BAWAG P.S.K.

Q1 2016 results

10th of May 2016 at 15:00 CEST

Transcription

Key Speakers

Byron Haynes
Anas Abuzaakouk

Operator: Good day, ladies and gentlemen, and welcome to the BAWAG P.S.K. first quarter 2016 earnings call. Throughout today's presentation all participants will be in a listen-only mode. The presentation will be followed by a question-and-answer session. If you would like to ask a question, you may press the star key, followed by one, on your touchtone telephone. If any participant has difficulty hearing the conference, please press the star key, followed by zero, for operator assistance. As a reminder, this conference is being recorded. I would now like to turn the conference over to Byron Haynes, Chief Executive Officer. Please go ahead sir.

Byron Haynes: Good morning, good afternoon, and welcome to our first quarter earnings presentation 2016. I'm joined once again by Anas Abuzaakouk. Anas and I will provide you with a short presentation and then there'll be an opportunity to answer any questions you have in terms of the financial results for the first quarter.

BAWAG P.S.K. has delivered strong record first quarter results. Net profit of 182 million is up 51% compared to the previous year. Annualized return on equity stands at 25.2%, that's a 5.6 point improvement compared to the annualized return on equity as of the 31st of March 2015.

So what has then caused these improved operating results? Core revenues start at 233 million; that is up 1%, mainly due to increasing net interest income, which is up 1.3% and stands at 182 million. Margins have remained stable at 2.05%. There's a continued focus on efficiency, improvement in operating performance and excellence. Operating costs are down 11% and stand at 104 million. Cost-income ratio has been lowered by 2.7 points and now stands at 41.7%. Our solid risk profile has been maintained. Risk costs stand at 8.7 million. The risk cost ratio, risk costs over loans and receivables, stands at 13 basis points. The NPL ratio has remained stable at 2.3%.

At the same time of improved operating results, we continued to focus on strengthening our capital position. CET1 ratio fully loaded of 14%, total capital ratio fully loaded of 16.9%. Both ratios have been improved by 90 basis points since the year-end. All capital ratios fully reflect the dividend that was proposed for the year-end 2015. Our regulatory leverage ratio has remained stable at 6.1%, and our liquidity coverage ratio remains very healthy at in excess of 140%.

In terms of business highlights for the first quarter, of course, I'll go into more details when we look at the business performance, but let me just highlight three things. We've continued to take market share in consumer lending. As you know, consumer lending has been an area of focus for a number of years. Market share now stands at 10.7%, that's a 50 basis points improvement since the year-end. We successfully issued a 500 million covered bond during the first quarter. And, finally, as of last month, we've received a second rating upgrade by Moody's, the second rating upgrade we received in the last months. BAWAG P.S.K.'s long-term deposit, senior unsecured and issuer ratings now stand at A3, with a continued positive outlook. Our senior subordinated rating was also upgraded by one notch to Baa3, for the first time in the history of BAWAG P.S.K. an investment grade rating. BAWAG P.S.K. is now the highest-rated bank in Austria by Moody's and one of the few A-rated in Europe.

The first quarter results demonstrate the continued success of our business model, a business model where we focus in Austria and on Western markets. Our low risk strategy focuses on simple, transparent, best-in-class products and services that our customers value and want. With these results, BAWAG P.S.K. ranks among the most profitable and efficient banks across Europe. We are well on track to outperform our 2016 targets as highlighted on the right-hand side of this slide.

We now turn to the next slide, our performance scorecard, a performance scorecard that you're all familiar with. As you can see, I've indicated all the ratios, strong results across all key indicators.

Now, let's turn to the business performance. First, let's start with Retail Banking and Small Business. As you can see, profit before tax has increased by 27% and stands at 68.6 million. The retail segment has delivered 56% of the Group profit before tax. Core revenues stand at 147.7 million, that is up 8%. Operating expenses stand at 75.6 million, that is down 8%. And the risk costs, the risk cost ratio now stands at 26 basis points, that is an improvement, a lowering of risk costs by 18 basis points compared to the risk cost ratio of the first quarter 2015.

