BAWAG Group

Q1 2018 Results Call

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Transcription

Key Speakers:

Anas Abuzaakouk
Enver Sirucic

Operator: Good day, ladies and gentlemen, and welcome to BAWAG Group's Q1 2018 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, please press star followed by one on your touch-tone telephone. Please press the star key followed by zero for operator assistance. As a reminder, this conference is being recorded and a replay, as well as a transcript thereof, will be available on BAWAG Group's website. I would now like to turn the conference over to Anas Abuzaakouk, Chief Executive Officer; please go ahead, sir.

Anas Abuzaakouk: Thank you, operator. Good morning, everyone. I'm joined this morning by Enver Sirucic, our CFO. Let's just jump right into it. So, first quarter 2018, a strong performance, strong results, for BAWAG Group. If we look at just the headline figures, profit before tax of 116 million; that doesn't tell the full story. Actually, on a normalized basis, profit before tax came in at 142 million, the reason being the front-loading of regulatory charges, which is just a mere accounting convention. 85% of the regulatory charges were accounted for in the first quarter. So, if you normalize that, you come out to 142 million. That translates into a return on tangible equity, we always measure it against the 12% CET1, as a booking of 116 it's 13%, on a normalized basis 16%, in line with our expectations that we have for 2018.

Fully-loaded CET1 ratio of 14%; this was a capital accretion of 50 basis points. This actually takes into account the 10 basis point negative impact from IFRS 9, so all in all, a very good quarter in terms of capital accretion in addition to just the overall earnings profile. We continue to build our customer franchise; I'll talk a bit about what we're doing in terms of the operational and strategic developments across BAWAG P.S.K. Retail, as well as easygroup, but there's a number of initiatives that are positive on that front.

When you look at the overall strategy, Südwestbank transformation is going very well. If you look at the roadmap that we've launched in the first quarter, this is focused on product/channel profitability, efficiency, and capital allocation. Most importantly, we signed a social plan with the workers' council in April, and that's really going to be a catalyst for growth, for cost-out in the second-half of 2018. And that was something that we were working on, literally from the time we closed in December, in an amicable fashion, working with the workers' council to get that signed, so really positive in terms of the transformation that we see happening in the second half of 2018, as well as carrying into 2019. So, good news on that front.

In terms of M&A pipeline, no different than prior quarters, a robust M&A pipeline. The one thing I just want to focus on is the deals that we're looking at will always have to meet the right underwriting guidelines, have to be disciplined in terms of the right strategic fit. So, we talked about just the developed markets that we're focused on as well as the right fit from a value standpoint. So, a number of things we're looking at, from small bolt-on acquisitions for Südwestbank to larger platforms, both in Germany and Austria. So, hopefully when something materializes, we'll be able to provide you guys with more details.

And as it relates to Deutscher Ring, which we signed in December of 2017, this is the Bausparkasse in Northern Germany, we hopefully expect a closing in the second half of 2018. When it comes to just the repositioning of our domestic retail franchise, I think this is best captured in what we call "Concept 21", so this is the phraseology that we use in terms of the transformation roadmap, which the catalyst was really the separation from the Austrian Post, which I'd mentioned in the full-year 2017 conference call. We've signed that in February; we're actually making really good progress in terms of the operational roadmap that we put in place, the committees that we have, identifying new branches, hiring new advisors, and that's really a combination of the redesign of the network, putting together a mobile sales team, as well as entering into strategic retail partnerships.

And, first and foremost on that front, in terms of the strategic partnerships, we just signed an exclusive partnership with Media MarktSaturn. They have about 35% of the electronic markets in Austria, that's going to be a real key initiative in terms of customer acquisition. That partnership will come into effect in January of 2019, and what we hope to do is build on those type of partnerships in terms of point-of-sale financing, and addressing the consumer lending space.

And then as far as the PayLife integration; that's been really strong developments on that front. We've actually combined the credit cards team into an *easypay* center of excellence; we were hoping that was going to happen the second half of 2018, when we did the initial underwriting, that's actually been completed in the first quarter of 2018, so well ahead of plan in terms of the PayLife integration.

And in terms of the technology transformation; I talked about this at year-end, there's more to come in the subsequent quarters, but this is really going to focus on how we're automating, digitizing, and re-thinking our technology stack, which will then obviously have material benefits in terms of overall productivity and our scalability of our franchise. Those are highlights from the first quarter.

On slide four, just overall customer segment performance; a balanced performance across all the business segments. The real driver here has been BAWAG P.S.K. Retail, really a record quarter in terms of 55 million of pre-tax profit, on a year-over-year basis up 35%. If you go across the P&L, be it NII, NCI, positive developments. Positive developments on operating expenses.

But the story around BAWAG P.S.K. Retail is really "Concept 21" and the operational roadmap that we have in place in terms of transforming our business from an omni-channel standpoint. And then really, what we continue to do on the asset side, and changing the overall mix, focusing on consumer loans and Euro housing mortgages, and I'll get into that.

easygroup, the story there is really we've, I think, indicated the burn-off that takes place in terms of the international mortgage portfolio, so that was down about 5% just in the first quarter alone. That's something that we've anticipated, but that's been offset by the PayLife acquisition in terms of fee income, as well as what you don't see, is the growth in *easybank*, which I'll get into in terms of just consumer and housing loans, as well as *easyleasing*, our auto leasing business.

