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DBRS: ABN AMRO's Solid 3Q15 Results Boosted by Continued Low Impairments; IPO Launched

Industry: Fin.Svc.--Banks & Trusts

Summary:

- 3Q15 income before provisions and taxes (IBPT) of EUR 875 million was up 2% on 3Q14.
- Impairment charges remain low leading to a reported net profit for 3Q15 being up 33% on 3Q14.
- IPO launched on 10 November, with an indicative price range set at EUR 16-20 per depository receipt representing shares in the Group.
- Capital ratios and funding profile remain solid.
- DBRS rates ABN AMRO Bank NV at A for Long-Term Debt & Deposits. The trend is Positive.

DBRS Ratings Limited (DBRS) views ABN AMRO Bank N.V.'s (ABN AMRO or the Bank) 3Q15 results as stable. The Bank reported IBPT of EUR 875 million, up 2% on 3Q14, and down marginally on 2Q15. For 9M15, IBPT totalled EUR 2.7 billion, up 10% year-on-year (YoY), mainly driven by higher income. Boosted by the improving Dutch economy, impairment charges in 3Q15 remained low at EUR 94 million, or 14 basis points (bps) (2Q15: EUR 34 million, 5 bps), substantially down on the EUR 287 million recorded in 3Q14. As a result of this, and the absence of any special items, which impacted 3Q14, the Bank reported a net profit of EUR 509 million in 3Q15, up 33% YoY. Net profit for 9M15 was up by 125% on 9M14 driven by substantially lower impairment charges and the special items taken in 9M14.

ABN AMRO's operating expenses remain impacted by ongoing project costs. In 3Q15, total operating expenses were EUR 1.234 billion, up 8% YoY, although down 1% sequentially. Personnel expenses in 3Q15 were also impacted by a EUR 18 million increase in pension costs. ABN AMRO has a 2017 target of 56-60% for its underlying cost-income ratio. Whilst the Bank's underlying cost-income ratio remained within this range in 3Q15, at 59%, DBRS notes that if regulatory levies had been divided equally over the quarters, the cost-income ratio would have been 61%.

ABN AMRO's overall asset quality remains satisfactory, with an overall impaired customer loan ratio of 2.7% at end-3Q15, up 10bps from the prior quarter, as the decrease in the customer loan portfolio outpaced the fall in impaired exposures. DBRS positively notes the 1% decrease in impaired exposures in 3Q15, with reductions in impaired residential mortgages and consumer loans helping to offset a marginal increase in impaired corporate loans.



The Bank's fully loaded CRD4 Common Equity Tier 1 (CET1) ratio at end 3Q15 was 14.8%, up 80 bps sequentially reflecting a reduction in group-level risk weighted assets (RWAs) driven principally by lower credit risk in Corporate Banking and Group Functions. The issuance of a EUR 1.0 billion Additional Tier 1 instrument in September 2015 helped to boost the fully-loaded Commission Delegated Regulation (CDR) leverage ratio to 3.5%, from 3.1% at end-2Q15. Funding remained with the loan-to-deposit ratio at 110%, down from 117% at end-2014, and both the net stable funding ratio (NSFR) and the liquidity coverage ratio were over 100%.

On 10 November, 2015, ABN AMRO and NLF (NL Financial Investments, the entity set up by the Dutch government to manage the investments in various nationalised financial institutions) announced the launch of the IPO of ABN AMRO Group N.V (ABN AMRO Group or the Group). The IPO consists of a secondary offering of depository receipts (DRs) representing ordinary shares in the Group. The offer DRs represent 20% of the issued and outstanding shares in the share capital of the Group, excluding greenshoe. The indicative price range for the IPO is set at EUR 16-20 per depository receipt, and corresponds to a current equity value of approximately EUR 15-18 billion for the Group. DBRS notes that the launching of the IPO provides further evidence of the significant progress being made by ABN AMRO.

DBRS rates ABN AMRO Bank NV at A for Long-Term Debt & Deposits. The trend is Positive reflecting DBRS's view that ABN AMRO continues to make consistent progress, especially with regards to profitability and capital.

Notes:

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

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