Now, let me provide you some business highlights. Business highlights include retail new business of 370 million in the first quarter. 40% has come from consumer lending, approximately 140 million, and I've already highlighted the increase in market share to 10.7%. 30% has come from housing loans, and 30% has come from leasing and other assets. Our balance sheet, total assets, net assets stand at 12.6 billion as of the 31st of March 2016. That is slightly down on the balance sheet as of year-end due to early redemptions, maturities, as well as FX changes.

There's been a strong sales performance through continued enhancement of our sales services, products and processes. Examples include the successful launch of a new generation of current account boxes, including the gold debit card, the mobile phone-based payment functionality, the debit mobile. And this has been supported by our new loyalty program "DANKESCHÖN".

We've continued to invest and develop our GATE front-end proprietary tool. Total investment to date now stands at 10 million. And during the quarter we had solid fund sales of 240 million, and this is despite a very challenging market.

The shift to digital continues through enhanced digital products and services. 16% of our consumer loan sales are now through digital channels. 29% of our security transactions are executed online. Online payment transactions have increased by 2% to 63%. And our "Einfach online" current account, which was launched in February this year, can now be opened by a 100% digital process, including verification and digital signature. And we also launched a new smart pay app, which enables payments by NFC-enabled smartphones.

If I look at the stable funding received from our customer deposits and our optimized liability structure, the blended funding rate on deposits has decreased by 3 basis points and now stands at 29 basis points. Deposits stand at 18.5 billion. This is a decrease by 0.4 billion, actively managed the outflow of low-margin fixed rate non-core products. Our focus is on variable savings cards which are linked to the new generation current accounts. This is the basis of long-term client relationships.

In terms of easybank, our number one-rated direct bank, continued growth at 2%. The number of accounts now stands at 566,000. Deposits at 3.2 billion, this is up 330 million from March 2015. The integration of our auto leasing businesses is now complete. easybank is well-positioned to build its origination capability in consumer lending as well as consumer auto leasing. While we focused on growing our Retail Banking and Small Business, it is important to note that we have not sacrificed our risk framework and risk underwriting. The NPL ratio has improved to 2.2% compared to the 3.2% of the 31st of March 2015.

Now let's turn to slide five and look at, first, Corporate Lending and Investments. Corporate Lending and Investments profit before tax of 40 million. That is down 26% compared to the profit before tax for the first quarter 2015. Core revenues are down 11% and stand at 62.9 million. Operating expenses are lower by 2% and stand at 21.2 million. Risk costs have been de minimis for the first quarter.

If you look at the underlying businesses, international business new originations have remained strong in the first quarter at 730 million. However, the quarter has been impacted by early redemptions and maturities of 770 million. The strong credit metrics and profile has been maintained. The international corporate book net leverage is less than four times, the volume 3.4 billion. International real estate, low LTVs, the average LTV is less than 60%. Focus on strong cash flows, the average debt yield is greater than 10%, and the size of the book stands at 2.7 billion.

In terms of the Austrian corporate business, yes, continued muted demand: low corporate investment, flat domestic output, a number of macroeconomic factors, both in Austria and across Europe. New originations of 50 million for the quarter outside the normal renewal process. Our focus continues on risk-adjusted returns and pricing. The low risk costs and lower NPL ratio reflects the positive impact from our de-risking activities as well as the high quality of our assets that we have on our balance sheet.

Finally, let's look at Treasury Services and Markets. Profit before tax at 9.1 million, that is up 1%, driven by core revenue growth of 9% at 14.1 million, operating costs have been reduced by 18% and stand at 4.2 million. And the risk cost... there are no risk costs for the first quarter for Treasury Services and Markets.

The total investment portfolio stands at 4.4 billion as of the 31st of March 2016. We've continued to focus on high credit quality, shorter duration and strong liquidity positions. Average maturity is 3.8 years, 98% of the book is investment grade, 78% is rated single A or higher. We have no exposure to HETA and no direct exposure to Russia, Hungary or Southeastern Europe. With that, I will now hand over to Anas, who will provide us more details on the bank's overall performance.

