MOODY'S INVESTORS SERVICE

Credit Opinion: ABN AMRO Bank N.V.

Global Credit Research - 31 Jul 2012

Amsterdam, Netherlands

Ratings

Category	Moody's Rating
Outlook	Stable
Bank Deposits	A2/P-1
Bank Financial Strength	C-
Baseline Credit Assessment	(baa2)
Adjusted Baseline Credit Assessment	(baa2)
Issuer Rating	A2
Senior Unsecured	A2
Subordinate	Baa3
Jr Subordinate	Ba2 (hyb)
Commercial Paper -Dom Curr	P-1
Other Short Term	(P)P-1

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Key Indicators

ABN AMRO Bank N.V. (Consolidated Financials)[1]

	[2]**12-11**	[2]**12-10**	[2]**12-09**	**Avg.**
Total Assets (EUR million)	**407,015**	**379,398**	**386,517**	[3]**2.62**
Total Assets (USD million)	**528,364**	**508,979**	**554,552**	[3]**-2.39**
Tangible Common Equity (EUR million)	**16,086**	**12,976**	**9,435**	[3]**30.57**
Tangible Common Equity (USD million)	**20,883**	**17,408**	**13,537**	[3]**24.20**
Net Interest Margin (%)	**1.31%**	**1.30%**	**1.13%**	[4]**1.24%**
PPI / Avg RWA	**2.03%**	**1.19%**	**-**	[5]**1.61%**
Net Income / Avg RWA	**2.02%**	**0.16%**	**-**	[5]**1.09%**
(Market Funds - Liquid Assets) / Total Assets (%)	**11.62%**	**13.86%**	**15.61%**	[4]**13.70%**
Core Deposits / Average Gross Loans (%)	**75.99%**	**74.72%**	**73.99%**	[4]**74.90%**
Tier 1 Ratio (%)	**13.00%**	**11.90%**	**-**	[5]**12.45%**
Tangible Common Equity / RWA (%)	**13.60%**	**11.15%**	**-**	[5]**12.38%**
Cost / Income Ratio (%)	**69.08%**	**81.40%**	**77.02%**	[4]**75.84%**
Problem Loans / Gross Loans (%)	**3.08%**	**3.10%**	**2.89%**	[4]**3.02%**
Problem Loans / (Equity + Loan Loss Reserves) (%)	**42.84%**	**51.35%**	**62.76%**	[4]**52.32%**

Source: Moody's

[1] All figures are adjusted using Moody's standard adjustments [2] Basel II with 80% transitional floor; IFRS [3] Compound Annual Growth Rate based on IFRS reporting periods [4] IFRS reporting periods have been used for average calculation [5] Basel II & IFRS reporting periods have been used for average calculation

Opinion

RECENT CREDIT DEVELOPMENTS

On 25 July 2012, we changed the outlook to negative from stable on the debt instruments issued by six Dutch banks, including ABN AMRO Bank N.V. (ABN AMRO), which benefit from an unconditional and irrevocable guarantee of the Kingdom of the Netherlands. This action followed our decision to change to negative from stable the outlook on the ratings of the government of the Netherlands, announced on 23 July 2012. For more details, please refer to our press release "Moody's changes outlook to negative from stable on bank debt guaranteed by the Netherlands".

On 15 June 2012, we confirmed the standalone C- bank financial strength rating (BFSR) of ABN AMRO and lowered the standalone credit assessment to baa2 from baa1. The bank's long-term debt and deposit ratings were downgraded to A2 from Aa3.

This concluded our review announced on 15 February 2012 on a large number of European banks, reflecting the challenges that we consider these institutions face, notably (i) a weakening economic environment; (ii) restricted access and costly market funding; and, (iii) pressure on earnings.

The outlook is stable on both the BFSR and the long-term ratings. ABN AMRO's Prime-1 short-term rating was unaffected by the 15 June 2012 rating actions.

