Press Release

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Insight beyond the rating.

DBRS Comments on ABN AMRO's 1H12 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), at "A" and A (high), respectively, with Stable trends are unchanged following the release of the Group's results for the six months ending 30 June 2012 (1H12). The trend on all ratings remains Stable. For 1H12, ABN AMRO reported a net profit of EUR 743 million, 14% lower than in 1H11. The results include EUR 84 million of separation and integration-related costs. Excluding these costs, ABN AMRO reported an underlying net profit of EUR 827 million, compared EUR 974 million a year ago.

While the underlying results are lower year-on-year (YoY), DBRS considers the results as acceptable given the recessionary environment in the Netherlands, which accounts for 83% of the Group's operating income. Capital level continues to strengthen and the franchise remains sound, underpinned by its leading retail banking franchise. DBRS notes that despite the challenging operating environment, the loan book grew 3% YoY reflecting higher securities financing volumes and good demand in the Energy, Commodities & Transportation (ECT) business. As expected, given the economic environment, credit performance weakened in the period resulting in impairment charges increasing a notable 79% YoY to EUR 554 million. The cost of credit was higher across all segments, but was primarily driven by the construction, commercial real estate, and retail sectors. The continuing fall in house prices resulted in impairment charges on residential mortgages increasing to a still low 11 basis points (bps) from 8 bps a year ago. Given the weakening of the Dutch economy, DBRS expects credit costs to rise further in 2H12 driven by consumer loans and commercial real estate.

Importantly to the ratings, ABN AMRO's operating result (pre-impairment income) was 4% higher YoY at EUR 1.6 billion, providing good loss absorption capacity. Indeed, despite impairment charges increasing substantially in 1H12, provisions were only 35% of pre-impairment income. Nonetheless, operating income declined 7% YoY (4% excluding divestures) to EUR 3.8 billion on lower net fee and commission income, as customer transaction levels were subdued due to the challenging environment. However, net interest income was rather resilient, declining only 2% YoY to EUR 2.5 billion, as elevated deposit pricing and higher funding costs from the lengthening of the maturity profile were partially offset by improved margins on the mortgage book, growth in the ECT book, and higher securities financing volumes. Specifically, net interest margin when calculated over total assets was 1.22% in 1H12, an 11 bp decline from 1H11. DBRS views the results as evidencing the resiliency and strength of the Group's franchise domestically and in its targeted international businesses. Nevertheless, given the slowdown in the Dutch economy, DBRS is mindful that restoring earnings growth in the near-term is a key challenge.

Costs remain well-controlled, illustrating the successful implementation of integration programs that are beginning to show synergies. Indeed, operating expenses decreased 14% YoY, however, when adjusted for divestures and large items in 1H11, operating expenses were flat YoY. As a result, despite lower operating income, the underlying cost/income ratio improved to 59% in 1H12 from 63% in 1H11 (excluding the impact of separation and integration related costs). Through its "customer excellence" programme, ABN AMRO maintains the goal of lowering its cost/income ratio to structurally below 60% by 2014.

From DBRS's perspective, ABN AMRO's liquidity profile is solid. Moreover, the funding profile continues to strengthen. With the Group having already refinanced all long-term funding maturing in 2012 by April 2012, DBRS sees the EUR 52.6 billion liquidity buffer as conservative. Importantly, the Group continues to make progress in reducing its reliance on wholesale funding through growing its deposit base. In 1H12, deposit growth outpaced loan growth, resulting in the loan-to-deposit ratio improving to 128.7% from 130.3% at year-end 2011. Nevertheless, despite continued uncertainties related to Eurozone sovereign debt, ABN AMRO continues to enjoy access to the capital markets. During 1H12, ABN AMRO raised EUR 10.7 billion of term funding in various currencies and maturities. Moreover, in July and August, ABN AMRO has successfully issued an additional EUR 3.9 billion, including EUR 1.0 billion of subordinated notes. The Group continues to advance its strategy of lengthening the average maturities of term funding while diversifying its funding sources. The average original maturity of the new issuances is approximately 6.2 years, which lengthened the average remaining maturity of the Group's long-term funding to 4.1 years. DBRS comments that the Group remains on target to be fully compliant with Basel III funding and liquidity requirements by the end of 2013, ahead of expected regulatory implementation.

DBRS views the Group's capital as solid, with a Core Tier 1 ratio of 11.9% compared to 10.7% at year-end 2011. The increase in the Core Tier 1 ratio was primarily driven by the conversion of the Mandatory Convertible Securities (MCS) liability to equity following the settlement of all outstanding litigation with Ageas. DBRS notes that 30 June 2012 capital levels exclude 40% of net reported profit reflecting the targeted amount under the Group's dividend policy.

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 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 rating is endorsed by DBRS Ratings Limited for use in the European Union.

Lead Analyst: Roger Lister
Approver: Alan G. Reid
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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.

Roger Lister
Chief Credit Officer - Financial Institutions Group
+1 212 806 3231
rlister@dbrs.com

David Laterza, CPA
Vice President - Financial Institutions Group
+1 212 806 3270
dlaterza@dbrs.com

Alan G. Reid
Managing Director – Financial Institutions and Sovereign Group

+1 212 806 3232
areid@dbrs.com

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