EARNINGS CALL
TRANSCRIPTION

# Q1 2025 RESULTS

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SPEAKERS:
ANAS ABUZAAKOUK
ENVER SIRUCIC

BAWAG Group

**Anas Abuzaakouk**

I hope everyone is well. I am joined this morning by Enver, our CFO.

Let us start with the summary of the first quarter results on slide three. We delivered net profit of €201 million, earnings per share of €2.54, and a return on tangible common equity of 26% during the first quarter. The performance of our business was strong with operating income of €534 million, up 39% versus prior year, pre-provision profits of €336 million, and a cost income-ratio of 37%, as we closed Barclays Consumer Bank Europe in February and are focused on integrating our acquisitions.

Total risk costs were €59 million, translating into a risk-cost ratio of 43 basis points. We have a low NPL ratio of 70 basis points, down 10 basis points from year-end, as we continue to see solid credit performance across our businesses.

In terms of our balance sheet and capital, average customer loans were up 15%, and average customer deposits were up 16% quarter-over-quarter. We have a fortress balance sheet with €15.3 billion of cash, an LCR of 213%, and overall strong asset quality. Our CET1 ratio stands at 13.8%, with €189 million of excess capital above our 13% capital distribution target. Today, our business is approximately 85% Retail & SME, and 85% DACH/NL, with low exposure to corporates that have an impact on tariffs, and over 20% of our balance sheet in cash, as we saw a great deal of froth in credit over the years. We will be patient as we adapt to changing macro conditions and the impact of tariffs.

Moving to slide four, capital development.

At the end of the first quarter, our CET1 ratio was 13.8%, after closing of Barclays Consumer Bank Europe, the return to standardised approach for the Retail & SME business, the impacts of Basel IV, the execution of a mortgage securitisation, and after considering the first quarter dividend accrual of €111 million, and we paid the dividend for the year 2024 of €5.50 per share on 11 April. For the quarter, we generated 108 basis points of gross capital through earnings. We have excess capital of €189 million, approximately 80 basis points above our capital distribution target of 13% for the years 2024 and 2025.

On slide five, our Retail & SME business delivered first quarter net profit of €158 million, up 21% versus the prior year, and generating a very strong return on tangible common equity of 33%, and a cost-income ratio of 39%, which includes two months of Barclays Consumer Bank Europe financials. Pre-provision profits were €264 million, up 30% compared to the prior year. The retail risk costs were €48 million, with the risk-cost ratio of 53 basis points. We continue to see solid credit performance across the business, with an NPL ratio of 1%.

We expect continued earnings growth across the Retail & SME franchise in 2025, driven by strong operating performance as we fully integrate the two acquisitions, as well as solid growth in the consumer & SME space, which will be offset by muted mortgage loan growth, given overall demand and pricing levels that we see.

On slide six, our Corporates, Real Estate & Public Sector business delivered first quarter net profit of €36 million, down 7% versus prior year, and generating a strong return on tangible common equity of 27%, and a cost-income ratio of 23%.

Pre-provision profits were €59 million, down 4% versus prior year. Risk costs were €9 million, resulting primarily from booking of a more adverse ECL macro provision. We continue to see solid credit performance across the business, with an NPL ratio of 60 basis points, down 10 basis points from the prior quarter.

On the back of a strong first quarter of originations, we have a solid pipeline of opportunities, but we will be patient and see how customers react to the shifting macro and global trade situation. We will continue to focus on disciplined underwriting, risk-adjusted returns, and not blindly chasing volume growth.

On slide seven, an update of the Knab and Barclays Consumer Bank Europe integrations.

As far as our two strategic acquisitions are concerned, this year is about ensuring we fully integrate both deals and build a solid foundation for the future. There is a great deal of work taking place behind the scenes. We have been onboarding team members, decoupling from TSAs, integrating systems, harmonising the data and applications landscape, and reinforcing leadership where needed to ensure a successful integration.

Our goal is clear, we work as one team, and we speak with one voice as we position both businesses for future growth. It is early days, but we wanted to provide a snapshot of key developments in the progress being made. Six months into the Knab integration, we completed data integrations, simplified the product landscape, and exited 75% of transitional service agreements, which we target to be completed by the middle of this year.

