BAWAG Group

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BAWAG Group FY 2018 Earnings Call

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Transcription

Speakers:

Anas Abuzaakouk

Enver Sirucic

Anas Abuzaakouk

Good morning everyone. I hope everyone is doing well. I'm joined this morning by Enver, our CFO. So let's jump right into it on slide 3.

2018 was another record year for BAWAG Group. We delivered profit before tax of €573m, which is up 14% versus the prior year and most importantly, we exceeded all of our 2018 targets. In addition to delivering on our financial commitments, we continued to execute on our strategy and transform our business. We made significant progress in executing on *Concept 21*, which is the BAWAG P.S.K. retail transformation. We also signed three retail partnerships in Austria, which represent new customer acquisition channels. And we continued to execute on our M&A strategy, identifying three bolt-on acquisitions that complement our Group strategy's growth in Germany and Switzerland while also providing the Retail & SME products. Our strategy has been consistent throughout the years; one defined by a strong execution, focusing on the things that we control and delivering shareholder value.

Given our strong operating performance in 2018, we have revised our original 3-year Group targets covering 2018 thru 2020. So essentially, we've moved our targets one year forward, reflecting an annual profit before tax growth rate of 6% for both 2019 and 2020 as well as an absolute profit before tax target of greater than €600m in 2019 and greater than €640m in 2020.

In terms of capital distribution, we will be proposing to the AGM a dividend of €2.18 per share which is equal to an absolute amount of €215m, consistent with our dividend policy equal to a 50% payout ratio on our distributable net profit. Additionally, we are in the process of evaluating share buyback options and have entered into a dialogue with our regulator. In terms of timing, we anticipate that our AGM, which is scheduled for April 30, 2019, will be the opportunity to adopt certain resolutions which might become necessary.

As we've stated in the past, our primary objective is to deploy our excess capital into organic growth, supplemented with M&A defined by disciplined underwriting and generating returns consistent with our return on tangible equity target of greater than 15%. To the extent that we are unable to deploy our capital in organic or inorganic growth, we will be very good stewards of capital and return our excess capital to our shareholders.

Moving on to slide 4. We outperformed all of our 2018 targets, delivering profit before tax of €573m, over 10% growth. Our cost-

income ratio came in at 44.2%, down 3 points from the prior year and below our target of 46%. Return on tangible equity came in at 17.1%, when applying a 12% CET1 ratio to adjust for excess capital levels, and above the target of 15%. We also landed at a CET1 ratio of 14.5%, well above our target of 12%, after having deducted our proposed dividend of €2.18 per share.

Net profit came in at €437m, down 3%, or €4.38 per share, driven by prior year tax one-off effects. Excluding those one-off effects, on a like for like basis, net profit was up 14%. Our strong performance was driven by growth in core revenues, up 11%. We benefitted from the integration of the PayLife and Südwestbank acquisitions as well as core revenue growth in BAWAG P.S.K., easygroup and our International Lending segment. Additionally, operating expenses were down 2% year-over-year, with a continued focus on driving efficiency across the Group in both BAWAG P.S.K. as well as from our recent acquisitions. We also benefited from lower risk costs, which were down 27%; this is reflective of our strategy to focus on developed markets, disciplined and conservative underwriting and an overall benign credit environment. We grew both tangible and book value per share by 5% over the year, landing at €32.41 and €37.51 per share, respectively.

Moving on to slide 5. At year-end 2018, our fully loaded CET1 ratio was 14.5%. We generated 260 basis points of gross capital; with net capital generation of 100 basis points year-over-year after completing the Tier 2 buyback, a mini share buyback program of approximately 1.3 million shares and the proposed dividend of €2.18, which is a 50% payout ratio on net attributable profit that will be paid in May 2019.

With regards to additional capital deployment, we plan to generate approximately 250 basis points of gross capital per year, which is in line with the average over the past two years and reflective of our highly capital accretive business model. We also plan to keep an additional 50 to 100 basis points cushion above our target 12% CET1 ratio to allow for further M&A and organic growth. The new capital target of 12 to 13% feels appropriate to us as we balance returning excess capital to shareholders with our exciting growth opportunities and managing the bank prudently. Additionally, as I'd mentioned earlier, we are in the process of actively evaluating share buyback options.

On slide 6, the message is simple: We continue to execute on our strategy, which has been consistent throughout the years.

We have a bias for execution and focus on the things that are within our control. We will execute on the many operational and strategic initiatives ahead of us while pursuing new growth opportunities.

As for transforming our core business franchise, we made significant progress throughout 2018. Specifically, we delivered record profits in both BAWAG P.S.K. and easygroup segments, which account for the bulk of our Retail & SME businesses and contributed approximately 70% of the Group's profit. The highlights for BAWAG P.S.K. was executing on *Concept 21*, where we continue to see very high customer retention rates of approximately 95% and signing three new retail partnerships with MediaMarktSaturn, Metro Cash & Carry, and REWE Group.

