# ABN AMRO BANK

**February 20, 2015**

**14:00 pm CET**

Coordinator: Welcome and thank you for standing-by. At this time all participants are in a listen-only mode. During the Q&A session, if you'd like to ask a question please press star 1 on your phone. Today's conference is being recorded. If you have any objections, please disconnect at this time. And now I'd like to turn the meeting over to Ms. Dies Donker. You may begin.

Dies Donker: Good morning. Good afternoon to all of you. A very warm welcome to the ABN AMRO call. Before I head over to Kees van Dijkhuizen, one remark. We've had a little bit of a technical problem with the factsheet that we normally publish on our website and it will be published later today so don't worry.

With that remark, I'll hand over to Gerrit Zalm.

Gerrit Zalm: Okay. Thank you. We had a very good last quarter and that also leads to good results for the year as a whole. Our underlying net results is EUR 1.5 billion and that's roughly double last year's result.

As you know, we corrected our reported of figures for last year for the Greek loans and for Madoff and this year we make a correction for the SNS Reaal levy and for the switch of the Dutch pension scheme to a defined contribution scheme. So the comparison of the underlying figures gives a better indication of what's happening then the reported figures.

We have a strong capital position so we can propose to pay out a total dividend of EUR 400 million. And we already paid an interim dividend of EUR 125 million. So the Minister of Finance can expect another EUR 275 million for dividends.

If you look at the targets we have set for 2017, I think last year shows good progress, into that direction. For the cost income ratio, we had a target of between 56% and 60% for 2017. Last year we ended at 60% and that is an improvement from the 64% we had in 2013 so I think we are on track as far as the cost income ratio is concerned.

If you look at the return on equity, that improved also. In 2013 we had a return on equity for the underlying profit of 5.5%. This year we are almost at 11%, 10.9% to be precise so we are already inside our target range which we had set at 9% to 12%.

So also in this respect we are I think on track and if you look at our core 1 equity target, we set the target for 2017 of 11.5% to 12.5%. We already surpassed that. We are now at 14.1% fully loaded so that creates some room for possible changes also in regulations.

As you know, there's a lot of discussion going on, not only one TLAC and MREL but also a risk rating of mortgages. So having a bit of a cushion in our capital ratio is comfortable also in respect of possible new regulations.

If we look at leverage ratio, according to the latest definition, we are fully loaded now at 3.7% so we expect we can meet the target the Minister of Finance has set in the Netherlands of 4%. In 2018 we can meet that target before the set year. It's our expectation.

All in all we are pleased with the results. We have seen an increase in revenues of 8% and cost management led to a far smaller cost increase, 2%, and also the fact that the Dutch economy is out of recession is paying off in lower impairments and the combination is very fruitful.

Now Kees will take the floor to give some more colour on the financial results of the fourth quarter.

Kees van Dijkhuizen: Thank you very much. Good morning, good afternoon. As usual for this call, we use the short presentation published on our website this morning and the full version of this presentation will, as always, be published later today.

As Gerrit already mentioned, we are quite pleased with the results of the fourth quarter, EUR 400 million. Q4 benefited especially from strong income improvements and a substantial decline in loan impairments.

If we take slide 7, you see the results, an overview of the results and more the specifics on slide 8. Net interest income benefited, on slide 8, from continued improvement in lending margins and this is observed actually across all the business lines. NII rose by 17% versus Q4 of 2013 and 6% compared to Q3 2014.

Margins for new mortgages as well as marginal mortgage resets continued to outpace the average margin of the mortgage book. Although it’s slow paced we expect this effect could continue in 2015. Also savings margins improved somewhat.

In Q4, mortgage production increased and thanks to competitive pricing, we have been able to grow our market share from a bit below 18% to 20% in 2014 and become number two in the Dutch market. In January of this year we had a market share of 21%.

Our clients continue to make high extra payments on the other end. Especially in December the extra payments were historically high. This closely relates to popular favourable tax exemptions that ceased on the 31 of December last year.

Net effect of the new production and the high redemptions resulted on balance in a net decline of the mortgage of around 1.5%. Within commercial loans, we still observe a low number of credit applications in particularly for SME loans.

In Q4, the number of SME credit applications however was for the first time flat compared to Q3 2014 and even more positively the number of approved applications is rising now already for SME loans for three quarters. The loan book for international clients continue to grow driven by ECT.