Very strong delivery from the International Business; DACH Corporates & Public Sector, we have obviously some weakness there. I think we've talked about that in the past. Given just the current market conditions, this is kind of where you see it in terms of static overall balance sheet. You can see the developments on a year-over-year basis. And a really strong performance from Südwestbank, even though it's still early days as far as the 11 million pre-tax profit contribution in the first quarter.

Moving on to slide five; if you look at BAWAG P.S.K. Retail in terms of financial highlights, so 55 million of pre-tax profit, up 35% year-over-year. More importantly, if you kind of parse the P&L, NII is up 4% year-over-year, NCI is up 19% year-over-year, in large part driven by what we've done on the Austrian Post in terms of the reduced commission expense, as well as growth in current account fee income.

And then if you look at it on a quarter-over-quarter basis, you see 2% NII growth from Q4 '17 to the first quarter, as well as about 9%

NCI growth, which I think we've indicated before. Positive operating leverage in terms of continuing to reduce the cost base, there's going to be more to come on that front. So, really positive development from a financial standpoint.

If you look at the overall asset mix, on the surface, it's flat, 9.5 billion in terms of total assets, but the reality is our consumer loans are up on a net asset basis 1%. Our Euro mortgages are up 2%, and that's effectively offset on the downside by a reduction, a proactive reduction, in our Swiss Franc mortgages, which we'd like to see that go away tomorrow, if possible, as well as just some IMMO-BANK assets. So, balanced, but we see the overall mix, about 75% is consumer and housing loans, which is our core product growth that we're focusing on.

In terms of new business originations, 300 million for the quarter, again driven by housing and consumer loans. Really positive developments on the fee income side, a real strong adoption of our premium current account models. You can see NCI up 6% versus prior year, and that's really because almost 70% adoption of our new current accounts. More importantly, the shift to digital is probably best captured in the metric of over-the-counter transactions; so, over-the-counter transactions declined 2 points, just from fourth quarter to first quarter.

Today, 88% of our transactions are e-banking, mobile, and self-service, only 12% are over-the-counter. We see that going to single digits at a rapid pace. I mentioned "Concept 21", this is really just the redesign in terms of our network, very good developments on that front. Hiring of financial advisors, that will take place over this two-year period, as well as the retail partnerships that I mentioned earlier. So, really strong first quarter for BAWAG P.S.K. Retail.

Moving on to the next slide, slide six, easygroup; 32 million of pre-tax profit, on a year-over-year basis down 6%, but this was anticipated, given the fact that we have the run-off in the international mortgage portfolios. This is the UK and the French portfolio. More importantly, if you actually look at core revenues, they're up 20%. This was driven by the PayLife acquisition as well as the organic growth that we see across our consumer loans, our housing loans, and *easyleasing*.

So, again, if you kind of break out the overall asset mix, *easybank*, in terms of just the direct bank, their assets are up 6% on a first-quarter basis. *easyleasing* is up about 1% on a quarterly basis net assets, and then the international mortgages are down 5%. That's what accounts for the 200 million decline in the first quarter, but we projected and communicated this overall mixed development.

We had 200 million of asset originations in the first quarter, very positive development. More importantly, even though they're smaller numbers, they're more indicative in terms of just the organic developments that we see in *easybank*, the direct bank. You see we're starting to make progress on our "easy konto" current accounts; that's actually up, in terms of fee income, 5%. This is a current account, that's not a free current account, but a current account that we charge. And really, what that indicates is the fact that customers are willing to pay for a high-quality current account with high-quality service, and we take a lot of pride in that.

Cross-sales are actually going quite well in terms of PayLife to our existing customers, up 46%, albeit on a lower base, but a positive indication.

On the next slide, our non-retail segments; this is just to reiterate the international business as well as the DACH Corporates & Public Sector lending franchise. International Business had a really strong first quarter, 900 million of originations in the first quarter, net asset growth of 2%, driven by our corporate lending.

There were some redemptions in the real estate business, but, more importantly, outside of the 2% net asset growth, we see a really solid pipeline for the remainder of 2018. So, really positive developments in terms of the International Business. Contribution of 25 million of pre-tax profit, it's 12% on a year-over-year basis, in line with what we've expected. And, most importantly, the credit quality of the International Business, if you look at the entire portfolio and the asset composition, looks very strong versus what we saw last year.

The DACH Corporates & Public Sector business contributed 14 million of pre-tax profit. This was down 33% versus the prior year. I think we've indicated on multiple occasions that it is a challenging overall market environment. What we see today, quite frankly, is pretty irrational pricing. We will only do deals on a transactional basis that make sense from a total risk-adjusted return.

So, this was something that we've anticipated. Still, on a pre-tax return on tangible equity (@12% CET1), in terms of the overall business, it is about 17%, but we are seeing muted loan demand. And the overall asset mix is pretty stable, given that the redemptions on the corporate side are offset by public sector short-term lending. I think this is kind of where you see the business in the current environment and we'll continue to be patient.