For more information on the rationale for the 15 June 2012 rating actions on ABN AMRO, please see "Moody's downgrades Dutch banking groups; most outlooks now stable".

SUMMARY RATING RATIONALE

Unless noted otherwise, data in this report is sourced from company reports and Moody's Banking Financial Metrics.

The C- BFSR assigned to ABN AMRO Bank maps to a baa2 standalone credit assessment. The rating reflects the bank's strong franchise in the Dutch market, its balanced business mix - between retail and commercial banking - and the substantial progress it has made towards reaching the full operational integration of the two former banks, ABN AMRO Bank N.V. and Fortis Bank Nederland N.V. (merged in July 2010). The rating also considers the effects of the challenging business environment on ABN AMRO's credit fundamentals, which we believe will result in lower profitability and weaker asset quality in the coming quarters.

ABN AMRO's A2 long-term global local-currency (GLC) deposit rating incorporates a three-notch uplift for systemic support from the bank's baa2 standalone credit assessment, under our Joint-Default Analysis (JDA) methodology. The ratings uplift is based on our assessment of a very high probability of systemic support from the Dutch government, due to ABN AMRO's size and importance in the domestic banking sector. The Dutch government holds 100% of the bank's ordinary shares.

Rating Drivers

- ABN AMRO has a strong franchise in the Dutch retail/commercial banking markets and a strong presence in private banking in the Netherlands, and in other selected European countries

- The loan book is relatively granular, dominated by retail and corporate lending

- The bank's liquidity is sound and its capital base is strong, relative to its rated peers

- Asset quality and earnings remain under pressure in the current difficult operating environment

- ABN AMRO's profitability is currently modest

Rating Outlook

The outlook on both the BFSR and the long-term ratings is stable. This reflects our incorporation into the bank's ratings of the expected pressures from the difficult business environment and the effects these will have on the standalone credit profile of the bank.

What Could Change the Rating - Up

Upwards pressure on the BFSR could develop if the bank (i) improves its earnings generation capacity; (ii) increases its asset quality level, despite the weak macroeconomic environment; (iii) maintains its access to capital markets, and concurrently reduces its refinancing risk by improving its funding profile; and, (iv) meets its strategic goals without incurring extra risks. An upgrade of the BFSR would likely lead to an upgrade of the debt and deposit ratings.

What Could Change the Rating - Down

The BFSR could be downgraded if the weakening macroeconomic environment were to lead to further significant deterioration of the bank's credit fundamentals, notably its franchise value, risk positioning, liquidity, profitability and capital. The BFSR could also be downgraded if the bank (i) fails to reach the expected operational efficiencies resulting from the integration process; and/or (ii) materially increases its risk profile. A downgrade of the debt and deposit ratings would be triggered by a downgrade of the BFSR, or by a change in our assessment of the currently high probability of systemic support from the Dutch state.

Recent Results and Developments

In Q1 2012, ABN AMRO reported net income of EUR454 million - representing a 16% reduction compared with the same period a year earlier - driven by a 50% increase in provisioning costs and a 5% reduction in operating income. This was partly off-set by a 6% decrease in operating expenses. The bank's core Tier 1 was 10.6% in Q1 2012 (without Basel I capital floors), down from 10.7% at the end of Q4 2011.

In FY 2011, ABN AMRO made a net profit of EUR689 million, following a loss of EUR414 million a year earlier. This result was driven by a 2% increase in net interest income to EUR5 billion, a 3% increase in fee and commission income to EUR1.8 billion and a 14% reduction of operating expenses to EUR5.3 billion. However, the bank's reported loan-impairment charges more than doubled compared with the previous year to EUR1.8 billion (pre-tax). This was due to EUR0.9 billion of impairments on its legacy book of Greek corporate loans (totalling EUR1.3 billion). The results were also affected by separation and integration costs of EUR362 million.

