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Research Update:

Netherlands-Based ABN AMRO Outlook Revised To Negative On Potential Government Support Reduction; 'A' Rating Affirmed

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Table Of Contents

Overview

Rating Action

Rationale

Outlook

Ratings Score Snapshot

Related Criteria And Research

Ratings List

Research Update:

Netherlands-Based ABN AMRO Outlook Revised To Negative On Potential Government Support Reduction; 'A' Rating Affirmed

Overview

- We consider that potential extraordinary government support for European banks will likely decrease as resolution frameworks are put into place.
- We are revising our outlook on the long-term rating on The Netherlands-based ABN AMRO Bank N.V. to negative from stable.
- We are affirming our 'A/A-1' counterparty credit ratings on the bank.
- The negative outlook primarily reflects the possibility that we may lower the long-term rating by up to two notches by year-end 2015 if we believe there is a greater likelihood that senior unsecured liabilities may incur losses if the bank fails.

Rating Action

As previously announced on April 29, 2014, Standard & Poor's Ratings Services has revised to negative from stable its outlook on Netherlands-based ABN AMRO Bank N.V. (ABN AMRO). At the same time, we affirmed the 'A/A-1' counterparty credit ratings on the bank.

Rationale

The outlook revision follows the completion of our review of potential extraordinary government support for European banks (see "Standard & Poor's To Review Government Support In European Bank Ratings," published on March 4, 2014, on RatingsDirect). We observe that European authorities are taking steps to increase the resolvability of banks and require creditors rather than taxpayers to bear the burden of the costs of failure (see "Standard & Poor's Takes Various Rating Actions On European Banks Following Government Support Review," published on April 29, 2014). In the near term, we expect that governments will remain supportive of systemically important banks' senior unsecured creditors while resolution frameworks take shape. From January 2016, however, the EU Bank Recovery and Resolution Directive (BRRD) is set to introduce the mandatory bail-in of a minimum amount of eligible liabilities, potentially including certain senior unsecured obligations, before governments could provide solvency support. Accordingly, we believe that the potential extraordinary government support available to ABN AMRO's senior unsecured bondholders will likely diminish within our two-year rating horizon.

Currently, we consider that ABN AMRO has "high" systemic importance to The

Netherlands, which we view as "supportive" of private-sector commercial banks, and which is also ABN AMRO's ultimate owner. As a result, and in line with our criteria, the 'A' long-term counterparty credit rating on ABN AMRO stands two notches above the 'bbb+' stand-alone credit profile (SACP). We could reduce or remove these notches shortly before the January 2016 introduction of the BRRD's bail-in powers for senior unsecured liabilities. These rules would indicate to us that EU governments would be much less able to support senior unsecured bank creditors, even though it may take several more years to eliminate concerns about financial stability and the resolvability of systemically important banks.

Specifically, if we perceive that support for senior unsecured creditors is less predictable under the new legislative framework, we would likely remove the government support notches from our ratings on ABN AMRO. This would most likely arise from a reclassification of The Netherlands' support for private-sector commercial banks to "uncertain" under our criteria. Any decision to reclassify governments would be subject to our review of the final resolution legislation and technical standards, and other relevant information.

If, on the other hand, our view was that extraordinary government support may still be forthcoming to ABN AMRO's senior unsecured creditors, we could retain one or both notches of support in the ratings. This would be the case if authorities publicly confirmed their supportive stance toward senior unsecured creditors, or if we believed that precautionary capital injections would still be likely under the new legislation to minimize the wider economic impact of the resolution of a systemically important bank. In this case, we may consider that The Netherlands remained "supportive" and that ABN AMRO had "high" or "moderate" systemic importance. We could revise our view of ABN AMRO's systemic importance to "moderate" from "high" if we considered that its resolution under the new framework would have a material, but manageable, adverse impact on the country's financial system and economy. Finally, our views on the likelihood of potential extraordinary support will also consider the implications of ABN AMRO's government ownership. We understand that the government may begin the process of privatizing the bank in 2015, although we believe that it may not be fully completed by the time the bail-in rule is implemented in early 2016.

In addition to our view of potential extraordinary government support, future rating actions on ABN AMRO may also result from other relevant factors. These include changes in our view of the SACP, including positive or negative changes arising from the new legislation and regulation. They may also include measures to mitigate bail-in risks to senior unsecured creditors, such as building a large buffer of subordinated instruments (see "Credit FAQ: The Rating Impact Of Resolution Regimes For European Banks," published on April 29, 2014).

The potential reduction of extraordinary government support in the counterparty credit and senior unsecured issue ratings on ABN AMRO has no impact on the subordinated issue ratings. We have long believed that

subordinated creditors would not receive extraordinary government support in a stress scenario, and for that reason we already notch these instruments down from the SACP.

Outlook

The negative outlook indicates that we may lower the ratings on ABN AMRO by year-end 2015 if we believe there is a greater likelihood that senior unsecured liabilities may incur losses if the bank fails. Specifically, we may lower the long-term counterparty credit rating by up to two notches if we consider that extraordinary government support is less predictable under the new EU legislative framework.

In addition to potential changes in government support, we will review other relevant rating factors in making any rating actions. These include potential changes in the SACP and any steps the bank might take to mitigate bail-in risks to senior unsecured creditors, such as building a large buffer of subordinated instruments. We could also revise down the SACP on ABN AMRO if, contrary to our central expectation, it is unable to maintain a risk-adjusted capital ratio sustainably above 7%.

We could revise the outlook back to stable if we consider that potential extraordinary government support for ABN AMRO's senior unsecured creditors is unchanged in practice, despite the introduction of bail-in powers and international efforts to increase banks' resolvability; or if we believe that other rating factors, such as a stronger SACP or a large buffer of subordinated instruments, fully offset increased bail-in risks.

Ratings Score Snapshot

Issuer Credit Rating	A/Negative/A-1
SACP	bbb+
Anchor	bbb+
Business Position	Adequate (0)
Capital and Earnings	Adequate (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

Related Criteria

- Group Rating Methodology, Nov. 19, 2013
- Banks: Rating Methodology And Assumptions, Nov. 9, 2011
- Use Of CreditWatch And Outlooks, Sept. 14, 2009

Related Research

- Standard & Poor's Takes Various Rating Actions On European Banks Following Government Support Review, April 29, 2014
- Credit FAQ: The Rating Impact Of Resolution Regimes For European Banks, April 29, 2014
- Standard & Poor's To Review Government Support In European Bank Ratings, March 4, 2014

Ratings List

Ratings Affirmed; Outlook Action

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

Ratings Affirmed

ABN AMRO Bank N.V. Certificate Of Deposit	A/A-1
Senior Secured	A
Senior Unsecured	A
Subordinated	
Long-Term Rating	BBB
ASEAN National Scale	axA
Junior Subordinated	BBB-
Certificate Of Deposit	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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Research Update: Netherlands-Based ABN AMRO Outlook Revised To Negative On Potential Government Support Reduction; 'A' Rating Affirmed

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