EARNINGS CALL
TRANSCRIPTION

Q2 2025 RESULTS

23 July 2025 at 10:00 CEST

SPEAKERS:
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BAWAG Group

Anas Abuzaakouk

I hope everyone is doing well this morning. I am joined by Enver, our CFO. Let us start with a summary of the second quarter results on slide three.

We delivered net profit of €210 million, earnings per share of €2.65, and a return on tangible common equity of 28% during the quarter. The performance of our business was strong, with operating income of €552 million, up 41% versus the prior year, pre-provision profits of €345 million, and a cost-income ratio of 37%. Total risk costs were €52 million, translating into a risk-cost ratio of 37 basis points, as we continue to see solid credit performance across our businesses.

In terms of our balance sheet and capital, average customer loans were up 3%, and average customer deposits were up 1%, quarter-over-quarter. We have a fortress balance sheet with €15 billion in cash, an LCR of 237%, and overall strong asset quality with a low NPL ratio of 68 basis points. We recently received regulatory approval for a share buyback of €175 million, in line with our capital distribution target of over 13% through 2025, landing at a CET1 ratio of 13.5% after deducting the buyback and the dividend accrual in the second quarter. The operating performance of the businesses across the Group was solid, but we continue to be patient and disciplined, with over 20% of our balance sheet in cash, in a market environment where we believe credit is frothy. The integrations of both Knab and Barclays Consumer Bank Europe are progressing well.

There has been a great deal of work taking place behind the scenes. Our focus is on building a solid foundation to drive profitable growth long into the future.

On the Knab front, we aim to have exited all transitional service agreements by the end of the third quarter and have already applied for a merger of the bank, the so-called branchification, which we hope to have completed by the end of this year. Barclays Consumer Bank Europe, which will be rebranded to easybank Germany in 2026, has been progressing very well. The leadership team has been onboarded, and the business continues to develop ahead of plan.

Our goal with both integrations is clear: fully integrate into the Group operating framework and culture, work as one team, and speak with one voice. We are excited about leveraging best practises, providing top talent with broader roles, and pursuing the many growth opportunities ahead of us.

Moving now to slide four, capital development. At the end of this second quarter, our CET1 ratio was 13.5% after deducting €175 million for the approved share buyback programme and €116 million second quarter dividend accrual. For the quarter, we generated 100 basis points of gross capital, of which 91 basis points were through earnings.

We have excess capital of €117 million, 50 basis points above our capital distribution target of 13% in 2025. In terms of any Basel IV output floor impacts, we have zero RWA inflation, as we have a buffer of 20 points to the output floor level, given that 90% of our business is currently on the standardised approach.

On to slide five, our Retail & SME business delivered first quarter net profit of €173 million, up 32% versus the prior year, and generating a very strong return on tangible common equity of 35%, and a cost-income ratio of 38%.

Pre-provision profits were €289 million, up 44% compared to the prior year. The Retail risk costs were €53 million, with a risk-cost ratio of 56 basis points. We continue to see solid credit performance across the business, with an NPL ratio of 1.1%.

We expect continued growth across the Retail & SME franchise in 2025, driven by strong operating performance, as we fully integrate the two acquisitions with solid growth in Consumer & SME, which will offset muted mortgage loan growth, given current pricing levels.

On slide six, our Corporate, Real estate and Public sector business delivered second quarter net profit of €38 million, down 9% versus the prior year, and generating a strong return on tangible common equity of 31%, and a cost-income ratio of 25%. Pre-provision profits were €52 million, down 12% versus prior year. Risk costs were a positive €1 million, as we continue to see solid credit performance across the business, with an NPL ratio of 10 basis points, down 50 basis points from the prior quarter.

This is best reflected in our US office exposure, which was down 54% during the quarter, with the remaining portfolio of €143 million of performing loans, equal to approximately 20 basis points of total assets, and 3% of total real estate assets.

Since the onset of rising US interest rates in March 2022, and the subsequent distress in the US office market, we have reduced our office portfolio by approximately 80%, in what is arguably the most distressed asset class we have seen since the great financial crisis. When we say we are a lender focused on risk-adjusted returns, this is not a cliche, but a reflection of our discipline, conservatism, and long-term focus of both our markets and risk teams.

We will stay patient and continue to focus on conservative underwriting, risk-adjusted returns, and not blindly chasing volume growth.

With that, I will hand it over to Enver.

Enver Sirucic

Thank you, Anas.