Our German growth strategy has also progressed with the Südwestbank and start:bausparkasse transformations delivering ahead of plan. Südwestbank contributed €50m of profit before tax for the year. More importantly, we've planted the seeds for growth in 2019, expanding our Retail & SME offering and leveraging new distribution channels across Germany, with *Qlick* representing one example of the opportunities ahead of us.

As far as our international lending business, we saw favorable developments during the third and fourth quarter last year and were able to execute on a solid pipeline of lending opportunities. We have benefited from being patient and applying disciplined underwriting over the years; focusing on risk-adjusted returns versus absolute volumes. A strong underwriting culture is part of the BAWAG management team's DNA. We fundamentally believe in proactive risk management, applying caution and prudence, and never chasing volume or growing for the sake of balance sheet growth alone.

In terms of M&A, we signed three deals in December that we had been working on for the better part of six months. We believe the three businesses present unique bolt-on acquisitions that will complement our growth strategy in Germany and Switzerland, providing us with niche Retail & SME products and channels. BFL Leasing presents an opportunity to establish a presence in the leasing space in Germany, working with a number of existing partners. Signings of Health AG and Zahnärztekasse provide us with access to the factoring space in healthcare financial services in both Germany and Switzerland, which represents a very niche market with an excellent customer base and great product offering. The deals are expected to gradually close later in the year and will have a de minimis impact on 2019. However,

post integration, the three deals are set to contribute more than €25m of pre-tax profit in 2021 as we transform the businesses during the first year. All deals are expected to generate a greater than 15% return on tangible equity with a focus on strategic fit and value.

As for future M&A, we continue to evaluate potential opportunities. However, as evidenced by our record to date, we will only pursue deals if they are the right strategic fit, come at the right value, are earnings accretive and generate returns consistent with our return on tangible equity Group targets.

With last year's integration of Südwestbank and start:bausparkasse, which is the rebranding of original Deutscher Ring, we've set the foundation for growing our German platform. We also planted the seeds for organic growth as well as the *Qlick* and Südwestbank teams worked closely together to build an integrated online strategy and technology platform for accelerating consumer loan growth thru both direct channels and retail partnerships. The newly signed acquisitions will add both leasing and factoring capabilities to our German platform focused on the Retail & SME segments.

On slide 7, we've outlined our revised financial targets. Essentially, we've moved our original 3-year targets one year forward on the back of strong operating performance in 2018. We have revised our original 3-year Group targets, covering 2018 thru 2020, which now result in increasing the profit before tax target to greater than €600m in 2019 and greater than €640m in 2020, representing a higher annual growth rate of 6%. And of course, these growth rates are now also of a higher base having delivered €573m of pre-tax profit in 2018.

The cost-income ratio target remains the same, targeting under 40% in 2020, and we have a target of under 43% cost-income ratio for 2019. The return on tangible equity target remains the same within a range of 15% to 20%, however and importantly, these will be achieved off of our reported CET1 ratio, not based on the 12% CET1 ratio that we used historically.

Our CET1 ratio target now ranges from 12% to 13% as we plan to keep 50 to 100 basis points above our target minimum 12% CET1 ratio for further M&A and organic growth. This clearly exceeds our minimum capital requirements set by our supervisors of 10.3% fully loaded, which remains unchanged. Our capital distribution policy also remains unchanged. We are

absolutely committed to total shareholder returns and being good stewards of capital.

Our EPS targets are greater than €6.00 per share in 2019 and greater than €6.40 per share in 2020. Our target post-tax EPS is greater than €4.50 per share in 2019 and €4.80 per share in 2020. Note that these are all before the impact of any capital actions.

On slide 9, you can see that across our business segments, we continued to deliver results with each business unit growing profit before tax year-over-year and record years for BAWAG P.S.K., easygroup and our international lending business. The overall customer franchise continues to grow, with a greater contribution and emphasis on our Retail & SME segments, that now account for approximately 70% of Group profits. This has been a long transformation over the past seven years, when our Retail & SME segments contributed only 40% to overall Group profits back in 2012. We expect our Retail & SME segments to continue to be engines of profit growth across the Group, targeting 80% contribution to profits in the medium term.

Overall, we feel really good about our customer business development in 2018. Growing in our Retail & SME businesses, strict underwriting underpinning disciplined corporate growth, and executing on various operational initiatives, be it the Südwestbank restructuring or the BAWAG P.S.K. *Concept 21* network transformation. We also believe focusing on risk-adjusted returns, not chasing volume, and being patient and disciplined in deploying our liquidity and capital will serve us well over time.

