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Equity Research Europe

COMPANY UPDATE

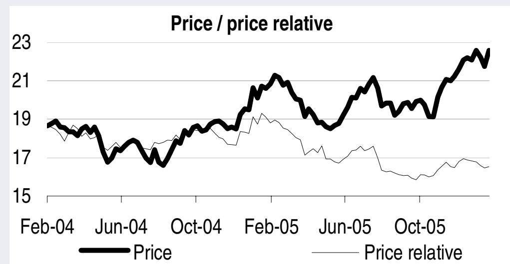
ABN AMRO
AAH.AS

ABN a-changing

- **In our view, ABN AMRO is a collection of essentially sound businesses.** With the exception of the wholesale business, they are each leading players in their respective markets and generate returns on allocated capital (2006E) in excess of 20%.
- **With the underlying businesses looking after themselves, Amsterdam has two responsibilities—to maintain strong capital discipline across the group and to extract synergies between the businesses.** Its historic track record in this regard is poor. Too much capital was allocated to the lowest return business (wholesale), the balance sheet became flaccid and intra-group synergies were scant. Consequently, the shares have long-term underperformed the sector and currently languish at a 15% discount to our sum-of-the-parts.
- **But we believe that things may be changing.** Amsterdam has identified six priorities for 2006. They include better capital discipline and the extraction of group synergies. Specifically, it targets a 6.0% core tier 1 ratio by the end of the year, a series of asset disposals, redeployment of capital away from wholesale banking, and €750m of cost savings from group shared services. We anticipate that over the course of the year it will additionally launch share buybacks (we estimate up to €4.4bn) and upgrade its cost savings target (we estimate by €150m).
- **Realising these priorities could be worth €4 per share, on our estimates.** This reflects a closure of the valuation gap versus the sum-of-the-parts. The value is unlikely to be reflected immediately—this is not an overnight revolution. But with very little of it appearing priced in, the downside looks limited to us.
- **Following 4Q numbers, we are tweaking our earnings estimates slightly.** Our new 2006E EPS estimate is €2.36 (€2.31 previously) and our new 2007E estimate is €2.46 (€2.45). On our new numbers the stock trades at 9.7x 2006E earnings and 9.3x 2007E earnings. The 2005E dividend yield is 4.8%. Our target price remains €25 (reflecting a small discount to our sum-of-the-parts value).

Rating	**OUTPERFORM***
Price (31 Jan 06)	**22.85 (Eu)**
Target price (12 months)	**25.00 (Eu)**
Market cap. (Eu m)	**42,910.02**
Enterprise value (Eu m)	**42,910.02**
Region/country	**Europe/Netherlands**
Sector	**Multinational Banks**
Analyst's Coverage Universe	**Banks**
Weighting (vs. broad market)	**OVERWEIGHT**
Date	**01 February 2006**

**** Stock ratings are relative to the coverage universe in each analyst's or each team's respective sector.***



The price relative chart measures performance against the Europe Dow Jones Stoxx index
On 31/01/06 the Europe Dow Jones Stoxx index closed at 342.5
On 31/01/06 the spot exchange rate was Eu 0.82 /US$1

Performance over	1mth	3mths	12mths
Absolute (%)	**3.4**	**15.8**	**10.1**
Relative (%)	**-0.7**	**3.0**	**-12.4**

Year	12/03A	12/04A	12/05E	12/06E
PCC Operating profit	**6,123.0**	**4,846.0**	**6,135.0**	**8,061.3**
Net income (Eu m)	**3,116.0**	**3,865.0**	**4,382.0**	**4,489.0**
EPS stated (Eu)	**1.94**	**2.33**	**2.43**	**2.40**
EPS (CS adj., Eu)	**1.90**	**2.74**	**2.32**	**2.36**
CS adj. BVPS (Eu)	**7.47**	**8.88**	**11.83**	**13.19**
CS adj. ROE (%)	**25.8**	**22.1**	**20.9**	**17.6**
P/E (adj., x)	**12.04**	**11.76**	**9.86**	**9.69**
P/E rel (%)	**72.7**	**80.6**	**75.7**	**81.5**
P/BVPS (adj., x)	**3.06**	**2.57**	**1.93**	**1.73**

Dividend 2005E (Eu)	**1.10**	Free float (%)	**100.0**
Dividend yield (%)	**4.8**	Number of shares (m)	**1,877.9**
CS adj. equity (12/05E, Eu)	**—**	Current cost of equity (12/05E,	**—**
Net int margin (12/05E, %)	**—**	Tier 1 ratio (12/05E, %)	**10.6**
Cost/income (12/05E, %)	**73.3**	52-wk range (Eu)	**23 - 18**

Source: FTI, Company data, Datastream, Credit Suisse Securities (EUROPE) LTD. Estimates

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Investment Summary

Since upgrading ABN AMRO to Outperform at the beginning of this year, we have faced considerable scepticism from investors. The general theme of this pushback is that ABN AMRO remains a collection of disparate businesses that inefficiently hang together and that nothing ever really changes. This view appears reflected in ABN AMRO's valuation. The stock continues to trade at a discount to our sum-of-the-parts. Valuing the constituent businesses on the basis of peer group multiples, the stock currently trades at a 15% discount.

Where we differ from consensus

Our thesis is simple. We believe that ABN AMRO's underlying businesses are intrinsically good businesses. The problem lies in Amsterdam, where management has historically failed either to capture synergies or efficiently to allocate capital between the businesses. And it is these things that we believe are changing. Granted, the changes are not happening via a 'big bang', in the way that they are at Julius Baer, say. However, they do appear visible. In particular:

- *Amsterdam has committed to manage capital more proactively.* Historically, it allocated some 30% of the group's capital to the wholesale business, which generated a return on equity at half the rate of the group average (2005). In addition, it presided over a relatively flaccid balance sheet—its core tier 1 ratio (stripping out last year's capital increase) was 7.5% as at end 2005, which compares with a peer group average of 6.1%. Going forward, the company has announced a cap on the capital consumption in its wholesale business of 7% in global markets and 10% in global clients (compared with 9% and 11% respectively at the moment). And it has adopted a 6.0% short-term core tier 1 target, which will allow it to adopt more leverage.
- *Amsterdam is extracting cost synergies from its group of businesses.* In years gone by, the businesses barely talked to each other. Gradually though, they are getting closer. In August 2004, The 'GSS' programme (Global Shared Services) started out earmarking €500m of cost savings; by December 2005 the number had been upgraded to €750m. We estimate that the programme will finish up delivering over €900m of cost savings. Realising these synergies is one of management's stated priorities for 2006.

In order to close up the valuation gap to its sum-of-the-parts, Amsterdam needs to address these issues. If it can do so—and we believe that it is moving in the right direction—the benefits could be worth €4 per share to ABN AMRO shareholders on our estimates. Moreover, the downside is limited as very little of this is in the price.