I will continue on slide eight. A strong quarter with net profit of €210 million and a return on tangible common equity of 27.6%. Our revenues were up 2% versus prior quarter, with net interest income up 3% and net commission income up 1%. Operating expenses were up 5% in the quarter and cost-income ratio stood at 37.5%. Risk costs were €52 million or 37 basis points, down 12% versus prior quarter. The tax rate in the second quarter was 26%, reflecting our growth outside of Austria. With higher corporate tax rates in the Netherlands and Germany, we expect the tax rate to remain at this level.

On slide nine, key developments of our balance sheet. Major balance sheet items remain flat this quarter, with averages increasing on the back of the full quarter inclusion of the most recent acquisition. With our cash position continuing to be greater than 20% of our balance sheet, we have a very comfortable liquidity buffer to address potential organic and inorganic market opportunities when they arise.

Having said that, we will stay patient and continue to focus on risk-adjusted returns and not blindly chasing volume growth.

Core revenue developments on page ten. Net interest income was up by 3% in the second quarter. Despite having a full quarter of the credit cards business in Germany, net interest income also reflects the impact of the low-interest rate environment, with the average three-month Euribor down 50 basis points during the quarter, leading to high deposit betas of 48%, four points higher versus prior quarter. With rates slowly but surely coming close to the terminal rate and overall solid margin development across our businesses and further deposit repricing, we expect the second quarter NII to be a good run-rate for the remainder of the year.

The net commission income was up 1%, reflecting the positive trend we have seen over the last couple of quarters, and we expect a similar run-rate for the rest of 2025.

On page 11, operating expenses up 5% in the quarter, reflecting mainly two effects: One, our new baseline of the larger group, and two, salary indexation after the collective bargaining agreement in Austria came into effect on 1 April, with a 3.15% wage inflation. We believe that we have seen the peak of operating expenses in the second quarter, and we have made further progress on the integration of our acquisitions, and we expect our cost base to start coming down in the third quarter.

We reconfirm our full-year outlook of approximately €800 million of operating expenses. On the regulatory charges, they were €10 million in the quarter, and we expect it to be around €40 million for the full year.

Moving to page 12, risk costs were down to €52 million in the quarter, in line with our expectations. Asset quality remains strong, with an NPL ratio of 70 basis points. We continue to see a robust credit performance and expect risk costs of approximately 40 basis points for the full year.

Let me close with the outlook and targets on page 13. We reconfirm our P&L outlook and targets for 2025, with a net profit of €800 million and earnings per share of above €10.

And with that, let us open up for Q&A.

Gabor Kemeny (Autonomous Research):

Hi, team. Thank you for the presentation. My first question is on NII and your stable NII outlook for the rest of the year.

Can you elaborate, please, a little bit on the assumptions here, and in particular, what sort of NII tailwind you see from depository pricing? I believe you indicated you are pricing new interest-bearing deposits around 1%. If you could quantify the NII benefits from the repricing, that would be helpful.

And on the rate outlook, I believe you are assuming something like a 1.7% terminal rate. How sensitive would be your NII outlook to, let us say, one or two more rate cuts than you assume?

And my final question would be on capital. Shall we model any unusual developments in your capital ratios over the second half beside the usual items, like an SRT or any other transactions you are working on? Thank you.

Anas Abuzaakouk:

Thanks, Gabor. Enver, you will get to do the NII, and I will do the capital.

Enver Sirucic:

Okay, perfect. So, Gabor, the trend for the rest of the year on the NII, so you are right, we expect another rate cut to happen. That is our current assumption.

If you look at the overall NIM developments over the last couple of quarters, I think it is very obvious that we are less sensitive to rate cuts, but there is obviously an element of that going into the NII projection. On your specific question, if you are sensitive to two rate cuts versus one rate cut, I do not think that would play a big role. It might just be quarterly timing.

We feel very confident that the current run-rate is sustainable. I think we are fairly cautious on these assumptions. There are a few things that could be better than what we expect right now.

For deposit repricing, we see the general market trend on deposit repricing that we follow right now. It just takes time. Deposit hedge takes time. It is a positive tailwind. And then, overall, we have seen a bit of a drop in business on the non-retail side.

Also, I think there is more momentum in the second half that could drive the NII upwards. So, overall, I think fairly cautious, but right now, our best estimate is to have a stable NII.

Anas Abuzaakouk:

Gabor, on the capital side, I would say the proxy of 100 basis points of gross capital for the quarter of 90 of which is earnings, that is a good launch pad. And then as far as SRTs, we are projecting two in the second half, one in the third quarter, one in the fourth quarter. So, you will see probably continued healthy capital development. And then in terms of M&A if that is what you were alluding to, nothing significant for this year.

