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Second Quarter Results 2007

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Rijkman Groenink
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Operator: Good afternoon ladies and gentlemen. Welcome to the ABN AMRO Second Quarter Results 2007 Presentation. At this time all participants are in a listen-only mode. Later we will conduct a question and answer session. I would now like to turn the call over to your host, Mr. Rijkman Groenink.

Huibert Boumeester: What we're going to discuss with you, of course, is first half '07 results. We will be joined shortly by Rijkman Groenink. To start to the discussion perhaps is around the operating performance. We have a very select audience here, I hope. We are joined in the webcast, but we still have, it remains select.

Male Speaker: (Inaudible)...

Huibert Boumeester: I have to really plead guilty as well this morning, so I think we just (inaudible). The first thing that we would like to note is from the operating results in the first half of '07 is that they show a pretty strong performance in conditions, of course, of uncertainties. We're going to first discuss those and then I would like to take you through the year of delivery discussion and then Rijkman will address the strategic options explored section. If you have any questions as we go along, please do ask and I will try to answer them.

The first half results of '07 show a strong performance; and why do we say that? The reported revenue growth is 12.6% when adjusted; and, of course, we have adjusted for a number of items that you can see footnoted on the bottom of the page is actually 14.3% which has been driven by increase in operating income in all BUs.

We have, of course, seen a strong underlying performance in the BU global markets. We had also seen, on a reported basis, expenses went up 14% but when adjusted at 8.6%, of course, leading to well below cost growth relative to revenues leading to very significant increases in reportings.

Operating result of 9.1%, but particularly up 29.1% (inaudible) of the adjusted operating results.

That, again, in turn then leads to a 3.6 percentage point improvement in the adjusted efficiency ratio to 68.5% for the first half. That in turn, of course, leads to a reported profit which is marginally down of 1.4%, but on an adjusted basis is up 13.4% to EUR 2.39 billion and that is despite higher taxes and loan loss impairments and as a result obviously of some of the BUs, I had already alluded to, but also Asia, Latin America, and Europe; and

we see indeed that the markets business unit has led the further driving of increased operating profit significantly.

That's where I would like to start sort of finish the first summary of the result. Of course there is a comparison that we've made core queue on queue, but we remain, as we've said, well on track to beat the 2007 EPS target of EUR 2.3 on an adjusted basis. We do that from a position of capital strength, 6.12 (inaudible) one and an 8.17 tier 1 ratio and therefore we feel that in the right combination of caution and, of course, reflecting the improved earnings that we're able to pay a dividend of \$0.58 which is up 5.5%, so far the general and sort of statement on the first half results.

The next slide shows that depicted, and I'm happy to come back to this EPS discussion should you want to, but it's clear from these numbers that we are well positioned to deliver on an EPS basis.

If you look at the adjusted revenue growth by 14.3%, which has been driven by higher revenues on BUs, of course, you can see with the exclusion, of course, of our group functions BU, contributions from all BUs, or be it that some BUs have seen a marked improvement in terms of revenue growth. Notable, as I said earlier, are the business unit Europe, Latin America, and Asia; and if you look at the light yellow boxes you can see the contribution and growth in contribution from the global markets set of products is quite significant as well, supported by robust growth of global clients.

Are our costs under control? We would say "yes" because the adjusted expenses, excluding bonus accruals are up by only 1.5% year-on-year. This is in our view is a result of cost measures we've taken in 2006 and further savings from services.

If you look at the adjusted operating result that flows through from all of this, you can see that the picture is slightly more mixed but generally on the same trend line for the different BUs. Antonventa has not quite been able to keep up its operating result, but all the other BUs have been able to (inaudible) group functions.

The efficiency ratio improvement we would say is therefore rather dramatic with a 3.6 improvement in the efficiency ratio, a very solid result delivered, as I said earlier, based on our measures taken in 2006 and on our efforts on the services side. If you translate that to the adjusted efficiency ratios by BU, it translates therefore an improved efficiency ratio in almost BUs, some by significant margin, as you can see, in the business unit, Europe and also in the business Europe, business unit, excuse me, North America.

