



Insight beyond the rating.

DBRS: ABN AMRO 2Q16 Net Profit Down on One-off Charge; Underlying Performance Solid

- ABN AMRO Group N.V. (ABN AMRO or the Group) reported a net profit of EUR 391 million in 2Q16, down 35% year-on-year (YoY), driven by additional provisional for SME interest rate derivatives of EUR 271 million net of tax. The additional charge follows ABN AMRO's adoption of the framework for compensation of SME clients with interest rate derivatives, as presented by a committee established by the Dutch Minister of Finance.
- On an underlying basis, ABN AMRO reported a net profit of EUR 662 million, up 10% YoY, as operating income increased 4% YoY, supported in part by a EUR 116 million gain on the sale of Visa shares. With the one-off Visa gain excluded, underlying income was down 1.9% YoY. DBRS does, however, note that the Group maintained solid net interest income growth in 2Q16, particularly in Retail Banking, and as a result, reported a net interest margin (NIM) of 1.52% in 2Q16, up 10 basis points (bps) YoY.
- Costs remain an important driver for the Group to improve profitability. Underlying operating expenses totalled EUR 1.3 billion, up marginally YoY as a result of increased regulatory costs. In light of the current environment, and in order to finance further selective growth initiatives, ABN AMRO announced additional planned cost savings of approximately EUR 200 million over the next four years, with a significant portion to be realised in the next year. As a result of ABN AMRO's income growth, the underlying cost-income ratio improved 1.4 percentage points YoY, to 57.2% in 2Q16. The statutory cost-income ratio was, however, 68.5%.
- The Group's overall asset quality remains satisfactory, with a cost of risk of only 9 bps in 2Q16, well below the Groups' estimated through-the-cycle average of between 25-30 bps, and an overall impaired loan ratio of 2.7% at end-2Q16, unchanged from end-2015. Impairment charges were, however, up 58% YoY, to EUR 54 million as subdued market conditions in several Energy, Commodities and Transportation (ECT) Clients sectors resulted in higher charges. ECT lending, including off-balance sheet undrawn commitments, totalled EUR 38.6 billion at end-2Q16, but appears well diversified. Given the ongoing challenges in the Oil & Gas, and Shipping sectors, however, DBRS will continue to monitor the performance of the Group's exposure.
- ABN AMRO's capital position improved further in 2Q16, with the Group reporting a fully-loaded Common Equity Tier 1 (CET1) ratio of 16.2%, up 40 bps from end-1Q16, and a fully-loaded leverage ratio of 3.7%. DBRS also notes that regulatory capital ratios remained solid under the recent EBA stress test. On a fully-loaded CET1 basis, ABN AMRO's modelled CET1 ratio under the adverse scenario fell to a low of 9.53% in 2018, from a starting point of 15.4% at end-2015.

	2Q16	1Q16 ABN AMRO Group N.V.			4Q15 ABN AMRO Group N.V.			3Q15 ABN AMRO Group N.V.			2Q15 ABN AMRO Group N.V.		
		Peer Low	Peer High	Peer High	Peer Low	Peer High	Peer High	Peer Low	Peer High	Peer Low	Peer High	Peer High	
IBPT/RWAs	2.2%	-0.8%	2.4%	5.4%	-2.2%	1.9%	5.3%	-0.1%	3.1%	5.3%	0.0%	3.1%	5.2%
NPL Ratio	2.7%	15.9%	2.5%	0.4%	16.5%	2.7%	0.4%	17.1%	2.7%	0.4%	16.9%	2.6%	0.3%
Cost-to-income Ratio	68.5%	111.4%	66.9%	42.9%	249.8%	74.5%	44.8%	101.7%	58.5%	42.0%	100.1%	58.7%	43.0%
Net Loans-to-Deposits Ratio	107.7%	202.1%	109.0%	72.9%	197.0%	108.4%	73.5%	193.0%	110.2%	71.8%	190.7%	111.1%	71.0%
CET1 Ratio	16.2%	10.3%	15.8%	23.7%	10.1%	15.5%	24.1%	9.8%	14.8%	23.0%	9.8%	14.0%	22.4%

Table Key

Within 10% of Peer High	Between 11% and 25%	Between 26% and 50%	Between 51% and 75%	Between 76% and 90%	Between 91% and 100%
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Peer Group: Banco Santander SA, CaixaBank, S.A., Banco Bilbao Vizcaya Argentaria, S.A., ING Bank N.V., ABN AMRO Group N.V., Barclays PLC, Lloyds Banking Group plc, Groupe Cr dit Agricole, Soci t  G n rale, S.A., KBC Group N.V., Intesa Sanpaolo SpA, Deutsche Bank AG, Skandinaviska Enskilda Banken AB, Swedbank AB (publ), Credit Suisse AG, UBS AG, Danske Bank A/S

Current DBRS Ratings: ABN AMRO Group N.V.

Issuer & Long-Term Debt	A (low)	Positive
Short-Term Debt	R-1 (low)	Stable

Footnotes:

IBPT/RWAs:	Income before provisions and taxes / avg. risk-weighted-assets under Basel III
NPL Ratio:	Non-performing loans / Total gross loans
Cost-to-income ratio:	Total operating expenses / total gross operating income
Net Loans-to-Deposits Ratio:	Net loans excluding repos / deposits excluding repos (when available)
CET1 Ratio:	Fully loaded Basel III Common Equity Tier 1 (or transitional if not available)
Peer Group:	Excludes banks that do not report on a quarterly basis

Notes:

All figures are in Euro unless otherwise noted.

Sources: Company Documents and SNL Financial

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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