We are revising our earnings estimates following the results marginally. Our new 2006E EPS estimate is €2.36 (€2.31 previously) and our new 2007E estimate is €2.46 (€2.45). Most of the 2006E upgrade is in the Netherlands division, although we have also upgraded Brazil, New Growth Markets and Private Clients (the three growth engines of the group). On a technical point, we now assume that 100% of Antonveneta will be consolidated from 2 January 2006; previously we had assumed that 55.8% would be consolidated in 1Q and 100% in the remainder of the year.

On our new numbers the stock trades at 9.7x 2006E earnings and 9.3x 2007E earnings. The 2005E dividend yield is 4.8%. Our target price remains €25 (reflecting a small discount to our sum-of-the-parts value).

Figure 1: ABN AMRO: Sum-of-the-parts analysis
Eu in millions, unless otherwise stated

	RWAs (2005)	Capital allocated	Net profit 2004A	Net profit 2005A	Net profit 2006E	Net profit 2007E	*As % 2006E*	Peer group PE 06E	Valuation	*As %*
Netherlands	47,300	2,838	229	509	707	736	*16%*	11.8	8,345	*16%*
USA - commercial	66,700	4,002	488	766	836	898	*19%*	14.0	11,700	*23%*
USA - mortgage			182	105	146	160	*3%*	9.3	1,364	*3%*
Brazil	14,800	888	302	644	574	601	*13%*	11.0	6,336	*13%*
New Growth Markets	6,500	390	378	213	197	215	*4%*	11.0	2,171	*4%*
Bouwfonds	25,900	1,554	265	315	129	123	*3%*	11.8	1,523	*3%*
Wholesale	77,000	4,620	(7)	705	550	582	*12%*	8.4	4,620	*9%*
Private Clients	8,100	368	169	255	329	385	*7%*	17.2	5,637	*11%*
Asset Management		451	97	171	180	193	*4%*	17.2	3,095	*6%*
Antonveneta	37,000	2,220	na	na	508	555	*11%*	12.9	6,580	*13%*
Operating businesses	**283,300**	**17,331**	**2,103**	**3,683**	**4,156**	**4,448**	***93%***	**12.4**	**51,370**	***101%***
Corporate centre	8,600	na	1,584	619	305	146		12.4	3,765	
Private equity	3,200	2,711	429	335	280	280		na	2,711	
Capital surplus	na	(7,178)	(251)	(251)	(251)	(251)		na	(7,178)	
Group	**295,100**	**12,864**	**3,865**	**4,386**	**4,489**	**4,623**		**11.3**	**50,669**	
Shares outs.									1,878	
Per share									**27.0**	

Source: Company data, Credit Suisse estimates

4Q results overview and earnings revisions

The fourth quarter results contained a series of one-off items (we counted nine). Adjusted for these, net income was 32% ahead of (our) expectations. However, most of the difference was simply due to an abnormally low tax rate—7.1% compared with our forecast of 29.7%. The tax rate was positively impacted by the release of a €100m tax provision in the corporate centre (relating to lower tax rates in the Netherlands), a tax credit in Brazil, hedge-related tax reversals in Brazil (relating to the depreciation of the BRL against the US$), and tax loss carry-forwards in the UK wholesale business. On a pre-tax basis, adjusted profits were 4% ahead of our expectations.

The Netherlands and Wholesale divisions generated the biggest relative positive surprise. The private equity division also positively surprised (€165m of gains were booked, against our forecast of €100m). We discuss divisional performance in more detail in the next section.

Figure 2: ABN AMRO 4Q results: Actual versus Estimates (adjusted for one-off items)

eu in millions, unless otherwise stated

	Net income Actual (adjusted for on-offs)	Net income Estimate	% diff.	Pre-tax profit Actual (adjusted for on-offs	Pre-tax profit Estimate	% diff.
Netherlands	139	85	64%	201	121	66%
US	229	230	0%	302	333	-9%
Brazil	204	166	23%	211	208	2%
New Growth Markets	75	47	59%	95	59	61%
Bouwfonds	82	86	-4%	115	132	-13%
Wholesale	267	116	131%	295	170	74%
Private equity	128	56	129%	103	70	47%
Asset management	28	38	-26%	33	52	-37%
Private clients	73	70	5%	95	97	-2%
Corporate Centre	(34)	(4)		(127)	24	
Group net profit	**1,191**	**889**	**34%**	**1,323**	**1,265**	**5%**
Consolidation effect	0	0		(2)	0	
Minorities	(25)	(4)				
Attributable Profit	**1,166**	**885**	**32%**	**1,321**	**1,265**	**4%**

Source: Company data, Credit Suisse estimates

We outline our earnings revisions in Figure 3.

Figure 3: ABN AMRO: Earnings revisions

eu in millions, unless otherwise stated

	2005A	2006E New	2006E Old	% chg	2007E New	2007E Old	% chg
Netherlands	509	707	637	11%	736	756	-3%
US	871	982	1,003	-2%	1,058	1,034	2%
Brazil	644	574	543	6%	601	574	5%
New Growth Markets	213	197	189	4%	215	207	4%
Bouwfonds	315	129	129	0%	123	123	0%
Wholesale	705	550	550	0%	582	598	-3%
Private equity	335	280	280	0%	280	280	0%
Asset management	171	180	179	1%	193	191	1%
Private clients	255	329	320	3%	385	366	5%
Antonveneta	na	508	457		555	555	
Corporate Centre	364	51	45		(107)	(83)	
Attributable net profit	**4,382**	**4,489**	**4,333**	**4%**	**4,623**	**4,600**	**0%**
EPS	**2.32**	**2.36**	**2.31**	**2%**	**2.46**	**2.45**	**0%**

Source: Company data, Credit Suisse estimates

Capital discipline

One of Amsterdam's key responsibilities is to manage the capital base that underpins the bank's portfolio of businesses in an efficient manner.

Historically, this was not the case. In particular, too much capital was allocated to low return businesses—notably in wholesale banking—and in recent years, the bank has failed to leverage up to the extent that it can.

Improving capital allocation

ABN AMRO has €77bn of risk-weighted assets in its wholesale clients business. On an equity ratio of 7%, this is equivalent to €5.4bn of capital. The bulk of the capital is tied up in the loan book. As at end 2005, the size of the wholesale loan book was €167.9bn. However, this also includes public sector lending and professional securities transactions. Stripping these out, we estimate that the private sector component of the loan book was €80bn. Assuming an average risk weighting of 82% across the portfolio (which is where it was in September 2002, when the actual risk-weighted assets in the loan book were last disclosed), we estimate that this is equivalent to €65bn of risk-weighted assets.