Our focus in the coming months will be decommissioning redundant systems, continuing to reduce reliance on third parties, preparing the bank merger application to convert Knab to a branch, and working on the migration of our mortgage servicer, targeted for the first half of 2026. Overall, the business has been performing above expectations, and we are already using Knab's best practises around customer onboarding. The teams are also assessing incremental product opportunities and hope to roll out a working capital facility to our Knab customers.

As we close on three months on the Barclays Consumer Bank Europe integration, we have already completed the data migration, simplified our product landscape, and exited several transitional service agreements, of which we hope to have completed within 12 months. The teams are working hard preparing for the credit card system migration, as well as the official rebranding to easybank Germany. Both the migration and rebranding are expected in early 2026.

We are also working to centralise support functions and reduce reliance on third parties. A number of leaders have taken on Group leadership positions, allowing us to draw on top talent across the Group. Overall, the business has been performing ahead of expectations, and we are excited about the many growth opportunities ahead.

On slide eight, an overview of our balance sheet and asset quality. As we have entered a period of elevated uncertainty, in both geopolitical and economic terms, we expect to capitalise on the strength of our balance sheet and disciplined underwriting. Our concentration and secured lending and commitment to the DACH/NL region supports a low-risk profile with an NPL ratio of 70 basis points, well below 1%, where we have been running since 2021, as well as low volatility through economic disruptions.

Our total balance sheet is €73 billion of assets, of which €15 billion, over 20%, resides in cash. We have been patient over the years with our excess liquidity, avoiding frothy credit markets as we felt credit risk was mispriced. We have €52 billion in customer assets, over 80% of our customer book is secured or public sector lending, anchored by a €27 billion mortgage portfolio, with an LTV under 60% in the DACH/NL region.

The current environment of high uncertainty directly impacts corporate borrowers and has a second-order impact on consumers overall, as an economic slowdown would eventually increase unemployment rates. In terms of our book, our corporate lending exposure is only €2.7 billion, or 4% of total assets. Only €700 million, or 25% of the corporate exposure, in less than 1% of total assets, has material reliance on export-import markets and sales or supply chains.

In addition, this book has a net leverage below 4x, and focusses on non-cyclical industries with strong cash flows, which provide resilience through downturns. Our consumer unsecured lending of €6 billion is more sensitive to macro developments and changes in unemployment rates. Over the years, we have tightened underwriting to accommodate for inflationary impacts.

Our real estate lending portfolio has an average LTV of approximately 50% and is made up primarily of residential and industrial logistics assets. Our US office exposure, which accounts for 4% of total real estate lending and less than 40 basis points of total assets, has been the most distressed asset class we have seen since the financial crisis. However, our underwriting has been successfully tested and the US office portfolio reduced, with a resilient performing book looking forward.

The recent market volatility from the short-term impacts of changing tariffs and more long-term impacts of a changing economic order and global trade will take some time to be fully understood. However, we have a solid foundation, a fortress balance sheet, and a leadership team that has worked together for over a decade navigating changing currents as we aim to be a source of strength for the customers in the communities that we serve.

With that, I will hand it over to Enver.

**Enver Sirucic**

Thank you, Anas.

I will continue on slide ten. A very strong quarter with net profit of €201 million and a return on tangible common equity of 26%, net interest income up 21%, net commission income up 10% versus prior quarter.

Overall, core revenues were up by 19%. Operating expenses were up by 20% in the quarter and cost-income ratio stood at 37%. Risk costs were €59 million in the quarter, including higher risk costs for Day 1 ECL and macro updates.

On slide 11, key developments of our balance sheet. Customer loans were up by 9% in Q1 and 46% year-over-year, mainly driven by the two acquisitions. Cash position is now at €15.3 billion and makes up 21% of our balance sheet, leaving us with a very comfortable liquidity buffer to address potential organic and inorganic market opportunities in the coming quarters.

The next slide, our customer funding, which is made up of customer deposits and AAA-rated mortgage and public sector covered bonds, is up 1% versus prior quarter and stands at €62.2 billion with our cash position now at €15 billion. Overall deposit betas at 44%, including higher beta deposits of recent acquisitions.

With that, moving on to slide 13, core revenues.

Net interest income of €446 million was up by 21% versus prior quarter, with a very strong net interest margin of 331 basis points. Overall, we have seen solid volumes in the business and an uptick in deposit betas, mostly coming from recent acquisitions. In terms of net commission income, up by 10% with an overall good performance across trading, advisory and payments in our Retail & SME segment.

For the rest of the year, we expect a quarterly net interest income of above €450 million and net commission income of above €85 million.

