

# DBRS Morningstar Confirms ABN AMRO's Long-Term Issuer Rating at A (high), Stable Trend

## BANKING ORGANIZATIONS

DBRS Ratings GmbH (DBRS Morningstar) confirmed the Long- and Short-Term Issuer Ratings of ABN AMRO Bank N.V. (ABN AMRO or the Bank) at A (high) / R-1 (middle). The trend on all ratings remains Stable. The Bank's support assessment is SA3 while the Bank's Intrinsic Assessment (IA) is A (high). See the full list of ratings at the end of this press release.

## KEY RATING CONSIDERATIONS

The confirmation of ABN AMRO's ratings reflects the Bank's strong retail and commercial banking franchise in the Netherlands, supported by a solid franchise in private banking in Northwest Europe, particularly France and Germany. The ratings also incorporate the Bank's sound earnings generation, despite the ongoing pressure on revenues from the low interest rate environment, its sound asset quality to date and its strong funding and liquidity profile, which is underpinned by a stable customer deposit base and good access to market funding. ABN AMRO's capital position is strong, supported by its recurrent and sound internal capital generation.

Nevertheless, DBRS Morningstar considers that the wide and growing scale of economic disruption caused by the coronavirus (COVID-19) pandemic is negatively affecting the Bank's operating environment, and as a result the Bank's earnings generation and risk profile are likely to be adversely affected in the coming quarters. In Q1 2020, loan loss provisions were hit by two exceptional files in the clearing and commodity finance business lines as a result of this crisis. Therefore, we will continue to monitor the developing situation, and whether there could be larger than currently anticipated risk deficiencies in risk management. Downward rating pressure would increase should the crisis be prolonged.

## RATING DRIVERS

An upgrade of the ratings is unlikely given the current environment. Over the medium term, this would require notable improvement in profitability metrics whilst maintaining strong risk discipline and sound capital positions.

A downgrade of the ratings could arise if a prolonged adverse impact from the COVID-19 pandemic were to result in a sustained deterioration in asset quality, possibly exposing deficiencies in risk management. Additionally, a downgrade of ratings could be driven by a prolonged weakening of profitability metrics.

## RATING RATIONALE

ABN AMRO has a strong retail and commercial banking franchise in the Netherlands. The Bank has a market share of approximately 17% in retail mortgages, and is the primary bank for around 25% of Dutch enterprises. Furthermore, ABN AMRO has a solid private banking footprint in Northwest Europe and select presence in niche corporate sectors globally. In late 2019, ABN AMRO announced a review of its Corporate & Institutional Banking (CIB) division, in order to enhance profitability and better align the

division's risk profile.

ABN AMRO has demonstrated solid earnings generation in recent years. Nonetheless, we expect ABN AMRO's operating revenues, which have already been under some pressure from the low interest rate environment, to also be affected by the COVID-19 pandemic and the associated economic and market disruption. In Q1 2020, ABN AMRO reported a net loss of EUR 395 million, compared to a gain of EUR 478 million in Q1 2019. The significant decline was primarily driven by substantial loan loss provisions of EUR 1.1 billion in the quarter, reflecting the deterioration in economic conditions and the decline in oil price, as well as two exceptional client files (clearing and commodity finance) that accounted for 41% of total impairments in the quarter. Total revenues were down 8% YoY to EUR 1,924 million due to ongoing margin pressure, particularly on the deposit side. Net interest income, which is the Bank's main contributor to operating income, was down 2.9% year-on-year (YoY). Net fee and commission income benefitted from increased trading flows (up 5.8% YoY) while other income was EUR 135 million lower YoY, affected by fair value adjustments. Overall, ABN AMRO expects its cost of risk, which spiked to 132 bps in Q1 2020, to be around 90 bps of average customer lending for 2020, which equates to c. EUR 2.5 billion.

DBRS Morningstar views positively that the Bank remains focused on reducing costs. The reported cost-to-income ratio slightly deteriorated from 58.8% in FY18 to 61.2% in FY19, which is not too far from the target of 56-58% in the short- to medium-term. In Q1 2020, operating expenses were down 2.0% YoY, in spite of higher AML-related cost, and the Bank remains on track with regards to its cost target of around EUR 5.1 billion in 2020. We note, however, that since September 2019 the Bank has been under investigation by the Dutch public prosecutor in relation to requirements under the Act on the prevention of money laundering and financing of terrorism and that fines or settlements of this nature could be of a substantial size.

In DBRS Morningstar's opinion ABN AMRO's asset quality metrics are solid and the loan book is well diversified, generally supported by the favourable macroeconomic conditions in the Netherlands to date. ABN AMRO reported Stage 3 loans of 2.8% in Q1 2020 (vs. Q1 2019: 2.2% of total gross loans). However, the corporate loan book with a Stage 3 ratio of 5.8% is relatively high. ABN AMRO's lending exposure is geared primarily towards residential mortgages, which represented 53.1% of the loan book at Q1 2020, and are largely located in the Dutch home market. The Dutch residential market has shown signs of overheating. Nonetheless, ABN AMRO's residential mortgages continue to perform well (Stage 3 ratio of 0.8% of gross loans), while 24% of the mortgage book is guaranteed by the Nationale Hypotheek Garantie (NHG) scheme.