ABN AMRO had a core Tier 1 capital ratio of 10.7% (un-floored) at the end of 2011, up from 10.4% in the previous year. We estimate that the bank's core Tier 1 ratio with Basel I capital floors was 9.4% as of the same reporting date, although we understand that the Dutch financial regulator does not require the bank to apply the capital floors. The underlying cost-to-income ratio was 64% at end-2011, down from 70% a year earlier.

During 2011, the bank's balance sheet increased by EUR27 billion, or 7% year on year, to EUR405 billion. Securities financing and commercial lending activities were the main drivers for this growth, although it was partly offset by a reduction in the mortgage book. The loan-book increase reflects the intention of the bank's management to re-build certain parts of its commercial banking business, following the forced asset sale to Deutsche Bank in 2010.

DETAILED RATING CONSIDERATIONS

Detailed considerations for ABN AMRO's currently assigned ratings are based on the latest annual and interim financial reports available. The quantitative scores are based on the three-year averages for the years 2009/2011.

Franchise Value

ABN AMRO has a strong franchise in the highly concentrated Dutch market, where it is the third largest player in retail banking, serving 6.8 million customers. In private banking, ABN AMRO is ranked first in its home market and has significant activities in the rest of Europe. Assets under management were EUR156 billion at end-March 2012, down 4% from mid-2011, due to declining asset prices and the disposal of the Swiss private-banking business.

The bank has maintained a strong position in corporate banking, despite the sale of part of this business to Deutsche Bank in 2010, as a result of the EC Remedy. ABN AMRO is an important player in some global specialist markets such as Energy, Commodities and Transportation (ECT), as well as clearing.

We expect ABN AMRO's underlying earnings to remain broadly stable in the coming quarters, as retail banking provides the largest contribution. However, downwards pressures on profits from the current difficult business environment have intensified, with credit-negative effects on the bank's franchise value. This has pushed up its funding costs, lowered transaction volumes and caused its asset quality to deteriorate.

Risk Positioning

We consider ABN AMRO's risk position as modest overall. Management has thus far demonstrated a prudent approach to risk management and recent examples include a EUR0.9 million (pre-tax) impairment provision taken in 2011 on a EUR1.3 billion legacy portfolio of Greek corporate loans and a reduction of Italian and Belgian government bond holdings. Credit risk is the largest risk by RWA, representing 82% of total RWAs at end-March 2012. The bank has limited market-risk exposure accounting for around 6% of total RWAs at the same reporting date, with an average VaR of EUR3.4 million in 2011, down from EUR4.9 million a year earlier.

Operating Environment

ABN AMRO primarily operates in the Netherlands, whose economy entered recession in Q4 2011. Similarly to other European countries, the operating environment in the Netherlands has become more difficult in recent months, but it remains one of the strongest economies in Europe. One particular area of concern is the short-term impact of the housing market reform and uncertainty around the future tax deductibility of mortgage interests, which have led to reduced transaction volumes and lower property prices. However, we believe that these will likely yield benefits in the longer term.

Profitability

ABN AMRO's profitability is modest, as the bank's underlying business is constrained by separation and restructuring costs; the bank expects these costs to cease at year-end 2012. Excluding exceptional items (separation and integration costs), profitability has been improving since 2010, with pre-provision income for 2011 of EUR2.8 billion, up 20% from EUR2.3 billion for the same period last year. ABN AMRO reported higher net interest and non-interest income in 2011 compared with previous years. However, we expect that revenues will come under pressure and that asset quality will continue to deteriorate in the current difficult business environment. The bank has demonstrated its ability to reduce operating expenses and has indicated that it will benefit from further cost-rationalisation initiatives. Furthermore, we expect the operational integration process to generate long-term benefits in terms of both cost synergies and earnings.

Liquidity

We think that ABN AMRO has a sound liquidity position. At end-2011, the bank had a customer deposit base of EUR188 billion (excluding repos and securities financing transactions) and a combined retail and corporate loan book of EUR255 billion. This results in a relatively high loan-to-deposit ratio of 136% (as per our calculations), although we acknowledge that the ratio is on a declining trend.