On slide 14, operating expenses are up by 20% in the quarter, driven by the acquisitions and presenting the new run-rate of the Group. We expect the cost line to be about €800 million for full-year 2025, which includes any integration costs.

On regulatory charges, we accrued for the higher bank lobby as proposed by the Austrian government programme, expecting a full-year contribution of €40 million in total.

Moving to slide 15, risk costs. Overall, continued strong asset quality with a low NPL ratio of 70 basis points. We booked €59 million of risk costs in the first quarter, representing the risk profile of a larger Group and new product mix, as well as risk costs related to Day 1 ECL and macro updates. For 2025, we expect risk costs to be at around 40 basis points, including any securitisation costs.

Finally, on slide 16, our 2025 outlook and targets.

We reconfirm all our midterm targets and our 2025 outlook and targets with a net profit of greater than €800 million and earnings per share of greater than €10.

And with that operator, let us open the Q&A, please. Thank you.

**Gabor Kemeny (Autonomous Research):**

Hi, team. Thanks for the presentation. My first question is going to be on the Austrian litigation issue.

I believe you booked some charges with the Q1 results. As far as I can tell, maybe a few million euros. And you had a useful disclosure earlier on how you think about the portfolio being at risk, which I believe implies somewhere around €1.5 billion, maybe a bit more than that, based on where you charge upfront fees, which you indicated earlier.

So my question would be how you derived the litigation costs you booked from this portfolio, please. That is the first one. And the second one is on NII, where you seem to be trending pretty well.

I believe you were close to the €450 million run-rate you indicated while an additional month of the Barclays Germany integration would give you another €30 million. Is it fair to say that your NII is trending ahead of the expectations you provided, or you had a few months ago, please? Thank you.

**Anas Abuzaakouk:**

Thanks, Gabor. Good questions. I will take the legal question, and then Enver, you take the NII.

So as far as the legal, the processing fees that you are referring to, we have been in active discussions with the Arbeiterkammer, or the AK. Those discussions are ongoing. We booked a provision. We will not disclose the amount of the provision. As you can imagine, those discussions are sensitive and confidential. But, most importantly, we feel good about our full-year targets, and we reconfirmed our full-year targets in spite of whatever the outcome is from those negotiations.

Want to take the NII?

**Enver Sirucic:**

Yes. Gabor, on the NII trends, yes, I think it is fair to say that we are ahead of our expectations for Q1. The only thing I would say in addition to what you said on an extra month of Barclays contribution is that we see obviously rates coming further down.

Also, the outlook for the next coming months is a lower interest rate level than what you expected, which then obviously will come also with a higher compression on the NII side. That is something that needs to be factored into that as well.

**Gabor Kemeny:**

Got it. Thank you.

**Anas Abuzaakouk:**

Thanks, Gabor.

**Hugo Cruz (KBW):**

Hi, thanks for taking my question. I just wanted to get more of a breakdown on the risk cost. So you have disclosed what the Barclays Day 1 ECL was, for example, or if there are any other moving parts within that risk cost figure. Thank you.

**Enver Sirucic**:

Yes, Hugo, if you look at the overall risk cost of €59 million, I would say probably if you think about the run-rate, we had a €30 million run-rate before the acquisitions. We said that every month of Barclays is in the range of €6-8 million, and that is true as well for the first quarter. So that gets you to mid-40s, and the residual to the €59 million is a mix of macro, which was mostly booked in Corporates Day 1 ECL, and the legal provision for the Supreme Court case.

**Hugo Cruz:**

Okay, perfect. Thank you very much.

**Enver Sirucic**:

Thank you.

**Amit Ranjan (JP Morgan):**

Yes, hi. Good morning, and thank you for taking my questions. I have two, please.

First one is on the excess capital distribution. Can you please talk us through the thought process here? I saw some comments around application for approval in first half 2025. Is that contingent on some milestones around the two integrations, or what other considerations drive that decision, please?

And the second question is around cost of risk again. Was booking a management overlay thought about in first quarter, or was it beyond the cut-off point in first quarter? Is it something that could be considered for the future, given the current macro uncertainty? Thank you.

**Anas Abuzaakouk:**

Thanks, Amit. I will take the buyback question, and then Enver will take the cost of risk.

