED DEBT AND OTHER HYBRID SECURITIES
Subordinated debt and other hybrid capital are all notched down from the bank's VR in accordance with Fitch's assessment of each instrument's respective non-performance and relative loss severity risk profiles, which vary considerably. Their ratings are primarily sensitive to a change in ABN AMRO's VR.

Additional Tier 1 securities are also sensitive to Fitch changing its assessment of the probability of their non-performance risk relative to the risk captured in ABN AMRO's VR.

SUBSIDIARY AND AFFILIATED COMPANIES
ABN AMRO Funding LLC's debt rating is aligned with ABN AMRO's short-term debt rating and is therefore sensitive to changes in ABN AMRO's Short-Term IDR.

The rating actions are as follows:

ABN AMRO Bank N.V.
Long- Term IDR: affirmed at 'A+'; Outlook Stable
Short-Term IDR: affirmed at 'F1'
Viability Rating: affirmed at 'a'
Support Rating: affirmed at '5'
Support Rating Floor: affirmed at 'No Floor'
Derivative counterparty rating: affirmed at 'A+(dcr)'
Long-term senior unsecured debt and programme ratings: affirmed 'A+'
Short-term senior unsecured debt and programme ratings: affirmed at 'F1'
Commercial paper: affirmed at 'F1'
Subordinated debt: affirmed at 'A-'
Additional Tier 1 securities (XS1278718686, XS1693822634): affirmed at 'BB+'

ABN AMRO Funding USA LLC
Short-term senior unsecured notes: affirmed at 'F1'

Contact:

Primary Analyst
Bjorn Norrman
Senior Director
+44 20 3530 1330
Fitch Ratings Limited
30 North Colonnade
London E14 5GN

Secondary Analyst
Konstantin Yakimovich
Director
+44 20 3530 1789

Committee Chairperson
Olivia Perney Guillot
Senior Director
+33 144 299 174

Media Relations: Peter Fitzpatrick, London, Tel: +44 20 3530 1103, Email:
peter.fitzpatrick@fitchratings.com.

Additional information is available on www.fitchratings.com

Applicable Criteria
Global Bank Rating Criteria (pub. 25 Nov 2016)
https://www.fitchratings.com/site/re/891051