BAWAG P.S.K.

Q3 2016 results

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Transcription

Key Speakers

Byron Haynes
Anas Abuzaakouk

Operator: Good day, ladies and gentlemen, and welcome to the BAWAG P.S.K. third quarter 2016 earnings call. Throughout today's presentation, all participants will be in listen-only mode. The presentation will be followed by a question and answer session. If you'd like to ask a question, you may press star followed by one.

Please press star 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: Thank you very much. Good morning, good afternoon, everybody, and welcome to our third quarter 2016 earnings call. Anas and I will provide you a short presentation on our financial results, and then you will have the opportunity to ask us any questions.

BAWAG P.S.K. has delivered strong results for the first three quarters 2016, a net profit of 380 million, up 19%, a return on tangible equity of 19%, up 1.4 points. Return on equity stands at 16.9%. So, what has driven this increase in operating performance? There's higher core revenues of 690 million, up 1%, NII, net interest income, is up 1% through core product growth, pricing initiatives, and lower funding costs. Despite the low-interest rate environment that we all know, we've maintained a stable net interest margin at 2.07%.

Of course, we've continued to focus on efficiency and operating excellence, operating costs down 4% at 318 million. The cost-income ratio has been further improved by 2.6 points and now stands at 42.8%. Lower risk costs, down 28%, at 25 million. The NPL ratio has remained stable at 2.3%. This reflects the low risk business model and our conservative risk profile.

At the same time of improving operating performance, we further strengthened our capital position. Fully loaded CET1 ratio stands at 15.7%, that is up 2.8 points. Total capital ratio 18.8%, up 3 points compared to the year-end, and we've improved our regulatory leverage ratio to 7%, and that is up 1.5 points compared to the year-end.

Let me give you some business highlights. Our investment in retail continues to pay off. Consumer lending market share now stands at 11.4%. That's a 120 basis points improvement compared to the year-end. There's been a 10% net asset growth. If you look at the portfolio acquisition side, we've recently signed a contract to acquire a French high-quality performing mortgage portfolio, which we expect to close before the end of this year.

If I look on the rating side, BAWAG P.S.K. was rated by Fitch for the first time on Monday, a long-term issuer and standalone rating of A-. Fitch indicated the highlights of this strong rating was the management team's success in realizing the business model, our conservative risk appetite, our strong asset quality, our strong retail franchise with established brand, a good performance track record, cost control, pricing and the capitalization of the bank overall.

If I look at the capital market transaction highlights. In October, we successfully placed two Swiss franc bonds, totaling CHF 275 million, a two-year CHF 100 million bond at a minus 25 basis point yield, the lowest ever recorded yield of a newly issued Swiss franc bond, the five-year at CHF 175 million at one basis point. Or in November, we recently placed a GBP 500 million RMBS transaction. This is the first RMBS transaction by an Austrian bank backed by our high-quality performing UK retail mortgages.

In terms of overall rating, BAWAG P.S.K. is now the highest-rated bank in Austria by Moody's and Fitch and one of the few banks with two A ratings across Europe.

Our strong results mean we're well-positioned to win a very competitive, evolving landscape. Of course, we will continue on our successful business model, being Austria-focused and other developed-market focused, low risk, low leverage, providing our customers with simple, transparent, best-in-class products and services.

With our return on tangible equity, our cost-income ratio, and our fully loaded CET1 ratio, BAWAG P.S.K. ranks amongst the most profitable, efficient, best capitalized banks across Europe. We're delivering results, and we're well on track to outperform our 2016 targets that you can see on the right-hand side of this slide.

Turning to slide three, nothing further to add, strong results across all key indicators.

Let's now look at the individual business performance. First of all, BAWAG P.S.K. Retail. BAWAG P.S.K. Retail is 1.3 million private and small business customers serviced through our branch network and our online and mobile sales channels. Profit before tax is up 14% at 126 million. The cost-income ratio has been improved by 6.2 points, now stands at 55%, and the return on equity is just under 20%, a 1.6 point improvement. There has been a stable NPL ratio at 2.3%.