On slide eight, Südwestbank, pre-tax contribution of 11 million in the first quarter, which is actually a really positive development. But, more important than just the first quarter contribution and the 300 million of asset originations that we saw in the first quarter was what's happening on the transformation front. So, I mentioned earlier on the call, we have signed a social plan with the workers' council, that took about three months, very solid discussions with the workers' council. We have an amicable social plan that we've put in place; the execution is actually ongoing. We feel really positive in terms of the transformation and really starting to see a lot of the benefits materialize in the second half of 2018, and that will run into 2019. We've put a number of initiatives in place, outside of just in terms of personnel and transformational restructuring, we have a number of bullet-trains to effectively go after, call it non-personnel costs or G&A.

And then, from a balance sheet standpoint, as far as overall capital allocation, we've adopted the Group policies for credit underwriting. We feel really good in terms of the outlook for the business. I think first quarter is an indication of where things are going for the remainder of the year.

Key message here is social plan in place, and we believe we'll start to see accelerated cost-out in the second half of 2018. And, as I mentioned before, the targets are going to be in line with the overall Group targets for BAWAG.

So, with that, I will pass it over to Enver, to get into the details.

Enver Sirucic: Thank you, Anas. So, I'm on page 10 right now; I will not reiterate everything that Anas mentioned already, but I think it was a very good start into the year in terms of financial performance. I think one thing to be highlighted, and I will go through that in a second, on the normalization of the regulatory charges, how this breaks out. As you see, PBT was 116, what we really did is just to do it on a pro rata basis, where we show the pro forma PBT which would then have shown 142 million of PBT. And if you do the same like-for-like basis compared to last year, actually, the PBT was up 5%.

On the cost side, 130, that's the first quarter where we currently have our OPEX, where we see a normalized run rate; what does that mean? So, it's fully including the integration of PayLife as well as Südwestbank, so that's the starting point of 130 million. We will now focus, of course, to reduce that over the next quarters, also, with the implementation of the social plan at Südwestbank. And you can see it in the cost-income ratio, it's already below 44%, which is well ahead of our plan to be below 46% for the full year.

I think on the customer segments, everything was said. Very strong originations that we had, and also the customer balance sheet was quite stable. On the risk side, I think quite normal, benign credit environment; risk-cost ratio at 16 basis points, which is quite in line with what we always said, between 15 and 20 currently, and we said through the cycle we expect 15-25 basis points.

CET1 ratio at 14% fully loaded, including the interim profit, and also we reconfirmed the impact on IRFS 9, which came in at 10 basis points, so, gross we created 60 basis points of capital, less 10 basis points for IFRS 9, which gives you the growth from 13.5 to 14%.

And, in April we issued AT1, which we also said we will focus on optimizing our total capital structure; with that 300 million of AT1 having been issued in April, we pretty much fulfilled the 150-basis point bucket that we have, currently, it's 140 basis points but we think we will grow into it once the RWA density is being optimized.

On page 11, what we wanted to show is just the normalization; it's nothing unusual in the regulatory charges, so it's just a booking convention that most of the regulatory charges are booked up-front in Q1. So, what we have done, 85%, which equals 37 million, have been booked in Q1; we expect full-year charges of 43, 44 million. So, normalized, which means pro rata if I would do 25% each quarter, it would have been round about 11 million. So, a 26 million normalization, so that's how you go from 116 to 142.

The main driver of the 37 is 22 million we have for the deposit guarantee scheme, which is also booked in the segments, so you will see the 22 million allocated across the segments. On the 15, the majority, three-quarters of that is the recovery solution fund contributions that we have, and the reduced bank levy, as well as contributions to the regulatory bodies, which is the Austrian and the ECB. That is shown in the Corporate Center. So, in the next quarters you will see a very low regulatory charges line in the P&L.

On page 12, just the usual overview that we have on P&L and balance sheet. I think most of the lines have been discussed, so NII, up 6%, mainly driven by the core performance of the retail segments but as well, of course, as the integration of the acquisitions that we had. NCI, massively up, with 50%. This is really the one thing that we have, is of course reducing the commission expense from the Austrian Post cooperation and, of course, the contribution from PayLife that we have seen reflected here.

Other revenues, quite stable around the 5% that we usually had through the cycle in the last three years. OPEX I mentioned, regulatory charges is the 85% that we have, and risk costs, the 16 million, which equals 16 basis points of risk-cost ratio. I think on the balance sheet side, customer balance sheet quite stable compared to year-end. The only thing that's rather worth highlighting, combining the securities portfolio of BAWAG with Südwestbank, we also decided to de-leverage some of that, so it's roughly 2 billion that we de-risked in the first quarter, which increases on the other side our excess cash position.

On page 13, in terms of core revenues; so I think only one ratio, the NIM, that we said it will come down as expected, because we now also included the business from Südwestbank that has a lower NIM so that kind of dilutes the overall NIM for the group at 215. I would expect the 215 to be a good proxy going forward, because we are now on a normalized run rate basis. On NII, it's really what I said: core businesses contributing and, as well, the acquisitions. On the NCI is the reduction for Austrian Post, which is roughly 75 to 80% lower compared to Q1 last year, of course the integration of PayLife and Südwestbank, but also a good performance on the current accounts and securities business that we have.

