ABN AMRO Bank N.V.

Full-year 2016 results supported by resilient net interest income and low impairment charges

Summary opinion
On 15 February 2017, ABN AMRO Bank (ABN AMRO, A1 stable, baa1) reported a full-year 2016 net profit of EUR 1,806 million, down 6% from 2015. The net profit included a provision of EUR 297 million (net of tax) related to the settlement of the SME interest rate derivatives. The underlying net profit excluding special items was however up 8% to EUR 2,076 million, exceeding the good performance of 2015, despite the low interest environment and increased operating expenses due to restructuring provisions. Resilient net interest income and further decrease in impairment charges have continued to support the bank’s profitability.

ABN AMRO’s CET 1 fully-loaded ratio increased to 17% from 16.6% at end-September 2016.

Improved underlying net profit driven by resilient margins coupled with loan growth and low impairment charges
The bank’s operating income remained robust at EUR 8,588 million (+2%), mainly driven by an increase in net interest income, which stood at EUR 6,277 (+3%), and improved other operating income (+3%), partially offset by a lower net fee and commission income (-5%).

Higher net interest margins on loans (both mortgages and corporate loans) and lower cost of deposits coupled with lending growth drove the resilience of the bank’s net interest income in 2016 despite the low interest rate environment. Interest margins on mortgages continued to benefit from the repricing of the loan book, an impact expected to abate going forward. Savings rates paid on clients were further lowered during the year and there is
still some room for further cuts. Increased lending volumes were supported by both higher production of mortgages, of which outstanding amount rose for the first time since 2010 (around + 0.4% year-on-year), and increases in the corporate and SME loan books (around + 5.6%).

Exhibit 2

Net interest income (EUR million)

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<tr>
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<th>Net interest income 2015</th>
<th>Retail Banking</th>
<th>Private Banking</th>
<th>Corporate Banking</th>
<th>Group Functions</th>
<th>Net interest income 2016</th>
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<td>Source: Company report</td>
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Operating expenses were up 8% from the previous period to EUR 5,657 million, primarily driven by a provision of EUR 348 million to account for the cost-saving initiatives announced by the bank in H2 2016. As a result, the cost-to-income ratio was up to 65.9% over 2016 (61.8% over 2015) and 61.8% excluding the aforementioned provision, which is to be compared to the bank’s target of 56-58% to be achieved in 2020.

Impairment charges continue to decrease to EUR 114 million in 2016 (or 4 basis points of gross loans) from the already low EUR 505 million in 2015 (or 19 basis points). The bulk of the year-on-year improvement comes from corporate banking. This low level reflects the favorable economic conditions prevailing in the Netherlands, which has positive implications on mortgages and the SME loan book. This is partly offset by higher impairments in the Energy, Commodities and Transportation Clients’ (ECT) segment. Again in 2016 the bank recorded substantial releases of incurred but not yet identified (IBNI) provisions. In 2016, reversals of unused provisions (other than IBNI provisions) were even higher than in 2015 and additions to provisions were even lower than in 2015.

ABN AMRO’s fully-loaded CET1 ratio stood at 17% as of end-December 2016 compared to 16.6% as of end-September 2016. On purpose the bank’s policy maintains its capital ratio at a very high level until more clarity is available on Basel 4 requirements.

Following the Supervisory Review and Evaluation Process (SREP) for 2017, the minimum CET1 regulatory requirement is set at 9%. For 2019, other things being equal, the fully-loaded CET1 requirement is expected to be set at 11.75% which factors in 100% of the buffers (systemic and conservation); based on that level, ABN AMRO anticipates a CET1 ratio of 13.5%.
Endnotes

1. The bank ratings shown in this report are the bank’s senior unsecured rating and outlook, and baseline credit assessment
2. Out of which EUR 271 million were accounted as a special item in Q2 2016. Please also refer to our research on this issue Dutch Banks Will Pay for Alleged Derivative Product Mis-selling, a Credit Negative
3. 152 basis points over 2016 versus 146 basis points over 2015
4. The cost-saving initiatives will help offset the expected EUR 0.9 billion additional increase in costs during 2015-2020. This additional increase includes EUR 0.4 billion coming from investments in digitalization, innovation and growth initiatives, and EUR 0.5 billion coming from price inflation and regulatory levies
5. Subject to change and regulatory approval, ABN AMRO will be required to fulfill in 2017 a CET1 ratio of 9% (4.50% of Pillar 1, 1.75% of Pillar 2 requirement, 1.25% of phased-in Capital Conversation Buffer and 1.50% of phased-in Systemic Risk Buffer). This amount differs from the 10.25% requirement previously imposed to ABN AMRO, due to the new approach adopted by the ECB to determine the SREP level, in particular the distinction between SREP requirement (disclosed) and SREP guidance (undisclosed)
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