The return on these assets is typically quite low. We estimate that it is in the region of 6% on allocated equity (see Figure 4)

Figure 4: **Profitability of ABN AMRO Wholesale corporate lending business**
Eu in millions, unless otherwise stated

	2004	2005
Loans and advances WCS (end of period)	137.0	167.9
of which: Private sector (end of period)	49.6	80.0
RWAs (end of period)	40.5	65.0
Commercial banking revenues		1,976
Estimated transaction banking revenues		1,000
Implied corporate lending revenues		**976**
Operating costs		(488)
Normalised provisions		(158)
Pre-tax profit		**330**
Tax		(99)
Net profit		**231**
Average RWAs		**52,744**
Average capital allocated		3,692
ROE		**6.3%**
Cost/income ratio		50%
Tax rate		30%

Source: Company data, Credit Suisse estimates

The reason that banks often cite for pursuing unprofitable corporate lending business is that it fuels business in other areas. In order to gauge ABN AMRO's cross-selling prowess, we analysed what investment banking business it has recently done with its top lending customers. We ranked the top 50 lending customers according to cumulative syndicated loan volumes generated by ABN AMRO over the period 2000-2004. On this basis, the top five borrowers are General Motors, KPN, Ahold, Deutsche Telecom and SBC Communications. We then extracted from the Dealogic database the investment banking business that these corporates did over 2004/2005, and the share of wallet of that business that ABN AMRO won.

We found that ABN AMRO's penetration of its borrowing customers is quite weak and its cross-selling traction poor. Of its top 50 borrowing customers, only five awarded ABN AMRO more than 10% of their investment banking business over 2004/2005 (by fees)—Wm Morrison (100%), Caterpillar (28.3%), Ahold (23.3%), AEGON (17.4%) and AES (11.1%). A total of nine awarded ABN AMRO between 5–10%; 31 awarded ABN AMRO less than 5% and six did not engage any investment banks at all over the period.

Recognising this issue, ABN AMRO recently announced that it would cap the capital consumed by its 'global clients' (i.e. multinational corporates) at 10% of the group total and its 'global markets' business at 7% of the group total. There is some overlap between these two businesses, but as at end-September 2005, the global markets business utilised €25.1bn of risk-weighted assets and the global clients business utilised €31.5bn. On the basis of year-end risk-weighted assets for the group (pro-forma for Antonveneta) we estimate that the 10% cap on global clients could free up €2.0bn of risk-weighted assets, equivalent to €120m of capital (at 6%). The 7% cap on global markets could free up a further €2.5bn of risk-weighted assets, equivalent to €150m of capital.

ABN AMRO has many other businesses where this capital could be profitably deployed. Its highest returning businesses are its asset gathering businesses—private banking generates an ROE of 75% (2006E) and asset management an ROE of 334% (2006E). However, these businesses are not capital constrained. Among the capital-intensive banking business, the emerging market regions generate around 52% (Brazil generates 58% and New Growth Markets—principally Asia—generates 47%) and the developed markets regions (Netherlands, USA, Italy) generate around 22%.

Figure 5: **ABN AMRO: Estimated ROEs by business unit**

eu in millions, unless otherwise stated

	RWAs 2005A	RWAs 2006E	Net income 2006E	Alloc'd capital 2006E	ROE 2006E
Netherlands	60,500	61,919	707	3,673	**19%**
USA	66,700	69,214	982	4,077	**24%**
Brazil	14,800	18,362	574	995	**58%**
New Growth Markets	6,500	7,475	197	419	**47%**
Bouwfonds	12,700	12,000	129	741	**17%**
Wholesale	77,000	80,000	550	4,710	**12%**
Private Clients	7,300	7,300	329	438	**75%**
Asset Management	800	1,000	180	54	**334%**
Antonveneta	37,000	38,850	508	2,276	**22%**
Total operating divisions	**283,300**	**296,120**	**4,156**	**17,383**	24%
Private equity	3,000	3,200	280		
Corporate centre	8,600	3,500	53		
Group	**294,900**	**302,820**	**4,489**	**17,932**	**25%**

Note: Capital allocated on the basis of 6% of risk-weighted assets; €13.2bn of risk-weighted assets transferred from Bouwfonds to Netherlands division (at end 2005) to reflect transfer of mortgage activities. Source: Company data, Credit Suisse estimates

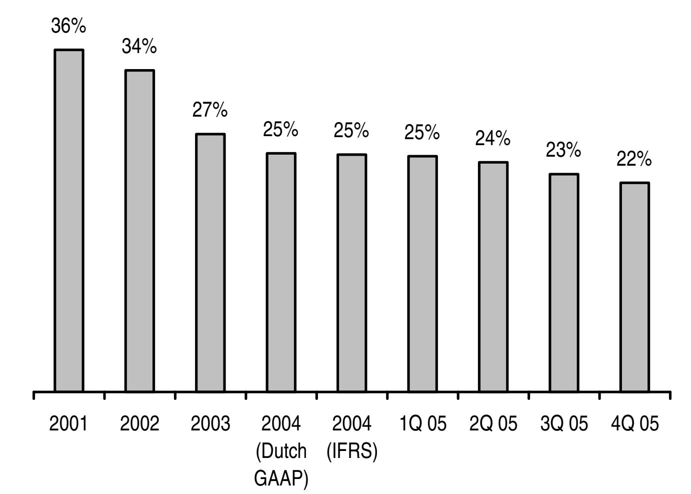
Increasing capital leverage

As well as reallocating capital, ABN AMRO has the scope to bolster its financial leverage. Over the past few years, the company has been quite conservative. We believe that this harks back to 2001/2002 when, alongside a group of other banks, its solvency was brought under the spotlight. Its capital position was severely hit by the depreciation of the BRL over that period; it suffered currency translations losses of €2.2bn over 2001-2003. As at end 2001, the tier 1 ratio was 7.03%.

Perhaps because of these experiences, ABN AMRO has been slower to releverage than other banks. In a year of record issuance of hybrid capital in the European bank sector in 2005, ABN AMRO failed to participate. Its leverage ratio (excluding the impact of the equity capital it raised to finance Antonveneta) fell from 25% at the beginning of the year to 22% at end 2005. Indeed, its leverage ratio has fallen from 36% at the end of 2001. The core tier 1 ratio of 7.5% (excluding the impact of the equity capital it raised to finance Antonveneta) compares with a ratio of 6.1% among the immediate peer group.

Figure 6: ABN AMRO: Leverage ratio

Hybrid capital as % tier 1 capital

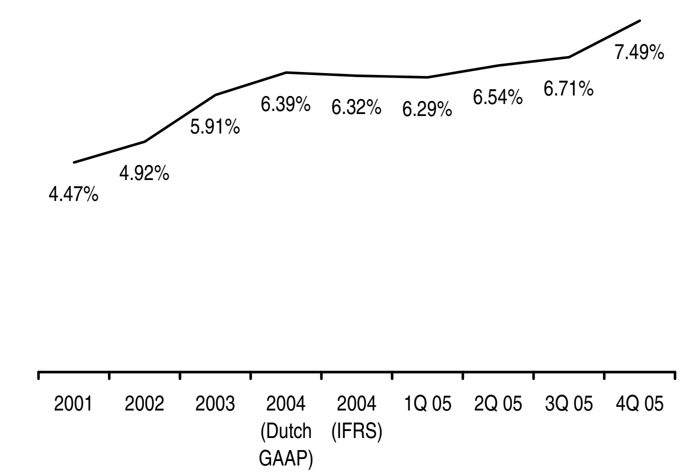


Note: Excludes equity capital raised in 2Q 2005 to finance Antonveneta acquisition

Source: Company data, Credit Suisse research

Figure 7: ABN AMRO: Core tier 1 ratio

%



Note: Excludes equity capital raised in 2Q 2005 to finance Antonveneta acquisition

Source: Company data, Credit Suisse research

Going forward, the de-risking of the group towards a more retail oriented model should allow the company to adopt more leverage. This is already implicit in the company's targets. It reduced its core tier 1 long-term target from 7.0% to 6.5% in August 2005, but says that it is aiming at 6.0% for end-2006. We use 6.0% as the basis for our capital analysis.