Provisioning, I think it's well within the expectations generally. Provisions growth has been there in the Netherlands as a result of some corporate provisions we've taken, hardly any provisions in the portfolio of Europe, some provisions in Antonventa, and we'll come back to that as to what that means for the rest of the

year, and

basically we see all the significant growth for provisions in the business units that are subject and leaders of growth, namely the business units – Latin America and the business unit Asia both representing provisions that are accumulated as a result of very significant growth of the balance sheet.

All of this means that on a temporary basis our group ROE is below 20%; however, our return on assigned risk capital of all our operating BUs, almost all, I should say, (inaudible) Antonventa is about 20% by a significant margin in certain cases. Also our global clients unit has been able to achieve for the first time return on assigned risk capital which is above 20% at 22%.

We had shared with our designs and deliverables for 2007 at the publication of the annual results for '06 and indicated how we were going to go about it even earlier, very much based on improving our operating performance, increasing focus and capital discipline.

On the growth side, I would like to share with you, for instance, some numbers on our total retail loans growth. You might note that there's been significant and continuous growth in that area since the early part of '04. The retail growth over the period, over the one-year period is 31.2%. This is still done, I think, at very appropriate risk levels and risk costs. Expenses are up but by no means at the same level, which has led to an improvement in our efficiency ratio in Latin America, which is 95%. Brazil, as I'm sure you're all aware, we are approaching the same performance as our peers. In the BU Asia we've seen strong operating income increases by 38%. We have started to drive our home our focus on selected markets – India, Greater China, UAE, Indonesia, and Pakistan. You've seen us making some minor acquisitions in both Pakistan and Indonesia and those are in the progress of being prepared for integration. In June we also received approval to go local and to build our bank further in China proper.

Antonventa has been, of course, some disappointment to us, particularly the growth of operating income as you can see at a level of 1.9% does not fully reflect both the conditions in the Italian marketplace and our aspirations for Antonventa. We have made significant further investments in the client base and we have also taken other actions to attract new customers. If you look at that, we have to, of course, say that it is uncertain whether Antonventa will continue to meet its 500 million euro targeted profit for the period on a stand-alone basis, but we certainly are confident that this will be higher than the profit for the period in '06 which was EUR 413 million. We have undertaken significant initiatives and therefore do expect that profit to pickup, but it hasn't picked up as quickly as we had hoped in Antonventa.

On the efficiency side you can see the primary views where we were focusing on efficiency, apart from the BU Europe, the BU NL, and the NU North America we've seen that the BU NL is on track to deliver improvement of efficiency ratio in '07, seen a good

improvement of operating income in the first half, good volume growth in commercial loans, however some lower margins; and we've also seen good cost control and we've seen some benefits from the additional services savings leading to an efficiency ratio of 65.6 for the first half of '07 and that's quite a ways since where we were, of course, at the beginning of 2001. If you look at the movement in efficiency ratios with LaSalle, there we also saw operating income up at constant effect rates, of course, the U.S. dollar has gone on a bit. We saw the operating expenses up. Of course, we have made some higher bonds accruals to pay for performance and costs up by 5.2%, which has allowed us to benefit some already from the successful execution of cost measures and you might have note that we have executed our 5% head count reduction during the course of the first two quarters of this year.

Finally, as part of our plan, we wanted to accelerate our steps to make sure that BU Europe reached profitability in 2007. We have taken, had taken, and have taken certain actions to make sure that this would happen. Significant cost control, FDU reduction and service initiatives helped us. We also made sure that we pushed ahead on the shift in client mix with a further focus on financial institutions which has led to a very significant increase in revenues for the BU Europe, which combined with the cost measures we've taken has now led to a profitable unit delivering for the period 243 million euros.