Anas Abuzaakouk: Thanks, Byron. I'm on slide six. Just to reiterate, another record quarter for BAWAG P.S.K.. 182 million net profit, as Byron mentioned earlier, up 51% year-over-year. When we go through the entire P&L in terms of just the different line items, positive performance across the board. If we look at core revenue, up 1% to 233 million. OPEX down 11% to 104 million. Risk costs down 26% to 9 million. The one headwind, unfortunately, that we do face is regulatory charges, which continue to grow quarter-over-quarter. And we also benefited in the first quarter from a net tax benefit of 61 million due to a deferred tax asset that we booked in the first quarter. That will be absorbed through the course of the year.

From a business standpoint, we saw new originations of 1.1 billion; two-thirds of that was the international business, one-third was the retail business. This was despite a challenged quarter from a corporate loan demand that Byron touched on earlier. We see the actual pipeline in the second quarter actually being more robust, so we feel that we've, hopefully, petered out in terms of just the lack of business demand that we saw during the first quarter. If we look at overall ratios, return on equity of 25%, that obviously had the embedded tax benefit in that. Return on tangible equity of 29%, cost-income ratio of just slightly under 42%, at 41.7%, and a NIM of 2.05%, pretty stable given just the headwinds that we've seen in the first quarter. So, all in all, we feel good about the first quarter, and this will continue into the following quarters.

Slide seven, core revenues. This is really more of the same from what we've seen in prior quarters. From a net interest income standpoint, up 1% to 183 million. This was driven in large part by the repricing of our deposits, that's down to 29 basis points, down three basis points quarter-over-quarter, down 13 basis points year-over-year. We still continue to see tailwinds on this front, hopefully for the next 18 to 24 months. We also continue to reconstitute our asset base, really focusing on retail and international assets. That'll continue into the future quarters. And we continue to focus on balance sheet efficiency.

So it was a challenging quarter from an NII standpoint, but still we're able to grow NII and keep NIM pretty flat, all things considered. From an NCI standpoint, up 1%. Really two themes here. The first is payments. We're starting to see that stabilize in terms of just the margin compression. We think that's, hopefully, hit a trough here. And we're really starting to see the pickup in terms of funds volume. A real good first quarter, as Byron mentioned earlier, a quarter-billion of fund sales. And, lastly, we think we're going to really be able to get a nice tailwind from the current account launch that we just initiated in February, and that's really going to focus on optimizing our current accounts.

Slide eight, operating expenses. Again, more of the same here from prior quarters and prior years. The restructuring investments that we've made over the years continue to pay off. What we really control is our ability to control costs in this low-interest rate environment. We've, I think, addressed a number of these structural cost imbalances, and now we focus really on the next generation, which is really thinking about moving from physical to a digital platform and making the investments Byron had mentioned, the investments we had made in our front-end retail tool, GATE, of up to 10 million. There's a number of more investments that we'll be making in future quarters, but this is really going to be the next evolution as we focus on efficiency. Our cost base will continue to be an area of continued focus, and we think there'll still be enough tailwinds on this front and some positive benefits.

Slide nine, risk costs, down 26% to 9 million. Really, on this front, it's again a similar theme as we discussed on the costs and the revenue side, proactive risk management, de-risking the balance sheet. NPL ratio of 2.3%. This, we think, is a good reflection of our overall business mix. Today our business is two-thirds customer loans within Austria, one-third in Western Europe and the United States. We think that's best reflected in our NPL ratio as well as our risk cost ratio of 13 basis points. That's probably more on the low end. We think it kind of ranges from 15 to 20 basis points, given the overall mix of our balance sheet. And, lastly, we just see from a macro environment, the markets that we operate in, predominantly Austria, have been stable despite some of the headwinds that we've seen in other areas.

