Press Release

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Insight beyond the rating.

DBRS Comments on ABN AMRO's 3Q11 Results: Ratings Unchanged; Bank at A (high)

Industry: Fin.Svc.--Banks & Trusts

DBRS, Inc. (DBRS) has today commented that its Issuer & Long-Term Debt ratings for ABN AMRO Group NV (ABN AMRO or the Group) and ABN AMRO Bank NV (the Bank), "A" and A (high), respectively, with Stable trends are unchanged following the release of the Group's 3Q11 and nine-month results. ABN AMRO reported underlying net profit of EUR 9 million, for 3Q11 and EUR 983 million for the first nine months of 2011. The quarter's results were impacted by loan impairments of EUR 408 million for Greek Government-Guaranteed Corporate Exposures. Reported net result was a loss of EUR 54 million for Q3 2011 and a profit of EUR 810 million for the first nine months of 2011.

While the quarter was significantly impacted by the macroeconomic environment, DBRS views ABN AMRO's performance for the first nine months of 2011 as reflecting the resiliency and strength of the ABN AMRO franchise domestically and internationally in its targeted businesses. Moreover, the solid year-to-date performance evidences the successful implementation of integration programs which are beginning to show synergies. To this end, the cost to income ratio in the first nine months improved to 63% from 70% the same period in 2010. Through its "customer excellence" program, ABN AMRO is aiming to bring its cost/income ratio below 60% by 2014.

The Group's underlying operating income for 3Q11 was EUR 1.8 billion, falling 12% from the second quarter. For the nine-month period, underlying operating profit before tax increased 6% to EUR 1.2 billion, driven by higher net interest income and an increase in noninterest income. Indeed, for the nine-month period, net interest income increased 4% to EUR 3.8 billion while noninterest income increased 8% to EUR 2.1 billion. For the quarter however, noninterest income decreased by 23% owed to adverse market conditions and negative credit value adjustments related to counterparty risk associated with interest-rate derivatives. Net interest income increased at Commercial & Merchant Banking (C&MB), largely driven by growth in the commercial loan book and higher deposits. Period end loans to customers were EUR 294.4 billion, increasing from EUR 274 billion at year-end 2010.

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 9M11, R&PB reported net profit of EUR 857 million. DBRS notes that Group underlying profits increased to EUR 983 million from EUR 768 million in 9M10, despite the large impairment on Greek government guaranteed corporate exposures. Loan impairments, excluding the Greek charge, decreased by 16% in the nine-month period, compared to the same period in 2010. Impairment at business banking and corporate clients remain high reflecting the still stressed economic environment. Impairments on Dutch mortgages, which comprise about 55% of total lending to customers, were largely unchanged, reflecting the very high quality asset class.

The Group continues to carry adequate amounts of liquidity as it strengthens equity through earnings and improves its funding profile. At 30 September 2011, ABN AMRO's liquidity buffer stood at EUR 43.3 billion, consisting of predominantly government bonds, cash and retained RMBS. The Group continues to focus on its strategy of lengthening the average maturities of funding instruments and diversifying funding sources. For the nine-month period, ABN AMRO raised EUR13 billion of term funding while EUR 2 billion of maturities were extended. At the end of the quarter, ABN AMRO 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.

Capital levels remained solid, with a Basel II Tier 1 ratio of 13.2% and a Core Tier 1 ratio of 10.9%, largely in line with year-end. DBRS notes that period-end capital levels exclude 40 percent of net reported profit reflecting the targeted amount under its dividend policy. ABN AMRO had paid an interim dividend of EUR 200 million to its shareholder, the Dutch state.

Note:
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.

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

This credit rating has been issued outside the European Union (EU) and may be used for regulatory purposes by financial institutions in the EU.

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

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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