Commentary

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Insight beyond the rating.

DBRS: ABN AMRO FY16: Net Interest Income Growth & Reduced Impairments Support Net Profit

- ABN AMRO Group N.V. (ABN AMRO or the Group) reported a net profit of EUR 1.8 billion in 2016, down 6% YoY, driven in part by EUR 271 million of provisions for SME derivative-related issues taken in 1H16. Excluding special items, however, net profit was up 8% YoY, to EUR 2.1 billion, supported by both good underlying income growth, specifically in Corporate Banking, and a further reduction in impairment charges.
- Total underlying income increased 2% YoY, to EUR 8.6 billion, with solid net interest income (NII) growth driven by improved deposit pricing and higher margins on mortgage and corporate lending. As a result, ABN AMRO's net interest margin (NIM) remained solid, despite the low interest rate environment, at 152 basis points (bps) in 2016, up 6 bps YoY.
- Costs remain a key challenge for the Group, with underlying operating expense growth outstripping revenue growth in 2016. Underlying operating expenses totalled EUR 5.7 billion in 2016, up 8% YoY, driven both by a EUR 33 million increase in regulatory levies, to EUR 253 million (EUR 66 million for the Single Resolution Fund; EUR 98 million for the bank tax & EUR 90 million for the Deposit Guarantee Scheme) and EUR 348 million of restructuring costs related to previous digitalisation and process optimisation). As a result, ABN AMRO's cost-to-income ratio totalled 66% in 2016, up from 62% in 2015. Costs, however, remain a key focus, with the Group refining its cost-income ratio target, from 56-60% by 2017, to 56-58% by 2020 as announced in Q3 2016.
- DBRS notes ABN AMRO's change in its management structure that aims at improving efficiency. By creating a statutory Executive Board and an Executive Committee levels, the Group is significantly reducing the number of its top executives.
- Risk costs continue to improve for ABN AMRO, with impairment charges down 77% YoY to EUR 114 million in 2016, equivalent to 4 bps of average customer loans on an annualised basis, which is well below the Group's estimated through-the-cycle average of between 25-30 bps. DBRS does, however, note that, at 83 bps in 2016 up from 56 bps in 2015, the cost of risk for the Group's Energy, Commodities & Transportation (ECT) Clients exposure remains well in excess of the estimated through-the-cycle Corporate Banking average of below 40-60 bps, reflecting the current challenging operating environment for the Oil & Gas and Shipping sectors.
- ABN AMRO continues to demonstrate solid capitalisation, with a transitional Common Equity Tier 1 (CET1) ratio of 17.1% at end-2016, against a minimum CET1 SREP requirement for 2017 of 9.0%. On a fully-loaded basis, the Group reported a CET1 ratio of 17.0% at end-2016, up 150 bps YoY reflecting retained earnings and reduced RWAs, and a leverage ratio of 3.9%, up 10bps YoY. Despite the solid position, capital remains a key focus for the Group given the evolving regulatory, including the proposed revisions by the Basel Committee on Banking Supervision (BCBS) of the standardised and the internal ratings based (IRB) approach for credit.

ABN AMRO GROUP N.V.

	4Q16	3Q16	2Q16	1Q16	4Q15
IBPT/RWAs	1.9%	3.2%	2.2%	2.4%	1.9%
NPL Ratio	3.3%	3.5%	3.2%	2.5%	2.7%
Cost-to-income Ratio	77.7%	61.7%	68.5%	66.9%	74.5%
Net Loans-to-Deposits Ratio	112.7%	107.0%	107.7%	109.7%	108.9%
CET1 Ratio	17.0%	16.6%	16.2%	15.8%	15.5%

Table Key (QoQ % Change)	More than 40%	21% to 40%	11% to 20%	6% to 10%	0% to 5%
Improvement					
Deterioration					

Current DBRS Ratings: ABN AMRO GROUP N.V.	Rating	Trend
Issuer & Long-Term Debt	A	Stable
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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