BAWAG Group

Q3 2017 results

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Transcription

Key Speakers

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Enver Sirucic

Operator: Welcome to the BAWAG Group Q3 2017 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, you may press star, followed by one, on your touchtone telephone. Please press star, followed by zero, for operator assistance. As a reminder, this conference is being recorded. I would like to turn the conference over to Anas Abuzaakouk, Chief Executive Officer; please go ahead, sir.

Anas Abuzaakouk: Thanks. Good afternoon, everyone. I'm joined here today by Enver Sirucic, our CFO, and we'll take you guys through the third-quarter results. But before we get into the actual numbers, I just want to spend a minute talking about the IPO and how transformative the IPO was for the bank. On October 25th, BAWAG Group IPOed; it has probably been the most transformative, monumental event in BAWAG's rich, 130-year history. A special thanks to the employees who made it happen, of course our customers, who always have faith in us, and also a special thanks to our shareholders, both old and new, who have displayed a lot of confidence in the management team, in the bank, and really, in our future, in our organisation. So, I just want to say thank you to all the parties involved.

With that, we'll jump right into the numbers. As far as profitability, on a three-quarter basis, or year-to-date basis, pre-tax profit of 382 million, up 4% versus the prior year. In the third quarter, pre-tax profit of 132 million, it's actually our highest pre-tax profit quarter on reported history, so we're pretty proud of that. Return on tangible equity (at a 12% CET1 fully loaded basis) of 17.1% on a year-to-date basis, came in at 17.3% just for the third quarter. From a cost standpoint, we continue to focus on efficiency, our cost-income ratio at 41.4% on a year-to-date basis, down 1.4 points compared to the previous year. Cost-income ratio for the third quarter of about slightly under 41%. From a balance sheet standpoint, we've had originations year-to-date of 3.6 billion, about 40% of that is retail-driven, the residual is non-retail, a mix between our international as well as our DACH Corporate & Public Sector lending business. In terms of overall balance sheet composition, for customer loans it's between 70 to 75%, of which it's about a mix of 60/40 retail versus non-retail.

From a risk standpoint, NPL ratio at 2%. If you deconstruct the 2%, it's, excluding the City of Linz receivable, which we disclosed during our IPO process, it's 1.3%. We continue to focus on maintaining a very conservative risk profile, with low leverage and high levels of capital. And from a capital standpoint, CET1 ratio on a fully-loaded basis of 16.2%, up 260 basis points versus year-end, up 70 basis points in the third quarter alone; that also reflects an interim dividend payment of 52 million, so ex the dividend, it was actually up 100 basis points in the third quarter. And on the M&A front, this has obviously been an area of great focus for us; we signed on

Südwestbank, which we communicated in the prior call, in July of this year. We are planning, fingers crossed, to get this closed in the fourth quarter, everything is on plan for, hopefully, early December closing. We closed on PayLife Bank in the first week of October, the integration teams are on the ground and working to make that happen. We see a lot of synergies on both the revenue as well as on the cost front. And we continue to pursue a number of M&A opportunities, and I'm sure I'll get some question on that.

On to slide four; if you look at just the overall P&L and balance sheet development. If you look at year-to-date development, core revenues up 7%, really driven on a year-to-date basis by NII up 8%, NCI up 3%. Pre-tax profit, as I mentioned before, up 4%. If you look at our NIM on a year-to-date basis, it's 2 1/4, but really, I think there's an improvement that you see from Q2 to Q3, of six basis points. Risk cost ratio on a year-to-date basis of 19 basis points. We continue to effectively execute across the P&L, just a reflection on the operations. And if you look at the balance sheet, overall, book value up 8% on a year-to-date basis, tangible book value, or tangible equity, up 9%, that's including the interim dividend payment, so without the dividend it's up about 11%, CET1 capital up 12%. RWA is down 7%, and we can talk about kind of the movements in the RWAs, and CET1 capital, as I mentioned before, up 260 basis points.

Moving on to the actual business segments, on slide six; just to recalibrate the BAWAG P.S.K. Retail segment, this is comprised of 1.8 million retail customers, which are private customers as well as small business customers, serviced through our branch network, which is our offline network, as well as our mobile sales channels, as well as our digital offering. Performance in the BAWAG P.S.K. Retail segment, quite strong, 175 million of pre-tax profit on a year-to-date basis, up 39%. Core revenues up 14%, operating costs down 1% on a year-to-date basis, pre-tax return on equity of 28%, up 6 points. Cost-income ratio down 7 points to 48%, and a stable NPL ratio of 2.2%.

