Press Release

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Insight beyond the rating.

# DBRS Comments on ABN AMRO Rating Actions – Trend Revised to Positive

**Industry: Fin.Svc.--Banks & Trusts**

As detailed in the press release "DBRS Downgrades 31 European Banking Groups due to Removal of Systemic Support Uplift", published earlier today, DBRS Ratings Limited (DBRS) downgraded the ratings of ABN AMRO Group N.V. (ABN AMRO Group or the Group), including the long term issuer and senior debt ratings to A (low) from A, and the ratings of ABN AMRO Bank N.V. (ABN AMRO or the Bank), including the long term issuer and senior debt ratings to A from A (high). The trend on ABN AMRO Group and ABN AMRO's long term issuer and senior debt ratings is now Positive. The downgrade reflected a change in DBRS's support assessment for ABN AMRO to SA3, from SA2, which resulted in the removal of one notch of uplift from the Intrinsic Assessment (IA) for potential systemic support. Concurrently, ABN AMRO's intrinsic assessment was confirmed at A. This commentary provides further background on the Positive Trend.

RATIONALE FOR POSITIVE TREND:

The Positive trend indicates DBRS's view that ABN AMRO continues to make consistent progress, especially with regards to profitability and capital. In 1H15, ABN AMRO continued to demonstrate its good underlying earnings generation capacity, reporting income before provisions and tax (IBPT) of EUR 1.8 billion, a 15% increase year-on-year (YoY). Although in part supported by a 68% YoY increase in other operating income, to EUR 312 million, as a result of higher CVA/DVA/FVA results, DBRS notes positively the YoY increases in both net interest income (NII) and net fee and commission income, up 6% and 10% respectively. ABN AMRO's strong income growth also offset a 7% YoY increase in operating costs, and resulted in a cost-income ratio of 57% in 1H15, down from 59% in 1H14, and in line with the Group's target range of 56-60% by 2017. If the expected regulatory levies had been equally divided over the quarters, DBRS notes that the cost-income ratio would have remained within the Group's targeted range, at 60%.

In 1H15, ABN AMRO also reported a further improvement in asset quality, with the impaired loan to gross loans ratio down to 2.6% at end-1H15, and impairment charges down 59% YoY. As a result, the Group reported an underlying cost of risk of 21 basis points (bps) in 1H15, down from 54 bps in 1H14. DBRS anticipates that the Group's impairment charge will remain at lower levels given the recovery path of the Dutch economy.

The Group's funding profile has also improved significantly in recent years, with the loan to deposit ratio down to 111% at end-1H15, from 135% in 2010, following strong customer deposit growth. ABN AMRO also maintains a significant liquidity buffer that totalled EUR 81.8 billion at end-1H15, approximately three times bigger than the Bank's wholesale funding with a maturity of less than one year.

Although there are still a number of regulatory developments outstanding, including the introduction of Minimum Requirement for Own Fund and Eligible Liabilities (MREL), DBRS considers that ABN AMRO is relatively well positioned to meet these challenges, reporting a fully-loaded Common Equity Tier 1 (CET1) ratio of 14% at end-1H15, and a MREL of 6.2%, based solely on equity and loss absorbing instruments, against an ambition for MREL to be equal or greater than 8% by 2018. DBRS also notes that the recent issuance of an additional Tier 1 instrument and a Tier 2 instrument will have further improved the MREL.

RATING DRIVERS:

Continued success in executing its strategic plans (including its recently revised financial targets), with regard to profitability, cost reductions and capital/leverage ratio, is likely to add positive pressure to the rating. Negative rating pressure could result from a failure to maintain an acceptable level of consistent profitability, or from any indication that the current downward trend in loan impairments were to reverse. Additional pressure could arise if the Bank were to significantly increase its risk profile.

SUPPORT ASSESSMENT:

The rating action concluded the rating review initiated in May 2015, and reflected DBRS's view that developments in European regulation and legislation mean that there is less certainty about the likelihood of timely systemic support. Countries across Europe continue to make progress in enacting the Bank Recovery and Resolution Directive (BRRD) into national legislation, including the Netherlands. BRRD has harmonised the approach that will be taken in the resolution of failing banks across Europe, and has led DBRS to conclude that there is not sufficient certainty of support to have any uplift in the senior debt ratings of European banks. Consequently the support assessment for ABN AMRO was changed to SA3 (the category for banks in countries where DBRS has no expectation of systemic support or is not confident enough that timely systemic support would be forthcoming in times of need to add a notch for systemic support) from SA2 (indicating the likelihood of timely systemic support).

RATIONALE FOR THE CHANGE IN TREND OF THE JUNIOR SECURITIES:

DBRS earlier today also changed the trend on the dated subordinated debt issued by ABN AMRO Bank to Positive, from Stable. The change reflects the trend on the Group's IA, from which these ratings are notched.

Notes:
All figures are in EUR unless otherwise noted.

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