The company has also stated that it will sell off non-core and unprofitable businesses in order to free up capital. This strategy, combined with a more leveraged capital position, creates the potential for material share buybacks. The company has already announced that it will conduct a €600m share buyback in 1H. This does little more than offset the scrip dividend that the company will issue as part of its final 2005 dividend. However, the company has suggested that it will follow through with further buybacks in H2 if it meets its objectives, which include the asset disposals.

So far the only asset disposal that has been announced is Bouwfonds (excluding the mortgage activities). Assuming it can fetch a multiple of 11x 2006E earnings, we estimate that proceeds could amount to €1.4bn. We estimate that this would yield a capital gain of some €590m. Other assets that could potentially be sold in our opinion are the 7.7% stake in Capitalia (in October 2006, when the shareholders' pact comes up for renewal), the US mortgage business, parts of the private equity portfolio and Hoare Govett. We estimate that selling these assets could generate capital gains of €1.3bn.

Figure 8: **Potential asset disposals**
eu in millions, unless otherwise stated

	Net inc 2006E	Net inc 2007E	Price	Bk value	Cap gain	RWAs
Bouwfonds	129	123	1,420	831	589	12,000
Capitalia stake	78	93	1,032	904	128	684
US mortgage business	146	160	1,000	560	440	7,000
Private equity	280	280	2,430	1,760	670	1,760
Hoare Govett	nm	nm	100	30	70	70
Sum	**633**	**657**	**5,982**	**4,085**	**1,897**	**21,514**

Notes: Bouwfonds valued on the basis of 11x 2006E earnings; Capitalia stake valued at current market value; private equity valued at current market value (exc. third-party funds); Hoare Govett valued at 3.2x book value (Cazenove take-out multiple).

Source: Company data, Credit Suisse estimates

Assuming that ABN AMRO makes all of these disposals by end 2006, then we estimate that they would release €21.5bn of risk-weighted assets and secure capital gains of €1.9bn. On that basis, the core tier ratio would be 7.6% at end 2006, compared with 5.7% at end 2005 (pro-forma for Antonveneta). The 6.0% core tier 1 target would therefore mean that €4.4bn of capital would lie surplus. This amounts to 10% of the current market capitalisation of the group.

Figure 9: **Estimate of potential surplus capital after asset disposals**
eu in millions, unless otherwise stated

	2005	2005E Antonv	2005 Pro-forma	2006E	2006E After disposals
Tier 1 capital	27,389		22,389	24,911	26,808
Hybrid	5,545		5,545	5,545	5,545
Core tier 1 capital	21,844		16,844	19,366	21,263
RWAs	257,900	37,000	294,900	302,820	281,306
Tier 1 ratio	10.62%		7.59%	8.23%	9.53%
Core tier 1 ratio	8.47%		5.71%	6.40%	7.56%
Hybrid as % tier 1 capital	20%		25%	22%	21%

Source: Company data, Credit Suisse estimates

Operating efficiency

ABN AMRO announced an initiative to cut costs across so-called 'group shared services' (GSS) in August 2004. At the time it announced savings of €500m by 2007. In December 2004 it broadened the programme, upgrading the target to €600m. Most recently, in December 2005, it extended the programme yet again, targeting an additional €150m on top of the €600m in 2008.

The savings stem from a €4.1bn cost block related to services. Another €1.7bn of costs have yet to be assessed, but we anticipate that they will yield savings as well. The company has announced that it will quantify these savings in 1Q 2006—we estimate that they could amount to €150m.

The sources of the GSS savings are in IT, Real Estate, HR, procurement and transaction processing. Of these the single most important contributor is IT. The company anticipates that savings in this area will amount to €258m by 2007 (€414m by 2008). This is equivalent to 11% of the group's total IT spend (18% based on 2008 savings). Approximately 60% of these IT savings relate to infrastructure (e.g. voice/telecom, data centres, desktop) and 40% relate to application development and maintenance, achieved via offshoring for example. The company expects to lay off around 1,200 employees from the IT area, some 24% of its total IT headcount.

Figure 10: **ABN AMRO cost savings programme**

eu in millions, unless otherwise stated

	2007	2008	
IT	258	414	Global service deals signed with 5 vendors, valued at approx. €1.8bn; Ten countries were outsourced to IBM on 1 November 2005; 2005 savings of c. €45m.
Real estate	140	140	Represents 10% of real estate costs. Surplus space: 7% of global property portfolio in 2005 (vs. 9% previously announced). Target is 6% in 2006 (7% previously announced), declining to 4% in 2007.
Off-shoring	52	77	2,200 FTEs offshored in 2004; company estimates headcount will rise to 2,900 at end 2005, and 4,000 at end 2006. €35m savings secured in 2005.
Human Resources	76		
Other	74		
Total Group Shared Services	**600**	**750**	

Source: Company reports, Credit Suisse research

There are several techniques that the company has identified to deliver the savings:

- Shared services and process improvement. This involves consolidation of services into fewer centres.
- Offshoring. ABN AMRO has already begun offshoring to India, where it operates a captive centre (ABN AMRO Central Enterprise Services). The bank estimates that offshoring savings range between 45-50% primarily through labour cost arbitrage. It recruited 1,400 employees in India in 2004 to add to the 800 employees it had there already and expects to recruit a further 1,800 over 2005-2006. ABN AMRO estimates that its historic offshoring initiatives will release €35m of savings from 2005 and that the new shared services initiatives will release a further €42m by 2008.
- Outsourcing/Joint ventures. ABN AMRO has a strategy to outsource certain non-core services to external providers. It has already outsourced a lot of its IT in the

Wholesale Clients division to EDS. As part of the deal (worth €1.3bn over five years) 2,300 ABN AMRO employees were transferred across. The bank forecasts that the deal will release €40m of savings in 2004 rising to €300m by 2007/2008.

ABN AMRO is slightly ahead of the curve in terms of its cost initiatives. In 2001 it oversaw one of the most sweeping domestic retail restructurings outside of a merger situation that we have witnessed; later in the same year it launched a back-office cost containment initiative in investment banking (the 'TOPS' programme); and it was one of the first to launch a cost savings programme in the current environment, unveiling its GSS programme in August 2004.

In addition to the GSS programme, two other cost initiatives will begin to make an impact in 2006:

- Cost synergies relating to Antonveneta (€160m)
- Reduction of cost/income ratio in Global Markets by five percentage points in 2006, and down to 80% longer term. We estimate that the current cost/income ratio of the business is 95%

Overall, we are forecasting an improvement in the group cost/income ratio from 71.2% in 2005 to 67.2% in 2006E and down to 66.1% in 2007E.