Some of the highlights on a year-to-date basis; 1 billion of originations, 60% of that is mortgage-driven, 40% is consumer loans. NCI growth is pretty solid driven by current accounts, up 8% on the year-over-year basis, as well as our securities, new sales up 15%. The current accounts, one thing I want to highlight, greater than 60% of the new current account sales are the new current account models, our premium variety, which you get premium pricing, as well as really enhanced functionality for our customers. So, that's been really received well. And on the securities, we've seen higher margins in the funds that we're able to sell to our customers.

You continue to see the shift from offline to online; if you look at the overall payment transactions, greater than 85% is really between self-service terminals as well as our e-banking and mobile. You continue to see a decline of over-the-counter transactions, which is really through the branches, on a year-to-date basis compared to the previous year down 13%.

And from an integration standpoint, we're well ahead of plan in terms of the start:bausparkasse integration. That was an accretive transaction day 1, you see it effectively reflected in the core revenues, but you also see it reflected in the operating expenses where we were able to accelerate the restructuring versus what we had underwritten against. So, a really solid development from an operational standpoint.

From a strategic standpoint, we've worked probably for the past 12 months in terms of working to separate from our partner, the Austrian Post. We actually provided them, this should be no surprise to anyone, with notification of termination in early November. We're currently working effectively to ensure a frictionless, amicable separation, hopefully one that could be accelerated as well that preserves both franchises. It really is done in a thoughtful way, and is reflective of just the changing business models as well as the changing customer behaviour across both business units. So, that was a termination that was provided early November, we're in discussions; those are obviously confidential, but we're going to look to make that a seamless process.

Just to remind everybody, post the termination of the Austrian Post partnership, we expect effectively to run a branch network of around 100 branches, or up to 100 branches, and we see significant synergies on that front. Our cost-income ratio today, from a retail standpoint, is round about 48%; we see ourselves, post execution of the termination, being under 42% from a cost-income ratio standpoint on segment level. So, really excited about the opportunities ahead, and looking to move that forward.

Slide seven, easygroup; just to recalibrate what this business unit it, it's a combination of easybank, the leading direct bank in Austria, easyleasing, which is a combination of the former Volksbank leasing platform, as well as BAWAG P.S.K. Leasing, it's our international residential mortgage portfolios in France as well as the UK, and it's also now a combination of easypay, which we're starting in the fourth quarter, which is a combination of the credit card issuing business for PayLife Bank as well as BAWAG and easybank. So, we're excited about just the strategic process for prospects for easygroup.

In terms of the financials, 96 million of pre-tax profit year-to-date, up 40%. If you kind of deconstruct that, core revenues up 28%, operating expenses up 2%, you see a lot of growth and a lot of development, both in the easybank as well as the easyleasing business. Overall pre-tax RoE of 28%, up 5 points. Cost-income ratio of slightly under 20%, so that's down about 4 points, and a stable NPL ratio of 3%.

In terms of just highlights for the business unit on a year-to-date basis; originations of 340 million, predominantly easyleasing-driven, but we're seeing a lot of growth in terms of the consumer loan segment, and really this migration towards online consumer loans. We closed on PayLife Bank early fourth quarter. The integration teams are full at work and we expect a lot of synergies there; we're going to be able to effectively create a centre of excellence for our card issuing business under the brand of easypay. We still are on plan to launch Qlick during the fourth quarter of 2017; obviously we've gotten the branch approval in Germany earlier this year, and preparations are being made for the launch of Qlick, and we're excited about those prospects.

And, lastly, we're actually working to be able to do a refresh of our mobile app offering, our website, to really keep focusing on continuous improvement and making our customers' lives easier from a digital standpoint, effectively getting consumer loans under ten minutes funded, being able to set up a current account in under 24 hours without leaving, effectively, your own premises or your own home. There's a lot of things on the digital front that we're working on that we think are going to be pretty cool and exciting, that we're going to be rolling out in the coming months.

Slide eight, the non-retail segments. The DACH Corporates & Public Sector segment contributed 54 million of pre-tax profit. On a pre-tax RoE basis, it's 16%, up 1 point, pretty stable. 900 million of originations on a year-to-date basis, but to be frank, we see muted loan demand. We continue to focus on a risk-adjusted pricing basis; we're not going to chase volume, we're going to be very disciplined in terms of how we price. That's a segment that, quite frankly, we see a lot of irrational pricing across the region, and we'll continue to be stable on that front.