Enver Sirucic:

Maybe just to add on the SRTs, we would provide more details if the transactions materialise.

Gabor Kemeny:

Just one small follow-up if I may, please. What is the average rate on your interest-bearing deposits, the back book right now?

Enver Sirucic:

We are paying 1% on the €50 billion or so of customer deposits on average.

Gabor Kemeny:

Got it. Thank you.

Anas Abuzaakouk:

Thank you.

Gulnara Saitkulova (Morgan Stanley):

Hi. Good morning. Thank you for taking my questions. My questions are on M&A. Given the strong capital position and the ongoing integration of Barclays' German consumer business and Knab, when it would be feasible for BAWAG to re-initiate M&A activity? You mentioned you are not expecting anything particular in the second half of the year. When would be the perfect timing for you to restart M&A?

And how are current global geopolitical uncertainties including the potential tariffs and macro volatility influencing your investment appetite and M&A considerations?

And the second question also related to M&A. You have emphasised a focus on the retail banking and SME in the DACH/NL region as your core strategic priority. Is this still the case going forward, or would you ever consider expanding your scope, for example, through acquisitions outside Europe, such as in the US? Thank you.

Anas Abuzaakouk:

Thanks, Gulnara. Very good questions.

On the M&A front, as I stated earlier, 2025 is about landing the integrations. Anything on the M&A front would be small, if anything, as far as kind of bolt-on acquisitions. I think once the acquisitions are landed, and we are in a firm position, we will. We have a game board. Obviously, we are tracking a number of opportunities, and we will re-engage with the game board in 2026. However, there is a lead time to M&A. That takes about six to nine months even to actively source a deal.

There was a question in terms of the DACH/NL region. That has been the bulk of the M&A that we have executed. However, we also look in Western Europe, and we have done the acquisition of Idaho First Bank in the States.

We look at platforms, we look at bolt-on opportunities across the seven markets, both DACH/NL and Western Europe and the United States.

Gulnara Saitkulova:

Thank you.

Anas Abuzaakouk:

Thank you.

Noemi Peruch (Mediobanca):

Thank you for taking my question. I have three. The first one is on the legal risk in Austria.

If you could share with us the range of potential top-up and provision you expect for 2025 will be useful. And here, I wonder about your preference. If it is more towards an upfront cost perhaps or kind of taking provision as the claims come in, so potentially spreading into 2026.

Then my second question is on asset quality. We have seen in the last quarters an increase in bankruptcies in Austria and also the local regulator quite vocal on commercial real estate risk. I was wondering here how you see these trends impacting your book and if you expect the cost of risk to exceed 40bps in the next years.

And finally, a follow-up on the deposit cost. What is the duration of the term deposit right now? And is repricing tougher in the Netherlands at the moment or in Austria? Thank you very much.

Anas Abuzaakouk:

Thanks, Noemi. We had a hard time hearing the question. Let me just try to recap, and we will distribute between myself and Enver.

The first was on the legal fees, I think, the up-front fees in Austria. The second, was it commercial real estate that you asked about?

Noemi Peruch:

Asset quality in general in Austria and on the quarter if this could trigger a higher cost of risk in the next years, perhaps.

Anas Abuzaakouk:

Okay. Got it, asset quality. And then the third one was what deposit pricing?

Enver Sirucic:

I guess so.

Anas Abuzaakouk:

Okay. Let me just on the legal fees, honestly, this is one where I think the headlines far outpace the actual reality.

We reached an amicable settlement with the Consumer Protection Bureau, and we think we adequately addressed it. However, I think sometimes the sensationalisation of headlines sometimes overruns the substance of the topic. So, we have addressed that.

And then the second one, asset quality, I would say in general, look, we are under 70 basis points. We see solid credit performance. The bigger issue is not so much what we see today on the book.

I think the numbers speak for themselves. It is just the frothiness in the market. I would be more concerned, less about, at least from a BAWAG perspective, what is on the book.

It is just about the aggressiveness in terms of higher advance rates, lower margins as people are chasing volume. I see that as a bigger concern as opposed to kind of what we see from our balance sheet perspective.

And then the third, I will give it to you, Enver.

Enver Sirucic:

We have seen the trend that deposit costs are coming down across markets from the Netherlands, Germany to Austria. Just a bit slower than the rate cuts. But, I think what I said before, once we hit the terminal rate, we will see a positive tailwind of the continuous deposit repricing that we would expect to continue in all the markets.