Slide ten. Everything starts and ends with capital, as we've mentioned before. Capital is a real source of strength for the bank. Our capital position allows us to play offence, and we're looking at a number of opportunities this year. But just in terms of the actual ratios, our CET1 ratio up 90 basis points to 14% on a fully-loaded basis. Our total capital ratio up 90 basis points to 16.9%, that's again on a fully-loaded basis. RWAs pretty much flat from year-end, down to 16.2 billion. Our RWA density stands at 46%, which is pretty conservative when you benchmark us across other European banks. On a transitional basis, our CET1 ratio is 14.6% and our total capital ratio is 17.5%. I mention this just to put into context our SREP requirement, which we disclosed earlier in the year, is 8.75%, and with the domestic SIFI on a transitional basis, that's 9%, so a significant buffer to where we're operating the bank versus where our SREP requirements are.

And lastly, we continue to run the bank with a very low level of economic leverage. I think we're one of the lowest levered banks across all of Europe. We're levered around 11 to 12 times, and our overall regulatory leverage ratio is 6.1%.

On slide eleven, Byron hit on this earlier, really just if you look at our targets and kind of where we delivered in terms of the first quarter, we're well on pace to outperform all of our targets that we've mentioned earlier, and we hope to continue to share some positive news in the future quarters.

Byron Haynes: Thank you very much, Anas. Operator, we're now available to take any questions that the audience may want to pose. Thank you.

Operator: Thank you. Ladies and gentlemen, at this time we'll begin with the question and answer session. Anyone who wishes to ask a question may press star followed by one on their touchtone telephone. If you wish to remove yourself from the question queue, you may press star, followed by 2. If you are using speaker equipment today, please lift the handset before making your selections. Anyone who has a question may press star, followed by one, at this time. One moment for the first question, please. And our first question today comes from the line of Simon Nellis of Citibank. Please go ahead.

Simon Nellis: Hi, gentlemen, thanks for the presentation. Pretty impressive set of results. I have a few questions. Maybe I'll just go through one by one. Just first, on the competitive environment, if could say a few words on how you're seeing it. I mean, I see that you're capturing share in consumer lending. Is that difficult to do and how are you doing it? It sounds like, I guess, on the corporate side, things are pretty subdued, so there's not really an issue there, but I'd be interested in what you have to say about competitive environment on retail, particularly, on the consumer lending side and maybe also on deposit collection.

Byron Haynes: Okay, thank you, Simon. I'll answer that question on the competitive environment. I mean, I think we need to put it into perspective. You know, our target on the asset side of our retail business is to have a similar market share to the liability side. As you know, our current accounts share is around 16%, 17%, consumer lending at 10.7%. I would argue that we've been under-penetrated in past years. So, in terms of gaining market share, yes, we're up 50 basis points, as Anas and I have indicated, during the first quarter, but I think there's still room to grow and we're certainly targeting in the medium-term, you know, a 15% market share in the consumer lending space.

In terms of competition, of course, it's a pretty competitive environment in this product. But, you know, we look at the overall customer relationship anchored in the current accounts and the new generation current account boxes that we've launched, and then using that as an opportunity to look at consumer lending in terms of increasing our market share in this space.

It's a competitive environment, but I think this is just a reflection of our increasing market share on the consumer lending side that we expect to take now and also going forward.

Simon Nellis: But is that a strategy of trying to penetrate your existing clients?

Byron Haynes: It's a strategy... I would say the large chunk of the increase has been penetrating existing clients over the last, you know, couple of years, and now we're starting to see an opportunity to penetrate new customers, particularly with some of the changes and structural challenges that our competitors have, particularly in the Austrian market. There's an opportunity now to grow this product across new customers as well.

Simon Nellis: And I guess that's a higher margin product, so if you hit your targets, does that provide you some kind of downsized relief from the margin pressure that I guess all banks are seeing from low rates?

Byron Haynes: Sure, yes, absolutely. And, yes, it is a higher margin product, but, you know, this is very much in line with our plans for this year in terms of the market share that we're taking. But, yes, this has the benefit of protecting some of the more challenged margin products that are out there.

Simon Nellis: Yes. And then, my second question would be on capital. I mean, obviously your capital ratios are well above your own targets and above the SREP requirements, but longer-term what kind of capital ratio do you think you'd have to have, what kind of planning do you have in place for MREL. And, I mean, would you expect to start paying dividends at some point on this, on those topics, would be helpful.