On page 14, OPEX; I think really the one thing, see the 130 million as a starting point for the year. The social plan is now being put in place at Südwestbank, it will take time to really see the effects, but you should be seeing the effects in the second half on a run rate basis, as we also report Südwestbank independently. And, of course, we continue to focus on efficiency, not only in Südwestbank, but across the Group. So, we are very confident that we will meet or probably be better than our targets here.

Risk costs, page 15; nothing really to highlight, very good performance in terms of NPL ratios, coverage ratios very stable, risk-cost ratio 16 bps, as I said. And this is really if you just look at the segments, it is just a normal run rate that we have in the retail segment and quite benign credit environment in the corporate segment, we didn't really have any moves there.

On page 16, capital; so we have two pages on capital prepared, one is just to show the development, going from 13.5 to 14%. I think two elements I would mention here is the risk-weighted assets came down in line with the balance sheet, 2%, and the second one, still the RWA density is at 47%. Please keep in mind, this does not include yet the optimization that we plan to do on the mortgage portfolios in France. So, this is not reflected in the numbers, and we are still working on that.

On page 17, we prepared a walk of the CET1, and also the total capital ratio, to show it pro forma after the AT1 issuance. On the CET1 development, the story is really organic generation which was 60 bps, which is in line with what we said in the previous quarters. So, for a full year, it's around 2.5 percentage points organic origination. IFRS 9 impact was reconfirmed at 10 basis points, that gives you the increase of 50 bps. The pro forma dividend, our dividend policy of 50% payout, if you would include that, that would reduce the CET1 ratio from 14 to 13.8%.

The prudential filter that we mentioned, still at 20 bps, if you remember from Q4, is not considered here. So this is something that will be released once we close the PPA of Südwestbank as well.

On the total capital, so what we are trying is just to optimize the total capital aspect as well. With the AT1 issuance you see that we are pretty much there in terms of Tier 1. In terms of total capital, we are still looking and optimizing the Tier 2 structure and probably more to follow in the next quarters. We will keep you updated.

On page 18, this is just the normal update on funding; nothing really changed, we just even shift more to customer funding. Customer deposit funding is, in the meanwhile, almost 70% of our total funding. Everything else is pretty much unchanged; leverage very healthy, improving in line with the CET1 ratio.

One information that we wanted to share with you this quarter, on page 19, because we got a couple of questions over the last couple of earnings calls, is on MREL. Unfortunately, we cannot really tell you what the precise result will be, and how much it will be, but to give you a bit of guidance we prepared a bit of a retention profile, also our own issues funding stack, and we think end of '18, early '19, we will know the requirements, but we think we will most likely issue 500 million of non-preferred in '19. That of course depends on the final target that we receive.

With that, I will hand back to Anas. Thank you.

Anas Abuzaakouk: Thanks, Enver. So, just to wrap up here; a very strong start for 2018. We feel really confident in terms of meeting or exceeding our 2018 targets. The operational developments that I mentioned earlier in terms of "Concept 21", we feel really good about. Very strong pipeline in the international lending business, so we feel good about that. A number of initiatives that we will hopefully address in the quarters to come, around operations and technology, which we think will be productivity drivers. Very robust M&A pipeline, obviously we can't comment on any specific deal, but we feel pretty good about what we have in the pipeline.

And we feel good about how 2018 looks in terms of overall performance. With that, I think, operator, we will take 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 on their touchtone telephone. 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 a one at this time.

And one moment for the first question, please. The first question comes from the line of Anna Marshall of JP Morgan; please go ahead.

Anna Marshall: Good morning, thank you for the presentation. A couple of questions from my side, please. First one, on Südwestbank, could you provide a bit more color, please, on the restructuring measures that you're taking, and specifically on the social plan. For example, the scale of staff and branch reductions, and the scale of resulting cost savings.

And also, your overall experience; you've mentioned that you've achieved the negotiations, basically you've concluded in three months, so that sounds quite good, but overall, how has the experience gone for you? What has been bad or what has been worse than expected? Any major differences of doing this in Germany, versus your experience in Austria?

So, that was the first question. And the second question, on the capital, please: Can I just clarify that the further measures planned for 2018 in terms of optimization, is that only related to French mortgage portfolios, or any other portfolios? Thank you.

Anas Abuzaakouk: Okay, hi Anna; I will take the Südwestbank and I think, Enver, you want to take the mortgage portfolio?

Enver Sirucic: Sure.

Anas Abuzaakouk: So, jump in here if I didn't completely answer all the questions you had. For Südwestbank, let me start by thanking the workers' council. So, right when we closed in middle of December last year, we initiated discussions with the heads of the workers' council and I'd say three, three-and-a-half months is actually pretty accelerated. They were incredibly constructive in working to a transformation plan, understanding the need that part of the turnaround of Südwestbank to make sure that we addressed the return targets that we had underwritten to were met.

And that we all understood that this was something we wanted to do in an expedited fashion, and that didn't hang over the organization for months on end. So, really appreciate working with the workers' council. Dr. Wolfgang Kuhn, who's the CEO of Südwestbank, did a great job with the team supporting him, really in working through those negotiations. I think we struck a balanced deal which was a win-win for both the workers' council, as well as for management.