Moving on to slide 10: Our BAWAG P.S.K. segment had a record year. Full-year profit before tax came in at €243m, up 25% year-over-year. The business continued its trend of driving positive operating leverage, growing operating income approximately 6% while reducing costs by approximately 8%. All financial metrics improved across the board with pre-tax return on tangible equity of 41%, adjusted to a 12% CET1 level, up 11 points. The NPL ratio was 1.9%, down 50 basis points, reflecting the sale of NPL portfolios throughout the year and improving overall asset quality. Additionally, the cost-income ratio came in at 45%, down 6 points and reflecting positive impacts from *Concept 21*. As far as business development, new business originations of €1.1b were driven by consumer and housing loans. Core net asset growth of 3% in consumer & housing loans were offset by a

proactive reduction of Swiss-Franc housing loans, which were down 7% on a year-over-year basis.

easygroup had a record year as well. Full-year profit before tax came in at €145m, up 6% year-over-year, benefitting in large part by the acquisition and integration of the PayLife credit cards business. Pre-tax return on tangible equity was 36%, again adjusted for the 12% CET1 level, up 8 points. The NPL ratio was 1.9%, flat year-over-year, and the cost-income ratio came in at 32%, up 2 points. As far as business development, new business originations of €650 million were driven by auto leasing and consumer loans. The business grew core assets (when you exclude the run-off of the international mortgage portfolios and the NPL sales) by 8% year-over-year. Customer deposits were up both from the start:bausparkasse acquisition as well as core easybank retail savings product growth.

On slide 11, we wanted to provide a current update on *Concept 21* and more detail on the three retail partnerships signed in Austria. Overall, we have made significant progress on our strategic initiatives. *Concept 21*, which is our network transformation, targeting a stand-alone network of no more than 100 branches, is now well progressed. We are feeling the benefit of a right-sized cost base in our financials as we separate from the Austrian Post. Our customers have experienced a higher quality financial advisory environment and we continue to have high levels of customer retention, currently running at approximately 95%. We can clearly see the early benefits from improved customer satisfaction to more productive branches and enhanced advisory sessions. Our shift to a core branch network of up to 100 stand-alone branches is 85% complete, measured by our move out and customer shift from Post offices. We rolled out our new branch design with highly positive feedback in two branches during the fourth quarter and with 20 new branches to come online by the end of the first half of 2019. Overall, we're making great progress to deliver on time our full stand-alone network by the end of the year.

In addition to *Concept 21*, we are transforming our customer acquisition model through partnerships with Austria's leading retailers. This provides us the opportunity to acquire new customers thru retail partnerships while providing a frictionless offering of financial products. We have now signed three major partnerships, with each significantly enhancing our core product set and customer base in key areas. We provide point-of-sale financing for MediaMarktSaturn customers, continuing to build

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out our consumer lending reach. The technology is market leading and allows a customer to sign up for a loan in approximately 10 minutes barring any issues.

The Metro partnership allows us to access the underserved SME market, with value-added co-branded credit cards and current accounts as well as financing opportunities. Lastly, this quarter we announced a partnership with the Jö program. This is the new and highly anticipated loyalty program partnering with REWE, a leading grocery retailer to be the exclusive financial provider. This will provide us with a unique value proposition in the market for loyalty program members, which is approximately 4 million upon launch, to enhance our current account offering with the Jö program and drive enhanced customer loyalty. We are extremely excited as this major effort is jointly launched in the coming months with REWE to the Austrian market.

Both *Concept 21* and the retail partnership initiatives are reshaping our approach to customers and allows us to enhance the overall customer experience, deliver our products in new and innovative ways, and leverage our data analytics to enhance our understanding of new and current customers for better offers and higher quality advisory.

Moving on to slide 12 and the non-retail customer segments: The International Lending segment also delivered a record year as well: Full-year profit before tax came in at €123m, up 47% year-over-year, driven by 4% growth in core revenues and the release of provisions from the sale of a non-performing loan in the second quarter. Asset quality remains strong, with an NPL ratio of 50 basis points, down 40 basis points from the prior year. All financial metrics improved across the board; highlighted by pre-tax return on tangible equity of 31%, adjusted for the 12% CET1 level, and up 9 points. As far as business development, net asset growth of 21% was driven by executing on a solid pipeline of opportunities that developed during the course of the year.

The DACH Corporates & Public Sector segment delivered full-year profit before tax of €46m, up 6% year-over-year driven primarily by improvement in risk costs. Core revenues were down 13%, reflecting continued softness in the business. The NPL ratio was 1.1%, down 30 basis points from the prior year and a reflection of a benign credit environment and disciplined approach to lending. From our perspective, the DACH corporate lending market continues to be challenging in terms of pricing and risk-adjusted returns. There was no shortage of demand from DACH Corporates, however, we continue to be patient and

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disciplined, being prepared to sacrifice volume by maintaining our focus on risk-adjusted returns. We will only grow the business where we see long-term value.