Amit, as it relates to the buyback, obviously we stated that we needed to close Barclays Consumer Bank Europe. We have the first quarter behind us. We have not filed anything to date, but the expectation is hopefully that should happen in the first half of this year. And we gave guidance in terms of what our excess capital is, which was in line pretty much with our pro forma that we had communicated at year-end.

You take the risk question.

**Enver Sirucic**:

Yes, the cost of risk, I think, Amit, you said the macro overlay that you booked in Q1, is that something we expect for the rest of the year, I guess? From today's perspective, no, we do not expect that to be recurring for the rest of the year, and we stick to our guidance of 40 basis points for the full year.

**Amit Ranjan:**

Okay, thank you very much.

**Anas Abuzaakouk:**

Thanks, Amit. Thank you.

**Borja Ramirez (Citi):**

I have a quick question on the NII. You have confirmed the 2027 net profit targets despite the decline in forward rates.

I think that is very reassuring, and I think this may confirm the fact that you are positively geared to the steepening of the yield curve. So, for example, I think your structural hedge has a volume of €40 billion if I am not mistaken. You have 25% of the balance sheet in cash that can be redeployed into high-yielding assets.

And lastly, you have 90% of the housing loans in fixed rate, and that can be repriced at high long-term rates potentially. Linked to this, I would like to ask if you could give a bit more details on your NII gearing to the steepening of the yield curve. Thank you.

**Enver Sirucic**:

Good question, Borja. I think there were different parts.

Firstly, we did reconfirm our mid-term targets. In terms of NII gearing, what you mentioned, we tried to be fully hedged on both sides of the balance sheet. So, irrespective if it is fixed or floating rate assets, we move it down to floating rate assets.

So, the only thing that really impacts the NII gearing is the structural hedge on the deposit side, and that is geared to a more steeper curve. So, while we do have a negative impact from lower rates that we expect short term, we do have a positive impact from a more steeper rate curve that is currently reflected. So, that is why net-net, we do not see a significant impact on the NII for amedium- or long-term.

**Noemi Peruch (Mediobanca):**

Good morning. Thank you for taking my questions. So, my first one is on loan growth.

In Q1, we have seen consumer and public sector lending still strong, and with corporate and housing still. Could you walk us through the drivers and the main geographies behind this trend? And I was wondering if these are in line with expectation or whether maybe we could tilt towards the lower end of your growth guidance in the plan given the current macro environment.

And I also have a question on your macro update. If you could just share with us the GDP growth you embedded in your assumptions now, just to understand how stressed indeed your level of provisioning is at the moment.

And then a final question on capital. The press mentioned a few SRT transactions in the making a few months ago. I think one is already behind us. And I was wondering if indeed there are more to come, and if so, how sizeable they could be and how early we could see their benefits. Thank you very much.

**Anas Abuzaakouk:**

Thanks, Naomi. All good questions. I will take the loan growth, and then you take the macro risk and SRT discussion.

So, loan growth, Noemi, we do not put volume targets. And the reason we do not put volume targets is the macro condition obviously fluctuates, and we want to be disciplined in our underwriting as we think about risk-adjusted returns and also have the flexibility. Having said that, if I go through the asset classes and the regions I think that you were asking about, I can give some commentary.

When you think about housing loans in the DACH/NL region, the challenge there, in particular in Austria and Germany, is both from a pricing as well as a demand standpoint. Pricing is very tight when you look at credit spreads, and the demand is muted, especially if you compare it to 2022, which was a high watermark point as far as overall volumes. And that still has yet to return.

Consumer & SME is probably a different story. We have seen robust opportunities in terms of personal loans. We just closed on Barclays Consumer Bank Europe, and actually that is performing better than we had anticipated in terms of overall revolver balance.

So we see a pickup in demand in the consumer unsecured, as well as leasing and factoring and SME probably to a smaller extent. And then as far as the Corporates, Public and Real Estate, if I go through that. Public sector, we have seen robust demand there. We think there are good opportunities given the spread levels and just given the market volatility.

There were certain opportunities in terms of spreads widening in good risk-adjusted returns. Real estate, we continue to be really conservative. If you think about just the go-forward originations, we have seen good opportunities in the US, in particular, with residential, but we see a good pipeline, both US as well as Europe. And then the corporates has been the most challenged space. That is one where we just believe credit risk has been mispriced, and it has been really frothy. You see that also to a certain extent in the securities portfolio, but that is one where we will be patient and given the changing macro condition, this reordering of global trade, you actually might see dislocation and opportunities for good corporate lending, which we have not seen quite frankly for quite some years.