ABN AMRO's underlying businesses

As we stated in the executive summary, we believe that ABN AMRO's underlying businesses are all intrinsically sound. In this section, we briefly review their market positioning and how they are currently performing.

Netherlands—A positive surprise

ABN AMRO is one of the dominant banks in the Netherlands. With 4.5 million individual accounts, it has a 17% market share of retail customers. By product, it has market shares of 22% in retail savings, 19% in retail lending and 15% in residential mortgages. Its market share of corporate customers is 40% in the large cap segment and 15% in the SME segment.

The Netherlands business has historically suffered from extremely low margins. Indeed, based on data from Mercer Oliver Wyman, Netherlands has the lowest banking fees in Europe. Against this backdrop, ABN AMRO's revenue margins rank between Rabobank (lowest) and ING (highest) on the basis of our analysis (Figure 11). Its cost/income ratio is slightly higher than peers'—we estimate 68.0% in 2005 including the mortgage activities in Bouwfonds, which compares with 65.4% at Rabobank and 63.0% at ING (both 1H 2005). However, this could reflect ABN AMRO's more affluent customer base; costs are typically higher in this segment. Its higher provisioning charge could equally reflect business mix—ABN AMRO has a lower share of the mortgage market and a higher share of the commercial loan market than its peers.

Figure 11: **ABN AMRO Netherlands performance versus peers**
eu in millions, unless otherwise stated

	Netherlands (stated) 2005	Bouwfonds mortgage activities 2005	Pro-forma Netherlands 2005	Rabobank (domestic retail) 1H 05	ING (Netherlands retail) 1H 05
Total revenue	3,684	376	4,060	2,748	1,868
Operating expenses	(2,675)	(86)	(2,761)	(1,798)	(1,177)
Operating result	**1,009**	**291**	**1,300**	**950**	**691**
Provisions for loan losses	(277)	(16)	(293)	(109)	(62)
Pre-tax profit	**732**	**275**	**1,007**	**841**	**629**
Tax	(223)	(88)	(311)		
Net profit	**509**	**187**	**696**		
RWAs (period end)	47,300	13,200	60,500	129,400	na
Average RWAs	59,260	13,200	72,460	127,050	62,160
Cost/income ratio	**72.6%**	**22.8%**	**68.0%**	**65.4%**	**63.0%**
Total revenue as % avg. RWAs	**6.22%**	**2.85%**	**5.60%**	**4.33%**	**6.01%**
Provisions as % avg. RWAs	**0.47%**	**0.12%**	**0.40%**	**0.17%**	**0.20%**

Note: ABN AMRO average RWAs exclude €14.9bn of securitisations because they were concluded so near to the year-end.

Source: Company data, Credit Suisse research

The Netherlands division performed much better than expected in the fourth quarter. We had been forecasting net income of €85m; the actual result was €139m. The difference stemmed both from higher net interest income (€699m versus €650m forecast) and lower costs (€659m versus €690m forecast). Approximately €32m of the revenue difference was due to higher mortgage prepayment penalties. Income relating to these penalties was €64m in the period (up €16m on the prior period) but about half of this was offset by an adjustment to the funding base. The rest was due to loan growth (+1.5% in the period) driven by demand for consumer overdrafts, mortgage loans and commercial loans.

Going forward, we forecast muted revenue growth as the prepayment penalties drop out. For 2006, we forecast revenues down by 0.5% (excluding the impact of the Bouwfonds mortgage transfer) and for 2007 we forecast revenues up 1.3%. However, we forecast continued improvement in the cost/income ratio from 72.6% in 2005 to 72.3% in 2006E (excluding the impact of the Bouwfonds mortgage transfer). We anticipate that costs will benefit from the division's share of the GSS savings (see later section), but that increased investments in the front office in 2006 will absorb some of the immediate benefits.

Brazil—Top line growth driver

Following its acquisition of Sudameris in Brazil, ABN AMRO became the sixth largest bank in Brazil, ranked by assets, and the fifth largest ranked by deposits.

Figure 12: **Market shares of Brazilian banks (September 2005)**

BRL in millions, unless otherwise stated

	Institutions	Adj. total assets	*Share %*	Total assets	*Share %*	S'holders equity	*Share %*	Total deposits	*Share %*	Employees	Branches	BIS
1	BB	241,806	*15.8%*	245,511	*15.3%*	16,826	*10.4%*	122,672	*19.4%*	107,025	3,998	17,36%
2	CEF	167,743	*11.0%*	175,357	*10.9%*	7,350	*4.6%*	103,237	*16.3%*	104,322	2,236	18,32%
3	BRADESCO	146,918	*9.6%*	162,738	*10.1%*	18,267	*11.3%*	71,195	*11.3%*	67,531	2,922	17,73%
4	ITAU	134,937	*8.8%*	139,131	*8.7%*	17,250	*10.7%*	45,372	*7.2%*	49,429	2,228	17,33%
5	UNIBANCO	79,017	*5.2%*	81,557	*5.1%*	9,148	*5.7%*	35,714	*5.7%*	2,282	918	16,47%
6	**ABN AMRO**	**69,088**	***4.5%***	**69,488**	***4.3%***	**9,437**	***5.9%***	**40,886**	***6.5%***	**28,898**	**1,108**	**17,19%**
7	SANTANDER BANESPA	68,195	*4.5%*	79,577	*5.0%*	8,730	*5.4%*	26,970	*4.3%*	22,172	1,034	14,91%
8	HSBC	43,402	*2.8%*	49,550	*3.1%*	3,074	*1.9%*	28,737	*4.6%*	2,624	932	12,64%
9	SAFRA	43,066	*2.8%*	45,067	*2.8%*	3,877	*2.4%*	11,770	*1.9%*	5,012	98	13,68%
10	VOTORANTIM	35,627	*2.3%*	42,623	*2.7%*	3,944	*2.4%*	17,700	*2.8%*	433	6	15,41%
	Financial system	**1,525,615**		**1,606,282**		**161,080**		**631,421**				

Source: Brazilian Central Bank, Credit Suisse research

Performance in the fourth quarter was very strong. Risk-weighted assets grew by 14% sequentially, in local currency terms, reflecting the strong loan growth evident in the market. Although it is not likely to be sustainable, the net interest margin rose as well—to 18.8% in the quarter, compared with 18.1% in the previous period. Stripping out BRL101m of incidental costs, the cost/income ratio was 60.1%, slightly better than the previous quarter (60.8%). The division also benefited from a low tax rate of 3.5%. Some of this was due to a tax credit, the rest related to the BRL currency hedge (the BRL depreciated against the US$ during the quarter).

Going forward we believe that the key driver will be loan growth. We are forecasting 20% loan growth in 2006, and beyond. Private sector loans in the overall system were up by 25.6% in 2005; +17.4% in the wholesale segment and +37.0% in the retail segment. We anticipate that margins will come down, but that cost ratios will remain stable.