Clients continue to entrust more savings to us. Deposit volumes rose across almost all businesses versus Q4 of last year. And if we go to slide 9, fee & other incomes. Fee income was almost 4% higher than the fourth quarter of last year. A switch in fee models in retail and private banking away from so-call retrocession fees has had no material impact on our fees.

With respect to other operating income which is less dominant in our revenue mix, as you know, it shows an increase compared to last year as we sold a apportion of our stake in the Holland Clearing House.

Moving to slide 10, expenses. In the first nine months of 2014, expense levels were almost flat. In Q4, expenses were typically up, also for this time. Firstly, from the annual charge of the Dutch Bank Tax of EUR 91 million and secondly, as announced in the previous quarter, a EUR 60 million restructuring charge in connection with accelerated digitization of key customer processes in retail banking.

Q4 2014 cost income ratio was 65%. Had the Dutch Bank Tax evenly been accrued over the quarters cost income would have been 62%. Excluding restructuring charges of EUR 60 million, it would even be 59% which would be inside our 2017 target range.

Personal expenses, excluding retail restructuring charge, were flat. Loan impairments, slide 11. On slide 11, we see that since the beginning of 2014, the trend line in loan impairments is clearly declining. In fact impairments dropped in Q4 2014 to the lowest level in the past three years.

The chart on the right-hand side shows impairment details by products. Mortgage impairments, for instance, declined this quarter to only EUR 20 million which equals 5 bps over outstanding loans in the fourth quarter.

Impairments on commercial loans declined significantly compared to last year and also compared to Q3 2014. Corporate banking, Q4 2014, impairments declined both for commercial and international client sector. The increase in impairments was not visible across all industry sectors as some sectors seems to struggle to adapt structural changes.

Q4 2014 commercial loan impairments were mostly recorded in the industry sector’s industrial goods & services and the non-food retail. And if we look at the results by segment, slide 12, we see a good performance again for retail banking in Q4 2014 driven by high NII from mortgages and client deposits supported by lower impairments in mortgages, partly offset by the EUR 60 million restructuring charge.

Results of private banking declined in Q4 2014 mainly from cost increases and a EUR 25 million goodwill impairment. Decline in impairments was not enough to compensate. Assets under management volumes reached a new high in 2014 and benefited from the inflow of net new assets, market performance and the acquisition in Germany.

Corporate banking improved in several areas. Operating income showed a healthy increase and for two out of the three business sectors, international clients and CMS, revenues grew harder than the expense increase. Results in corporate banking further benefitted from plummeting impairment levels.

Group Functions recorded significant improvements in its results supported by enhanced allocation to the business segments for IT project cost and cost of maintaining, for instance, liquidity buffers.

And this actually means that improvements in retail banking and corporate banking, as we discussed, are even more impressive taking into account these extra indirect costs they got from these enhanced allocations.

Then I would like to hand over to Pieter van Mierlo who replaces Wietze Reehorn today. Thank you very much.

Pieter van Mierlo: Good morning. Good afternoon. Pieter van Mierlo speaking. Thank you Kees. The economic climate continues to have a positive effect on the results of the fourth quarter. As mentioned by Kees, impairment levels further declined to the lowest level recorded in the last three years.

The improvements in the Dutch housing market are reflected in our mortgage book. In this loan book, impairments declined to almost pre-crisis levels. More on that in a minute. I would like to advise you to slide 13. The risk ratios. The impaired ratio has started to show slight improvements across all products.

In absolute terms the level of impairments in customer loans declined EUR 0.4 billion compared to the third quarter. The coverage ratios remain adequate. Then we move onto slide 14 on mortgages.

Slide 14 clearly shows the improving trends observed in Dutch housing and mortgages. As mentioned before, the Dutch housing market improved over 2014. The number of houses sold was up 39% while house prices increased by 1%.

The trend in volume continued in January 2015. This January recorded 6% more transactions than in January last year. Past due and impaired mortgage exposures trend down. It has been a while that we saw these ratios decline.

The impairments came to 5 bps this quarter, which is the lowest recorded in the last 15 quarters. The full year mortgage impairments were 13 bps, the impairments fell sharply compared to levels of 24 bps in 2013 and 16 bps in 2012.