I know you are probably looking for a specific volume target, but I just tried to give you a perspective on just the different asset classes in the regions.

You want to take the macro risk and growth?

**Enver Sirucic:**

Yes. So the other two topics on the macro updates. So what we did, we do not disclose the exact numbers, but we had very low GDP growth in the assumptions as of Q4. And with the updates in Q1, pretty much the GDP growth comes close to zero. That was the main adjustment that we made in Q1.

On the capital, I think the question, Noemi, was around SRTs and if you plan to do more in the future. Yes, we do plan to do more in the future. We still see a constructive market in the SRT space. We do not rely on it.

So for us, it will always be something that we decide in our portfolio on every single deal. If it makes sense, we will do it. If it does not make sense, we do not need to do it.

**Anas Abuzaakouk:**

Now, just to add on the SRTs that there is an element, obviously, we are on a standard approach for the majority of our business, but we have also looked at SRTs over the years as a loss mitigation in terms of tail risk. And I think those are good indications of how we think about managing our balance sheet. Gives you a sense, whether it is in mortgages, consumer unsecured, corporates, we have used it as a tool in terms of just overall loss mitigation.

**Noemi Peruch:**

Thank you. And could you perhaps share the potential benefit of future SRTs as of now? Thank you.

**Enver Sirucic**:

No, we have not shared that.

**Noemi Peruch:**

Thank you.

**Anas Abuzaakouk:**

Thanks, Noemi.

**Johannes Thormann (HSBC):**

Morning, everybody. Just some questions for me as well. First of all, on your cash on the balance sheet, it is, of course, comforting, but to which extent are you willing to draw down the current amount, like maximum of 50% or even to a stronger extent? And then what is your time horizon to get a feeling for this, also, if you are seeing better opportunities in corporate lending?

And in this respect, also in your mortgage business, do you see any change in the risk or in the appetite of customers to apply for more mortgages in the DACH/NL region, or is this unchanged in your businesses?

And then, last but not least, you talked about the simplification of the product range at Knab and Barclaycard. Can you give us any examples? Because, for example, on the Barclaycard homepage, it looks pretty much unchanged. Thank you.

**Enver Sirucic**:

Yes, so on the first one, Johannes, on the cash, right now, the balance is around 20% of our balance sheet is in cash, around 5% is in securities. How we think about it, probably a more sustainable long-term balance is half-half.

So we will not use all our cash and deploy into securities, but actually 50-50 is a good split. However, right now, we do not see a lot of opportunities because the spreads have tightened again. So, we will remain patient on that side.

On the loan growth, I think Anas mentioned everything. We see slowly, very slowly, a bit of an uptick in demand, but it is really still quite muted on the mortgages.

**Anas Abuzaakouk:**

On the simplification, I think it does. Yes, the product, that is more on the Barclays side. Johannes, that is reflecting on the partnerships. So it is more of a monoline product. Obviously, they do P-loans as well, but that was more a commentary on certain partnerships. Thank you.

**Johannes Thormann:**

Thank you.

**Tobias Lukesch (Kepler Cheuvreux):**

Thank you very much. Two questions from my side as well, please. First, on consumer loans, maybe you can give us a bit of a sense of how you see the market developing in Austria, but also in Germany and where you might see differences.

Also, if I got you correctly, you did some macro adjustments, but this was mainly on the corporate side. So what is your thinking about the retail? Where might you see changes here that might affect your assessment in Q2, Q3?

And secondly, again, on capital distribution and potential share buybacks, is there a bit of a nearer timeline you can give us in terms of when we should expect a potential announcement of an additional share buyback? Thank you.

**Enver Sirucic**:

Tobias, I think on the consumer side, no, we do not really see any difference between Germany and Austria. Very stable, both in terms of loan demand. It has been quite stable also the last couple of quarters and the same as what you are seeing right now. Probably a bit more focused on Austria than in Germany, more opportunities there.

In terms of risk profile, no, we have not seen any changes. To be a bit more specific, there is a macro update as well for retail. It was just a bit more pronounced on the corporate side.

And on the timeline, we cannot really say more than what Anas said, so it is something for the second half that we are looking to.

**Tobias Lukesch:**

Thank you.

**Anas Abuzaakouk:**

Thank you everyone for joining our first quarter call. Look forward to catching up with you during the second quarter.

Take care. Bye.