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Research Update:
ABN AMRO Downgraded To 'A' On Execution Risk Of Merger; Fortis Bank Nederland Affirmed At 'A'; Outlooks Are Stable

Primary Credit Analyst:
Elisabeth Grandin, Paris (33) 1-4420-6685;elisabeth_grandin@standardandpoors.com

Secondary Credit Analyst:
Claire Curtin, London (44) 20-7176-7032;claire_curtin@standardandpoors.com

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Overview

- ABN AMRO Bank N.V. said its merger with Fortis Bank Nederland is on track for July 1. The resulting bank will retain the ABN AMRO Bank N.V. name and brand.
- Reflecting our view about the combined bank and the merger's execution risk, we lowered our assessment of ABN AMRO's stand-alone credit profile.
- We are downgrading ABN AMRO to 'A' from 'A+' and affirming FBN at 'A' in advance of the merger.
- The stable outlooks on ABN AMRO and FBN reflect potential support from the Dutch state shareholder during what we believe will be a difficult merger.
- We will withdraw the ratings on FBN after the merger takes place.

Rating Action

On June 25, 2010, Standard & Poor's Rating Services lowered its long-term counterparty credit rating on Netherlands-based ABN AMRO Bank N.V. to 'A' from 'A+'. The outlook is stable.

In a related action, we affirmed our 'A' long-term counterparty rating on Netherlands-based Fortis Bank (Nederland) N.V. (FBN), which is set to merge with ABN AMRO on July, 1, 2010, and we revised the outlook to stable from positive.

We also affirmed our 'A-1' short-term counterparty ratings on both FBN and ABN AMRO.

Meanwhile, we placed on CreditWatch with negative implications the 'A' subordinated debt rating on a US$250 million instrument that Netherlands-based The Royal Bank of Scotland N.V. legally owns but that has been economically allocated to ABN AMRO. (See "S&P Takes Rating Actions On Some ABN AMRO Subordinated And Hybrid Securities Based On View Of Demerged Bank Ratings," published Jan. 7, 2010.) ABN AMRO has recently stated that it plans to launch an exchange offer for this one issue in the second half of 2010.

Our rating action follows ABN AMRO's announcement earlier this week that the merger with FBN will take place as planned on July 1. The resulting bank will retain the ABN AMRO Bank N.V. name and brand. The State of The Netherlands (AAA/Stable/A-1+) will continue to wholly own the bank through the holding company ABN AMRO Group N.V.

Rationale

The ratings on ABN AMRO Bank N.V. including FBN (which we subsequently refer to as ABN AMRO) principally reflect our view of the bank's ownership by The Netherlands, combined with its good market position in Dutch banking, moderate credit risk profile, and sound capital position. However, we believe that the merger's execution risk and the likelihood that profitability and funding will remain mediocre in the coming years are weaknesses for the ratings.

The ratings incorporate two notches of uplift for potential extraordinary support above our assessment of ABN AMRO's stand-alone credit profile (SACP), in line with our expectation that the Dutch state would provide support if needed. We see Dutch State ownership as temporary and we understand that the government's intention remains to privatize ABN AMRO as soon as practically possible while preserving the financial interests of the Dutch taxpayers. We consider ABN AMRO as being of high systemic importance in The Netherlands, a country we classify as "supportive."

With pro forma €392 billion in total assets, €260 billion in loans (excluding security lending), and €205 billion of customer deposits concentrated in the Dutch market, ABN AMRO is a leading player in The Netherlands. Its business profile benefits from top market shares in the Dutch retail and commercial banking market. The private banking activities and some international merchant banking activities that FBN will bring to ABN AMRO in our view will provide moderate business and geographic diversification.

ABN AMRO's financial profile is currently significantly weaker than its business profile, with sound capital and adequate asset quality offset by weak profitability and high funding needs.

ABN AMRO's profitability is currently weak and is likely to improve only gradually. The profitability of each component of the bank--FBN and the State Acquired Businesses of the former ABN AMRO that gave birth to the new ABN AMRO in February 2010--has been weakening since the end of 2008. The reasons are the more difficult operating environment and the costs of each bank's breakout from larger groups.

We expect ABN AMRO's underlying profit to improve only moderately in 2010 and 2011, but remain close to breakeven before exceptional items. This depends on some recovery in net interest income and slightly lower credit losses in 2010 than in 2009, followed by the materialization of cost savings from synergies starting in 2011. We believe that the bank's performance is likely to remain mediocre in the next two to three years compared with that of main European peers focused on domestic retail and commercial activities.