The decline is mainly the result of a smaller impaired mortgage portfolio which is the result of fewer clients getting into financial difficulties so lower inflow in the impaired portfolio as well as more clients have been able to overcome their financial difficulties. So higher outflow from the impaired portfolio.

The average loan to market value of the portfolio was 83%. This was down from 84% in the third quarter year-end 2013. The average loan to market value excluding NHG guaranteed mortgages is somewhat better than 79%.

The mortgage book consists of about a quarter of NHG guaranteed mortgages and approximately half of the NHG mortgages have a loan to value of above 100%. Also the portion of mortgages with loan to value above 100% steadily declined since year end 2013 by approximately EUR 5.3 billion.

This was driven by scheduled redemptions and extra repayments in the loan to value category above 110% and, secondly, high market values that positively influenced the loan to market value.

There was no new inflow in the highest loan to market value category as new production had loan to values between 90% and 104%. Then we come to slide number 15, the effect of new mortgage rules. What trends do we see since the government changed the tax rules for mortgages in the Netherlands?

The new rules apply after January 2013 and the breakdown of the portfolio is starting to reflect the impact thereof. Mortgages with redemption features and annuity & linear account for a growing portion of new production. Compared to 2012 new production in these mortgages improved from 9% to 46% of the total new production. Redeeming mortgages also gained weight in the total mortgage book. Compared to year-end 2012, the share in total mortgage book improved from 2% over to 8% in just two years.

We expect this trend to continue which means that with time, the other mortgage types are replaced by redeeming mortgages and de-risk the mortgage book. Thanks for your attention and now I hand over to our CEO.

Gerrit Zalm: Okay, thank you Pieter. Let me close this with a few remarks. Of course you can imagine that we're pleased with fourth quarter results. The underlying result for the year as a whole, of over EUR 1.5 billion is the best we have recorded so far as it is the first year that the Dutch economy is out of recession. After two years of a shrinking economy, we are happy with this result and we are well on track in our view to meet our strategic ambitions and targets for 2017. If you look at 2015, we are always very hesitant in making forecasts for a current year but there are two or three things we can take for certain.

The first thing we can take for certain is that we will get new levies. They will be a levy for deposit guarantee scheme. They will be new levy for the European Resolution Fund. Together this will take over EUR 150 million is our estimate.

And the second thing we can be certain of is that we'll have higher pension costs because of the low interest rate environment our pension premiums will go up. And that will be around about EUR 100 million. So we are already certain that we get an increase out of these causes of 5% of our cost base this year.

So that is a more difficult part of the environment we are operating in in 2015. On the other hand, we expect the Dutch economy to recover further and that will certainly have a positive effect especially on impairments which we expect to decline further in this year. Thank you very much.

Maybe one more remark on the IPO. Everybody's interested in this subject. We expect the Minister of Finance to write a letter to Parliament in the coming weeks and so we cannot say much more about it than that. We are, of course, also curious about the exact content of that letter. But let's wait for that before we discuss this matter further. Thank you.

And now I ask the Operator to open the call for questions.

Coordinator: The phone lines are now open for questions. If you'd like to ask a question, please press star 1 and record your name. If you'd like to withdraw your question, press star 2. Thank you.

The first question in the queue is from Cor Kluis. Your line is now open.

Cor Kluis: Good afternoon. Cor Kluis of Rabobank. I've got a few questions. First of all concerning the credit risk weighted assets, which you continue to improve and to bring down.

On page 80 of the press release, you mention a large category ‘other’, where you say that the risk weighted assets has come down by EUR 2.3 billion. You explain the mortgage changes, you explain the volume which was lower but what was the EUR 2.3 billion? That’s my first question.

My second question is on the net interest income which was for the total group of course quite strong this quarter. We saw especially also in commercial clients that the net interest income went up quite materially from EUR 360 million to EUR 345 million. And you mentioned there was not much volume increase so it was price. Could you explain why in commercial clients in one quarter the net interest income rose so materially?

And my last question is about oil & energy exposure. You know, considering what’s happening with the oil prices and that you have and ECT business which I think is not too large in total of the group, can you give your view on sensitivity or stress-testing or scenarios that you went through and affects when your business volume rises and impairments rise.

Those are my questions.