Regarding the impact related to the COVID-19 crisis, ABN AMRO has communicated that about 8% of the EUR 278 billion loan book is directly affected. In addition, the Bank has offered payment holidays to c. 13,000 individuals, and c. 33,000 professionals and self-employed in the retail segment. In the corporate segment c. 63,000 SMEs were granted payment holidays, which represents 50% of the commercial banking customers. In our view the cumulative impact of COVID-19 and payment deferral programmes on ABN AMRO's overall credit profile depends on many factors, and will only become apparent over time.

Supported by a solid retail and private banking deposit base, DBRS Morningstar views ABN AMRO's funding profile as solid. DBRS Morningstar notes that over the past few years the Bank's loan-to-deposit ratio has been largely stable at around 114%. The Bank's liquidity position remains robust. The EUR 80.5 billion liquidity portfolio (at end-FY19) covered the short-term funding outstanding 3.8 times and consisted of EUR 14.7 billion commercial paper and EUR 6.0 billion long-term funding maturing in 2020. The Bank reported that both its Liquidity Coverage Ratio (LCR) and its Net Stable Funding Ratio (NSFR) were above 100% at end-2019.

DBRS Morningstar considers ABN AMRO's capital position as strong. This is supported by the Bank's solid track record in generating capital internally and good access to capital markets. At end-Q1 2020, the Bank's fully-loaded Common Equity Tier 1 (CET1) ratio was a solid 17.3%, lower than 18.1% at end-2019, but implying a larger capital cushion over minimum SREP requirement and MDA trigger (approximately 750 basis points) thanks to the reduction of countercyclical buffers, the systemic risk buffers, and of pulling forward of the finalised Basel III rules (the so called "Basel IV"). This does not include the final 2019 dividend, which has not been paid out according to recent ECB guidance. We also note ABN AMRO reported its CET1 ratio under Basel IV

would be 14% at end Q1 2020.

## ESG CONSIDERATIONS

The Grid Summary Grades for ABN AMRO Bank N.V. are as follows: Franchise Strength – Strong; Earnings Power – Strong/Good; Risk Profile – Strong/Good; Funding & Liquidity – Strong; Capitalisation – Strong.

A description of how DBRS Morningstar considers ESG factors within the DBRS Morningstar analytical framework and its methodologies can be found at: <https://www.dbrsmorningstar.com/research/357792>.

### Notes:

All figures are in EUR unless otherwise noted.

The principal methodologies are the Global Methodology for Rating Banks and Banking Organisations (8 June 2020) <https://www.dbrsmorningstar.com/research/346375/global-methodology-for-rating-banks-and-banking-organisations>.

For more information regarding rating methodologies and Coronavirus Disease (COVID-19), please see the following DBRS Morningstar press release: <https://www.dbrsmorningstar.com/research/357883>.

The sources of information used for this rating include ABN AMRO Presentation and Press Release Q1 2020 results, ABN AMRO Group 2016-2019 Annual Reports, Dutch Central Bank website, and S&P Global Market Intelligence. DBRS Morningstar considers the information available to it for the purposes of providing this rating to be of satisfactory quality.

This is an unsolicited rating. This credit rating was not initiated at the request of the issuer.

With Rated Entity or Related Third-Party Participation: YES

With Access to Internal Documents: NO

With Access to Management: NO

DBRS Morningstar does not audit the information it receives in connection with the rating process, and it does not and cannot independently verify that information in every instance.

Generally, the conditions that lead to the assignment of a Negative or Positive trend are resolved within a 12-month period. DBRS Morningstar's outlooks and ratings are under regular surveillance.

For further information on DBRS Morningstar historical default rates published by the European Securities and Markets Authority (ESMA) in a central repository, see: <http://cerep.esma.europa.eu/cerep-web/statistics/defaults.xhtml>.

The sensitivity analysis of the relevant key rating assumptions can be found at: <https://www.dbrsmorningstar.com/research/363066>.

Ratings assigned by DBRS Ratings GmbH are subject to EU and U.S. regulations only.

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## Ratings

### ABN AMRO Bank N.V.

Date Issued	Debt Rated	Action	Rating	Trend	Issued
25-Jun-20	Long-Term Issuer Rating	Confirmed	A (high)	Stb	
25-Jun-20	Short-Term Issuer Rating	Confirmed	R-1 (middle)	Stb	
25-Jun-20	Long-Term Senior Debt	Confirmed	A (high)	Stb	
25-Jun-20	Short-Term Debt	Confirmed	R-1 (middle)	Stb	
25-Jun-20	Short-Term Deposits	Confirmed	R-1 (middle)	Stb	
25-Jun-20	Long Term Critical Obligations Rating	Confirmed	AA	Stb	
25-Jun-20	Short Term Critical Obligations Rating	Confirmed	R-1 (high)	Stb	
25-Jun-20	Dated Subordinated Debt	Confirmed	A (low)	Stb	
25-Jun-20	Long-Term Deposits	Confirmed	A (high)	Stb	
25-Jun-20	6.250% Sub Notes Due 2022	Confirmed	A (low)	Stb	
25-Jun-20	6.375% Sub Notes Due 2021	Confirmed	A (low)	Stb	
25-Jun-20	7.125% Sub Notes Due 2022	Confirmed	A (low)	Stb	
25-Jun-20	7.75% Sub Notes Due 2023	Confirmed	A (low)	Stb	
25-Jun-20	Floating Rate Sub Notes Due 2020	Confirmed	A (low)	Stb	

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