On slide 13, we wanted to provide a greater detail into the development of our international lending segment; highlighting our conservative and disciplined approach to lending. Over the years, we have developed a strong underwriting culture which is embedded within the DNA of BAWAG's management. We have been disciplined as it relates to growth, never over-extending ourselves, focusing on risk-adjusted returns and always taking a conservative approach to credit before anything else. More than any other period, we are cognizant of the fact that we are in the late stages of a credit cycle and remain vigilant in assessing and pricing risk. When underwriting international corporate and real estate deals, we base our loss analysis on thru-the-cycle credit losses and idiosyncratic risks, not merely relying on low losses that are a result of a benign credit environment and not a reflection of the true credit fundamentals of a business. For example, we underwrite corporate loans based on a very conservative approach to the type of companies we lend to, capital structure, overall equity cushion, and leverage profile of our debt facility. We lend to free cash flow generating companies with defensive business profiles and strong market positions in resilient industries. Over 95% of our corporate lending is on a senior secured basis with short maturities, being cognizant again not to overextend ourselves. Over 50% of the corporate customers we lend to are large publicly listed companies with an average Total Enterprise Value of around $30b. The average net leverage of BAWAG tranches is < 4x.

As it relates to real estate lending, we take an equally if not more conservative approach. The real estate lending is a mix of asset classes and uses. Our overall portfolio loan-to-value is under 60%, and has been this way for the past few years. We focus on developed markets; primarily Western Europe and the United States. From a credit standpoint, we underwrite deals to an interest coverage ratio of greater than 2x. Our deals have a weighted average life of approximately 3 years, reflecting the strong cash flow generations of the deals we underwrite and the quality of the sponsors we work with.

Overall, we do not place volume targets for our Corporate and Real Estate lending segments. Our focus is, and has always been, on sound underwriting, risk-adjusted returns, and maintaining high asset quality. At times, this means sacrificing

growth and volume, but we believe this will serve us well over the long-term as we develop long-term relationships with high quality customers on a transactional basis.

On slide 15, our focus on Südwestbank continues to be on the transformation and repositioning of the business. Südwestbank delivered full-year profit before tax of €50m, the first year of contribution to the Group. There are no comparisons to prior periods given the acquisition closed in December 2017. The business delivered pre-tax return on tangible equity of 15%, again adjusted for the 12% CET1 level. The NPL ratio was 2.3% and cost-income ratio was 60%, well above our overall Group targets but on their way to a cost-income ratio in line with overall Group targets by 2020.

We continue to focus on capital efficiency measures taken as we scale back low margin, high risk-weight and low returning business that does not meet our targeted risk-adjusted returns. The restructuring program yielded benefits in the second half of 2018, with more to come on a full-year basis in 2019. We reduced both staff costs and G&A by up to 40%, right-sized the branch network by reducing branches by 40%, and planted the seeds for digital adoption, to both generate new business as well as improve and simplify our end-to-end processes.

From an operational standpoint, our focus throughout the year was on effectuating the business transformation and laying the foundation for future business growth. The key focus from a product and channel standpoint will be augmenting our Retail & SME products and channels, which were accelerated with the closing of start:bausparkasse on the housing loan front, using *Qlick* as an integrated German consumer loan product, leveraging Spotcap technology to address parts of the SME market, and leveraging PayLife for the issuance of credit cards.

The first year was an intense one for our team members in Südwestbank, however, we feel very good about our future business opportunities given the accelerated restructuring and positive operating leverage we will be able to achieve as part of the overall German platform. To-date, we've made very good progress with the German integrations and expect the strong momentum to continue. The cost benefits will become more visible in 2019 and the Retail & SME product and channel positioning will also start to take shape in 2019 as well. With that, I'll pass it over to Enver to go into more details on the Financials and the fourth quarter development.

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Enver Sirucic

Thank you, Anas. I will continue on slide 16. Let me briefly reiterate some of the 2018 highlights. We delivered a record profit before tax of €573m, which is up 14% versus the prior year and we also exceeded all of our 2018 targets. The quality of earnings improved, driven by 6% higher net interest income and 30% higher net commission income, while other revenues declined and only account for 4% of our operating income. That means that 96% of our income now comes from core revenues, of which three quarters are from net interest income and the balance from net commission income.

The main drivers of the 11% uplift in core revenues are the solid organic performance, mainly from our Retail & SME segments as well as from our international lending business. Our acquisitions of Südwestbank and PayLife, both completed in the fourth quarter 2017, are at the same time the biggest drivers behind the 30% growth of the net commission income. In addition, we also see the benefit of the disentanglements from Austrian Post, positively reflected through lower commission expenses.