Pieter van Mierlo: Pieter here. The first one concerning the RWA. Our exposure amounts, this has to do with several aspects. First of all we have a new model for oil & gas so this portfolio has moved from standardized to advanced.

Further on we had several model changes and we made some reviews of models and therefore the RWA declined.

Cor Kluis: Okay.

Kees van Dijkhuizen: Yes, with respect to the NII question, Cor, you have on commercial clients, I mean that’s an 8% or sorry it’s a, it’s on page, let’s see. That’s net interest income. Yes, net interest income. So it was an increase of 9%. As mentioned it is the margin improvements we have on loans and deposits during the period. I think there’s no specific, no specific reason there for this, for this increase. If this...

Gerrit Zalm: Re-pricing.

Kees van Dijkhuizen: It's re-pricing of course but there's no specific thing in the fourth quarter happened there so I can try to find out a bit more on this but there's no specific reason for it. So, lending volumes, it's not. Those were more or less flat, a bit down even on commercial clients but it's the margin on loans and deposits.

And as you've seen, the improvement, also in almost all the other areas. I mean retail banking has an NII increase of EUR 10 million. Private of EUR 12 million. So it's not a specific one, although of course, and it's a bit lower actually than the average because of the decline in the book.

I mean, the international clients book increased and the book of retail decreased also a bit. But in essence its margins, a bit below the average increase because the average increase was of course much higher for the whole bank. We had a 17% net interest increase for the whole bank. So it's half of the, of the bank result and that is because volumes were down.

Cor Kluis: Okay.

Gerrit Zalm: And on oil & gas, Pieter. The energy prices, there was a question on the effects on our oil and gas business.

Pieter van Mierlo: Yes, we don't expect much impact on the oil & gas business. Perhaps we have some decline due to lower working capital requirements from our clients but of course the bank doesn't take any positions as well as our clients don't take any positions. All the position's clients have are hedged so we don't expect this will impact our oil & gas portfolio. And of course in the last couple of weeks we made a stress test related to the current oil price and as we stressed for the next two years, we don't see any problems for the next two years when the oil price would stabilize at the current level.

Cor Kluis: Okay, that's very good. Thank you.

Coordinator: Yes, the next question is from Benoit. Your line is now open.

Benoit Petrarque: Good afternoon. Benoit Petrarque from Kepler Cheuvreux. I've got a couple of questions. The first one will be on the kind of underlying profitability of the bank. If I start with Q4, the pretax of the EUR 570 million, I add back the bank tax, the restructuring charge of EUR 60 million, the AQR adjustments and take out some negative, some positive one offs in the market, I come to kind of EUR 740 million pretax in Q4.

Now you just mentioned that you will get in total EUR 250 million of regulatory costs plus EUR 100 million on the pension. So I come to kind of EUR 2.6 billion of pretax earnings for the bank. Do you think it's a kind of good run rate for the future or how do you see this type of estimate please?

Then the next one will be on, come back on the net interest margin because on the commercial clients indeed we saw a sharp increase. I think you have a net interest margin of 360 bps on the loan book in the commercial clients. I was wondering if it's sustainable at this stage of the cycle. I would actually expect now margins to compress a little bit. So how do you see your book in the Netherlands? Do you see margin expansion or do you think you'll get into tougher times going forward?

And then to that as well, I mean loan growth, do you see any pick up of loan growth in the Netherlands? I know you mentioned the economy which is picking up. I will be especially interested in the SME and corporate segment which has been pretty weak actually since 2009. Do you see any pickup recently in SME?

And then I have a question on risk weighted assets. Sorry to come back on that but indeed we do see a continuous trend which is going into lower risk weighted assets which is positive for common equity tier 1, obviously. How do you feel on risk weighted assets inflation and/or floors? What is your discussion with your regulator? I mean you have been putting up new models so it seems to be relaxed on lower risk weighted assets. But it seems that the ECB is pushing for higher risk weighted assets and actually indeed a review on the models. So can we expect probably more positive or more negative risk weighted asset inflation going forward?

Thank you.

Gerrit Zalm: Okay. Let me start by your beautiful extrapolation of our fourth quarter to a whole year. Personally I think extrapolating one quarter is a bit risky. So I'd rather look at the year as a whole. I mentioned we have a few cost increases of substance this year so we'll need extra income growth and lower impairments to get a result which is improving compared to this year.