The international business, 62 million of pre-tax profit, that's actually down 25% on a year-to-date basis year-over-year. The reality, it's flat from a revenue standpoint, but that's really being driven by the provisions that we took in the second quarter related to two oil & gas exposures, which were precautionary provisions. We ultimately feel that, I think, those measures were the right measures, but they were pretty conservative. Pre-tax RoE of slightly under 18%, but if you kind of strip out the provisions as well, we had a slight increase in costs, that business is pretty stable. We have a pretty robust pipeline in the fourth quarter; things have actually picked up, so we're pretty positive in terms of the prospects going to year-end as well as going into 2018.

Then, lastly, Treasury Services & Markets, that's where we manage our securities portfolio, contributed slightly under 50 million of pre-tax profit, that pretty much offsets the development in the corporate center. 97% of that is investment grade portfolio, and that's where we manage our excess liquidity.

With that, I will turn over to Enver to go through the details of the P&L.

Enver Sirucic: Thank you, Anas. I'm on page ten now; before I walk you through the individual P&L lines, just give me a second to highlight some of the developments that we are seeing on the profitability and capital side.

So, one of the highlights is of course that we had the record quarterly PBT since we started reporting, with 132 million, and that was actually growing over the last four quarters. If I just compare Q3 over Q3 last year, it was up 8%, and I will come to the main drivers of that, but obviously it's the disciplined cost line that we have and that we keep, and on the other side, the increase in the top line.

If I just go to the equity and capital accretion that we have delivered in the last year or in the first nine months; so, we had a book value creation of 8% post-dividend, pre-dividend it actually was up 10%. Tangible book went up 9%, and pre-dividend 11%. But also, one element that we reported in the previous quarters is you see that the DTAs are going down as expected, even a bit accelerated in Q3, which gives us even a higher CET1 capital accretion, which was up 12%, even after dividend. And if you go to the CET1 ratio, comparing year-end with Q3, we are up 260 basis points. Later in the presentation, I will break down the individual components of this 260 basis points and also give you a bit of guidance what the normalized run rate is in terms of CET1 accretion.

One element on the right side, because you see quite stable net profit development, one thing to highlight is the effective tax rate; if you go in 2016, we almost had no taxes, this was driven by the one-time effect where we capitalized on the losses carried forward. This year, year-to-date, and I would not focus so much on the quarterly development, our effective tax rate was year-to-date 20%.

With that, moving on to the core revenues on page 11; I think it's more of the same that we have seen in the last quarters, so we have a very strong top line performance, which was mainly driven by the strong NII, but as well we also see some uplift on the NCI. So, the overall increase was 7% on a year-to-date basis. If I look Q3 over Q3, it actually went up by 11%, and more important, we said the NIM at 2 and 1/4 will be stable, it actually improved by 6 basis points in the third quarter. It is quite consistent what we have seen in the last quarter, so we had very strong originations through all sales channels, as Anas mentioned previously, with very stable and partly increasing margins. And also, what we see is that we further continued to optimise the funding structure, which led to a reduced funding cost. So, if you look at our blended retail deposit rate, it stands now at 18 basis points.

On the NCI front, there is always a bit of seasonal development there, so it's better to compare Q3 to Q3; we have seen an increase of 4%, and on a year-to-date basis it was 3%. And the two main drivers, as mentioned previously, are the current accounts, so the new account boxes that we launched last year, and the securities products, where we had an uplift of 15%.

Moving on to page 12, on the operating expenses; on OPEX we were actually, I would say, ahead of plan, and also you see this positive trend that continues. From a cost-income ratio perspective, only in Q3 we are below 41%, and on a year-to-date basis we are at 41.4%. So, the story here is really strong top line development while keeping the costs flat, despite the fact that we absorbed completely the integration costs of the acquisitions that we have made in Q4 of 2016.

One thing that is important to mention, despite the cost discipline that we have, and we have mentioned it several times in the past weeks, we continue to invest in digital and technology, and you see it reflected in the year-to-date CAPEX of more than 40 million that we spent mainly on the technological side.

Moving on to page 13, on the risk costs; so, the risk cost ratio was around 19 basis points year-to-date, quite stable development that we have seen in the first three quarters, and completely in line with what we expected. The profile, in terms of risk, but also geographical coverage, has not changed, so we have 70% geographical coverage in the DACH region, mainly in Austria, and 30% in Western Europe and the US. In terms of NPL ratio, we stand at 2%, if you would take out the receivable for the City of Linz litigation that we have, actually our core NPL ratio would be at 1.3%. And we will continue to focus on this conservative risk profile and the same geographical regions also in the future.