After several years of no relevant tax expenses or one-offs in the tax line, we had our first normalized tax year, with our effective tax expense rate coming in a bit below 24% for 2018, which is slightly below the Austrian corporate income tax of 25%. This clearly distorted the trends in the net profit and EPS in 2018. In terms of our key ratios, net interest margin was largely stable at 221 basis points for 2018. The risk cost ratio at 12 basis points reflects the good credit environment and the strong asset quality of our loan book, and is below our thru-the-cycle guidance of 15 to 25 basis points. The cost-income ratio at 44% is well below our full-year target of staying below 46%. This all resulted in an increase of the tangible book value per share of 5% versus 2017.

Moving on to slide 17, an analysis of our balance sheet: So, what are the main developments on the asset side, in short:

- First: Largely stable customer loans with solid performance in retail, growth in International Business, partly offset by a decline in lower-yielding DACH Corporates;
- Second: Lower securities and bonds, after de-risking and de-leveraging measures;
- and Third: A higher cash position.

These trends – combined with the run-down of higher risk-weighted international mortgages – resulted in overall risk-

weighted assets falling 5% year over year. Structurally, our funding profile is unchanged, with largely stable customer funding, growing retail deposits and reduced wholesale funding, and of course the €300m Additional Tier 1 issuance.

On slide 18, quarterly highlights: Revenues were up 2% versus the previous quarter. Net interest income was up 2% in the quarter, and the net interest margin came in at 225 basis points. Net commission income improved by 5% after seasonally low third quarter, but we still see a weaker performance in securities. Operating expenses were seasonally higher, but in line with our forecast. The risk profile remained unchanged, with low risk costs, low levels of non-performing loans and a very good asset quality. This all resulted in a profit before tax of €143m for the quarter, which is lower compared to the third quarter, mainly because the third quarter had a one-off from the consolidation of Deutscher Ring.

In terms of core revenues, on slide 19, solid growth of net interest income, which was up 2%, and net interest margin of 225 basis points, which is above the full-year average of 221 basis points. We saw solid asset deployment in our retail segments, a strong pipeline conversion in our international lending business that led to a 11% net asset growth in the segment, offsetting the run-off of international mortgages and the decline in DACH Corporates. We also managed our excess cash position and deployed more liquidity into customer loans. As expected, the net commission income was higher than in the third quarter, but we still see some weakness in securities sales given the high market volatility. Overall, I would say we enjoyed a very good development in core revenues, especially the net interest income in the second half of 2018, which creates now good momentum into 2019.

With that, moving on to operating expenses on slide 20. Operating expenses were seasonally higher versus the third quarter. We also had some one-off expenses related to projects and investments for *Concept 21*, Deutscher Ring that closed in the third quarter which was fully reflected in Q4, was partly compensated by lower expenses at Südwestbank. So what are the future trends here? We will continue to focus on efficiency and execution, and we should see the full benefit of the optimization measures of our acquisitions in 2019. On our branch network transformation we will continue to make investments. These measures will gradually lead to an increase in staff costs in the coming quarters as well. Overall, we are confirming our target for 2019 of delivering a cost-income ratio

of below 43%. It will involve a lot of hard work, but we feel good about it.

Switching to the next page, slide 21, again a very solid quarter on the risk side. The risk cost ratio was at 14 basis points and our NPL ratio at 1.7%, reflecting our focus on developed markets with over 70% of our customer loans being in our home countries, which is the German-speaking region, and roughly 30% in Western Europe and the United States. Three things that I want to mention on our portfolio. Firstly, to reiterate what we have communicated in previous quarters – we have no relevant exposures to Turkey, Russia, CEE, or more broadly, to Emerging Markets. Secondly, our business is mainly domestic mass retail banking. And finally, we do not have any operations in countries with elevated AML risk.

In addition to that, our conservative hedging approach with low market risk and low P&L volatility, I think, served us well in volatile markets as such in 2018. Overall, we will remain patient, disciplined and will always focus on risk-adjusted returns. We strongly believe that staying close to home and our focus on developed markets is a winning formula, especially in more volatile times. For 2019, absent any unforeseeable events, I think we expect to stay at the lower end of our thru-the-cycle guidance of 15 to 25 basis points in terms of risk cost ratio.

On slide 22, short update on funding and leverage. Basically unchanged funding strategy with roughly 70% customer deposits as our main source of funding; 20% of wholesale funding and almost 10% equity, which translates into a regulatory leverage ratio of greater than 7% after dividend or an economic leverage of 12 times.