We've also seen a similar over the last three years strong improvement in the efficiency ratio of the BU global markets. Global markets were able to record revenues at levels which have not seen before and driven really by momentum across franchise. Growth has been and will continue to be supported by tight ongoing cost control and as a consequence of all of this on a like-for-like basis profit for a period increased by 76.3% to euro 730 million the first half of '07, a significant improvement both in profitability, efficiency ratio, and capital returns.

Global clients, we had said that global clients needed transition itself to making better use of its capital, restricting its access to capital, and seeing more fees and commissions as revenue base. Revenues did increase by 29.4% to 1.5 billion in the first half of '07. We also saw an increase in revenues, in fact a strong ECM/M&A results and the sale of non-capital intensive global markets products that has led to a significant improvement of the efficiency ratio and finally a very solid return on assigned risk capital.

Focus: Over the last four years, five years, I should say, since 2001 we have divested ourselves of a significant number, approximately 40 subscale and non-core assets. Of course, you are very familiar with a number of them – LeasePlan, Bouwfonds, U.S. mortgages. We continue to divest smaller units from within business units such as our private clients business in Miami and our 50% stake in a joint venture with ABN AMRO Mellon, which will only be reflected in the third quarter numbers. We've obviously also after a long

consideration and taking opportune use of price and moment disposed of LaSalle and reduced our footprint. Combined with this we had over the last couple years made selective acquisitions and we have an ongoing commitment to manage our capital tightly and this will led to a few very small, small portfolio disposals, but we have no intention of making major disposals at the current time.

I already alluded to the strict capital discipline. You can see that we've clearly managed it in terms of both growth and results to core tier 1 ratio which is well in line with our yearend targets of 6% and 8%. We've also been able to manage our risk-weighted assets to the extent of staying just below 300 billion, that's 294 billion.

This... All of this leads us to a situation where we are well on track to deliver an EPS of 2.3 in the full year. Certainly with an adjusted EPS of 1.26 in half one, we should be in a good position to achieve that. Of course there is some uncertainty in the second half of this year and we feel however that even in that uncertainty we'll be able to deliver on our EPS target of 2.3.

This is where I hand over to you.

Rijkman Groenink:

I'll just (inaudible). Thank very much Huibert. I'll just follow-up with the, to cover the second part, the second press release which came this morning on the merger situation and start with the short review of where we come from. Of course all our strategic analysis and exercises have been based on the vision which we have developed over the years for ABN AMRO. The ambition to be a leading European based bank, sustainable market positions in growth markets, particularly in Brazil, Asia, and Italy, and focusing ourselves as a client led organization on the needs of our, particularly our mid market consumer and commercial clients. On the basis of managing for value, creating value for our shareholders with ambition targets in terms of beating our peers in terms of efficiency growth and capital management.

Now over the years the ways how to reach those goals have evolved. Now of course organic growth has always been a part of our package. Also, acquisitions have been part of the game. We have for years explored the possibilities on merger of equals. We kept in reserve a merger of, a merger in which we will be a junior partner and at the bottom of the list, of course, being acquired. Now over the, in the course of 2006 we have come to the conclusion that we should expand our review to also include a merger as a junior partner in a merger and to that end we intensified our talks with a number of potential parties in Europe. Next to reviewing the options of a merger we continue to review alternatives like stand-alone case or breakup of the bank. We assess those alternatives first as a merger, we came to the conclusion that a merger in which we will be a junior partner will meet most of our visionary requirements and that it will be better than a stand-alone scenario as we are presently working on. We announced a merger with Barclays on the 23rd of April.

The rationale for that merger you will find on page, next page. Listen, sorry, I'm a little bit slow in turning the pages. What are the opportunities from the merger with Barclays? It's actually a significant opportunity to accelerate our strategy for growth in the growth markets. It creates better opportunities to serve our customer, broader markets product capabilities from cards, asset management, and capital markets, and also the financial metrics of the deal, the equity stories are very good, very strong cost synergies, and very high opportunities for revenue synergies going forward. Of course it's highly, it's (inaudible) to the fact that we can also show high cost synergies, it's highly, the combination is compatible with each other and complimentary.