Page 14 is a new page; as I said, we wanted to give you a bit more of details and guidance in terms of CET1 accretion, so just to start with the overall accretion, it was 260 basis points since year-end. It is really four drivers that we have, first, and most important, is just this strong earnings generation that we have; that contributed 160 basis points year-to-date. If you look at it on a quarterly basis, on a normalised basis, that's going to be round about 50 basis points. RWAs went down, that contributed 90 basis points. There is one effect on the mortgage portfolios that we have that contributed round about 50 basis points of this 90 basis points since year-end, so I would say on a quarterly basis the accretion from RWA optimisation, because still our RWA density stands at 46%, which is significantly above the average for European banks, I would say on a quarterly basis, 10 to 15 basis points accretion. And the third element, because we still have these DTAs that are burning off, there is a benefit because the deduction on the CET1 capital is actually accretive to the ratio; it was 40 basis points year-to-date, on a normalised run rate, I would say again 10 to 15 basis points. So, on average, I would say from the three things that we can control, it's 50 to 70 basis points CET1 accretion that we see on a normalised level. And the fourth was the interim divided that is fully captured in our equity, tangible equity and CET1 capital, had an impact of 30 basis points, and that gives you the full walk from 13.6% to 16.2% that we have. What we also have shown is just the development of the requirements, and the individual buffers that we have, and, as you see, our target of greater than 12% in terms of CET1 ratio is comfortably above all the regulatory requirements that we have.

Page 15, just a short reflection on the funding structure; this is really unchanged, so very strong focus on customer funding and LCR, you see this normalized stands around 130%. On the leverage ratio, on the one side the regulatory leverage ratio is further improving, given that you are improving also the CET1 of the bank, and stands now at 7.5%. And also, one metric that we focus on is just the balance sheet overall leverage ratio, which is the old-school total assets over equity measure; we now stand slightly above 11 times. With that, I would hand over back to Anas.

Anas Abuzaakouk: Thanks, Enver. So, I am on page 17; what we want to do is just provide you with an outlook for the remainder of 2017, or just on a full-year basis. So, we'll come in at pre-tax profit greater than 500 million, so if you kind of look at that on a year-over-year basis, that's going to be at least greater than 6%, if not more, in terms of pre-tax profit. Our return on tangible equity, using a 12% CET1 on a fully-loaded basis greater than 16%. And, as Enver mentioned, kind of we're at this normalized tax rate. A CET1 ratio of greater than 12%, and that also is inclusive of the dividend that we plan to pay in the fourth quarter, that dividend is effectively going to be in line with the dividend policy which I'll talk about in a second.

From an operational standpoint, even though there's only six weeks left in the year, we're continuing to focus on making sure that Südwestbank closes in the fourth quarter. We have our integrations teams ready to go, hopefully that gets launched here pretty soon. We're preparing for the launch of Qlick in Germany during December as well. The PayLife integration, as I mentioned earlier, that's well under way, and we're really looking to expect to realize a lot of synergies on the revenue and on the cost front. We think the center of excellence is really going to be a game-changer. We're also pursuing a number of retail partnerships, both in Austria and in Germany. And, last but not least, we're continuing to pursue a number of M&A opportunities, predominantly in Germany, but also in Austria, and that's something that's actively being pursued.

On slide 18, we just wanted to reiterate the targets that we had set pre-IPO; nothing has changed on this front, but just again to go through the key financial metrics. We are projecting effectively, or putting in place targets; pre-tax profit greater than 5% CAGR over the coming years. This is inclusive of both PayLife and Südwestbank, but excluding any further M&A, as well as including the run-off of the two mortgage portfolios which we had mentioned before, 80% will have run off by the end of 2020, that's all factored into this particular metric.

Cost-income ratio under 40% through the medium term. Even though this might seem uninspiring given the 41% or so cost-income ratio that we have today, post-acquisition of Südwestbank you'll see kind of this inflation in our cost-income ratio, and as we continue to go after the restructuring and transformation of Südwestbank, we'll be able to bring this thing down under 40% in the medium term.

Throughout this entire medium term, or the coming years, we will deliver a return on tangible equity at a 12% CET1, in the mid-to-high teens, and we'll continue to maintain a CET1 ratio, fully loaded, greater than 12% throughout this process.