So, what has driven this increase in operating performance? It's been driven across four main value drivers. The first driver, our growth in our core asset products. As you know, we're targeting in our core asset products a 15% market share, that is consistent with our current account market share. In the first nine months of this year, we've originated new loans of 880 million, 50% in consumer loans, and 47% in housing loans.

There has been a moderate increase in margins, while at the same time maintaining our disciplined credit underwriting. Consumer loan market share stands at 10.9%, excluding easygroup, that's a 100 basis point improvement since the year-end. It's important to note that 21% of our consumer loan sales are now initiated through digital channels, which in volume terms that's an increase of 44%.

Our second value driver is optimizing our product mix and focus on value-added products. Here, if you look at the shift of the savings from fixed to variable savings in the form of current accounts and saving cards, that continues. Lower funding costs at 22 basis points. That's down 6 basis points since the year-end.

We also continue to focus on the migration of our existing customers to our new current account models, the new current account models that we launched, as you know, in the first quarter of this year. These current account models provide greater functionality, more enhanced services and products, and improve our customer service experience. Two examples include the GOLD debit card, the SmartPay functionality, as well as the DANKESCHÖN loyalty program.

If I look at driving transactional productivity, we continue that. We drive efficiency across our core franchises. If you look at the transactions, the OTC transactions now stand at 17%, and they continue to decrease at a very rapid rate. Examples of that include 10% increase in online payment transactions. Our share of online transactions via mobile have increased by 52%. This shift in transactions allows our sales staff to focus on value-added advisory products and sales. In terms of efficiency, we continue to invest on our GATE front-end tool, not only on the investment side but also on the digital process side. An example of that would be the automation of our broker loan mortgage application.

And finally, our transformation to digital continues at a pace. Launch of new online mobile products and services. Examples of that in the third quarter include our Security App in August, a best-in-class Secure TAN for online banking and mobile banking. Customers can perform their transactions anytime, anywhere safely and securely. If you look at the relaunched website, improved usability and convenience. This is reflected in the 5% increase in visitors in the third quarter of this year. BAWAG P.S.K. provides a full online product and services via digital channels, and we're a market leader in Austria. Mobile transactions are up 40% over the past two years, 7 million logins per month. The digital advances allow us a better engagement with our customers, a greater engagement with our customers, and a deeper relationship now and going forward.

Now, let's turn to the easygroup business segment. easygroup comprising Austria's number one direct rated bank, the number three auto lessor, and the international residential mortgage portfolio, approximately 400,000 customers. easygroup operates a lean and efficient operating model, distributing products and services via digital channels as well as through its strong partnerships.

Profit before tax of 69 million, a significant increase compared to the first nine months of last year. Cost-income ratio 24.1%, a return on equity at just under 25%, 24.9%, with an NPL ratio at 2.5%. What has driven this improvement in performance? A focus on four key strategic pillars, growing the customer base and market share in Austria, the customer base in Austria is 380,000 customers year-to-date September 2016. That's an 18% increase compared to the first nine months of 2015.

Included in that is the Volksbanken acquisition which we completed in the fourth quarter of 2015, but there's also a strong 5% organic growth through our digital channels and our key partnerships. There have been strong originations in consumer auto financing, up 12%, 277 million. Also, in the third quarter, we entered into a strategic partnership with Autogott, Austria's leading online car sales channel, and this is already delivering results after the first two months.

Driving efficiency across the easygroup continues. The continued integration of the various leasing platforms has provided us with benefits of scale on the one hand, on the other hand has allowed us to increase our sales, as demonstrated with the 12% increase. In September, we successfully launched easyleasing, "one brand one face" for the marketplace going forward.

The third strategic pillar is building and maintaining our customer loyalty. This can be demonstrated by, year-to-date, easybank number of accounts has increased by 7%. At the same time, we've reduced our external interest rate on savings products in line with the interest rate environment. Deposit volumes, however, have increased to 600 million in the first nine months of this year.

