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Research Update:

ABN AMRO Bank Outlook Revised To Stable On Government Support And ALAC Review; 'A/A-1' Ratings Affirmed

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Overview

- We believe the prospect of extraordinary government support for Dutch banks is now uncertain in view of the country's well-advanced and effective resolution regime.
- We are therefore removing the two notches of uplift for government support that we had previously incorporated in the long-term counterparty credit ratings on ABN AMRO Bank N.V.
- However, we now include two notches in the long-term ratings because we consider that ABN AMRO will build substantial additional loss-absorbing capacity (ALAC).
- We are revising the outlook to stable from negative on ABN AMRO and affirming the long- and short-term counterparty credit ratings at 'A/A-1'.
- The stable outlook reflects our expectation that ABN AMRO will continue to gradually build its ALAC buffer in the coming two years and that its intrinsic creditworthiness will remain solid.

Rating Action

As previously announced on Dec. 2, 2015, Standard & Poor's Ratings Services revised its outlook on Netherlands-based ABN AMRO Bank N.V. to stable from negative. At the same time, we affirmed the long- and short-term counterparty credit ratings at 'A/A-1'.

We also affirmed the issue ratings on subordinated and hybrid capital instruments issued by the bank because we maintained the unsupported group credit profile (GCP) at 'bbb+'.

Rationale

We believe that the prospect of extraordinary government support for the Dutch banking sector is now uncertain following the expected full implementation of the EU Bank Recovery and Resolution Directive, including bail-in powers, from Jan. 1, 2016. We do not completely exclude the possibility of such support and we consider that systemically important Dutch institutions such as ABN AMRO face several more years of structural and balance sheet reforms to address their "resolvability" (mitigating the systemic impact if they fail). Nevertheless, we believe the Dutch government's ability and willingness to provide support is lower and less predictable under the enhanced resolution

framework. We have therefore reclassified the tendency of the Dutch government to support private sector commercial banks as "uncertain" under our criteria, and removed the two notches that we previously included for government support in the long-term counterparty credit rating on ABN AMRO.

We have added two notches of uplift within ABN AMRO's 'a' supported GCP because we consider that ABN AMRO is likely to increase and maintain additional loss-absorbing capacity (ALAC) above our 8% threshold. We view the Dutch resolution regime as "effective" under our ALAC criteria because, among other factors, we believe it contains a well-defined bail-in process under which authorities would permit non-viable systemically important banks to continue critical functions as going concerns following a bail-in of eligible liabilities.

We include in our ALAC assessment the capital instruments issued by ABN AMRO because we believe they have capacity to absorb losses without triggering a default on senior obligations of ABN AMRO and they meet our other criteria for inclusion. On this basis, we calculate that ALAC was 5.8% of Standard & Poor's risk-weighted assets at year-end 2014. We expect that this ALAC ratio will grow to over 8% during 2016. This reflects our expectation that (i) ABN AMRO will gradually replace maturing capital instruments (some of which are not ALAC-eligible) with ALAC-eligible instruments, and (ii) that future regulatory requirements would lead ABN AMRO to moderately increase its existing buffer of loss-absorbing capacity.

The unsupported GCP for ABN AMRO remains 'bbb+'. We believe that the bank's management is making solid progress to improve the bank's profitability, while maintaining its balance sheet profile, despite the distractions of its recent IPO process. We assume that its return to private ownership will not lead to a major shift in its risk appetite or capital policy.

As a result of the above, we have maintained the supported GCP, which now includes ALAC support instead of government support, at 'a'.

Outlook

The stable outlook reflects our expectation that ABN AMRO will continue to build our measure of its ALAC capacity. We assume that its ratio of ALAC to Standard & Poor's risk-weighted assets will likely exceed our 8% threshold during 2016, and will remain above this level thereafter.

An upgrade over the next 18-24 months would require a significant improvement in ABN AMRO's credit profile. This is because we consider the most likely credit improvement will arise from its capital and earnings assessment. If we believe that ABN AMRO's risk-adjusted capital (RAC) ratio will improve above our 10% threshold for a "strong" assessment, and we expect it to remain above this level, we would likely compensate for this by reducing the number of ALAC support notches by one. However, an improved capital and earnings assessment would lead us to revise up the unsupported GCP, from which we derive our hybrid ratings.

