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Research Update:

S&PCORRECT: ABN AMRO Ratings Lowered To 'A' On Increased Economic Risks In The Netherlands; Outlook Stable

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(**Editor's Note:** In the Research Update published earlier today, we misstated the qualifier for funding in the section "Ratings Score Snapshot." A corrected version follows.)

Overview

- In our view, Dutch banks are exposed to the potential of a more protracted downturn in The Netherlands and the wider eurozone.
- We have therefore revised our economic risk score for The Netherlands and our Banking Industry Country Risk Assessment to '3' from '2'.
- As a result, we have lowered our long-term ratings on ABN AMRO Bank N.V. (ABN AMRO) to 'A' from 'A+'. We have affirmed the short-term ratings at 'A-1'.
- The stable outlook on ABN AMRO reflects our expectation that the bank should be able to maintain an adequate capital position despite the difficult economic environment.

Rating Action

As previously announced on Nov. 16, 2012, Standard & Poor's Ratings Services has lowered its long-term counterparty credit ratings on ABN AMRO Bank N.V. (ABN AMRO) to 'A' from 'A+'. At the same time, we affirmed the 'A-1' short-term ratings. We also lowered the ratings on ABN AMRO's subordinated debt by one notch. The outlook is stable.

Rationale

The lowering of the long-term rating reflects our view of the impact of moderately higher economic risks on ABN AMRO stand-alone credit profile (SACP). This follows our review of the Banking Industry Country Risk Assessment (BICRA) on The Netherlands (unsolicited AAA/Negative/A-1). Against the backdrop of a potentially more protracted downturn in The Netherlands and wider eurozone, we have revised our economic risk for the Netherlands and our BICRA assessment to '3' from '2' (for more information, see "Various Rating Actions Taken On Dutch Banks Due To Increased Economic Risks," published Nov. 16, 2012 on RatingsDirect on the Global Credit Portal).

We have revised our assessment of systemwide risks that Dutch banks are exposed to, which has led us to lower our anchor--or starting point for our ratings--for commercial banks operating in The Netherlands, including ABN AMRO, to 'bbb+' from 'a-'. As a result, we have also lowered our SACP for ABN AMRO to 'bbb+' from 'a-'.

The long-term rating on ABN AMRO remains two notch higher than its SACP, which we now assess at 'bbb+', reflecting our views of its "high" systemic importance in The Netherlands and the Dutch government's "supportive" stance relative to its banking sector. The likelihood of government support for ABN AMRO in case of need didn't offset the lowering of the SACP.

The ratings on ABN AMRO continue to reflect our view of its "adequate" business position, "adequate" risk position, "adequate" capital and earnings, "average" funding, and "adequate" liquidity, as our criteria define these terms.

We calculate that the bank's risk-adjusted capital (RAC) ratio at year-end 2011, pro forma our revised assessment of economic risk for the Dutch and other European systems, was 6.9%. This compares with our previous calculation of 7.6%. However, we continue to forecast that ABN AMRO's RAC ratio will stand in the 7.5%-8.0% range by year-end 2013, thanks to moderate earnings and limited risk-weighted asset growth. We have therefore maintained our "adequate" assessment of capital and earnings.

Our assessment of ABN AMRO's business position as "adequate" reflects the dominance of stable activities in its business mix of domestic retail and commercial banking activities, and private banking, supported by sound market positions. ABN AMRO is the third-largest bank in the Netherlands, with a balance sheet mostly generated by its Dutch activities. We consider that ABN AMRO has less business and geographic diversification than other large universal banks. We view ABN AMRO's management team as professional and competent and the bank's strategy as sound and conservative. Compared with the best performing peers, we also consider that ABN AMRO's long-term strategy remains constrained by the uncertainty regarding the exact timing and details of the state shareholder's exit.

Our assessment of ABN AMRO's risk position as "adequate" incorporates our view that the bank's risk management and exposure are in line with its domestic industry domestic industry and that risks are well captured by our RAC framework. The cost of risk rose by 81% in the first nine months of 2012 (excluding a €500 million Greek impairment in 2011 and a €125 million release in 2012) as a result of the deterioration of the Dutch economy. At about 0.44% of average customer loans, this is still adequate, but is on a moderate deteriorating trend. In our view, the total cost of risk for 2012 should be lower than the €1.7 billion posted in 2011--which included a €880 million impairment on a €1.3 billion Greek corporate exposure guaranteed by the government--but still significantly higher excluding this impairment.

Our view of ABN AMRO's funding as "average" factors in a large customer deposit base and good access to the domestic and international capital markets, partly offset by some reliance on wholesale markets, in particular to residential mortgage-backed securities and covered bonds. Our opinion of ABN AMRO's liquidity as "adequate" factors in prudent liquidity management.

Outlook

The stable outlook reflects our expectation that ABN AMRO should be able to maintain its adequate capital position and continue improving its operating efficiency in the coming years. We expect capital ratios to increase only moderately because of average retained earnings and limited corporate lending growth.

In our view, ABN AMRO's efforts to enhance its corporate banking and private banking activities and enlarge its international diversification will remain limited and cautiously implemented. They should not significantly affect our opinion of the bank's business and risk positions in the short term.

With all other factors remaining the same, the ratings on ABN AMRO would not be affected if we lowered our long-term rating on The Netherlands to 'AA+' from 'AAA'. This is because we would maintain the two notches of government support that we currently factor into the long-term rating on the bank.

We could raise the rating if ABN AMRO's business diversification greatly improved, and if we had more visibility on the strategy the bank would implement if it were sold back to the private sector. However, we see this scenario as unlikely over the next two years.

Conversely, we could lower the ratings on ABN AMRO in the event of significant deterioration in economic conditions in The Netherlands that would jeopardize the bank's ability to maintain its RAC ratio above 7% in the coming years.

Ratings Score Snapshot

Issuer Credit Rating	A/Stable/A-1
SACP	bbb+
Anchor	bbb+
Business Position	Weak (0)
Capital and Earnings	Strong (0)
Risk Position	Adequate (0)
Funding and Liquidity	Average and Adequate (0)
Support	2

GRE Support	0
Group Support	0
Sovereign Support	2
Additional Factors	0

Related Criteria And Research

- No Pain, No Gain: How The Housing Market Correction Is Affecting Dutch Banks, June 27, 2012
- Banks: Rating Methodology And Assumptions, Nov. 9, 2011
- Banking Industry Country Risk Assessment Methodology And Assumptions, Nov. 9, 2011
- Group Rating Methodology And Assumptions Nov. 9, 2011
- Bank Hybrid Capital Methodology And Assumptions, Oct. 24, 2011

Ratings List

Ratings Lowered; Affirmed

	To	From
ABN AMRO Bank N.V.		
Counterparty Credit Rating	A/Stable/A-1	A+/Stable/A-1
Subordinated	BBB	BBB+

NB. This list does not include all ratings affected.

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