ABN AMRO Bank N.V.

Resilient profitability underpinned by moderate loan growth, robust margins, lower expenses and impairment releases

All figures in this report relate to FY 2017 and are compared to FY 2016 figures, unless otherwise indicated

Summary opinion
On 7 February, ABN AMRO Bank (ABN AMRO, A1 stable, baa1) reported a full-year 2017 (FY 2017) net profit of €2.8 billion, up 55% compared to FY 2016. Excluding non-recurring items (which included among others, the proceeds of the sale of Private Banking business in Asia, additional charges for SME derivatives-related issues and restructuring costs), the increase in net profit from last year was 8%, underpinned by resilient interest income reflecting modest growth in lending volumes alongside robust margins (157 basis points) as well as cost containment (expenses were down by 1%). ABN AMRO’s full-year results also benefited from releases of provisions. Overall, these results are in line with our expectations and are credit neutral for bondholders.

The bank’s yearly profit continued to be supported by growth in lending volumes and higher margins together with cost containment and provision releases

Net interest income was up €179 million to €6.5 billion (+3%), driven by modest loan growth alongside robust margins. The bank’s net interest income also benefited from the positive impact of some one-offs booked in Q4 (net impact of €92 million). During 2017, customer loans increased by 0.9% to €248 billion, mainly driven by growth in the residential mortgage portfolio and SME portfolio. The net interest margin improved to 157 basis points (bps) from 152 bps, partly driven by the aforementioned positive impact of one-offs. The bank continued to further reduce interest rates paid on customer deposits. We expect however some pressure on margins as potential for further reductions in the cost of funding will be limited going forward.

Fee and commission income was down 3% to €1.7 billion, primarily owing to the negative impact from the divestment of Private Banking Asia. Other income increased to €1.1 billion from €0.5 billion, mainly driven by the sale proceeds of Private Banking Asia.
Operating expenses slightly declined by 1% to €5.6 billion. Excluding non-recurring items and regulatory costs, operating expenses were down 2% (see exhibit 1). The early benefits from the cost-savings programs have helped contain the overall cost base of the bank. The cost-to-income ratio was 60.1% (down from 65.9% for FY 2016), compared to a targeted range of 56% to 58% by 2020.

Credit costs represented a net release of €63 million (2 bps of average loans) driven by favorable economic conditions, particularly in the Netherlands. Impairment charges in the Energy, Commodities and Transportation portfolio were down 11% to €186 million (66 bps of average loans).

The bank’s capital position remained strong as reflected by its fully-loaded Common Equity Tier 1 (CET 1) ratio of 17.7% at the end of December 2017 (17.6% at the end of September 2017) to be compared with a CET1 SREP requirement of 10.4% for 2018 and 11.78% for 2019. ABN AMRO estimates at around 15 bps the impact of the First Adoption of IFRS 9 on its CET 1 ratio, resulting mainly from a change in the classification and measurement of public sector loans. We regard this as inmaterial given the capitalization of the bank.

The estimated impact of the recently agreed Basel III rules (commonly referred to as Basel IV, please also see Basel Committee’s agreement on risk weights is credit positive) would amount to around a 35% increase in risk-weighted assets. As a result, the bank decided to change its fully-loaded CET 1 capital ratio target to a range of between 17.5% and 18.5% (from a target of 13.5% previously), which includes a “Basel IV implementation buffer” of 4% to 5%. This capital target will be revised at the end of 2018 in order to take into account possible regulatory capital developments such as TRIM and SREP. ABN AMRO has managed to build a strong capital buffer over the years and, as a result, the bank was already within the targeted range at year-end 2017.

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Endnotes

1 The bank ratings shown in this report are the bank’s senior unsecured rating and outlook, and baseline credit assessment
2 €207 million net of provisions and other costs. The unit was divested in April 2017 and the sales proceeds were tax exempt
3 Total gross loans and receivables excluding loans to professional counterparties, other loans and fair value adjustments from hedge accounting
4 Supervisory Review and Evaluation Process
5 This is an initial estimation is based on year-end 2017 figures which assumes a static balance sheet. The estimation does not take into account future developments, such as management actions and other potential regulatory adjustments
6 Targeted review of internal models
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