ABN AMRO's short-term funding stock was of EUR39.3 billion at end-December 2011, representing 13% of total funding (as per our calculations). However, if we include the portion of medium-long term funding due to mature in 2012, the banks' short-term funding requirements increase by around EUR16 billion to around EUR55.3 billion, representing 18% of the total funding. Due to its reliance on short-term funding, the bank remains vulnerable to market disruption and fluctuations in investor sentiment.

To mitigate this risk, the bank had a substantial liquidity buffer of EUR58.5 billion at end-December 2011, covering all of the bank's short-term liabilities. It confirms that the bank has an adequate liquidity position, which is reflected by pro-forma Basel III Liquidity Coverage and Net Stable Funding ratios of approximately 69% and 100%, respectively, at end-2011. We note that the size of the liquidity buffer reduced to EUR52.3 billion at the end of Q1-2012; however, in our view, the liquidity buffer remains more than adequate to cover liquidity risk under our central scenario.

The bank has an adequate liquidity management framework and exhibits a well diversified funding mix. ABN AMRO has been able to access the capital markets in recent quarters, albeit at higher prices than in the past, because of the adverse market conditions. During the first four months of 2012, the bank raised EUR9.7 billion of long-term debt in various currencies, representing around two thirds of the 2012 issuance plan. We note that ABN AMRO has repaid the bulk of its government-guaranteed debt, reducing its outstanding amount to EUR2.5 billion at end-April 2012.

Capitalisation

We believe that ABN AMRO is well capitalised, with a reported core Tier 1 ratio of 10.6% and a total Tier 1 ratio of 12.9% at end-March 2012 (with no transitional capital floors). We estimate that the corresponding ratios with Basel I capital floors were approximately 9.3% and 11.3%, respectively, as of the same reporting date.

In our view, ABN AMRO is relatively well positioned to manage the transition to Basel III. We note that the Dutch central bank identified ABN AMRO as one of the local systemically important financial institutions, which will be subject to an additional capital surcharge, although the amount is currently unknown.

The Dutch government owns 100% of the bank's ordinary shares as a result of the acquisition following the onset of the global financial crisis in 2008. The Dutch authorities have indicated that they will not begin considering selling the state's stake in the bank (preferably through an initial public offering) until 2014, at the earliest.

Asset Quality

ABN AMRO's customer loan book comprises around 60% of residential mortgages and around 40% of commercial loans. Similar to its peers in the Dutch market, the bank's overall asset quality has begun to show signs of deterioration in recent quarters; total non-performing loans represented 3.1% of total loans at end-2011 (as per our calculations). However, this ratio masks significant differences across the different loan portfolios. Impairment charges totalled EUR1.8 billion in 2011, more than double the amount in the previous year, albeit this increase was largely due to a EUR0.9 billion impairment charge taken against a legacy portfolio of Greek corporate loans. In Q1 2012, the bank reported a 50% increase in provisioning costs to EUR0.2 billion compared to the same period a year earlier, although this amount is still relatively small in absolute terms. We expect asset quality to remain under pressure in the current difficult business environment. Positively, we note that the bank's exposures to weak, periphery euro area sovereigns were largely reduced in 2011 and its residual exposures are minimal.

Global Local Currency Deposit Rating (Joint Default Analysis)

ABN AMRO's GLC deposit rating is supported by the bank's C- BFSR and the Netherlands' Aaa local-currency deposit ceiling. In accordance with our joint default analysis (JDA) methodology, ABN AMRO receives a three-notch uplift from its baa2 standalone credit assessment, reflecting the very high likelihood of support from the Dutch government, in case of need, bringing the GLC rating to A2.