And finally, expanding internationally into Western markets, we acquired our performing UK mortgage portfolio in the fourth quarter 2015. We're on track to offer direct banking services in Germany, to German customers in the first half of 2017, and we'll continue to look at organic and inorganic opportunities to help expedite our growth plans across the easygroup.

If we now look at the other segments, first of all DACH Corporates & Public Sector. Corporate and public lending activities and other fee-driven financial services, mainly in Austria, but with select customers in addition from Germany and Switzerland. Profit before tax of 54 million, down 16% in a tough operating market, as demonstrated by the reduction in core revenues of 17% to 89 million.

Cost-income ratio of 43%, but in light of the market conditions a respectable return on equity of 13.2%. There has been a decrease in corporate loan demand if you compare the first nine months of this year to the first nine months of 2015 due to flat domestic output and to lower investment demand and other macro risks. Margins are further under pressure by lower interest rates as well as the high amount of liquidity in the marketplace.

Despite this, our focus is on our strong client relationships, on risk-adjusted returns and repricing. New originations in the first nine months of this year of 390 million, strong asset quality reflected in our balance sheet and reflected in our NPL ratio, which has further decreased by 30 basis points to 0.7%.

In terms of the international business, International Business comprising corporate real estate and portfolio lending and products outside the DACH region, of course, 82 million profit before tax, that is up 1%. A very respectable 19.1% return on equity, 0.3 points higher than the nine months 2015. The focus remains in Western Europe and the US. There's been 1.6 billion of new originations, driven by portfolio and real estate financing. The strong credit metrics have been maintained. The average LTV is less than 60%, average debt yields are greater than 10%, and as you can see, there's been no risk costs incurred in the first nine months of this year.

And finally, Treasury Services & Markets, the management of the bank's portfolio of financial services and liquidity reserve. Profit before tax of 41 million, that's up 39%. Return on equity has improved by 5 points to 15.3%. The focus is on high credit quality, shorter duration, strong liquidity positions. The size of the book is 5.1 billion as of 30th September 2016. 97% is investment grade. The average maturity is 4.1 years, and there's no direct exposure to Hungary, Russia, China, and southern Eastern European countries. With this, I will hand over to Anas, who will give us more details around the bank's performance.

Anas Abuzaakouk: Thanks, Byron. For those on the phone, I'm on slide seven. So, solid third quarter results, 122 million of pre-tax profit, net profit of 96 million. Really the two big drivers are operating income up 238 million. On a quarter year-over-year basis, it's up 1%, and operating expenses coming in at 103 million, down 7% on a year-over-year basis. So, those are the real two big drivers.

If you look at it on a year-to-date basis, core revenues are up 1% to 690 million, operating expenses of 318 million, down 4% on a year-to-date basis, total net profit of 380 million and well on track to meet or exceed our targets from a profitability standpoint. Some other highlights for both the quarter and the year-to-date, 1.2 billion of originations in the third quarter. That was actually our best quarter year-to-date, total originations of 3.2 billion on a year-to-date basis. The big drivers are retail, as well as our international business. They'll continue to be big drivers given the pipeline that we have in the fourth quarter. And if you look at customer loans on a year-over-year basis, up 9% up to around 24 billion. Customer deposits on a year-over-year basis up 9% as well, so really positive development on that front, despite some challenging macro headwinds.

Slide eight. When it comes to core revenue, really the year-over-year performance on NCI was up 1%. From an NII standpoint, it's down 1%. The quarterly NIM we believe has hit a trough. It's at 201 basis points. The year-to-date NIM is around 207 basis points. As we look at NII, it's really more of the same. This is being driven by customer loan growth.

This actually constitutes about 70% of our total balance sheet. By year-end, we think customer loans, this is really a reflection of our overall business model and the trends that we're seeing both domestically and internationally, we will probably be around 75% or so, really best in class if you, kind of, compare us to other European peers.

More of the same in terms of reduced funding costs. We've actually got our retail deposit cost down to 24 basis points. We probably have another 12 to 18 months of tailwinds in terms of repricing liabilities, and lastly, just we have muted loan demand on the corporate side, but hopefully we see some opportunities here in the fourth quarter and that should carry on into 2017.

