Commentary

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Insight beyond the rating.

DBRS: ABN AMRO 3Q16: Income Growth & Lower Impairments Support Net Profit; Dutch Stake Down to 70%

- ABN AMRO Group N.V. (ABN AMRO or the Group) reported a net profit of EUR 607 million in 3Q16, up 19% year-on-year (YoY), supported by both solid underlying income growth (excluding CVA/DVA), specifically in Corporate Banking, and a further reduction in impairment charges. DBRS also notes the on 16 November 2016, NL Financial Investments (NLFL), on behalf of the Dutch State, sold 65 million depository receipts representing ordinary shares in ABN AMRO, reducing its stake in the Group from 77% to 70%.

- Total underlying income (excl. CVA/DVA) increased 4% YoY, to EUR 2.2 billion, with solid net interest income (NII) growth, supported by a profit of EUR 52 million from the positive revaluation of ABN AMRO's share in Equens, a payment service provider. The Group's solid NII increased 3% YoY, 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 150 basis points (bps), up marginally YoY.

- Underlying operating expenses totalled EUR 1.4 billion in 3Q16, up 11% YoY, driven in part by a EUR 144 million restructuring provision. ABN AMRO, however, continues to focus on cost control, with the Group refining its cost-income ratio target, from 56-60% by 2017, to 56-58% by 2020, and announcing a further EUR 400 million of planned cost savings over the next four years, in addition to the EUR 200 million identified in 2Q16, and EUR 300 million related to the Group's existing cost initiatives (TOPS2020 & Retail Digitalisation). The Group does, however, expect to take an additional restructuring provision of EUR 150-175 million in 4Q16 as a result of these additional cost savings.

- Risk costs continue to improve for ABN AMRO, with impairment charges down 75% YoY to EUR 23 million in 3Q16, equivalent to 3 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. Importantly, improvements were noted across all segments, including the Group's Energy, Commodities and Transportation (ECT) Clients exposure, which experienced a 47% YoY decrease in impairment charges, to EUR 33 million. DBRS does, however, note that, at 95 bps in 9M16, the cost of risk for the Group's ECT Clients exposure remains well in excess of the estimated through-the-cycle average of below 40-60 bps, reflecting the current challenging operating environment for the Oil & Gas and Shipping sectors.

- ABN AMRO's capital position improved further in the quarter, with the Group reporting a fully-loaded Common Equity Tier 1 (CET1) ratio of 16.6%, up 40 bps sequentially reflecting further profit and reduced RWAs. The Basel 3 fully-loaded leverage ratio remained stable at 3.7% at end-3Q16. DBRS also notes that, following discussions with the Single Resolution Board (SRB), ABN AMRO has concluded that ABN AMRO Bank N.V. is likely to be appointed as the Group's designated resolution entity.

	3Q16	2Q16 Peer Low	2Q16 ABN AMRO Group N.V.	2Q16 Peer High	1Q16 Peer Low	1Q16 ABN AMRO Group N.V.	1Q16 Peer High	4Q15 Peer Low	4Q15 ABN AMRO Group N.V.	4Q15 Peer High	3Q15 Peer Low	3Q15 ABN AMRO Group N.V.	3Q15 Peer High
IBPT/RWAs	3.2%	0.2%	2.2%	7.7%	-0.8%	2.4%	5.4%	-2.2%	1.9%	5.3%	-0.1%	3.1%	5.3%
NPL Ratio	3.5%	15.7%	3.2%	0.3%	15.9%	2.5%	0.4%	16.5%	2.7%	0.4%	17.1%	2.7%	0.4%
Cost-to-income Ratio	61.7%	96.7%	68.5%	33.9%	111.4%	66.9%	42.9%	249.8%	74.5%	44.8%	101.7%	58.5%	42.0%
Net Loans-to-Deposits Ratio	107.0%	194.7%	107.7%	73.6%	202.1%	109.7%	72.9%	197.0%	108.9%	73.5%	193.0%	110.2%	71.8%
CET1 Ratio	16.6%	10.4%	16.2%	23.0%	10.3%	15.8%	23.7%	10.1%	15.5%	24.1%	9.8%	14.8%	23.0%

Table Key						
	Within 10% of Peer High	Between 11% and 25%	Between 26% and 50%	Between 51% and 75%	Between 76% and 90%	Between 91% and 100%

Peer Group: A-Range European Banks

Banco Santander SA, CaixaBank, S.A., Banco Bilbao Vizcaya Argentaria, S.A., ING Bank N.V., ABN AMRO Group N.V., Barclays PLC, Lloyds Banking Group plc, Groupe Crédit Agricole, Société Générale, S.A., KBC Group N.V., Intesa Sanpaolo SpA, Deutsche Bank AG, Skandinaviska Enskilda Banken AB, Swedbank AB (publ), Credit Suisse AG, UBS AG, Danske Bank A/S

Current DBRS Ratings: ABN AMRO Group N.V.		
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

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