The funding position of ABN AMRO will be weakened by the merger with FBN, which has much lower customer deposits in relation to its loan book and higher reliance on short-term funding. We estimated that the bank's pro forma ratio of loans to deposits was adequate at year-end 2009 at 127% (106% excluding externally securitized loans). Nevertheless, we expect that ABN AMRO will have to continue improving its funding mix in 2010 and 2011 by increasing its share of medium-term resources by selling residential mortgage-based securities externally and issuance of covered bonds and unsecured senior debt. The bank has also to replace debt that FBN issued under the Dutch State guarantee in 2009.

Thanks to the capital that their sole shareholder injected at year-end 2009, the two banks that are going to merge present a sound capital position. We estimated that pro forma, our risk-adjusted capital (RAC) ratio for the combined bank exceeded 9% after diversification adjustment on Dec. 31, 2009. This includes the benefit of the conversion to common equity on April 1, 2010, of the mandatory convertible notes that the Dutch State provided. We expect the merged bank's capital position to decline in the coming quarters due to negative retained earnings, while remaining at a sound level.

Outlook

The stable outlooks on ABN AMRO and FBN reflect our expectation that in the two to three coming years, and with the smooth execution of the merger, the SACP of the merged bank will rise to the level of its current long-term counterparty credit rating. We also expect ABN AMRO to continue benefiting from support from its shareholder in case of need, and that the outcome of the European Commission's current investigation into alleged State Aid will not materially affect the bank's business position or financial profile.

We would consider a negative rating action in the unlikely case that the bank's SACP deteriorates significantly and durably--for instance due to higher credit losses or heavier integration costs--without support from the bank shareholder.

We believe an upgrade in the medium term is unlikely, given the gap between the SACP and the long-term counterparty credit rating. Such a rating action would suppose not only a smooth integration process, but an unexpectedly strong increase in the bank's earnings capacity, closing the gap with peers, and confirmation of its improved risk profile.

On July 1, 2010 when the merger with FBN and ABN AMRO will become effective, we expect to withdraw the ratings on FBN.

CreditWatch

The negative implications on RBS N.V.'s US$250 million subordinated debt instrument reflect our uncertainty about the conditions of the planned exchange offer, specifically whether RBS N.V. or ABN AMRO will be the future owner. We would affirm the rating at 'A', one notch below the counterparty credit rating on RBS N.V. if it becomes the owner. Or if ABN AMRO becomes the owner, we would lower the rating to 'A-', a notch below its counterparty credit rating.

Related Criteria And Research

- Fortis Bank (Nederland)'s Mandatory Convertible Security Rating Raised To 'BB' From 'B+', April 9, 2010
- ABN AMRO Bank N.V., March 12, 2010
- ABN AMRO Bank Hybrid Instruments Lowered To 'B' As EC Broadens Investigation To Include The Bank, Feb. 12, 2010
- Fortis Bank (Nederland) Outlook To Pos On Likely Merger With Dutch State-Owned Part Of ABN AMRO; A/A-1 Ratings Affirmed, Jan. 7, 2010
- The New ABN AMRO Bank N.V. Assigned 'A+/A-1' Ratings; Outlook Negative; Well-Secured Debt Affirmed At 'AA', Feb. 5, 2010
- S&P Takes Rating Actions On Some ABN AMRO Subordinated And Hybrid Securities Based On View Of Demerged Bank Ratings, Jan. 7, 2010
- FI Criteria: Bank Rating Analysis Methodology Profile, March 18, 2004
- Use Of CreditWatch And Outlooks, Sept. 14, 2009

Ratings List

Downgraded; CreditWatch/Outlook Action; Ratings Affirmed

	To	From
ABN AMRO Bank N.V.		
Counterparty Credit Rating	A/Stable/A-1	A+/Negative/A-1
Certificate Of Deposit	A/A-1	A+/A-1
Senior Secured	AA-	AA
Senior Unsecured	A	A+
Subordinated	A-	A
Junior Subordinated (2 issues)	B	
Commercial Paper	A-1	
Fortis Bank (Nederland) N.V.		
Counterparty Credit Rating	A/Stable/A-1	A/Positive/A-1
Certificate Of Deposit	A/A-1	
Senior Unsecured	A	
Subordinated	A-	
Junior Subordinated (1 issue)	BB	
Commercial Paper	A-1	
Royal Bank of Scotland N.V. (The)		
Subordinated debt		
US$250m 7.75% ser B due 05/15/2023 ISIN US00077TAA25		
	A/Watch Neg	A

Additional Contact:
Financial Institutions Ratings Europe;FIG_Europe@standardandpoors.com

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