The Board's decision was very clear on the 23rd of April. We combined it with the sale of LaSalle, which was an opportunity arising in the last four days of negotiations. Why did we take this opportunity? Just to repeat it again, we took this opportunity because it sets the value of LaSalle and it sets, it set that part of the deal and it helped us to extract a higher offer from Barclays with something like two euros. Interestingly enough, of course, also subsequently when the Consortium came in with their bid, they had to base themselves on the bid already (inaudible) Barclays so the sale of LaSalle also originally helped immediately to put in a higher number from the Consortium. As I said, we reviewed stand-alone options both on a stand-alone basis and a managed break up analysis on the 22nd of April together with the merger proposal from Barclays and again we came to the conclusion that those options were not attractive enough, not creating enough value and at the same time of course the most important thing, the execution of this would totally lie with shareholders of ABN AMRO. So the Board, the merger with Barclays was recommended. The logical consequence of the negotiations we had with the Barclays and the choice, the active positive choice we made ourselves.

Now the meantime of course a lot has happened. Until we reached the 23rd of July last week, well we reached a situation in which we had a firm offer of the Consortium on the table and we had a revised proposal from Barclays and this allowed us for the first time to really compare the two offers because they are, they're actually bidding for the same ABN AMRO, the same assets, and it created the opportunity to evaluate them next to each other and there with also setting a next step in creating a level playing field for those bidders and for our shareholders.

On the... Interesting complication, of course, is the Dutch law situation which requires from the managing Board and supervisory Board to express a recent opinion on the merits of a proposal to all stakeholders, the bank and all stakeholders including shareholders. So the Dutch law requires from the Board not only to review an offer with a purpose of a being capable of recommending it to shareholders but it has a grounding and ramification. So we did review the Barclays' offer in that context and we concluded that the

offer of the merger plan of Barclays deserves our support, our continuing support. It fits perfectly with our strategic vision.

It has all the elements of a deal which we prefer, except for the fact that of course the price offered by Barclays at this point in time due to valuation of the Barclays share in the market is not superior to the offer made by the Consortium and therefore it cannot be recommended to our shareholders. So on the request of Barclays to make the recommendation, we had to respond negatively, which we have done. Amendments to the merger protocol have been affected. The deal is, it continues to be governed by the merger protocol with a number of amendments which we have filed today. We reviewed on the same basis and with the same intensity the Consortium offer. The industrial plan of the Consortium offer, of course, which is based on the breakup of ABN AMRO doesn't have the same value and merit to ABN AMRO and stakeholders as the Barclays' offer. In that sense it has not the same reach. But, of course, we have to make it clear that obviously the price offered for ABN AMRO to ABN AMRO shareholders by the Consortium is superior to the offer from Barclays. But, at the same time, that doesn't allow us to recommend that offer today because there are a number of unknowns, uncertainties, and potential obstacles which make it at this point in time impossible for us to recommend. To mention a few of the uncertainty around the shareholders meeting outcome, the shareholders meeting of particularly (inaudible) whether will approve the increase in their share capital, secondly the funding situation for particularly again (inaudible) and their present market circumstances. Thirdly, the Dutch Central Bank recommendation to the ministry, we have no idea about the position of the Central Bank East whether they will agree, not agree, or agree with conditions and whether those conditions will be manageable by the Consortium (inaudible) so creates a substantial uncertainty and the last part which of course directly relates to the first three. There is a very general (inaudible) in the documentation which we think believe is not acceptable to our shareholders, so a number of things have to become clear, all have to be changed before we will be in a position to recommend the offer from the Consortium.

So the conclusion was after two days of deliberations that we could not recommend either offer to shareholders. We will engage with both parties to further explore the offers, both the financial side of it whether any improvements are possible. But also particularly with the Consortium, we want to engage actively to establish whether our concerns around the execution of the transaction can be mitigated or taken away and we guessed that also the Consortium has some further questions to ask from us. So we will work the coming weeks and months to see that... And as far as it relates to ABN AMRO, both offers have a fair chance of being made available to shareholders for their choice.