North America—Where the risk lies

ABN AMRO's two US businesses (its MidWest regional banking business and its nationwide mortgage business) both have strong shares in their respective markets. The regional banking business is the biggest in Michigan (by deposits) and the second biggest in Illinois. The mortgage business has been ceding share in originations since the refinancing boom in 2003, but remains top ten in the servicing segment.

Figure 13: **State of Illinois: Markets shares**
Share of deposits, %, as at June

	2005	2004	2003
JPMorgan Chase Bank NA	12.53	12.74	15.66
LaSalle Bank NA	**10.21**	**10.04**	**9.11**
Harris NA	7.13	4.28	3.82
Northern Trust Co	2.79	2.71	2.97
Fifth Third Bank	2.56	2.45	2.26
State Farm Bank	2.46	2.14	1.63
National City Bank of the MW	2.14	2.21	2.05
Charter One Bank NA	2.12	2.25	2.16
Corus Bank NA	1.81	1.06	0.80
Citibank FSB	1.79	1.87	3.02

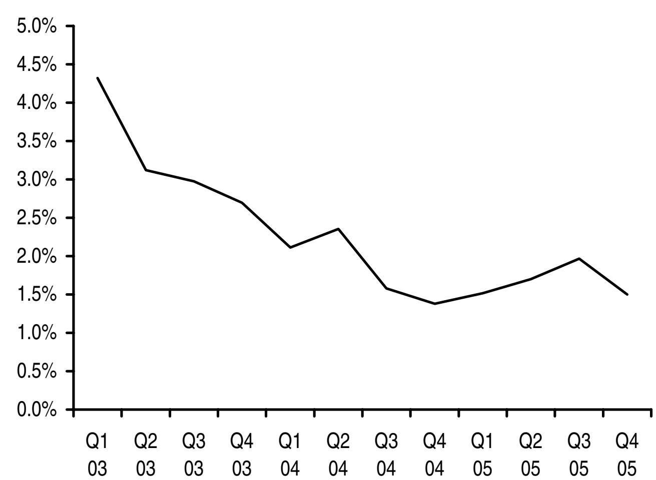
Source: FDIC

Figure 14: **State of Michigan: Markets shares**
Share of deposits, %, as at June

	2005	2004	2003
Standard Federal Bank NA	**13.70**	**13.51**	**15.69**
Comerica Bank	13.14	14.59	15.56
JPMorgan Chase Bank NA	12.32	13.67	13.03
Fifth Third Bank	9.02	8.50	8.55
National City Bank of the MW	7.12	7.25	7.03
Flagstar Bank NA	5.85	5.15	3.85
Charter One Bank NA	3.73	3.59	3.76
Huntington National bank	3.55	3.59	3.55
Citizens Bank	2.79	2.75	2.79
Republic Bank	1.93	1.84	1.83

Source: FDIC

Figure 15: **ABN AMRO: Market share of mortgage origination**
As %



Source: Company data, Mortgage Bankers Association, Credit Suisse research

Figure 16: **Top ten mortgage servicers, by size of portfolio**
US$ in millions, as at September

	2005	2004	2003
Countrywide Financial	1,047,623	785,992	606,095
Wells Fargo Home Mtg.	954,451	761,500	638,679
Washington Mutual	742,230	724,038	722,059
Chase Home Finance	587,890	553,540	454,866
CitiMortgage, Inc	386,451	363,769	191,239
Bank of America	356,853	324,321	245,950
GMAC Residential	276,169	218,303	196,723
ABN AMRO Mortgage	**204,927**	**203,657**	**204,526**
National City Mortgage	168,644	161,364	149,806
PHH Mortgage	146,913	147,279	134,997

Source: Inside Mortgage Finance

Although we are cautious on the outlook for the US banking sector, ABN AMRO appears to be holding up quite well relative to its peers. The two key risk factors are declining net interest income (given deposit pricing pressure, slowing interest-earning asset growth, and the flat yield curve) and rising provisions. Yet in the fourth quarter, ABN AMRO's net interest income (in US$ terms) was broadly in line with our forecast (US$711m versus US$723m), and provisions were lower (US$8m versus US$41m forecast). In fact, the net interest margin (expressed as % of average risk-weighted assets) improved by 2 basis points over the quarter, to 3.53%, and the provisioning rate (also as % average risk-weighted assets) remained constant at 0.04%.

The mortgage business similarly held up very well. Originations went down by 37% sequentially to just US$9.5bn, compared with market development of –17% (and –7% among the US mortgage players that have already reported). But this owed more to ABN AMRO electing not to participate in some non-conforming product areas (e.g. option adjusted rate mortgages) rather than any serious franchise erosion. In spite of this, total mortgage revenues were up by 12% sequentially (to US$66m) as the MSR amortisation charge declined and the servicing portfolio grew. This development compares with a 15% sequential decline in mortgage revenues among those US mortgage players that have already reported.

Going forward we anticipate that the two risk factors facing regional banking do manifest themselves, but that the mortgage business improves. We forecast that the net interest margin will decline to 3.45% by 2007E and the provisioning rate will leap to 0.30% in the same year; we anticipate that mortgage revenues will bounce as origination margins pick up from their lows in 2005.

Wholesale—Behaving itself

The wholesale business is a weak link in ABN AMRO's overall portfolio. It lacks scale in most of its business areas:

- In cash equities, ABN AMRO ranked 12th in the London, German and Paris markets in the first nine months of 2005. Although market shares are higher than they were in 2003, they are a lot smaller than they were in 2000. In London, for example, ABN AMRO currently has a 4.0% share of the market, compared with 5.5% in 2000.
- In corporate finance, ABN AMRO had a 2.8% share of the European fee pool in the first nine months of 2005. Like in cash equities, this is better than the low share captured in 2003. However, it ranks ABN AMRO ninth.

The poor scale explains the low levels of productivity at ABN AMRO. In 1H 2005, costs per head were 40% lower than the peer group, but revenues per head were 54% lower. This peer group consists of the corporate and investment banking divisions of seven other European banks. Comparing ABN AMRO just with the 'second-tier' names, its costs were 20% lower and its revenues 49% lower (per head).

