Summary: ABN AMRO Bank N.V.

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Summary:

ABN AMRO Bank N.V.

Credit Rating: A/Stable/A-1

Rationale

The ratings on Dutch bank ABN AMRO Bank N.V. principally reflect Standard & Poor's Ratings Services' view of potential extraordinary support from the Dutch state if needed, combined with its good market position in Dutch banking, moderate credit risk profile, and sound capital position. However, we believe that the execution risk of its merger and lower-than-peer profitability and funding are weaknesses for the ratings.

The ratings incorporate two notches of uplift above our assessment of ABN AMRO's stand-alone credit profile (SACP), in line with our expectation that the Dutch state would provide extraordinary support if needed. We consider that ABN AMRO has high systemic importance in The Netherlands, a country we classify as "supportive" to its financial system. We see the Dutch state's full ownership of ABN AMRO as temporary, evidenced by the "exit policy state participation" the government released in January 2011. In this communication, the Dutch state reiterated its intention to privatize ABN AMRO in the medium term, possibly by 2014.

On April 5, 2011, The European Commission released the outcome of its State Aid investigation into ABN AMRO, with an approbation of the support package, subject to certain conditions, in particular a ban on acquisitions. We see this outcome as consistent with our former expectation that the EC decision would not materially affect ABN AMRO's business position or financial profile.

ABN AMRO is a leading player in The Netherlands, in particular in the retail and commercial banking markets. At year-end 2010, the bank had €380 billion in total assets, €261 billion in loans (excluding security lending), and €211 billion of customer deposits largely concentrated in the Dutch market.

In 2010, ABN AMRO posted a €414 million loss stemming from exceptional costs linked to the merger with Fortis Bank Nederland (FBN) that took place in July 2010. Underlying profit improved significantly to €1.1 billion in 2010, with a positive pattern over the year, but against a low base in 2009. ABN AMRO benefited in 2010 from improved net interest income coming from moderate lending volumes and a lower cost of funding, contained overhead expenses (excluding integration and merger costs), and a sharp decline in cost of risk. Under our base case, we expect underlying profit to stabilize or improve moderately in 2011, and exceptional costs to drop sharply. These factors should enable the bank to report positive profits in 2011.

ABN AMRO has emerged with a weakened funding position following its merger with FBN, which had much lower customer deposits relative to its loan book and higher reliance on short-term funding. The bank has improved its funding mix over 2010 and will continue doing so in 2011 by increasing its share of medium-term resources.

ABN AMRO presents a sound capital position in our view, with a risk-adjusted capital (RAC) ratio amounting to 8.8% before diversification adjustments and 10.0% after diversification adjustments on Dec. 31, 2010. The bank's regulatory capital ratios stand high as well; the core equity Tier 1 ratio was 10.4% on the same date. We expect the bank's capital position to remain stable or to slightly decline as business expands over the next two years.

Outlook

The stable outlook on ABN AMRO reflects the possibility that we might increase our assessment of the bank's SACP to the level of the current long-term counterparty credit rating in the next two years, assuming the merger's smooth execution. We also expect ABN AMRO to continue benefiting from support from its shareholder in case of need.

We would consider a negative rating action in the unlikely case that ABN AMRO's SACP deteriorates significantly and durably--for instance due to higher credit losses or a more difficult-than-expected integration process--and in the absence of support from the bank's shareholder.

We view an upgrade in the medium term as remote, given the gap between our assessment of the SACP and the long-term counterparty credit rating. Raising the rating would assume not only the continuation of a smooth integration process, but also an unexpectedly strong jump in the bank's earnings generation--closing the gap with peers--and confirmation of its improved risk profile.

Related Criteria And Research

- Principles Of Corporate And Government Ratings, June 26, 2007
- Bank Rating Analysis Methodology Profile, March 18, 2004
- How Systemic Importance Plays A Significant Role In Bank Ratings, published July 3, 2007
- Improved Market Conditions And Ongoing Restructuring Should Help Dutch Banks Exit From Government Support, March 29, 2011

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