So that's the position as of today .We all know that things may change. Also the position of the Board of ABN AMRO may change

depending on the circumstances. We will be reviewing the situation regularly in the coming weeks and take all subsequent developments into account and it looks like the most likely situation that some were before the EGM to be held somewhere in September that we will have a definite review position again and that we will come out with a, with a new position at that point in time.

This is as far as our presentation go. I'll end up with putting our conclusions on the screen so that you can just absorb the conclusions of our presentations on the numbers and on the strategic developments. So I think we should leave it at this and give you an opportunity to ask questions.

Yeah, go ahead.

Male Speaker:

I would like to ask a number of questions, if I may. First, when you received a letter early this year, TCI, and one of the reasons why they wrote you a letter and I wanted to propose some changes was that they thought that the share buys was rather disappointing in the past few years. I remember in particular a period when the share price dropped well below 20 euros, which was rather disappointing when you continue to proceed with the acquisition of (inaudible), although perhaps some shareholder disapproved of that. Now with a 150 million net profit in the first half of the year, let's say on an annual basis 300 million for a bank for which you paid 7 billion euros, don't you think that shareholders at the time were right and that you shouldn't have proceeded with the acquisition?

Rijkman Groenink:

Well I don't think with all respect to shareholders so that those shareholders certainly did not, could not foresee that this result in the first half of 2007 will be the result. There was a general sense, I don't think there was any question whether the acquisition by ABN AMRO was strategic or not. I think there was general consensus it was. But there was a, there was some feeling in some quarter for shareholders that we were paying a rich price, too rich a price maybe. We have based ourselves at the time very much on the business plan by the company and we have done our, done of course our own independent review of the capabilities. What we have to agree is that the, that Antonventa has, is taking more time than we anticipated. Well, first of all, of course, when we made our decision to bid for Antonventa, between that time and actually when we got control over the bank was a year later, so only in April 2006 we were in control of Antonventa and we could get into the company. Now we would have thought that by the end of the year we would not only be totally in control but also that we would have everything on track in terms of improving the performance organizational structure, key people in management teams, new products launched, refurbishing of the branches, you name it, a very, very aggressive and ambition program. It took us more time. The organization did not respond as quickly as we wanted. So what we see up till now and therefore we still believe is that, yes, indeed we are behind but we are behind and not off the track, but it's going

slower. Certainly also a part from a number of one-offs left and right, negative and positive in the first half it is true that the bank has not grown as fast as the Italian markets as such which in a number of areas is of course hurting the performance of the bank and Huibert can elaborate in detail if you want some more detailed numbers. But we are convinced that we're still on the track and that we are executing our programs albeit slower; although, we don't think that we cannot be certain that we can make the 500 billion which we indicated. We will be... We are confident that we can beat last years results, so somewhere between 413 and the 500 million will be realized by Antonventa. There is a steep increase in operating performance but it's based on what we see today and the acceleration of activities and the organization getting really ready to market its products and services to its customer base. Of course, this works its way through also to the projections for the next year and the year after and we believe that we can, we still have the capability of making the projections which we had ourselves also for 2008. So on the basis of that, if we do continue to make those projections, then we can maintain that this acquisition was not only strategically very well positioned, but also that from a financial perspective we will be meeting the hurdle rates which we have set in terms of return on original investment within the timeframes still which we set for it.

Huibert Boumeester:

The only comment I would add that too I think a very holistic description of Antonventa is of course that your assumption of the 300 million net profit would be the end result is therefore not subscribed to by us as we are forecasting perhaps some difficulty of achieving the 500 million, but certainly as expect, as Rijkman has already said, to exceed the previous year's net profit of 413. On that basis I think you need to look at the performance of Antonventa and as in the following years we will closely need to track the performance to make sure that everything is going on course. We feel that we've done quite a lot in the last months to provide a firm platform for growth in Antonventa.

Male Speaker:

I still have a few other questions.

Rijkman Groenink:

Sure.