Press Release

DBRS

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Date of Release: August 31, 2011

DBRS Comments on ABN AMRO's 1H11 Results: Ratings Unchanged; Senior at "A"

Industry: Fin.Svc.--Banks & Trusts

DBRS Inc. (DBRS) has today commented that its Issuer & Long-Term Debt ratings for ABN AMRO Group N.V. (ABN AMRO or the Group) and ABN AMRO Bank N.V. (the Bank), "A" and A (high), respectively, with Stable trends are unchanged following the release of the Group's 1H11 results. ABN AMRO reported 1H11 earnings of EUR 864 million, up from a loss of EUR 968 million for 1H10. On an underlying basis, which excludes EUR 110 million of separation and integration costs, ABN AMRO reported a net profit of EUR 974 million for 1H11, increasing from EUR 325 million for 1H10. Notable one-time items included in underlying results in 1H11 were a EUR 149 million after tax charge related to its additional cost saving initiative ("customer excellence" program) that was offset by a EUR 150 million after tax gain from other items, including a release of legal provisions and some gains on sales.

In DBRS's view, ABN AMRO's first half performance reflects the resiliency and strength of the ABN AMRO franchise domestically and internationally in its targeted businesses. Moreover, the solid performance exhibited in the first half reflects the successful implementation of integration programs which are more than halfway completed. To this end, the solid income (revenue) growth and the realisation of meaningful synergies related to the integration of legacy ABN AMRO and Fortis Bank Nederland continue to provide optimism over the ongoing earnings power of the Group. Moreover, ABN AMRO's "customer excellence" program is expected to bring the cost/income ratio below 60% by 2014. For 1H11, the cost/income ratio was 63% on an underlying basis.

The Group's underlying operating income for 1H11 was EUR 4.1 billion, a 13% increase from 1H10. Non-interest income benefitted from some of the noted one-time items, increasing 27% from the prior-year period to EUR 1.5 billion. The growth in fee income also reflected increased client activity and new the introduction of new products in Commercial & Merchant Banking (C&MB). Net interest income for the first six months of 2011 was EUR 2.6 billion, up 5% from 1H10, despite the divestment of certain commercial banking activities in 1H10. Period end loans to customers were EUR 281.6 billion, up EUR 2.3 billion from 30 June 2010. Even prior to the new expense initiative, ABN AMRO's operating efficiency has benefitted from integration-related cost synergies. First half 2011 operating expenses declined 5% from 1H10 to EUR 2.6 billion on an underlying basis.

By segment, Retail & Private Banking (R&PB) remains the largest contributor to total underlying net profit, reflecting ABN AMRO's top tier domestic market positions. For 1H11, R&PB reported net profit of EUR 592 million, approximately 61% of the Group's total. First half results benefitted from lower impairments and an 8% decline in operating expenses, but overall profits were down EUR 4 million from 1H10. This resulted from a 7% decline in operating income that was primarily due to the transfer of an SME portfolio to C&MB. This transfer benefitted C&MB results in 1H11, though even excluding this, segment operating trends were mostly positive. Loan balances increased, primarily reflecting increased securities financing, but also growth in ECT, Business Banking and Corporate Clients. Meanwhile, C&MB loan impairments declined 17% from 1H10 to EUR 191 million. Net profit for C&MB was EUR 320 million in 1H11, up from just EUR 2 million in 1H10.

Total loan impairments declined 11% from 1H10 though they were up in 2Q11 relative to 1Q11 amid rising concerns surrounding certain European sovereigns and the pace of global economic growth. Nevertheless at EUR 310 million in 1H11, they remain manageable, in DBRS's view. Impairments on Dutch mortgages, which comprise about 55% of total lending to customers, were up somewhat from the prior year, but DBRS continues to view this as a very high quality asset class. DBRS notes that the Group has EUR 1.4 billion of Government guaranteed lending exposures in Greece, which may be at risk for some impairments. Currently the loans are performing, but fair values would suggest potential write-downs of between EUR 300 million and EUR 500 million.

The Group continues to carry adequate amounts of liquidity as it strengthens equity through earnings and improves its funding profile. At the end of 1H11, ABN AMRO's liquidity buffer stood at EUR 32.9 billion, and following a restructuring of retained RMBS notes in July, this buffer has grown by about EUR 7.2 billion. The Group also continues to successfully access wholesale funding markets and has lengthened the maturity and diversified the sources of its wholesale funding. In 1H11, ABN AMRO raised more than EUR 14 billion of debt and has completed its issuance and refinancing needs for all of 2011. DBRS sees the Group as well positioned to comply with Basel III funding and liquidity rules, despite the fact that the Group's portfolio of high-quality ECB-eligible RMBS are not currently included in the Basel III liquidity coverage calculation.

Capital levels, including a Basel II Tier 1 ratio of 13.9% and a Core Tier 1 ratio of 11.4% that were both up from year end, remain solid in DBRS's view. DBRS notes that period-end capital levels exclude the targeted amount under its dividend policy. ABN AMRO had declared an interim dividend of EUR 200 million, which is payable to the Dutch state. DBRS notes also that the Group comfortably passed the European Banking Authority's (EBA) recent EU-wide stress test. In the most adverse scenario, ABN AMRO's estimated Core Tier 1 would be 9.2% at the end of 2012, comfortably above the minimum 5% Core Tier 1 ratio established by the EBA to pass the test.

Notes:
All figures are in EUR unless otherwise noted.

The principal applicable methodology is the Global Methodology for Rating Banks and Banking Organisations. Other methodologies used include the Enhanced Methodology for Bank Ratings – Intrinsic and Support Assessments. Both can be found on the DBRS website under Methodologies.

The sources of information used for this rating include publicly available company documents. DBRS considers the information available to it for the purposes of providing this rating was of satisfactory quality.

Lead Analyst: Steve Picarillo
Approver: Alan G. Reid
Initial Rating Date: 25 June 2010
Most Recent Rating Update: 1 July 2010

This commentary was disclosed to the issuer and no amendments were made following the disclosure.

For additional information on this rating, please refer to the linking document under Related Research.

For more information on this credit or on this industry, visit www.dbrs.com or contact us at info@dbrs.com.

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