Figure 17: ABN AMRO WCS costs per head vs. peer group
Eu (1H 2005 annualised)

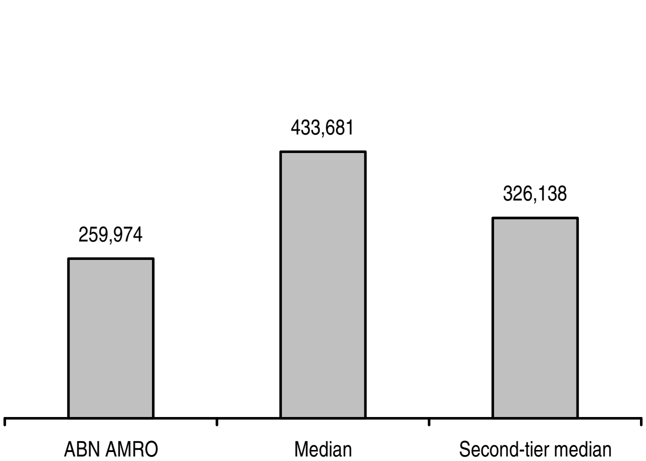
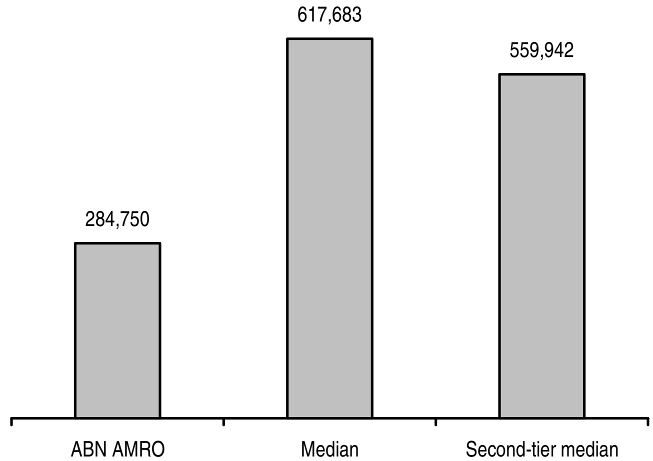


Figure 18: ABN AMRO WCS revenue per head vs. peer group
Eu (1H 2005 annualised)



Note: Median consists of Deutsche Bank CIB, UBS Investment Bank, Credit Suisse Institutional Securities, BNP Paribas CIB, Societe Generale CIB, Credit Agricole SA CIB, Barclays Capital; Second-tier median excludes Deutsche Bank, UBS and Credit Suisse. Source: Company data, Credit Suisse research

The wholesale division performed well in the fourth quarter. Revenues were up by 14%, driven by strong commercial banking revenues (+18%) and strong equities and investment banking revenues (+35%). By contrast, fixed income revenues performed poorly (-11%), consistent with US brokers that reported over the course of the past few weeks. Cost development in the division was good, too. The cost/income ratio improved to 83.1% in spite of higher bonus accruals. According to the company, operating expenses excluding bonuses were down by 1.4% sequentially. The result was also flattered by a very low tax rate (9.5%) due to realisation of UK tax loss carry-forwards.

Going forward, we forecast broadly flat wholesale revenues for 2006 as higher equities revenues are offset by lower fixed income revenues. We believe, though, that the cost/income ratio can continue to improve as some of the 'GSS' efficiency improvements kick-in (see later in the report).

Private banking—An under-rated franchise, in our view

ABN AMRO has €131bn assets under management in its private banking business. Although scant attention is paid to this business by equity analysts, it is one of the biggest private banking franchises in the world. According to Scorpio Partnership, it ranked ninth globally in 1H 2005, ahead of Goldman Sachs and other well-know players. In local currency terms, it exhibited the third-highest growth rate among the ten largest players in 1H 2005, behind just the two Swiss majors.

The franchise also ranked seventh globally in a recent Euromoney survey of private banks (up from tenth in 2005). This puts it behind the two Swiss, Citigroup, HSBC, JPMorgan and Merrill Lynch (and ahead of Deutsche Bank, for example). In the high net worth bracket (US$1m-US$10m) the bank ranked fifth.

Figure 19: **Top ten global private banks, 1H 2005**
Local currency in billions, unless otherwise stated

	1H 2005 US$bn	2004 US$bn	1H 2005	% chg Lcl ccy	% chg US$
UBS	1,301.00	1,295.53	1,668.53	13.8%	0.4%
Wealth Management	*693.96*	*687.64*	*890.00*	*14.4%*	*0.9%*
Wealth Management USA	*565.30*	*564.79*	*725.00*	*13.5%*	*0.1%*
Independent Private Banks	*41.74*	*43.10*	*53.53*	*9.8%*	*-3.2%*
Merrill Lynch Global Private Client Group	1,040.00	1,030.00	1,040.00	1.0%	1.0%
Credit Suisse	520.55	528.73	667.60	11.6%	-1.6%
Private Banking	*469.63*	*476.49*	*602.30*	*11.7%*	*-1.4%*
Private Client Services (PCS)	*50.92*	*52.51*	*65.30*	*10.5%*	*-2.5%*
JPMorgan Private Bank	300.00	304.00	300.00	-1.3%	-1.3%
Deutsche Bank	187.02	195.11	155.00	8.4%	-4.1%
Private Wealth Management	*142.38*	*145.99*	*118.00*	*10.3%*	*-2.5%*
Alex Brown (PCS)	*44.64*	*49.12*	*37.00*	*2.8%*	*-9.1%*
HSBC Private Banking	183.20	178.20	183.20	2.8%	2.8%
Citigroup Private Bank	177.00	182.00	177.00	-2.8%	-2.8%
Wachovia Wealth Management	155.10	147.00	155.10	5.5%	5.5%
ABN AMRO Private Banking	**150.83**	**156.91**	**125.00**	**8.7%**	**-3.9%**
Goldman Sachs	140.93	130.00	140.93	8.4%	8.4%

Source: Scorpio Partnership

Over the past few years ABN AMRO has made several acquisitions in private banking. It acquired Delbruck & Co (announced in September 2002) and BethmannMaffei (announced in December 2003) in Germany, and Bank Corluy in Belgium (announced in March 2005). The German acquisitions had combined AuM of €10.6bn at the time of acquisition, and staff of 510. At the same time, it sold a business in Netherlands (Nachenius, Tjeenk & Co.) in 3Q 2005.

Performance in the private banking business is benefiting from the buoyant market trends in the industry. In the fourth quarter, ABN AMRO reported 11.9% higher revenues than in the previous quarter in private banking, due to a strong performance in Netherlands. The cost/income ratio was 69.7%, which showed improvement from previous quarters. Private banking growth is a major theme of ours for 2006 (see '*Six for 2006*', dated 16 January 2006). We have upgraded our forecast for AuM growth from 7% to 8% per annum from 2006E.

Italy—No excuses in 2006

Antonveneta is the ninth largest bank in Italy by total deposits, and the tenth largest bank by number of branches. It has over 1,000 branches spread throughout Italy, but in its focus area of northern Italy, plus Lazio, it has 698 branches. The bank's national footprint is highlighted in Figure 20.

Figure 20: Banca Antonveneta's footprint

Notes: Total branches include a branch located in Luxembourg; direct funding excludes bonds – market shares based on branch locations; loans exclude sub-st. loans and NPLs – market share based on customer residence. Source: Company data

Performance was negatively impacted last year by the uncertainty over the long-term ownership of the bank. Loan volumes shrank by 1.6% in the first nine months of 2005 and deposit volumes shrank by 0.9%. The deterioration was also reflected in fourth quarter numbers, which the company has given some preliminary indications of (full year numbers are not released until 20 March). Revenues in the quarter were around €400m compared with a run-rate of €565m in the first nine months, and operating profit was €100m, compared with a run-rate of €265m. The good news for the quarter, though, was that loan and deposit volumes picked up – loans grew by over 3.5% in the final quarter, and total funding grew by over 2.5%.