Byron Haynes: Anas, do you want to comment on that?

Anas Abuzaakouk: Sure. So, Simon, from a capital standpoint, as you know, we've proposed a dividend of 325 million year-end 2015. That hasn't been paid, but that is reflected in our capital ratios. That was an impact of 200 basis points. So the 14% that we just referenced in the first quarter, on a fully-loaded basis, that's already factoring in the payment of the 325 million. That's just the regulatory requirements.

Broadly, we don't have a dividend policy per se in terms of fixing ourselves to a dividend in terms of quantum or actual pay-out ratio. We'll assess on a yearly basis the opportunities both organic and inorganic. But what we are consistently communicating is that we'll be over 12% CET1 on a fully-loaded basis. And you see where our SREP is. I think that's a pretty healthy buffer in terms of just the level of conservatism.

And as far as MREL, really, no issues there. I mean, we have a sufficient amount of buffer. When that all gets finalized, I think we're going to be in a good place.

Simon Nellis: Okay. That's useful. And then just last, on Linz, what's the latest on the Linz issue? I haven't really been following that.

Byron Haynes: Very, very shortly, no new news on Linz. Our legal position remains strong and we wait for the expert opinion sometime during the course of the summer. This is the expectation.

Simon Nellis: And then one last question on asset quality. I mean, I think it's going to seem... all banks are seeing quite low risk costs. I mean, how low do you think it can go? Do you think you've kind of reached the bottom?

Anas Abuzaakouk: So, Simon, when you see our asset mix in kind of domestic versus international and what's in domestic, what's retail, and then you kind of see consumer loans versus mortgages. Just given our overall mix, I think through the cycle kind of the guidance that we'll probably be giving people is more 15 to 20, maybe 25 basis points if we kind of increase the consumer loans. But we think it's a reflection of operating in a safe haven economy. The macro environment's quite stable from a retail standpoint. People get caught up in HETA and all the capital market's nonsense; that doesn't really impact our retail franchise. So I'd say 15 to 25 basis points, based on today's current mix.

Simon Nellis: Okay, super. Impressive results. Thank you.

Anas Abuzaakouk: Thanks.

Byron Haynes: Thank you.

Operator: Ladies and gentlemen, as a reminder, if you would like to ask a question, please press the star, followed by one, at any time. Our next question comes from the line of Claus Mendler of JP Morgan. Please go ahead.

Claus Mendler: Hi, thank you. I have one question in relation to intangible non-current assets. I see it has changed for the year-end from 104 million to 329 million. What has triggered that change or that restatement as of the 31st of December?

Byron Haynes: Anas, do you want to take that question?

Anas Abuzaakouk: Yes, I couldn't hear the question. Can you please speak up? I had a hard time on hearing it.

Claus Mendler: Okay.

Anas Abuzaakouk: The audio wasn't very good.

Claus Mendler: The question is in relation to intangible non-current assets as of year-end 2015. And in your annual report it says 104 million and in your Q1 it's been restated to 329 million.

Anas Abuzaakouk: Sure. Yes, it's a simple answer. We're reporting out of BAWAG Holding. BAWAG Holding has an incremental 200 million of intangibles related to customer relationship and a number of other items. That's also where we benefited from the tax benefit of the DTA that we booked in the first quarter, so it's just reporting out of a different entity, the holding company.

Claus Mendler: Okay, thank you.

Anas Abuzaakouk: Yes.

Operator: Ladies and gentlemen, are there any further questions from the phone lines? To ask a question, please press the star, followed by one.

Okay, as there are no further questions at this time, I would now like to hand the conference back over to Mr. Byron Haynes for any closing statements.

Byron Haynes: So thank you very much, and we look forward to the next call, which I think is scheduled for the second week of August, on the half-year numbers. Thank you very much.

Operator: Ladies and gentlemen, the conference is now concluded and you may disconnect your telephone, thank you for joining and have a pleasant day. Good bye.