And the most important thing for us, Anna, was to be able to accelerate the transformation and restructuring, and not have this hang over the bank for an extended period of time. We don't give guidance in terms of the total number of FTE, or the specific cost, but what I can guide you to, Anna, is if you look at the BAWAG transformation from 2012 to 2016, in terms of that five-year period, it's the same scope or scale of cost-out that we experienced within BAWAG P.S.K., which is pretty transformative.

And that was something that, hopefully, we will be able to materialize over the next 18 months. Enver mentioned that you'll start to see run rate impacts in the third and fourth quarter of this year, and that obviously will carry into 2019. So, we're really positive in terms of the developments on Südwestbank, and really appreciative of the constructive nature with the workers' council and the management team did a great job, led by Dr. Kuhn.

As far as the overall experience versus Austria, it is more prescriptive in Germany versus Austria, but this was something that we were aware of. We don't give the specifics in terms of the overall payback that each individual comes out to because it's on a tiered basis in terms of overall payback or restructuring, but the 42 million that we had booked in restructuring reserves last year as part of the overall PPA will be more than sufficient to address the full restructuring that we're looking to undertake.

Was there anything else on Südwestbank that you had asked? I think I covered the…Maybe the mortgage?

Enver Sirucic: Yes, on capital optimization; you mentioned the French mortgage portfolio, this was something that we planned to do this year. The other element on optimizing the capital ratio is what I said, also will be with the relief of the prudential filter where the average is roughly 20 basis points because we will finalize then the PPA within the 12 months window, which will then fall in 2018. And, of course, something that we don't really focus on a year-by-year basis, but more mid-term is just the overall RWA density, which means also further IRB roll-outs that you are going through with our regulators. This will be mid-term that we go from 47, we always said that we think it's going to be between 40 and 45%, the right ratio for us.

Anna Marshall: Okay, thank you.

Operator: The next question comes from the line of Pawel Dziedzic of Goldman Sachs; please go ahead.

Pawel Dziedzic: Good morning and thank you for the presentation. So, the first one will be just a follow-up on your cost targets for Südwestbank, and I appreciate you don't want to give too many details, but can you update us, maybe, on what your expectations are for cost to income? It's at a little bit over 60% now, where would you ideally like it to be, and to what extent it is driven purely by the cost reduction, and to what extent can you bring it down by increasing revenues?

So, that would be the first and a follow-up question. Then, on the your NII more specifically this quarter, I was wondering to what extent this 208 million figure reported is a good run rate for the rest of the year? You mentioned that margin should be relatively stable at 215, going forward, but there are a few things if you look at the results that perhaps might distort it a little bit. So, if I look at DACH Corporates, it seems that the NII there is down quite sharply, so maybe you can comment what happened and what's your outlook there?

And also, just on the Corporate Centre, there is, I think, around 11 million negative NII booked there and is this a good run rate in general? Thank you.

Anas Abuzaakouk: Hi, Pawel. Very good questions, I'll take the Südwestbank, then Enver will address the NII questions. So, Südwestbank, we don't give the specifics, in terms of FTE or personnel costs or G&A, but I can tell you, at 61%, the cost-income ratio will be in line with the overall group targets. So, you see us today at 43, 44%, we've communicated that we will be under 40%; I think you can think of Südwestbank in that overall context.

You mentioned in terms of how much of the interplay between cost and revenue. When we do our targets and put the operational plan in place, we assume no lift from revenues. So, that will be pretty static and even potentially slightly declining, given just the overall mix that we have. So, this will be true cost-out in terms of getting to those ratios. But we feel pretty good in terms of the transformation plan that we have in place and addressing the personnel as well as the non-personnel costs and I think you'll start to see that in the second half, really start to materialize, and obviously that will work into 2019. I think that was the Südwestbank, if you want to take that.

Enver Sirucic: Sure. So, on the NII; yes, DACH Corporates, we have seen a decrease; compared to Q4, it's 1.5 million decrease in DACH that is more than offset by the retail segments that we are seeing. On the Corporate Center, I think the overall, if you look at the balance sheet composition, what you are seeing, you've also got excess liquidity with the acquisition of Südwestbank, and also now with the de-risking of the bonds on the other side. Just our excess cash position is quite significant, which also means we have a negative carry that is being shown in the Corporate Center.

This is something that I think every bank has to live with; and we made also a conscious decision to sell some of the bonds, just given the risk returns were not right for us, but this is the main driver behind it.

Pawel Dziedzic: Alright, thank you. So, let's say Q1 run rate for NII is a good proxy for the rest of the year, is that a correct interpretation?

Enver Sirucic: Yes, I would assume that. Of course, you have a bit different day counts with February and so on, but generally it's a good proxy.

Pawel Dziedzic: And can I then ask one follow-up question? So, you're guiding for over 600 million PBT for the full-year, on the normalized number, you tell us it's nearer around 140, so where would the pick-up come from if NII is stable and that's the bulk of your revenues? And do you think the uplift there comes on the cost side, purely, perhaps on the initiatives that you already have in place in Südwestbank? Is there something that you can do on the cost of risk? Where do you see the most opportunity to beat or exceed the 600 million PBT? Thank you.