On the NCI front, a lot of investments that were made that Byron alluded to. I think the biggest one to point out is just the development in terms of the relaunch of our current account models. That will be a positive development that we'll see in 2017. That has about a three to six-month lead time. As far as payments, look, there's a lot of pressure that we're seeing in terms of overall pricing, but we're keeping that pretty steady.

The one headwind that we are seeing across the business, and I think this is pretty common across other banks, is the overall securities volume. On a year-over-year basis that's significantly down, but we hope to see a pickup here in the fourth quarter and going into 2017.

On to the next slide, page nine, operating expenses. This here is really more of the same. I think this is a constant theme based on a quarterly basis as well as over the past few years. We continue to make investments in the business to really drive efficiency. This is one of the few areas that we can truly control, when you think of the overall macro environment and slow growth environment both domestically and across all of Europe.

Operating expenses, as I mentioned before, on a year-to-date basis down 4%. This was actually our lowest quarter in terms of absolute costs of 103 million. Embedded within that 103 million is 7 million of restructuring that we've taken in the quarter. On a year-to-date basis, we've actually taken 19 million. This really just is a reflection of the operational and strategic projects that we have in place to continue to drive efficiency next year into 2017, and we'll give you guys some more color on that in the fourth quarter in our overall annual targets. But there's a number of projects that we have in place in terms of automation, workflow projects, optimization of our physical footprint, optimizing our overall G&A and overhead.

So, a lot of things happening on that front, but suffice it to say we're also investing significantly. We think we'll have invested in excess of 60 million when you think of both Capex and Opex as far as our front-end tools and our IT infrastructure. So really that's a point of emphasis given just the digital innovation that's taking place.

On page ten, risk costs. Pretty plain vanilla story here, it's more of the same as well. The derisking activities over the past years is really reflected in the operating results that we see on both the year-to-date basis as well as on a quarter-to-date basis. In terms of quarter-to-date, it's 14 basis points in terms of risk costs to loans and receivables. On a year-to-date basis, it's 12 basis points.

It is a benign credit environment. I think this is best reflected in the NPL ratio of our retail business, which is around 2.3%. For our DACH Corporates & Public Sector business this is 70 basis points as far as NPL ratio, and you can see the coverage ratios in excess of 95% for retail and 100% on the DACH business. So, this is probably the trough in terms of what we're seeing in risk costs to loans and receivables, and we're benefitting from a pretty benign credit environment.

Page 11, capital. Here really the story as we continue to create capital at pretty significant levels. So on a year-to-date basis we are at 15.7% CET1 fully-fledged, up 280 basis points. From a total capital standpoint, we're up 300 basis points to 18.8%. I should note that the 15.7% Byron had mentioned, that we had acquired or signed on the acquisition of a performing French mortgage portfolio, that's embedded in our RWA figure, so that's 800 million of RWAs. Now, that has not closed, that's actually a commitment, but from a CRR standpoint you actually have to reflect that, so excluding that commitment, our CET1 fully-fledged would be 16.5%.

And then you can see on a transitional basis I think the only thing to highlight is the level of conservatism and buffers that we have in place. We're 700 basis points in excess of our SREP minimum requirement. And lastly, just deleverage ratio from a regulatory standpoint, 7%. In economic leverage, we're down to 11.4%, probably best-in-class if you benchmark us across any bank in Europe.

Lastly, on slide 12, I think just the key message here is that we're well on track to meet or exceed all of our operating and financial targets that we've put in place earlier in the year.

Byron Haynes: Thank you, Anas. Operator, we're now in the position to open the lines for any questions.

Operator: Ladies and gentlemen, at this time we will begin the question and answer session. Anyone who wishes to ask a question may press star followed by one. If you wish to remove yourself from the question queue, you may press star followed by two. 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.

Byron Haynes: Okay, I'm glad it was all very clear. Thank you for joining. We will be having our year-end results earlier. We'll get the final timetable out to you, but it will be sometime towards the middle or end of February. So, thank you very much, and we'll join you again in February.

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