ABN AMRO Bank N.V.

Q1 2018: Higher impairment offset revenue growth

All figures in this report relate to Q1 2018 and are compared to Q1 2017 figures, unless otherwise indicated

Summary opinion

On 14 May, ABN AMRO Bank (ABN AMRO, A1 stable, baa1) reported a net profit of €595 million, down 3% compared to Q1 2017. The bank’s net banking income was up 4% to €2.3 billion due to higher net interest income (+5%), which was partly driven by growth in lending at resilient margins. Operating expenses were stable at €1.3 billion, which resulted in a lower cost-to-income ratio at 57.9%. However, results were affected by a surge in credit costs (€208 million versus €63 million for Q1 2017), due to impairments charges taken on exposures in oil and gas related sectors (shipping and offshore services) as well as in the Diamond and Jewelry sector. Overall, these results are credit neutral for bondholders.

Net profit declined because of higher credit costs and despite improved net interest income

Net interest income increased by €75 million (5%) to €1.7 billion and the net interest margin improved to 166 basis points (bps) from 156 bps. Over Q1 2018, customer loans grew by 1.8% to €253 billion, mainly in the Corporate loan portfolio (both SME and Corporate and Institutional banking). The bank’s net interest income also benefited from an accounting policy change regarding mortgages interest rate renewals before the end of the interest period, which resulted in a one-off impact of €25 million. Furthermore, the bank continued to lower the rates paid on clients deposits, however there is little room left for further reductions and we believe potential for future improvement will be limited going forward.

Net fees and commission income was down 5% to €431 million, however this was compensated by an increase in Other operating income (+15% to €227 million), mainly driven by higher Equity Participation results.

Operating expenses remained stable at €1.3 billion. Personnel costs were slightly down (-0.47%), reflecting the decline in full-time equivalent staff members, while other expenses were flat. The cost-to-income ratio improved to 57.9% (60.2% for Q1 2017) and is in line with the range target of 56-58% set for 2020.
Credit costs increased to €208 million (or 32 basis points, bps, of average loans) from €63 million (9 bps of average loans) in Q1 2017. This was driven by impairment charges on loans to clients in the shipping and offshore sectors (oil and gas related) as well as in the Diamond and Jewelry sector. Total impairment charges in Global Transportation and Logistics, Natural Resources, and Trade and Commodity Finance (former Energy, Commodities and Transportation - ECT - sectors) amounted to €97 million for Q1 2018 compared to €59 million for Q1 2017. We have historically considered exposures in these sectors to be volatile and of higher risk.

ABN AMRO’s fully-loaded Common Equity Tier 1 (CET 1) ratio declined to 17.5% at the end of March 2018 from 17.7% at the end of December 2017, mainly as a result of the impact of the first time adoption of IFRS9 (-12 bps). The bank did not opt for the phase-in of the impact of the new accounting norm, which was permitted under an EU ruling. The CET1 ratio remains nevertheless well above the SREP CET1 of 10.4% for 2018 (11.78% for 2019), and is within the management’s target range of 17.5% - 18.5% (which includes a Basel IV implementation buffer of 4% to 5%).

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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. The timeframe of the spread of the mortgage penalty interests charged to clients was shortened (spread now over the remaining original term versus the new term previously) which resulted in extra-profit.


4. Indeed, the estimated impact given by the bank 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) was around a 35% increase in risk-weighted assets. This was an initial estimation based on year-end 2017 figures which assumed a static balance sheet. The estimation did not take into account future developments, such as management actions and other potential regulatory adjustments.
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