Moving to next slide – an update on regulatory topics. Two main topics here – one is SREP and the other one is MREL. On SREP, both our P2R and our P2G remained unchanged compared to previous year, which is 2.25% for P2R and 1.0% for P2G. So, our total CET1 requirement is 10.3% plus 1% on P2G, and we only have a very small countercyclical buffer requirement of approximately 10 basis points. On MREL, we expect our final decision to come in the second quarter, and it is expected that BAWAG P.S.K. will be the single point of entry. Our MREL strategy is unchanged, we do not rely on multi-year phase-ins and plan to issue €500m to €1b of senior non-preferred paper to meet the expected subordination requirements.

On slide 24, more details on capital: So our CET1 ratio came in at 15.6% before dividend, which is 40 basis points higher than Q3, and up 210 basis points on a year-to-date basis. The key drivers behind the quarterly CET1 ratio walk, it's really three elements. On the one side, we have earnings that contributed around 50 basis points, which is in line with what we have seen in the previous quarters. Then, we had higher risk-weighted assets, which cost 10 basis points, and the third bucket is a positive 20 basis points from the prudential filter release for the PPA of Südwestbank, offset by lower reserves for our securities due to higher market volatility, that was roundabout 15 basis points, and the remainder of the share buyback that we started in the second quarter last year. So in a nutshell, plus 40 basis points, mainly from earnings.

Taking into account the €215m dividend for 2018 that we will propose to the AGM, the CET1 ratio is at 14.5%. In terms of total capital, after we have issued €300m of Additional Tier 1 and tendered 90% of our legacy Tier 2 in 2018, we are working on plans to re-fill the 2% Tier 2 bucket which is of course all depending on market conditions.

On slide 25, we wanted to summarize our capital management approach, which is mainly unchanged. Our primary objective is and will be to deploy our excess capital into organic growth, as well as M&A defined by disciplined underwriting and generating returns consistent with our own targets. To the extent that we are unable to deploy our capital in organic growth or M&A, we will be good stewards of capital and return our excess capital to shareholders thru dividends at a 50% payout ratio or share buy-backs. Our main source of capital generation comes from earnings, this is roughly 250 basis points of CET1 ratio per year. In addition, we will continue to optimize our RWA density and target at a low 40's in the mid-term. And with that, I would like to hand back over to Anas. Thank you.

Anas Abuzaakouk

Thanks Enver. So, in summary, 2018 was also our first full year as a publicly listed company. It was memorable in many ways and we continue to adapt to operating as a public company, which means really being committed to improving our performance consistently, improving our communication and engagement with shareholders. Consistently executing on our strategy year-in and year-out and focusing on the things we control is what defines us and how we operate. We're extremely proud of how the business performed in 2018 and the contributions of all of our team members, both new and old. With

	that, operator, let's open the call for questions please. Thank you.
Operator	Thank you very much. Ladies and Gentlemen we now begin the Questions & Answers session. As a reminder, if you would like to ask a question please press *1 on your telephone and wait for your name to be announced. If you need to add anything to your request, you can press the hash key. Once again the *1 for any questions, thank you. The first question comes from the line of Anna Marshall from Goldman Sachs, please go ahead.
Anna Marshall	Good morning, thank you for the presentation. A couple of questions from my side, please. Firstly, on buyback, just to be clear in terms of next steps and timeline. You've mentioned that there is regulatory approvals to be required and then at the AGM you will make the relevant proposals. Is this correct? And are there any other considerations or obstacles to a potential buyback. Second question, on strategy, just again to be clear that there is no shift in the relevant importance of organic growth and M&A and distribution to shareholders. And the final question is on your 2019-2020 outlook update. Specifically for 2019 just to double-check that answer is correctly that part of the 2019 upgrade includes a better core income performance, visible already in the second half of 2018 and specifically that more on the NII side, and if yes, is it volume or margin driven and is there contribution from fees as well, thank you.
Anas Abuzaakouk	Thanks, Anna. I'll take the buyback and strategy question and Enver will address the question on future targets. So on the buyback, I am gonna be pretty consistent here on this type of questions. We are in the process of actively evaluating share buyback options and I have actually had discussions for some time with our regulator. As it relates to the AGM we anticipate that there will be proposals that we'll have to put to the AGM which is on April 30. Unfortunately, we can't give more information than that, but this has been an active dialogue. We will be good stewards of capital which we've been consistent on and we will continue to be so going forward. So that's on the buyback. As far as strategy, the capital deployment is no different than the strategy we outlined from day one. First and foremost we want to deploy our capital into organic growth all day long. Of course that's limited in terms of not overextending ourselves and focusing on risk-adjusted returns. The second is M&A that has the right strategic fit, the right value and that hits our return on tangible equity of greater than 15% when we look

at doing the deals. And that we have a good pipeline, potential of opportunities, but we gonna be disciplined, we never gonna do a deal for the sake of doing a deal. So we will be pretty disciplined on that front. We've committed to the 50% payout ratio and you see that for 2018 in the proposal of the €2.18 per share dividend. Last but not least, we are committed to distributing excess capital to our shareholders in the form of a stock buyback. So that has been consistent in terms of the decision tree and the flow as far as capital management.