Notching Considerations

In line with our current guidelines for rating bank hybrid securities and subordinated debt published in November 2009, ABN AMRO's dated subordinated debt is rated Baa3, i.e., one notch below the bank's baa2 standalone credit strength.

ABN AMRO Bank N.V.'s two outstanding hybrid securities - the remaining GBP150 million perpetual subordinated upper tier 2 notes (ISIN : XS0244754254) and EUR1,000 million perpetual Tier 1 capital securities (ISIN : XS0246487457) - are rated Ba2(hyb), reflecting Moody's view that the securities continue to carry a probability of coupon deferral, in light of the bank's receipt of substantial state aid. For further details on these securities, please refer to our Press Release "Moody's concludes its review on hybrid securities ratings for Fortis Bank Nederland N.V. and its subsidiaries", published on 3 March 2010.

ABOUT MOODY'S BANK RATINGS

Moody's Bank Financial Strength Ratings (BFSRs) represent Moody's opinion of a bank's intrinsic safety and soundness and, as such, exclude certain external credit risks and credit support elements that are addressed by Moody's Bank Deposit Ratings. Bank Financial Strength Ratings do not take into account the probability that the bank will receive such external support, nor do they address risks arising from sovereign actions that may interfere with a bank's ability to honor its domestic or foreign currency obligations. Factors considered in the assignment of Bank Financial Strength Ratings include bank-specific elements such as financial fundamentals, franchise value, and business and asset diversification. Although Bank Financial Strength Ratings exclude the external factors specified above, they do take into account other risk factors in the bank's operating environment, including the strength and prospective performance of the economy, as well as the structure and relative fragility of the financial system, and the quality of banking regulation and supervision.

Moody's uses the Baseline Credit Assessment (BCA) to map BFSRs onto the 21-point Aaa-C rating scale and like the BFSR, it reflects a bank stand- alone default risk. Each point on the Aaa-C scale represents a specific probability of default and therefore allows Moody's to use the BCA as an input to Moody's Joint Default Analysis (JDA), described below. The baseline credit assessment reflects what the local currency deposit rating of the bank with the given BFSR would be without any assumed external support from a government or third party

Global Local Currency Deposit Rating

A deposit rating, as an opinion of relative credit risk, incorporates the Bank Financial Strength Rating as well as Moody's opinion of any external support. Specifically, Moody's Bank Deposit Ratings are opinions of a bank's ability to repay punctually its deposit obligations. As such, Moody's Bank Deposit Ratings are intended to incorporate those aspects of credit risk relevant to the prospective payment performance of rated banks with respect to deposit obligations, and includes: intrinsic financial strength, sovereign transfer risk (in the case of foreign currency deposit ratings), and both implicit and explicit external support elements. Moody's Bank Deposit Ratings do not take into account the benefit of deposit insurance schemes which make payments to depositors, but they do recognize the potential support from schemes that may provide assistance to banks directly.

According to Moody's joint default analysis (JDA) methodology, the global local currency deposit rating of a bank is determined by the incorporation of any external elements of support into the bank's Baseline Credit Assessment. In assigning the local currency deposit rating to a bank, the JDA methodology also factors in the rating of the various potential support providers (parent company, cooperative group, regional or national governments), as well as the degree of dependence that may exist between each one of them and the bank. Moody's assessment of the probability of systemic support (by a national government) is derived from the analysis of the capacity of a government and its central bank to provide support on a system-wide basis. The systemic support indicator is determined for a particular country and serves as an input for all bank ratings in that country. The support indicator can be set at, above or, in rare cases, below the government's local currency bond rating for that country.

National Scale Rating

National scale ratings are intended primarily for use by domestic investors and are not comparable to Moody's globally applicable ratings; rather they address relative credit risk within a given country. A Aaa rating on Moody's National Scale indicates an issuer or issue with the strongest creditworthiness and the lowest likelihood of credit loss relative to other domestic issuers. National Scale Ratings, therefore, rank domestic issuers relative to each other and not relative to absolute default risks. National ratings isolate systemic risks; they do not address loss expectation associated with systemic events that could affect all issuers, even those that receive the highest ratings on the National Scale.