I think you asked about term deposits. It is a very small fraction of our overall customer deposit base and has almost no impact on pricing or repricing.

Anas Abuzaakouk:

Thanks, Noemi.

Noemi Peruch:

Thank you.

Borja Segura (Citigroup):

Hello, good morning. Thank you for your time. I have two questions, please.

Firstly, on the NII, I understand that your guidance is conservative based on the ECB rate of 1.7% and also the deposit beta. Could you provide details on where you see the deposit beta in the medium term? That would be my first question.

My second question would be on the integration of Knab. As per your presentation, the TSAs will be exited by the third quarter, and you will target a bank merger by year-end. I would like to ask if this could mean any potential upside to the efficiency targets and also to the stability of the acquisition. Yes, that was my second question.

Anas Abuzaakouk:

Okay. I will take the second one. Again, it was really hard to hear. I think we have a bad line. As it relates to the Knab integration, yes, the TSAs are being closed out by third quarter.

Hopefully, the merger is done by the end of the year. In terms of changing the targets, we are still at the investor-day targets, under €800 million and then under 33% cost-income ratio. Hopefully, we will beat that.

I think we feel comfortable in just the plans that we put out. If there is an update in the coming quarters, we will update you guys, but everything is on plan.

Enver Sirucic:

I think the first question was on our projections on deposit betas. We do not provide that detail, but probably it is fair to assume that over time, we would expect deposit betas to trend below 40% again.

Borja Segura:

Thank you.

Anas Abuzaakouk:

Thank you.

Jovan Sikimic (ODDO BHF):

Yes, thanks a lot. Good morning. I have just a short one on organic growth.

If you could provide a kind of geographical split or breakdown. Now, you have sizeable operations in the Netherlands, and you added operations in Germany and you have, anyway, a strong business in

Austria. How geographically retail and corporate lending are performing? If you can add some colours on that, please. Thank you.

Anas Abuzaakouk:

Yes, thanks, Jovan. We do not break out by individual countries, the volumes, but I can give you just some colour as to what we are seeing in general and where there are pockets of strength and probably where areas of work needed.

Consumer & SME, which has probably been the strongest, we have seen good opportunity there. Obviously, credit cards, our place is performing ahead of plan. We do some embedded finance there as well in Germany, which is going really well. Mortgages are incredibly muted in Germany.

We are seeing a pickup in mortgages in the Netherlands. The same for Austria, but it has been muted to date. I think maybe we are potentially at an inflexion point.

Consumer loans are going well. Speciality finance, that has traditionally been steady over the past quarters, if not years. And that is the Retail & SME space. We started in Ireland recently, but that is pretty much green field.

And then the corporate is where you see the most volatility, the corporate, real estate & public sector. Public sector as well in the DACH/NL region, in particular, obviously Austria being the anchor.

The corporate is a bit more volatile in the sense that we have seen more redemptions and the opportunities, as I have mentioned before. It just seems like it is a really frothy market. And then real estate, I think there were some idiosyncrasies in the second quarter, in particular, we had two big developments: We had early redemptions in Q2 in the US, some of which were more than welcome. And then we also had the impact of the euro/dollar FX, which was probably half of the reduction in the real estate. And that is just an FX impact we have, and that was something that we were aware of.

We do have a good pipeline, but a deal is not funded until it is funded. I think we have had a good pipeline for some time, but markets are choppy, and we will be patient.

So that is a tour of the different asset classes across the different geographies. I hope that helps.

Jovan Sikimic:

Sure. Thanks a lot. Thank you.

Anas Abuzaakouk:

Thanks, Jovan.

Borja Segura (Citigroup):

Hello. Thank you. I have a follow-up question, if I may, on the deposits.

I would like to ask if you could give an overview on the positive trend by retail. And also linked to this, given your very comfortable liquidity position, I think that gives you an advantage in terms of repricing the deposits going forward. Thank you.

Enver Sirucic:

Borja, we do not provide split-by-regions deposits, but it has been a very similar trend that we see across Austria, Germany, and the Netherlands in terms of overall customer deposits. And yes, we have a quite comfortable liquidity position. So also, we are quite comfortable to reprice the deposits in line with the market.

Borja Segura:

Thank you.

Anas Abuzaakouk:

Thanks, everyone, for joining the call this morning. I hope everybody has a lovely summer and gets a chance to get some rest and relaxation.

Take care, and we will talk to you guys in the third quarter. Bye.