Press Release

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Insight beyond the rating.

DBRS Comments on ABN AMRO's 4Q11 and FY11 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 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 4Q11 and full year results. ABN AMRO reported an underlying operating loss before tax of –EUR 158 million for 4Q11 and a pre-tax profit of EUR 1.04 billion for the full year 2011. Full year results were impacted by loan impairments which totaled EUR 880 million (pre-tax) for Greek Government-Guaranteed Corporate Exposures. Reported profits before tax, which includes EUR 271 million of separation and integration-related costs, was EUR 680 million for 2011.

While the results were significantly impacted by the macroeconomic environment, specifically the issues surrounding the Greek sovereign, DBRS views ABN AMRO's performance as reflecting the resiliency and strength of the ABN AMRO franchise domestically and internationally in its targeted businesses. Indeed, underlying results would have exhibited solid positive momentum if the charge related to the Greek loan book is excluded, and DBRS notes that impaired Greek loans are currently performing. While the fourth quarter exhibited some softness in both net interest income and net fee and commission income, the Group reported growth in both of these items year on year, evidencing still solid underlying earnings ability. Moreover, the improved adjusted performance evidences the successful implementation of integration programs which are beginning to show synergies. To this end, operating expenses decreased year on year which has resulted in an improvement in the underlying cost to income ratio, to 64% for 2011 from 70% in 2010 (excluding the impact of separation and integration related costs). Through its "customer excellence" program, ABN AMRO is well aiming to bring its cost/income ratio below 60% by 2014.

By segment, Retail remains the largest contributor to total underlying net profit, reflecting ABN AMRO's top tier domestic market positions. For FY11, Retail reported net profit of EUR 888 million. While year on year comparisons are difficult due to internal transfers of assets, results were pressured by decreased mortgage activity and lower interest margins in the competitive environment. The Private Banking segment reported improved results attributed to higher volumes and margins, which increased net interest income. This segment also enjoyed significantly lower loan impairments. The Commercial Banking segment, which reported a pre-tax loss of EUR 76 million, continues to be impacted by higher impairments. Loan impairments rose in the second half of 2011 as the Dutch economy weakened. The Group's final operating segment, Merchant Banking, reported significantly improved results with an operating profit before tax of EUR 443 million, attributed to good growth in most business areas, especially LC&MB, which drove a 30% year over year increase in segment operating income (revenues) despite challenging market conditions. Results at the Group Function were significantly impacted by the Greek loan impairment charges, though if the charge is removed, Group Functions would have generated a small, positive operating profit. Given the slowdown in the Dutch economy, DBRS is mindful that maintaining solid positive earnings momentum in 2012 may become increasingly difficult.

Prudently, the Group continues to hold sizeable amounts of liquidity as it strengthens equity through earnings and improves its funding profile. At year-end 2011, ABN AMRO's liquidity buffer stood at EUR 58.5 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. Importantly, the Group continue to maintain market access. During 2011, ABN AMRO raised EUR 17.2 billion of term funding. Further illustrating investor appetite for ABN AMRO paper, through February 2012, the Group issued EUR 6.2 billion of long-term funding in various currencies, including US dollars. Capital levels remained solid, with a Basel II Tier 1 ratio of 13.0% and a Core Tier 1 ratio of 10.7%, both increasing slightly from year-end 2010. DBRS notes that year-end capital levels exclude 40% of net reported profit reflecting the targeted amount under its dividend policy. ABN AMRO has proposed a EUR 263 million dividend for 2011, of which EUR 200 million has already been paid to its shareholder, the Dutch state.

Notes:
All figures are in Euros (EUR) unless otherwise noted.

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

The sources of information used for this rating include company documents and SNL Financial. 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 that 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: Steven 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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