Anas Abuzaakouk: Hey, Pawel, just to clarify, the greater than 600 million we have said by 2020, for this year, 2018, the PBT target is greater than 5% growth from 517, just not to mix the '18 versus the '20. We are conservative, by the way, when we put out the targets; I thought that's where you were going with the question. But look, just to answer; Enver talked about the NII stabilization, we are making a conscious decision to keep the cash in that negative carry, to be patient for better opportunities, and to lend responsibly, in a disciplined way.

And exactly to your point, a lot of it will come through positive operating leverage or cost-out that we have planned in the second half, in addition to some initiatives around fee income that we have planned. Did that answer your questions?

Pawel Dziedzic: Yes, that does answer my questions. Thanks.

Anas Abuzaakouk: Thanks, Pawel.

Operator: The next question comes from the line of Giulia Miotto of Morgan Stanley; please go ahead.

Giulia Miotto: Hi, good morning, and thank you for your presentation. A couple of questions from me as well. So, the first one is on the international business segment; you mention a solid pipeline for the remainder of the year, I was wondering, would it please be possible to get a little bit more detail on this pipeline? Obviously, I don't want comments on specific deals but just in general, if you have rating or asset class or geography, I think that would be very helpful.

And then, the second question is on DACH Corporates & Public Sector. You mentioned irrational pricing and a lot of competition in this segment, I was wondering, do you see this changing, or is there anything that could lead to changes here? And if the answer is no, then shouldn't we be assuming constant pressure on the core revenues in this segment going forward? Thank you.

Anas Abuzaakouk: Thanks, Giulia, very good questions. Let me take the first one, in terms of the International Business; you're right, we can't give the specifics, but I think at least I can give you a sense of where the pipeline is developing. It's more Western Europe, it's portfolio NPL financing, I think that we've talked about in the past. Spain, as well, we have a pretty good pipeline. We feel good because we've actually entered into transactions and it just hasn't funded yet, that's why I think we have a good forecast for 2018.

But, a very good development on that front. And, more importantly, we don't look at it in terms of the risk class, but these are all, when we look at the underwriting guidelines and just the LTVs and the LTCs, very solid underwriting on all of these deals. So, we feel really good in terms of the asset quality as well as just the potential net asset growth, as you will see in the subsequent quarters. That's on the International Business, then what was the question?

Enver Sirucic: On DACH.

Anas Abuzaakouk: Oh yes, on DACH. You know, Giulia, I think we've been saying this for a couple of years that we're going to be patient and hopefully there's going to be more rational pricing. I've got to be honest, we don't really see that taking place, but what we've done in terms of our three-year forecast, as well as our forecast for 2018, is assume things are pretty static to slightly declining. So you will start to see or continue to see margin compression and I think what you see in the first quarter is probably indicative or reflective of what you'll see for the full year.

So, you won't see the drop year-over-year, I think it's more pretty static as to what you see in the first quarter. But the opportunities, unfortunately, we don't see the types of opportunities that we see in other business segments, which is why you'll see the shift more to retail and international as opposed to DACH Corporates.

Giulia Miotto: Understood. Thank you.

Anas Abuzaakouk: Thank you.

Operator: The next question comes from the line of Gabor Kemeny of Autonomous Research; please go ahead.

Gabor Kemeny: Hi, Gabor from Autonomous. A couple of quick questions; firstly, on Austrian consumer lending, are you still gaining market share? Because you have gained quite significant market shares in previous years, how do you see the competitive situation and margins developing in Austrian consumer lending?

And, secondly, on the regulatory charges, where you have an increase this year; is this related to the acquisitions and shall we consider this as a kind of run rate going forward?

Anas Abuzaakouk: Hi, Gabor. Thanks for the questions. Let me just make sure I've got it; so the first question was on market share development and the second was the nature of the regulatory charges, if these are a one-off, or are these more recurrent?

Gabor Kemeny: So the Austrian consumer lending was the first one, yes, and the second one is whether the regulatory charges were related to increasing balances.

Anas Abuzaakouk: Okay. Do you want to take it?

Enver Sirucic: Sure. So, maybe on the regulatory charges, that part is easy; yes, one bigger part is related just to Südwestbank, so with the increasing balance sheet, also higher regulatory charges. There are no one-off items, so if you look at the 37, we had 22 in deposit guarantee scheme, that's purely just based on euro customer deposits.

And then, resolution was three quarters of the remaining 15, and then you have 4 on bank levy, I think, and 1 on the charges. But this is really just related to balance sheet, no real changes in the calculation.

Anas Abuzaakouk: And related to the acquisition.

Enver Sirucic: Of course.

Anas Abuzaakouk: As far as the market share, Gabor, pretty flat in terms of first quarter when you think about the core products that I mentioned, consumer loans and housing. Consumer loans is net asset growth of 1% in the first quarter, and mortgages is about 2%. So, we're probably in line with the market, slightly below where the market is, but we're just trying to be disciplined in terms of what we're doing on the consumer lending front, just as far as our overall underwriting guidelines, and not chase the market.

Gabor Kemeny: Okay. And what sort of growth rates would you look at in Austrian consumer lending? Is Q1 a good proxy for the coming quarters?