Margins we expect especially in the in the commercial clients segment, we're still able to do some re-pricing. In the segment of retail and private banking it will be very much dependent on the competitive developments and new entrants on the mortgage markets. Pension funds, insurance companies, but also non-Dutch banks are entering the market so this is something which is more difficult to forecast. So as far as margins are concerned, I wouldn't do a very solid statement because it's very much dependent on the competitive landscape.

As far as loan growth is concerned in the Netherlands, in the last quarter we saw a stabilization of our loan book and an increase of the demand for loans so we think we have made the turning point in the fourth quarter and hope, we hope for growth of our loan book again in commercial clients this year which would fit well with the expected further recovery of the Dutch economy. Maybe on our RWA, inflation or deflation…

Pieter van Mierlo: Yes, of course, we have paid note of possible changes in the future and this is going to take another two, perhaps three years, before the new floors are going to be established, if they are. And of course, yes, we have made our internal study on this, what would be the impact. But currently we are heading for even lower RWA's due to still moving small portfolios to advanced. So for the near future we don't see higher RWA's. But of course, as I said, we took notice of the discussion concerning floors which might become applicable, for example, to mortgages.

Benoit Petrarque: Is it safe to assume that you will actually run the bank at maybe a slightly higher common equity 1 ratio than your own target because of this risk on the risk weighted assets?

Pieter van Mierlo: Yes.

Benoit Petrarque: I mean we see banks running at 15%, 17% but they have low risk weight on mortgages. Can we assume that?

Gerrit Zalm: You're quite right. We are not panicking because our core 1 ratio is above our target just because of the uncertainty in the regulatory regime. We think it's nice to have a cushion for that and these regulatory developments are not easy to predict. So having some cushion on top of our target is, I think, wise.

Benoit Petrarque: Thank you very much.

Coordinator: The next question is from Matthias. Your line is now open.

Matthias de Wit: Yes, thanks for taking my questions. Matthias from KBC Securities. First one is on operating expenses. Could you provide some indication of the like-for-like change in the fourth quarter excluding the restructuring provision and also the impact of the consolidation of the German private banking activities?

And looking to 2015, you mentioned that you expect EUR 150 million or even EUR 250 million increase of the cost base. Will any of this increase be offset by savings link to your restructuring programs or efficiency gains you're targeting?

And then a second question is on the loan loss provisions, on the outlook. You mentioned that you are witnessing a pick-up in the Netherlands and that this could lead to a further decline in loan impairments going forward. I guess this refers to 2014 level or are you anticipating a further drop from the Q4 level which was already quite low. So how should we think about impairments? What's sort of a good normalized level for 2015 you could expect?

Thank you.

Gerrit Zalm: Starting with the last point, I think also here we should not look at individual quarters if you want to have an opinion about 2015. We think that the 2015 level will be below 2014 level but we don't use the last quarter as the Holy Grail. As far as the...

Kees van Dijkhuizen: Yes, with respect, I do not have the figure at hand here for Credit Suisse, the amount, but the most important one is of course the EUR 60 million you mentioned, the restructuring provision for retail.

So if you look at Q4 2013, Q4 2014, operating expenses are up by EUR 81 million and out of that you see around 60 million restructuring so that's the most important I would say effect here.

And then we have some others like goodwill impairments and the integration costs. I think they, I don't know the exact figure but I think they are, they might be couple of million, a couple of 10 million. So that actually is the reason for the increase.

Matthias: Okay, and for 2015?

Kees van Dijkhuizen: For 2015, we keep to our fixed cost containment. There will be some efficiency gains in the organization especially in retail. At the same time there will be the need to create extra capacity for other business lines like energy commodities and transportation, which is an expanding part of our business. So it will be quite a challenge to incorporate at least 5% cost base rise because of the new charges. They will not be fully compensated by cost reductions.

Matthias: Okay, that's very helpful. Thank you.

Coordinator: I'm showing no further questions at this time.

Gerrit Zalm: Okay, then I, on behalf of the Board, I thank everybody for their interest and hope to speak to you next time.

Kees van Dijkhuizen: Thank you very much.

Coordinator: This concludes today’s conference. Thank you for your participation. You may disconnect at this time.

END