Enver Sirucic — On the updated 2019 targets, it is due to the better operating performance in 2018, that is why we revised it. And it's mainly driven by NII, you should also see a bit of an uptick in the NCI. And on the NII, it's I would say stable margin and a bit higher volumes.

Anas Abuzaakouk — Did we answer your question, Anna? Thanks.

Anna Marshall — Thank you very much.

Operator — And the next question comes from Gabor Kemeny from Autonomous, please go ahead.

Gabor Kemeny — Hi, I have a couple of questions. Firstly, on the International Business. You had an impressive growth here in the fourth quarter again after the third quarter. Can you give us some color of which segments in terms of geography and in terms of business segment drove this performance and what you expect here going into 2019. And the other question is on NII, if you think Q4 is a good proxy for the 2019 performance. Actually, in the fourth quarter you had record low interest expenses and the interest income was also coming down. So I guess going forward, if you expect stabilization here, do you see further room to bring down your funding costs or do you see interest income stabilizing, and if yes, could you please talk a bit about the drivers.

Anas Abuzaakouk — So Gabor, I'll take the international lending question in terms of just overall what we are seeing. So, 2018 was a great year for the international lending segment. We have to also bear in mind, and we've communicated this before, that we had a pretty healthy, strong pipeline here, and that's a question that you have commitments you've executed on in three months, six months or twelve months. We saw more of that execution sooner versus later. We still see a solid pipeline in the international lending, it's a mix of real estate lending less so on the corporate lending side and I'd say Western Europe. We don't go to any individual deals

	or countries. We try to give a geographic split of kind of where the book resides, but we don't go into any specifics as to transactions or any particular country. But I would say Western Europe primarily as kind of where we see the opportunities.
Enver Sirucic	I think of the net interest income, I would say in the topline generally I think Q4 was a good proxy going into 2019 and of course we would expect also some growth in the core segments going into 2019. On the funding costs, I think there is limited upside of reducing funding costs because they are already quite low. Plus, also we have some issuances planned that are effected into our numbers for 2019.
Gabor Kemeny	Ok, and the core segment stabilization, would that be driven by volumes, new volumes?
Enver Sirucic	Yes, I would say stable margin but a bit higher volumes.
Gabor Kemeny	Ok, thank you.
Anas Abuzaakouk	Thanks, Gabor.
Operator	Thank you very much. And the next question comes from the line of Mate Nemes from UBS. Please go ahead.
Mate Nemes	Yes good morning and thank you for the presentation. I have a few questions please, firstly two technical ones. First, can you quantify the one-off elements in the operating expenses line in Q4 and also kind of guide how much of that is sitting in Retail. And secondly, on Corporate Center I know you had a minus 13m item on other income line, would you mind giving us a bit color what that was. And then on the €640m plus PBT target, how much impact from the new acquisitions have you backed into your numbers there. In other words, how different would those targets look like without the contribution of the three acquisitions. And I know that you expect €25m plus in 2021, but if you could quantify perhaps this in 2020, that would be helpful. Thank you.
Enver Sirucic	So, Mate, on the one-offs I would quantify this €5-7m in the fourth quarter from a kind of run-rate perspective. How much is allocated to Retail, that's a bit of a complicated allocation. But I think it's the majority just given the size and that we allocate most of the costs to Retail. On the other income that you referenced to the Corporate Center, so overall we had a balanced other income in Q4, we had a negative that was mainly driven by market volatility in the Corporate Center and two good guys, one in international lending selling a bond position and the NPL sales in Retail that pretty much offset that movement. Third question

	on M&A in targets – it has very limited impact, it's de minimis that we put into our revised targets.
Mate Nemes	Ok, understand thank you.
Anas Abuzaakouk	Thanks, Mate.
Operator	Thank you very much. And the next question comes from Giulia Miotto from Morgan Stanley. Please go ahead.
Giulia Miotto	Hi good morning and a couple of questions from me as well. The first one is just a clarification, going back to the share buyback which I understand you are looking into. So you are clearly well above where you need to be on capital, and correct me if I am wrong, but given your RWA density I wouldn't expect any TRIM impact, and, in fact, it's my understanding that you are discussing with the ECB the potential to lower your RWA density by moving to IRB, so why wouldn't you have had the approval already, just the technicality there. That's my first question, then I will ask you a couple more if I can.
Anas Abuzaakouk	So Giulia, we are committed to be good stewards of capital and we previously told you guys that we will review excess capital that we will return to the shareholders. And that is exactly what we have announced today. You know this is a process where we are in discussions with the regulator but we are not commenting on the size of any buyback or the specific timing. AGM requires proposals, obviously we have to go through this process, but we are in active dialogue, and we will be good stewards of capital. I know you want more detail but that's really at this point what we are allowed to say. And then you asked I think on TRIM, we don't see any issues with TRIM, but I think you hit the nail on the head, we said our density in effect that 60-70% of our book is on standard approach anyways. Was there another question, Giulia?
Giulia Miotto	Yes, I want to ask you a couple of more questions on the retail business. So, the first one on the strategic partnership that you have signed, Metro and MediaMarktSaturn. If I'm not mistaken, those started in January this year. I was wondering if you can give us some color on how much business that is bringing you and how that one is going. So that is one, and then two, in terms of M&A and strategy, I was a bit perplex with the acquisition in Switzerland. I am not sure how the dental factoring business fits in your current business perimeter, maybe if you could give us some color on that.