At this time we consider a downgrade as a relatively remote scenario as we assume that ABN AMRO will continue to build capital, by our measures, and we observe a reasonably benign outlook for its business growth and credit risk.

Ratings Score Snapshot

Issuer Credit Rating	A/Stable/A-1
SACP	bbb+
Anchor	bbb+
Business Position	Adequate (0)
Capital and Earnings	Adequate (0)
Risk Position	Adequate (0)
Funding and Liquidity	Average and (0) Adequate
Support	(+2)
ALAC Support	(+2)
GRE Support	(0)
Group Support	(0)
Sovereign Support	(0)
Additional Factors	(0)

Related Criteria And Research

Related criteria

- Criteria | Financial Institutions | Banks: Rating Methodology And Assumptions - Nov. 9, 2011
- Criteria | Financial Institutions | Banks: Banking Industry Country Risk Assessment Methodology And Assumptions - Nov. 9, 2011
- Criteria | Financial Institutions | Banks: Bank Capital Methodology And Assumptions - Dec. 6, 2010
- Criteria | Financial Institutions | Banks: Quantitative Metrics For Rating Banks Globally: Methodology And Assumptions - Jul. 17, 2013
- Criteria | Financial Institutions | Commercial Paper I: Banks - Mar. 23, 2004
- Criteria | Financial Institutions | Methodology For Mapping Short- And Long-Term Issuer Credit Ratings For Banks - May 4, 2010
- Criteria | Financial Institutions | Banks: Bank Rating Methodology And Assumptions: Additional Loss-Absorbing Capacity, Apr.27, 2015
- Criteria | Financial Institutions | Banks: Bank Hybrid Capital And Nondeferrable Subordinated Debt Methodology And Assumptions - Jan. 29, 2015
- Criteria | Financial Institutions | Bank: Assessing Bank Branch Creditworthiness, Oct. 14, 2013

- Criteria | Financial Institutions | Banks: Revised Market Risk Charges For Banks In Our Risk-Adjusted Capital Framework, June 22, 2012
- General Criteria | Use Of CreditWatch And Outlooks - Sep. 14, 2009
- General Criteria | Group Rating Methodology - Nov. 19, 2013
- General Criteria | Ratings Above The Sovereign--Corporate And Government Ratings: Methodology And Assumptions, Nov. 19, 2013
- General Criteria | Criteria For Assigning 'CCC+', 'CCC', 'CCC-', 'CC' Ratings, Oct. 1, 2012
- General Criteria | S&P's National And Regional Scale Mapping Tables, Sep. 30, 2014
- General Criteria | National And Regional Scale Credit Ratings, Sep. 22, 2014
- General Criteria | Principles For Rating Debt Issues Based On Imputed Promises, Dec. 19, 2014
- General Criteria | Rating Government-Related Entities: Methodology And Assumptions, Mar. 25, 2015
- General Criteria | Use Of 'C' And 'D' Issue Credit Ratings For Hybrid Capital And Payment-In-Kind Instruments, Oct. 24, 2013

Related research

- Most European Bank Ratings Affirmed Following Government Support And ALAC Review, Dec. 2, 2015
- Credit FAQ: How Standard & Poor's Applied Its Government Support And ALAC Criteria To European Banks In December 2015, Dec. 2, 2015
- Standard & Poor's To Conclude Its Review Of Systemic Support For Remaining EU Banks By Early December 2015, Oct. 1, 2015
- Government And ALAC Support Ratings Uplift For Systemically Important European Banking Groups, Oct. 1, 2015
- How The Regulatory Reform Process Could Reshape Banks' Business Models And Affect Issuer Ratings, Aug. 18, 2014
- 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

Ratings List

Ratings Affirmed; CreditWatch/Outlook Action

	To	From
ABN AMRO Bank N.V. Counterparty Credit Rating	A/Stable/A-1	A/Negative/A-1
ABN AMRO Bank N.V. Certificate Of Deposit	A/A-1	
Senior Unsecured	A	
Subordinated	BBB-	
Subordinated	axA-	
Junior Subordinated	BB	
Junior Subordinated	BB+	
Commercial Paper	A-1	

ABN AMRO Funding USA LLC

Commercial Paper*

A-1

*Guaranteed by ABN AMRO Bank N.V.

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