Anas Abuzaakouk: I think you can use Q1 as a good proxy, yes.

Gabor Kemeny: Okay, thank you.

Operator: The next question comes from the line of Mate Nemes of UBS; please go ahead.

Mate Nemes: Good morning and thank you for the presentation. I have a question on NCI, actually two small details to that. Is the full effect of the reduced commission expenses to the Austrian Post already in these numbers? Or is there anything incremental coming from that source? And, secondly, if you could give us a little bit more color, what would you expect in terms of PayLife revenue synergies, or PayLife additional contribution to NCI in the coming quarters? So, any color on what's your expectation for the remaining three quarters of the year on NCI, that would be helpful. Thank you.

Enver Sirucic: So, on the Post commission, the reduction year-over-year was roughly 75%, so if you look at it in the first quarter last year, we had a commission expense to Austrian Post of around 12 million, now it's around 3 million that we had in the first quarter. There are still some remaining parts because it's still in the separation mode, so we are using still some of the services. This will go down on the commission expense side.

So that is to expect. But also, to be fair, what we said in Q4 where we booked most of the expenses for that, is also we are building up our franchise, this will generate a bit higher OPEX that should probably offset each other.

I think on PayLife, the question was just on the NCI, I think. We are ahead of planned integration on PayLife generally, so what we have done is just move the teams together, *easybank*, and also what we are bundling now is the credit card reductions, the call center. I think a lot of synergies that we generated already in the first couple of months that was planned just to be done in the first 12 months.

So, that's quite good. And in terms of NCI contribution, it's also been ahead of plan than what we said. I think we highlighted net contribution will be around 12 million from the PayLife business, which is purely NCI at the end, or the PBT contribution; this will probably be a bit higher than we said in Q4.

Mate Nemes: Okay, that is clear. Thank you.

Operator: The next question comes from the line of Simon Nellis of Citibank; please go ahead.

Simon Nellis: Hi guys. Thanks for the call. First question would just be on margin; I see from the file that you sent out that the NIM in the BAWAG Retail division actually went up by around 9 basis points over the quarter, I'm wondering if there's anything going on, is that a new, sustainable level? And also, just on your divisional accounts, I see that you restated them; it seems that the risk weighted assets have gone, have changed. I was just wondering if you could give me an indication of what's going on, why have you restated backwards, at least the balance sheet for the divisions? Thank you.

Anas Abuzaakouk: I think these are re-segmentation issues.

Enver Sirucic: I think maybe the last question, Simon. So what we did is just a re-segmentation, that's why we also wanted to provide you a full history of the data. We moved the start:bausparkasse business from Retail to easygroup, that's why you see the shift. It's not really a restatement, we just wanted to show the clean shift presented.

Anas Abuzaakouk: What we did, Simon, on the easygroup versus BAWAG P.S.K. Retail, we shifted all of the non-branch origination businesses, so that's *easybank*, *easyleasing*, *easypay*, and then start:bausparkasse, which is really through brokers and retail and banking partner relationships. That's all under Sat Shah who runs easygroup; and BAWAG P.S.K. is our traditional omni-channel for the BAWAG P.S.K. customers, so that's the shift.

Simon Nellis: Right, got it, thank you.

Anas Abuzaakouk: On the NII, that's really driven by two things as it relates to BAWAG P.S.K.; that's the continued mix. I know it's small and incremental in terms of actual numbers, but if you look at the mix of assets in the 9.5 billion, it goes from just quarter-over-quarter from 74% which is consumer loans, euro mortgages, to 75%. But then if you look at it over a five-quarter trend, that mix continues to develop in the right direction. So, you have higher-margin consumer loans, higher-margin euro mortgages, a reduction in FX mortgages, the Swiss Franc mortgages, that continues, as well as the liability optimization. So I think we talked about the retail deposits going from 17 basis points down to 12 basis points. All of that factors into, I think you were mentioning a 9 basis point increase in the NIM in that segment.

Simon Nellis: And will that continue?

Anas Abuzaakouk: Yes, that should continue.

Simon Nellis: Right. And then maybe just two other quick things; I think the French mortgage book was 1.1 billion euros, is that right? What's the risk weight on that again? I can't recall.

Anas Abuzaakouk: It's still 140%, roughly.

Simon Nellis: 140, right. And then, just last on the status of *Qlick*, I don't think you've launched it in Germany, what that means for consumer loan origination in Germany, if you have to reduce expectations. I think you were talking about 400 million in originations.

Anas Abuzaakouk: Yes, so, Simon, absolutely; that was more of a 2020, I think it was our three-year outlook, I guess, when we talked about the overall online consumer loan market share. What we've done on *Qlick* is we've postponed the actual launch, probably until the second half of this year, given that what we want to do is have an integrated technology platform that accounts for Südwestbank, that accounts for Deutscher Ring. So any effectively retail product, as well as the *Qlick* consumer loan that we want to launch through easygroup, to be able to have one effectively front-end tool and integrated process across all of our acquisitions or platforms.

