Standard & Poor's Research

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Research Update:

Dutch Bank ABN AMRO 'A/A-1' Ratings Affirmed; SACP Raised By One Notch To 'a-'; Outlook Stable

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Overview

- We are affirming our 'A/A-1' ratings on Dutch bank ABN AMRO.
- We are raising the stand-alone credit profile (SACP) on ABN AMRO to 'a-' from 'bbb+'.
- We are reducing by one notch the uplift to the long-term rating on ABN AMRO for state support from the Netherlands.
- Our stable outlook reflects our expectation of a convergence of the SACP with the final rating over the coming one to two years.

Rating Action

On June 10, 2011, Standard & Poor's Ratings Services affirmed its 'A' long-term and 'A-1' short-term counterparty credit ratings on Dutch bank ABN AMRO Bank N.V. (ABN AMRO). The outlook is stable. We raised the bank's stand-alone credit profile (SACP) to 'a-', reducing to one notch the extraordinary uplift that we factor into the long-term rating to reflect our view of explicit government support.

Rationale

The improvement in ABN AMRO's stand-alone credit profile (SACP) and the consequent reduction in the extraordinary uplift that we factor into the long-term rating to reflect our view of explicit government support is consistent with our expectation of an eventual convergence of the SACP with the rating on the bank. This is in line with the approach we have for highly systemic banks that were rescued by their national governments.

The improved SACP reflects our opinion of the progress made by ABN AMRO in executing the legal separation from RBS N.V. and the merger with Fortis Bank Nederlands (FBN), and in restoring profitability to moderate from low levels.

The ratings on ABN AMRO reflect our view of its good market position in Dutch banking, moderate credit risk profile, and sound capital position, combined with potential extraordinary support from the Dutch state. The ratings continue to be penalized by some execution risk linked to the integration of FBN, with which ABN AMRO merged on July 2010, and lower-than-peer profitability and business and geographic diversification.

The one notch of uplift above our assessment of ABN AMRO's SACP reflects our expectation that the Dutch state would provide extraordinary support if needed, in particular during the transition period of the integration with FBN. 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.

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, and €192 billion of customer deposits (excluding security lending), largely concentrated in the Dutch market.

ABN AMRO's profitability has improved substantially since the third quarter of 2010, with an increase in underlying profits and a sharp fall in exceptional expenses. The bank posted a €414 million loss in 2010 stemming from €1.5 billion of exceptional costs linked to the merger with FBN. Underlying profits, which are close to our definition of core earnings, 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. The favorable trends continued in the first quarter of 2011, when the bank posted a €0.6 billion after-tax profit. We expect profits to increase in full-year 2011 and in 2012, although at lower pace than in the first quarter of 2011, while remaining moderate.

We currently see ABN AMRO's funding and liquidity position as adequate, with a 138% loan-to-deposit ratio at year-end 2010. The bank strongly improved diversification and lengthened market resources in 2010-2011: ABN AMRO launched several secured and unsecured new debt issuance programs in 2009-2010 and issued €35 billion of long-term funding and RMBS in 2010-2011 to replace shorter term funding and maturing state-guaranteed debt. The bank also benefits from conservative liquidity risk management.

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 are also high; the core equity Tier 1 ratio was 11.3% on March 31, 2011. We expect the bank's capital position to remain stable over the next two years, with moderate business expansion being funded by improving retained earnings.

Outlook

The stable outlook on ABN AMRO reflects our view that we could increase the level of the bank's SACP to the level of the current long-term counterparty credit rating in the next 12-24 months, assuming the integration's smooth execution. This includes the delivery of the announced cost synergies as estimated by ABN AMRO, and the potential for the bank to decrease its cost-to-income ratio below 65% by 2012. We also expect ABN AMRO to maintain its sound capital position, and to continue benefiting from support from its shareholder in case of need during this transition period.

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 the level 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.

Related Criteria And Research

All articles listed below are available on RatingsDirect on the Global Credit Portal, unless otherwise stated.

- Improved Market Conditions And Ongoing Restructuring Should Help Dutch Banks Exit From Government Support, March 29, 2011
- ABN AMRO Bank N.V. Upper Tier 2 Instrument Upgraded To 'B' On Lower Risk Of Coupon Suspension, March 10, 2011
- Stand-Alone Credit Profiles: One Component Of A Rating, Oct. 1, 2010
- How Systemic Importance Plays A Significant Role In Bank Ratings, July 3, 2007

Ratings List

Ratings Affirmed

ABN AMRO Bank N.V.	
Counterparty Credit Rating	A/Stable/A-1
Certificate Of Deposit	A/A-1
Senior Secured	AA-
Senior Unsecured	A
Subordinated	A-
Junior Subordinated	B
Short-Term Debt	A-1
Commercial Paper	A-1
ABN AMRO Funding USA LLC	
Commercial Paper*	A-1

*Guaranteed by ABN AMRO Bank N.V.

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Complete ratings information is available to subscribers of RatingsDirect on the Global Credit Portal at www.globalcreditportal.com. All ratings affected by this rating action can be found on Standard & Poor's public Web site at www.standardandpoors.com. Use the Ratings search box located in the left column. Alternatively, call one of the following Standard & Poor's numbers: Client Support Europe (44) 20-7176-7176; London Press Office (44) 20-7176-3605; Paris (33) 1-4420-6708; Frankfurt (49) 69-33-999-225; Stockholm (46) 8-440-5914; or Moscow 7 (495) 783-4009.