ABN AMRO will consolidate Antonveneta from 2 January 2005. That was the date it acquired a 25.8% stake from Banca Popolare Italiana to take its ownership up to 55.8%. Since then ABN AMRO has further increased its stake to 60.1% (as at 30 January 2005) by buying shares in the open market. The bank ought to have completed its offer for the outstanding minorities during March. It filed a prospectus on 30 January, which CONSOB has 15 calendar days to review; it then launches its offer which may last between 15 and 25 trading days.

Our 2006E forecasts factor in a contribution of €456m from Antonveneta on a stand-alone basis. We also incorporate €92m of synergies, before tax, a restructuring charge of €200m and funding costs of €233m.

Companies Mentioned *(Price as of 31 Jan 06)*

ABN-AMRO (AAH.AS, Eu22.85, OUTPERFORM, TP Eu25.00, OVERWEIGHT)
Banca Antonveneta (NTV.MI, Eu26.41)
Citigroup (C, $46.58, OUTPERFORM, TP $55.00, MARKET WEIGHT)
Credit Suisse Group (CSGZn.VX, SFr74.65)
Deutsche Bank (DBKGn.F, Eu88.35, NEUTRAL, TP Eu80.00, OVERWEIGHT)
Goldman Sachs Group, Inc. (GS, $141.25, OUTPERFORM, TP $145.00, MARKET WEIGHT)
HSBC Holdings (HSBA.L, 934.00 p, OUTPERFORM, TP 1085.00 p, OVERWEIGHT)
ING Group (ING.AS, Eu29.37, OUTPERFORM, TP Eu34.00, MARKET WEIGHT)
JPMorgan Chase & Co. (JPM, $39.75, OUTPERFORM, TP $50.00, MARKET WEIGHT)
Julius Baer (BAER.VX, SFr102.70, NEUTRAL, TP SFr85.00, OVERWEIGHT)
Merrill Lynch (MER, $75.07, OUTPERFORM, TP $80.00, MARKET WEIGHT)
UBS (UBSN.VX, SFr139.00, OUTPERFORM, TP SFr140.00, OVERWEIGHT)
Wachovia (WB, $54.83, RESTRICTED, UNDERWEIGHT)

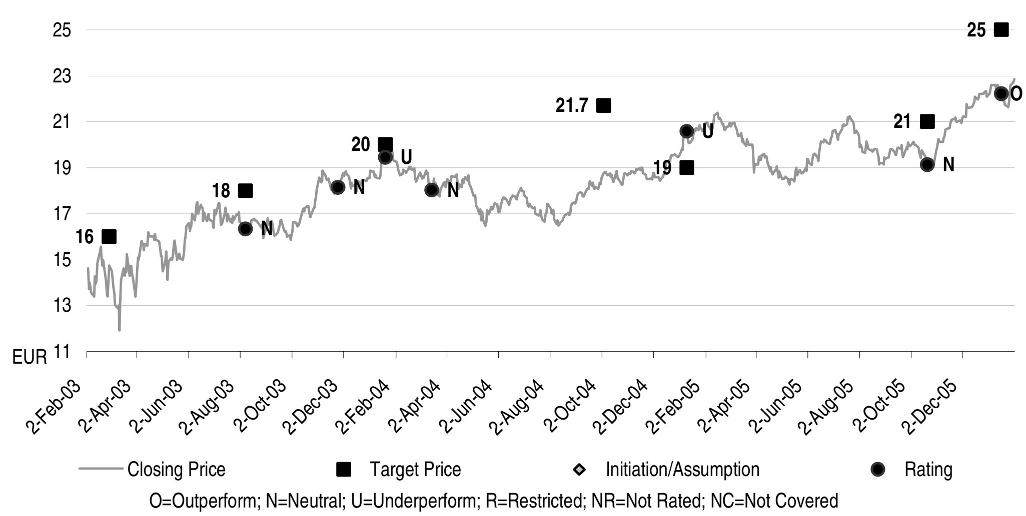
Disclosure Appendix

Important Global Disclosures

The analysts identified in this report each certify, with respect to the companies or securities that the individual analyzes, that (1) the views expressed in this report accurately reflect his or her personal views about all of the subject companies and securities and (2) no part of his or her compensation was, is or will be directly or indirectly related to the specific recommendations or views expressed in this report.

See the Companies Mentioned section for full company names.

3-Year Price, Target Price and Rating Change History Chart for AAH.AS



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AAH.AS Date	Closing Price Price (EUR)	Target Price Price (EUR)	Rating	Initiation/ Assumption
28-Feb-03	14.75	16		
08-Aug-03	16.33	18	NEUTRAL	
25-Nov-03	18.14		NEUTRAL	
20-Jan-04	19.45	20	UNDERPERFORM	
15-Mar-04	18.02		NEUTRAL	
04-Oct-04	18.79	21.7		
10-Jan-05	20.58	19	UNDERPERFORM	
21-Oct-05	19.13	21	NEUTRAL	
16-Jan-06	22.21	25	OUTPERFORM	

The analyst(s) responsible for preparing this research report received compensation that is based upon various factors including Credit Suisse's total revenues, a portion of which are generated by Credit Suisse's investment banking activities.

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Neutral: The stock's total return is expected to be in line with the industry average* (range of ±10%) over the next 12 months.

Underperform:** The stock's total return is expected to underperform the industry average* by 10-15% or more over the next 12 months.

**The industry average refers to the average total return of the analyst's industry coverage universe (except with respect to Asia/Pacific, Latin America and Emerging Markets, where stock ratings are relative to the relevant country index, and Credit Suisse Small and Mid-Cap Advisor stocks, where stock ratings are relative to the regional Credit Suisse Small and Mid-Cap Advisor investment universe.*

***In an effort to achieve a more balanced distribution of stock ratings, the Firm has requested that analysts maintain at least 15% of their rated coverage universe as Underperform. This guideline is subject to change depending on several factors, including general market conditions.*

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Overweight: Industry expected to outperform the relevant broad market benchmark over the next 12 months.

Market Weight: Industry expected to perform in-line with the relevant broad market benchmark over the next 12 months.

Underweight: Industry expected to underperform the relevant broad market benchmark over the next 12 months.

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****The broad market benchmark is based on the expected return of the local market index (e.g., the S&P 500 in the U.S.) over the next 12 months.*

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Underperform/Sell*	15%	(48% banking clients)
Restricted	3%	

**For purposes of the NYSE and NASD ratings distribution disclosure requirements, our stock ratings of Outperform, Neutral, and Underperform most closely correspond to Buy, Hold, and Sell, respectively; however, the meanings are not the same, as our stock* *ratings are determined on a relative basis. (Please refer to definitions above.) An investor's decision to buy or sell a security should be based on investment objectives, current holdings, and other individual factors.*

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See the Companies Mentioned section for full company names.
Price Target: (12 months) for (AAH.AS)
Method: Sum-of-the-parts valuation
Risks: Brazilian and US exposure

See the Companies Mentioned section for full company names.
The subject company (AAH.AS) currently is, or was during the 12-month period preceding the date of distribution of this report, a client of Credit Suisse.
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