Anas Abuzaakouk	Sure, so the first on MediaMarktSaturn: We launched on January 2 this year two stores and then we became fully operational by the end of the month. So it's gonna be 52 stores of MediaMarktSaturn. That's gonna take some time, that's more of a long-term play, in terms of the immediate benefits I wouldn't expect much in terms of bottom line for 2019. But what it does, it extends our region consumer lending to a significant number of customers which obviously will then looked to cross-sell, providing a full suite of retail products. So we are really excited, it's really being able to provide financial products and services to customers where they're transacting as opposed to them having to come into your branch or doing it online. So super excited about that, the same goes for Metro. These things take some time to develop, but once you plant the seed in terms of this acquisition channel, you certainly see some benefits going forward, but not so in terms of immediate 2019 as you think about the overall financial impact. What was the second question?
Enver Sirucic	On Switzerland…
Anas Abuzaakouk	Yes, that one actually, we've been looking to try to get into the factoring space for some time, we actually thought about doing it organically ourselves. This was a great opportunity with Health AG and Zahnärztekasse that are really market leaders, especially Zahnärztekasse in Switzerland. We've been looking at the Swiss market, we said we like it. There is a lot of the same dynamics with Germany and Austria in terms of kind of the consumer space, so this was a great way to kind of target potentially the consumer space, get a great niche product and get a market leading platform. So we are super excited about it. Thanks Giulia.
Giulia Miotto	Thank you.
Operator	Thank you very much. Once again Ladies and Gentlemen if you like to ask a question please press *1 on your telephone key pad. We have another question, it comes from the line of Marcell Houben from Credit Suisse. Please go ahead.
Marcell Houben	Good Morning, thank you for the presentation and for taking the questions. Three if I may. The first is on the PBT target for 2019, the €600m seems to be a jump of €30m year-over-year. Can you give little more color on the €30m jump, the drivers there. That's the first question. The second question is on the Südwestbank acquisition and the cost synergies, obviously you have seen a nice cost synergy delivering on the fourth quarter, can you just

update us on how much you still expect to do on the cost side there. –And the third one is on the market share in the retail business in Austria, I could not find volumes on the fourth quarter but could you elaborate a little bit on the market shares that you have been gaining or losing there, driven by the branch cuts. Thank you.

Anas Abuzaakouk — So just to recap, Marcell. PBT, and it’s not €600m, it’s just greater than €600m, just to clarify. I think you said Südwestbank, is there more in the tank as far as cost out, and then Retail domestic development, what was the question specifically, what the market shares look like or overall volumes?

Marcell Houben — Yes, your market share there in the market.

Enver Sirucic — So I think on the PBT target, its mainly driven by the operating performance which is what I said before coming mostly from the top line. If you look at the cost-income ratio, it’s lower than what we had currently, it’s 44, we’re going to below 43, and I think I gave some guidance on the risk costs being at the lower end of the through-the-cycle guidance of 15-25 basis points. So that’s kind of the composition why we think or feel very good about getting north of €600m. On the Südwestbank cost, I would say most of it is reflected in the Q4 number that you see on Südwestbank, maybe a bit to come going into '19 but the restructuring is mostly reflected in the run rate. And on the retail market shares, we didn’t disclose it, but it's been quite stable. If you look at the closing of the branches or generally *Concept 21*, the transformation, the retention rate is extremely high, so we have approx. 95% customer retention of the branches that we are closing.

Marcell Houben — Ok, thank you.

Anas Abuzaakouk — Thanks, Marcell.

Operator — Thank you very much and there are no further questions at the moment. Please continue.

Anas Abuzaakouk — Thank you everyone, appreciate everybody has taken the time this morning. Again we are super excited of our performance in 2018 but even more bullish in terms of 2019 and 2020. Look forward to talking to you guys for the first quarter results. Take care and all the best.