So, those are the key four financial targets, from a capital standpoint, on slide 19, we've committed to paying an annual dividend of 50% of net profit. In addition, or incremental to the net profit pay-out of 50%, we'll generate north of 1 billion of excess capital, assuming a 12% CET1 on a fully loaded basis through 2020, and what we plan to do with this excess capital generation is, first and foremost, to obviously grow organically, incremental to what we have in our targets. Secondarily, really pursue highly accretive M&A transactions; if you look at the five deals that we've done before, and how accretive they've been, it really is the same type of profile. And to the extent that there are neither incremental organic nor M&A opportunities, what the management team will do on an annual basis is take stock of the excess capital; we won't run the bank with an unnatural high level of capital and make an annual assessment as to effectively distributing to shareholders in the form of a special dividend or a stock buy-back. With that, operator, I think we'll open it up for questions.

Operator: Ladies and gentlemen, at this time we'll 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 selection. Anyone who has a question may press star, followed by one at this time. One moment for the first question, please. The first question comes from the line of Pawel Dziedzic with Goldman Sachs; please go ahead.

Pawel Dziedzic: Hi, good afternoon, and thanks for the presentation. Just a couple of quick questions; so, firstly, can you please clarify what is missing from completing the Südwestbank acquisition? Just technically, what is there that is not done yet? And, what are the risks that it will slip into 2018? And then, also on Südwestbank, can you please remind us what is the impact of acquisition? Has it changed in any way? And how close to 12% CET1 ratio will you get at the end of the year? And then the second question would be on your comments regarding the termination of the contract with Post; to what extent the fact that you have not reached an agreement complicates the scale, or timing, of cost synergies to be achieved going forward? In other words, I think during the IPO process you mentioned that, regardless of the outcome of the negotiations, you would be able to achieve certain savings, but obviously the timing might depend on the outcome of negotiations, so your thoughts on that would be very helpful. And the last one, just clarification on the tax rate; are you still guiding for less than 10% for the full year? Thank you.

Anas Abuzaakouk: Hi, Pawel, thanks for your questions. I think you have quite a few questions, but we'll try to address them. Südwestbank, standard approval process, there's nothing outside of the ordinary process between working with BaFin as well as the ECB, that's why we feel comfortable that we're going to be able to close in the fourth quarter, so there's no issues, or no roadblocks that we've come across. As far as the impact on… I think your question was on CET1, that's about 300 basis points, which is what we've communicated before in terms of just the RWAs that we would be absorbing. So, that is the Südwestbank question. The question related to the Post; look, there's things that we can do unilaterally, from our end, to be able to actively manage effectively away from the existing network, and while at the same time building up our own branch network. Those are things that we will do on our end, but at the same time, we're going to work closely with the Austrian Post for a frictionless and amicable separation, and those discussions are underway. They're confidential, so I can't, you know, divulge any more information, but those are things that we're planning on. But there's also things that we can do unilaterally that we're planning over the coming years. And then the third question, Pawel, was tax rate?

Pawel Dziedzic: Yes, the third question was on the tax rate; so, obviously I think you indicated that for the full year it could be around 10%, or less than 10%, does this guidance still stand should Südwestbank close?

Anas Abuzaakouk: That's correct, yes.

Pawel Dziedzic: Okay. And then can I have just maybe a follow-up on your answers? I understand that you can't disclose where you are with the negotiations with Austrian Post, but is it fair to assume that the savings will be rather back-end loaded, related to the process currently? And also, would you be able to then, on the first question, the CET1 question, if the impact of Südwestbank is around 300 basis points, then is it again fair to assume that you want to be closer to 13% CET1 towards the end of the year, or higher? Thank you.

Anas Abuzaakouk: Look, I'll stick to the outlook of greater than 12% CET1; I think you've run the numbers yourself, you have a good sense of how things move. I won't divulge any more information than that, but we're pretty conservative, I think you've probably noticed that in how we address things. As it relates to the Austrian Post, without a doubt there's going to be benefits that are back-loaded, but there's also things that we can do through the coming years, that we plan to do on a unilateral basis, which will be accretive to the business.

Pawel Dziedzic: Understood, and thank you.

Anas Abuzaakouk: Thanks man.