Foreign Currency Deposit Rating

Moody's ratings on foreign currency bank obligations derive from the bank's local currency rating for the same class of obligation. The implementation of JDA for banks can lead to high local currency ratings for certain banks, which could also produce high foreign currency ratings. Nevertheless, it should be noted that foreign currency deposit ratings are in all cases constrained by the country ceiling for foreign currency bank deposits. This may result in the assignment of a different, and typically lower, rating for the foreign currency deposits relative to the bank's rating for local currency obligations.

Foreign Currency Debt Rating

Foreign currency debt ratings are derived from the bank's local currency debt rating. In a similar way to foreign currency deposit ratings, foreign currency debt ratings may also be constrained by the country ceiling for foreign currency bonds and notes; however, in some cases the ratings on foreign currency debt obligations may be allowed to pierce the foreign currency ceiling. A particular mix of rating factors are taken into consideration in order to assess whether a foreign currency bond rating pierces the country ceiling. They include the issuer's global local currency rating, the foreign currency government bond rating, the country ceiling for bonds and the debt's eligibility to pierce that ceiling.

About Moody's bank financial strength scorecard

Moody's bank financial strength model (see scorecard below) is a strategic input in the assessment of the financial strength of a bank, used as a key tool by Moody's analysts to ensure consistency of approach across banks and regions. The model output and the individual scores are discussed in rating committees and may be adjusted up or down to reflect conditions specific to each rated entity.

Rating Factors

ABN AMRO Bank N.V.

Rating Factors [1]	**A**	**B**	**C**	**D**	**E**	**Total Score**	**Trend**
Qualitative Factors (50%)						**C+**	
Factor: Franchise Value						**C**	**Neutral**
Market Share and Sustainability			**x**				
Geographical Diversification			**x**				
Earnings Stability			**x**				
Earnings Diversification [2]							
Factor: Risk Positioning						**C-**	**Neutral**
Corporate Governance [2]				**x**			
- Ownership and Organizational Complexity				x			
- Key Man Risk							
- Insider and Related-Party Risks							
Controls and Risk Management			**x**				
- Risk Management			x				
- Controls			x				
Financial Reporting Transparency		**x**					
- Global Comparability	x						
- Frequency and Timeliness		x					
- Quality of Financial Information			x				
Credit Risk Concentration				**x**			
- Borrower Concentration				x			
- Industry Concentration			x				
Liquidity Management			**x**				
Market Risk Appetite	**x**						
Factor: Operating Environment						**B+**	**Weakening**
Economic Stability			**x**				
Integrity and Corruption	**x**						
Legal System	**x**						
Financial Factors (50%)						**C-**	
Factor: Profitability						**C**	**Weakening**
PPI / Average RWA - Basel II			1.61%				
Net Income / Average RWA - Basel II			1.09%				
Factor: Liquidity						**C-**	**Neutral**
(Mkt funds-Liquid Assets) / Total Assets				13.70%			
Liquidity Management			x				
Factor: Capital Adequacy						**A**	**Neutral**
Tier 1 Ratio - Basel II	12.45%						
Tangible Common Equity / RWA - Basel II	12.38%						
Factor: Efficiency						**D**	**Weakening**
Cost / Income Ratio				75.84%			
Factor: Asset Quality						**D**	**Weakening**
Problem Loans / Gross Loans			3.02%				
Problem Loans / (Equity + LLR)					52.32%		
Lowest Combined Score (15%)						**D**	
Economic Insolvency Override						**Neutral**	
Aggregate Score						**C**	
Assigned BFSR						**C-**	

[1] - Where dashes are shown for a particular factor (or sub-factor), the score is based on non public information [2] - A blank score under Earnings diversification or Corporate Governance indicates the risk is neutral