Press Release

DBRS

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Date of Release: May 22, 2012

DBRS Comments on ABN AMRO's 1Q12 Results; Ratings Unchanged, Bank at A (high)

Industry: Fin.Svc.--Banks & Trusts

DBRS, Inc. (DBRS) has today commented that its Issuer & Long-Term Debt Ratings for ABN AMRO Group N.V. (ABN AMRO or the Group) and ABN AMRO Bank N.V. (the Bank), "A" and A (high), respectively, with Stable trends are unchanged following the release of the Group's 1Q12 results.

For the quarter, ABN AMRO reported a net profit of EUR 454 million, which includes EUR 32 million of separation and integration-related costs, compared to a net loss of EUR 121 million in 4Q11. On an underlying basis, excluding separation and integration-related costs, ABN AMRO reported an operating profit before tax of EUR 610 million, compared to an operating loss before tax of EUR 158 million in 4Q11. Results benefited from a higher operating income, lower loan impairment charges and solid cost control. Operating income increased 4% quarter-on-quarter (q-o-q) to EUR 1.9 billion on higher net interest income driven by growth in the commercial loan portfolio, while other non-interest income improved 15% due to an increase in client trading as market confidence improved in early 2012, more than offsetting a 3% decline in net fee and commission income. Year-on-year (y-o-y) the quarter's results were lower than that in 1Q11, owed to an increase in impairment charges and a slight decrease in operating income. Net interest margin was 1.22% in 1Q12, a 7 basis points improvement q-o-q, but 9 bps lower y-o-y as savings margins in Retail Banking were under pressure and reflected growth in the balance sheet. Loan impairments were lower at EUR 187 million compared to EUR 768 million in 4Q11, but as discussed above, increased from EUR 125 million in 1Q11. DBRS notes that 4Q11 impairment levels were elevated owed to EUR 380 million of impairments on Greek government-guaranteed corporate exposures. Given the weakening in the Dutch economy, ABN AMRO expects loan impairments to rise as 2012 progresses, mainly driven by consumer loans and commercial real estate. DBRS views the results, despite the downturn in the Dutch economy and volatile market conditions, as evidencing the resiliency and strength of the Group's franchise domestically and internationally in its targeted businesses. Nonetheless, given the slowdown in the Dutch economy, DBRS is mindful that maintaining solid positive earnings momentum in 2012 may become increasingly more difficult.

Costs remain well-controlled, illustrating the successful implementation of integration programs which are beginning to show synergies. To this end, operating expenses decreased 9% q-o-q, which along with growth in operating income, drove the improvement in the underlying cost to income ratio, to 58% from 67% in 4Q11 (excluding the impact of separation and integration related costs). Through its "customer excellence" programme, ABN AMRO maintains the goal of lowering its cost/income ratio to structurally below 60% by 2014 as a key focus.

DBRS views ABN AMRO's practice of holding a substantial amount of liquidity, while it bolsters equity through earnings and strengthens its funding profile, as prudent. To this end, while ABN AMRO's liquidity buffer of EUR 52.3 billion was lower than the level maintained at year-end 2011, given that the Group as of April 2012 has refinanced all long-term funding maturing in 2012, DBRS sees the liquidity buffer as conservative. Importantly, the Group continues to maintain market access despite heightened uncertainties related to Eurozone sovereign debt. During 1Q12, ABN AMRO raised over EUR 8.1 billion of term funding in various currencies and maturities. Further, subsequent to quarter-end, ABN AMRO issued an additional EUR 1.6 billion in April 2012. The Group continues to advance its strategy of lengthening the average maturities of term funding while diversifying funding sources. The average original maturity of the new issuances is approximately 6.2 years, which lengthened the average remaining maturity of the Group's long-term funding to 4.1 years. DBRS views capital as solid, with a Basel II Tier 1 ratio of 12.9% and a Core Tier 1 ratio of 10.6%, both marginally lower from year-end 2011 reflecting a slight increase in RWAs. DBRS notes that quarter-end capital levels exclude 40% of net reported profit reflecting the targeted amount under the Group's dividend policy.

Notes:
All figures are in EUR unless otherwise noted.

The principal applicable methodology is the Global Methodology for Rating Banks and Banking Organisations. Other methodologies used include the DBRS Criteria – Intrinsic and Support Assessments. Both can be found on the DBRS website under Methodologies.

The sources of information used for this rating include company documents and SNL Financial. DBRS considers the information available to it for the purposes of providing this rating was of satisfactory quality.

This commentary was disclosed to the issuer and no amendments were made following that disclosure.

This credit rating has been issued outside the European Union (EU) and may be used for regulatory purposes by financial institutions in the EU.

This rating is endorsed by DBRS Ratings Limited for use in the European Union.

Lead Analyst: Steven Picarillo
Approver: Alan G. Reid
Initial Rating Date: 25 June 2010
Most Recent Rating Update: 1 July 2010

For additional information on this rating, please refer to the linking document under Related Research.

For more information on this credit or on this industry, visit www.dbrs.com or contact us at info@dbrs.com.

Steven Picarillo
Senior Vice President - Financial Institutions Group
+1 212 806 3238
spicarillo@dbrs.com

David Laterza, CPA
Vice President - Financial Institutions Group
+1 212 806 3270
dlaterza@dbrs.com

Alan G. Reid
Managing Director – Financial Institutions and Sovereign Group
+1 212 806 3232
areid@dbrs.com

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