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

Simon Nellis: Oh hi, Anas, Enver; thanks for the presentation. Yes, just quickly on capital, I've got two quick questions; first of all, I noticed the Pillar 2 requirement increase, was that expected in the 2018 SREP, and what was the reason for that? I'm just curious about the French mortgage risk weight, if you still think that the risk weight can go down, and if you could tell me what the risk weight density of that portfolio was, that would be very interesting for me. And also, could you just repeat the answer on the tax rate, because I somehow missed it; I got side-tracked here. Thanks.

Anas Abuzaakouk: Go ahead, Enver.

Enver Sirucic: So, I think to start with the French mortgages, as we have communicated, we are working on mitigating the structure that we currently have in place, so I think the average risk weighting is more than 130% that we currently have, and the average risk weight, if we dissolve the structure and find a solution, will go down to 35%. We are still working on that. I can't give you timeline on that, but we are working, and we are confident that we will solve it. You asked about the SREP, the Pillar 2 requirement; yes, it went up 50 basis points, we cannot disclose the drivers, but it has also to do with the acquisitions that we are doing, where the regulator has a view, of course, taking a more cautious approach. And on the tax rate, reflecting, I guess, what Pawel asked, so, year-to-date, our tax rate was 20%, and the question was we gave guidance that it's going to be probably below 10% by year-end, after the Südwestbank acquisition. Why is that? Because it's just driven by the purchase price accounting, and then some of that is tax free, and that would dilute the tax rate by year-end.

Simon Nellis: Ah, right, and excluding Südwestbank? Say if it doesn't close, what would the tax rate be? Can you…?

Enver Sirucic: Pretty the run rate that you currently see.

Simon Nellis: That we see now?

Enver Sirucic: Yes.

Simon Nellis: And just on the acquisition; I guess you're still not in a position to say much about the contribution from Südwestbank, that will come once you acquire it, but on PayLife, can you give us kind of a steer on how that will impact the fourth quarter, now that it has been brought into the Group?

Anas Abuzaakouk: Yes, Simon, that's a de minimis impact in terms of just the fourth quarter.

Simon Nellis: On the revenue side, it will be mostly coming through the fee income side, right?

Anas Abuzaakouk: Yes, but in terms of just overall earnings, it's de minimis to the overall…

Simon Nellis: Pretty minor. Okay, that's all from me. Thanks.

Anas Abuzaakouk: Thanks man.

Operator: The next question comes from the line of Giulia Miotto with 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, about the Austrian market, actually. I was wondering, how do you see your market share there in consumer and mortgages, because if I'm not mistaken, actually your loan book was slightly down in the quarter, whereas if I'm looking at other data, the market was flat to slightly up. So, I'm just wondering what's driving that? And then, secondly, I wanted to ask you if you can share any more colour on your M&A pipeline in Germany, aside from Südwestbank? Sorry, and a third one, which is a more technical one; in terms of migration to IRB model of the different portfolios, corporates, etc., how are the discussions with the regulator going, and how confident are you on the lowering of the RWA density? Any steer on timing?

Anas Abuzaakouk: Okay, so Giulia, as far as the overall Austrian market share, consumer loans are up against year-end '16, are up 6% in terms of net asset growth, so that's going well. Mortgages, in terms of performing euro mortgages, are up 8%. The movement in terms of just net assets is driven by the FX, the Swiss franc mortgages, as we see that effectively run off, and we're actively looking to obviously deleverage that book. And then also, the IMMO-BANK assets that we brought into the retail business segment, the BAWAG P.S.K. Retail business segment, those are effectively in run off in large part. The net of that, I think, is it probably paints a picture that you see kind of a decline in net assets, that's why we always talk about focusing on the core products as far as consumer loans and the euro housing mortgages.

That's the question on, I think, products; what was the second one? M&A, I think you asked?

Giulia Miotto: Yes.

Anas Abuzaakouk: As far as M&A, look, we can't provide any more information than we've provided before; we're looking at about six different opportunities, five in Germany, one in Austria. They're across the spectrum in terms of early look versus having exclusivity on certain transactions. That's something that's being actively worked, and we've been at it for quite some time. So, nothing more to divulge, but that's something that we feel pretty positive about. And lastly, I think the IRB, I'll defer to Enver.

Enver Sirucic: Yes. So, look, we cannot comment on the specific proceedings with the regulator, but just if you look at the RWA density that we currently have, which is 46%, with the acquisition of Südwestbank this will move probably north than 50%, because they are completely in a standardized approach and have an average density of 75 to 80%. Over time, where we feel confident is that the RWA density is in a target range between 40 and 45%. This is what we want to achieve.