And that also, whatever technology that we put in place, for future acquisitions, we can scale-up. So we made a conscious decision to delay that; I think we mentioned it in the fourth quarter. It's probably going to be more of a fourth-quarter event now, in terms of the actual launch, but we want to have something that's integrated that we can actually scale up across different platforms.

Simon Nellis: So does that mean that you're pushing out your volume target?

Anas Abuzaakouk: I think we were pretty conservative in terms of the volume target by 2020, so I think we're not too concerned in terms of where the overall volume for consumer loans will end up if you look at it on a multi-year basis. But we have done that purposely, in terms of just being disciplined as far as the asset growth.

Simon Nellis: Okay, thanks very much.

Anas Abuzaakouk: Thanks, Simon.

Operator: The next question comes from the line of Victoria Cherevach of Bank of America; please go ahead.

Victoria Cherevach: Hi, good morning. Thank you very much for taking my questions. I have three; the first one is, if I'm not mistaken, the new business originations doubled in the International Business, year-on-year, is this primarily from an increase in NPL financing?

My second question is about the margin guidance that you're giving; I think you said that you plan for it to stay at around 215 bps, you should get some upside from moving into consumer, so that should help your NIM, and so where do you see the biggest drag?

And my third question is whether you have any change to your tech spend guidance now that you've had more time with Südwestbank, you've seen it, you've gone in; just what you're thinking now about technology? Thank you.

Anas Abuzaakouk: Hi, Victoria. I'll take the tech and then I guess you want to take the other questions, Enver?

Enver Sirucic: Yes.

Anas Abuzaakouk: So, the tech spend, we mentioned last year, I think we spent a total of 80 million cash, which is a combination of OPEX and CAPEX, I don't think that's any different as we look at 2018. What we're more focused on, Victoria, is making sure that we, over the long haul, optimize that total cash spend, and making sure that we have a scalable platform as we go cross-border, and are able to adopt a lot of the new digital products in a way that will differentiate us from our competitors.

But we don't give any specific guidance on the overall tech spend, but there will be a number of productivity measures, which I guess you can say we put into the overall under 40% cost-income ratio for the group that we've communicated.

Enver Sirucic: I think the other one was origination levels of International Business in the quarter. I think we just had a very strong quarter in Q1 and also looking at quarterly numbers is not really reflecting the full-year development because sometimes it's just some funding gets into the next quarter. But we had a very strong quarter. In terms of asset mix, really unchanged, and it was not only driven by NPL financing, so still the rule of thumb that we have 25% of our overall IB lending is NPL financing. That hasn't really changed.

Anas Abuzaakouk: I would say, Victoria, on the NPL financing, it's more in the later quarters versus in the first quarter it was more on the corporate lending side.

Victoria Cherevach: Right, okay. So that's where you see the biggest pipeline for the coming quarters.

Anas Abuzaakouk: Exactly.

Victoria Cherevach: Okay, got it.

Anas Abuzaakouk: But that was not in the 900 million that Enver mentioned, that was predominantly not the NPL financing, that will come in subsequent quarters.

Victoria Cherevach: Okay.

Enver Sirucic: And I think you mentioned, also, NIM of 215 bps, so if the asset mix is improving what we do to reduce the offset? It's just the excess liquidity that we have the negative carry on the one side. And also, we have, if you look at our liquidity portfolio, which is mainly the securities portfolio, you see, of course, pressure on the rate side. That's where it's coming from.

Operator: The next question comes from the line of Marcell Houben of Credit Suisse; please go ahead.

Marcell Houben: Good morning, gentlemen. Thank you for the presentation and for taking my questions. There's three left, if I may. The first one is on the OPEX, particularly in the BAWAG Retail, which was pretty strong this quarter. Do you expect more cost savings through the rest of the year? Is this sort of the starting point OPEX for BAWAG Retail? The same accounts for easygroup, also very strong costs, how do you expect that for the rest of the year?

That was the first question. The second, on the M&A front; I believe the press last year stated about the HSH stake from BAWAG, can you give us some color about the rationale about this stake, and perhaps a P&L or capital impact? And I guess the last one, on the AT1 issuance; how should we account for this? Does the NII cost go through the Corporate Center, or do you allocate it to the segments? Thank you.

Enver Sirucic: I think the first one was OPEX for Retail and easygroup; yes, I think it's a fair assumption that this is the run rate that we have in the segments. On M&A and HSH, I think on HSH, not really a lot to comment on. So yes, it's the 2.5% that we participated, closing still expected, I think, for the second half.

Anas Abuzaakouk: You've said the capital impact?

Enver Sirucic: The capital is de minimis.

Anas Abuzaakouk: Marcell, under 10 basis points for HSH in terms of capital impact.

Marcell Houben: Okay, thank you.

Enver Sirucic: And the AT1 issuance will be presented in the Corporate Center because it will go as a dividend, which has been shown in the Corporate Center. It will not impact the business segments.

Marcell Houben: Excellent. Thank you.

Anas Abuzaakouk: Thanks, Marcell.

Operator: There are no further questions at this time. I'll hand back to Anas Abuzaakouk for any closing statements.

Anas Abuzaakouk: Thank you, operator. Thanks, everyone, for joining. Look forward to catching up in the second quarter earnings call. Appreciate all the questions. Take care and have a nice day.