Press Release

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Insight beyond the rating.

DBRS Comments on ABN AMRO's 2012 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 4Q12 and full year results. ABN AMRO reported an underlying net profit of EUR 84 million for 4Q12 compared to EUR 374 million in 3Q12. For full year 2012, ABN AMRO reported an underlying net profit of EUR 1.3 billion compared to a net profit of EUR 960 million in 2011. Reported profits after tax, which includes EUR 337 million of separation and integration-related costs was EUR 948 million for 2012.

Full year underlying results benefited from the absence of a sizeable impairment charge related to Greek Government Guaranteed Corporate Exposures incurred in 2011 and a EUR 125 million release of such impairments in 2012. Further, 2012 results were positively impacted by releases from the Credit Umbrella and other EC Remedy-related provisions partially offset by a reassessment of tax positions related to prior years. Excluding divestments and large items, ABN AMRO's underlying net profit would have been 34% lower YoY primarily due to a 54% increase in underlying impairment charges. The increase in underlying impairments reflects the difficult economic conditions in the Netherlands and weakening property markets. Impairments were particularly higher in construction, commercial real estate and diamond financing as well as Dutch residential mortgages. Nonetheless, DBRS views ABN AMRO's 2012 underlying performance as acceptable, given the challenging macroeconomic environment.

DBRS notes that in 2012, the Group completed the integration of ABN AMRO Bank and Fortis Bank Nederlande and that the integration was completed on schedule and within budget without any notable disruption to customers and clients. As a result of integration synergies, operating expenses, excluding divestments, were 6% lower YoY, underpinning an improvement in the underlying cost to income ratio to 61% from 64% in 2011 (excluding the impact of separation and integration related costs). Based on its recently announced strategic priorities, ABN AMRO is aiming to bring its cost/income ratio to a range of 56%-60% by 2017.

Among the segments, Retail Banking reported a resilient performance reflecting the strength of ABN AMRO's domestic franchise, which is supported by top tier market positions. For 2012, Retail reported net underlying profit of EUR 774 million, 13% reduction from 2011 on lower operating income as the low rate environment continues to constrain savings revenue and impairment charges increased reflecting deterioration in the housing market and the overall Dutch economy. Further optimisation of the branch network resulted in an 8% reduction in personnel expenses and an underlying cost-income ratio improvement to 54%. Within Private Banking underlying results were negatively impacted by higher impairment charges primarily in diamond financing activities and the sale of the Swiss private banking activities. Private Banking reported a net underlying profit of EUR 46 million compared to EUR 255 million a year ago. Higher impairment charges primarily in construction, retail and commercial real estate-related sectors continues to be a significant headwind to Commercial Banking earnings. For 2012, the Commercial Banking segment reported a net underlying profit of EUR 7 million compared to a net loss of EUR 64 million a year ago. Within Merchant Banking, underlying results were 42% lower YoY at EUR 244 million reflecting higher operating income which was more than offset by a sizeable increase in impairment charges as noteworthy releases in 2011 did not repeat. Given the recessionary environment in the Netherlands and ABN AMRO's reliance on its domestic market for earnings, DBRS sees achieving positive earnings momentum in 2013 as a key challenge.

Regarding funding, ABN AMRO continues to enjoy good access to the capital markets issuing EUR 14.2 billion of long-term funding and EUR 2.8 billion of subordinated notes. Total deposits were slightly higher at EUR 216.0 billion, as total client deposits grew by EUR 12.7 billion, or 7% to EUR 200.5 billion, but were largely offset by a decrease in securities financing volumes. The growth in deposit levels were somewhat offset by an increase in the commercial loan book, which resulted in the loan-to-deposit ratio improving to 125% at year-end 2012 from 130% at year-end 2011. In anticipation of forthcoming regulatory liquidity requirements ABN AMRO continues to hold sizable amounts of liquidity with its liquidity buffer totalling EUR 68 billion. Capital remains solid, with a Basel II Core Tier 1 ratio of 12.1%, up from 10.7% at year-end 2011. Core Tier 1 capital grew by 17%, reflecting earnings retention and the settlement with Ageas, which resulted in the cancellation of the MCS liability. Based on the Group's capital position at 31 December 2012, ABN AMRO estimates its fully-loaded Basel III Common Equity Tier 1 ratio, including IAS 19r, would be 10.0%.

Notes:
All figures are in EUR unless otherwise noted.

The applicable methodologies are the Global Methodology for Rating Banks and Banking Organisations, and 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 the company documents and SNL Financial. DBRS considers the information available to it for the purposes of providing this rating was of satisfactory quality.

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

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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.

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