Giulia Miotto: Thank you very much. Can I just have a follow-up on the second question, i.e. the M&A in Germany? You mentioned five opportunities, are these all in the same region, in Baden-Württemberg, or you are looking at Germany more broadly?

Anas Abuzaakouk: Giulia, you're like an investigator; we don't provide the details by region.

Giulia Miotto: Fine, fine.

Anas Abuzaakouk: We try to keep our M&A confidential; that's actually helpful when you do M&A.

Giulia Miotto: Fair enough.

Anas Abuzaakouk: Nice try though, I like that. Well done.

Giulia Miotto: Thank you.

Anas Abuzaakouk: No problem.

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

Gabor Kemeny: Hello, a few questions from me, please. First one, you mentioned a seasonal slow-down in the consumer lending in the third quarter and the fee-generation products; now we are well into the fourth quarter, how do you see the demand developing? And do you think we should expect a seasonal pick-up in your core revenues in the fourth quarter, or possibly even more than what is implied by the seasonality? Second one, on asset quality; provisioning is now nearly, was actually in the first quarter, nearly zero in the DACH domestic corporate segment, and also in the international corporate segment, how shall we think about the outlook of the run rate from here? And, thirdly, on the liquidity coverage ratio, which dropped quite significantly from 185% in the first quarter to 127% in the third. I think you mentioned during the presentation that you consider this is a normalized rate, but it would be helpful to learn a bit more about the drivers here.

Anas Abuzaakouk: So, look, I'll address as far as the consumer loans; year-to-date, we've had about 400 million of originations, I think you'll see it kind of in the same run rate. We continue to, obviously, make progress there, we're up 5%, or 6%, since year-to-date, and nothing is changing, effectively, from that front. Obviously, third quarter, at least from fee income and certain lending products, given the summer months, it slows down a bit. As it relates to asset quality, I think it's best reflected both in what I call our non-retail segments, the DACH Corporates & Public Sector lending as well as the IB. It's a 1% NPL ratio; really in the IB business, the 15 or 16 million of provisions we took in the second quarter, at least from our perspective, really is more of a one-off and is a very precautionary measure. We run that book with very tight underwriting standards, the same can be said for our DACH Corporates & Public Sector lending business. That's part of the challenge, honestly, we won't sacrifice credit standards; we're very disciplined on risk-adjusted pricing, and we give up a lot of volume. But we have more of a long-term perspective, and we don't drive the business based on volume, so I think I can answer that by best saying it's a 1% NPL ratio in both segments. You also don't see the type of write-backs that you probably see of banks in this region that they've been providing the past few quarters. I think ours is pretty stable on a comparative basis. And the third question was…?

Enver Sirucic: It was LCR; I think I should take this. LCR, this was just artificially inflated; the 185% that we had, that was driven by taking the TLTRO that we have drawn, which a bit inflated the balance sheet, and also the deposits with the Central Bank, which inflated then the LCR. And we mentioned at that point in time also that we will manage it down again to a rough level of 130%.

Gabor Kemeny: Okay, that's helpful. And just a follow-up on the consumer demand; I'm not sure, maybe I missed your comment on how do you see it shaping up in the fourth quarter; do you see demand picking up again?

Anas Abuzaakouk: So, Gabor, I try to provide you with at least some guidance, but we don't give fourth quarter guidance. We've done 400 million of new business volume, so that run rate is pretty reflective of where we think we're going to be for the full-year.

Gabor Kemeny: Okay, thank you.

Anas Abuzaakouk: Thank you.

Operator: As a reminder, it's star one to ask a question. The next question comes from the line of Victor Galliano with Barclays; please go ahead.

Victor Galliano: Yes, thanks for the call. My main questions have been answered, but just a follow-up here; what do you think is driving your success in the growth in the premium KontoBoxes there? I mean, generally, especially throughout developed Europe, people are looking for products where the fee costs are lower, so what do you think is driving that success? And we saw a nice pop there, I think, overall in the fees in BAWAG P.S.K. of 6% year-on-year. And also, if you could give us a little bit more color in terms of the new business origination in BAWAG P.S.K., that one billion; how does that break down between the mortgage, consumer, and other businesses? And also, the same for the 340 million in easygroup. Thank you.

Anas Abuzaakouk: Sure, let's start with just the originations, Victor. The one billion in the BAWAG P.S.K., 60% of that, these are directional, is mortgages, the 40% is consumer loans, so about 600 million and 400 million. Those are the two core products. As it relates to the NCI development, yes, we've had some good wins there. Really, customers have gravitated to the premium model; we get premium pricing, but the reason we're able to get the premium pricing is because of the functionality. We have a Dankeschön loyalty programme, the transactional benefits embedded, as well as the cards that were coupled with the premium models. So, kind of the by-product of those variables lead to the customers gravitating to the premium models. What was the…?

Enver Sirucic: …easygroup.

Anas Abuzaakouk: Oh, easygroup; so easygroup, we did about 340 million, I'd say about 300 million of that is easyleasing, the 40 million is within easybank. The reality is we've actually had really positive development for our consumer loans in easybank, it's up at about, I think, 18%, year-over-year. They're of very small volumes, right, but this is the first time that we're really continuing, we're really driving the online originations. And we're doing this to effectively set ourselves up for, when the offline-online migration really takes place, and takes place in a big way, that we're going to be effectively positioned in the Austrian market to capitalize on that. And we do believe, our hypothesis ultimately is that's what's going to happen; we see it in the changing customer behaviour as it relates to payment transactions. So, today, 85% of our payment transactions are through self-service in mobile and e-banking, 15% is effectively over-the-counter, and that continues to kind of have this precipitous fall. It's not going to be any different in lending, it's just going to take a little more time. So, some really encouraging signs in terms of what we're doing with big data analytics, and growing consumer loans on a year-over-year basis. Was there another question?

Victor Galliano: Just a follow-up on the online lending; how's that going in terms of online mortgage origination?

Anas Abuzaakouk: That's still being developed. That's a tougher proposition; it's really about consumer loans and auto leases, the mortgages, I think it's going to take a little more time. It's one that requires a lot of advisory, there are some touchpoints, so we're working through that.

Victor Galliano: Thank you.

Anas Abuzaakouk: But I would think that's going to be more of a drawn-out timeline.

Victor Galliano: Thanks.

Anas Abuzaakouk: No problem.

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

Marcell Houben: Yes, good afternoon. Thank you for taking my questions. Most of them have been answered already, but I have three left if I may? The first one, did you have any large restructuring expense in this quarter? The second one; we've seen quite a large decline in the public lending, regarding volumes, how do you see that going forward? And then, the DACH OPEX, this seems to be a little bit volatile per quarter, did this quarter have a particular one-off that we have to take into account? Thank you.

Anas Abuzaakouk: Can you just repeat the last question? What was it?

Marcell Houben: Yes, within the DACH division, the OPEX, the operating expenses seems to be a little bit volatile every quarter, I was just wondering if there were any one-offs in there?

Anas Abuzaakouk: Okay, well just address that.

Enver Sirucic: So, on the restructuring, I think we didn't have any significant restructuring expenses in the third quarter. On the public sector, if you just look at bit into the details of the public sector, what we had, we had some term deposits that ran out in the public sector, and then on the other side, we have some short-term lending with the public sector last year, so we mitigated more on a short-term kind of money market basis, that's why you see this area drop on both sides. And the third one, I'm still not sure if I got the question right.

Anas Abuzaakouk: Yes, are you asking the operating expenses for the segment, quarter-over-quarter?

Marcell Houben: Exactly, yes.

Anas Abuzaakouk: We weren't able to understand it.

Marcell Houben: It was this quarter, I think it was 14.5, but the second quarter was 9.1, just wondering the difference there.

Anas Abuzaakouk: 9.1 versus the 14.5. We'll have to come back on that. The restructuring charges were de minimis in the third quarter. We'll come back to you on that.

Marcell Houben: Sure, thanks.

Operator: Next question comes from the line of Stephan Maxian with RCB; please go ahead.

Stefan Maxian: Hello, thanks. Just two questions remaining; one refers to M&A, you mentioned Germany and Austria, but earlier you spoke also about the potential targets in Switzerland, is that still a topic or is that off the agenda? And, secondly, in the prospectus, you disclosed that the Austrian Post actually might require higher payments than in your agreement based on some kind of postal law; if you can talk a little bit about that. Thank you.

Anas Abuzaakouk: Yes, so, Stefan, as far as Switzerland, that's still in scope for us. I was just referring to, and this is in the prospectus, the active deals that we're looking at.

Stefan Maxian: Okay.

Anas Abuzaakouk: Those are split between Austria and Germany, but Switzerland, if you know of any deals, give us a call, let us know. We don't have anything in the pipeline, though, as of yet. On the Austrian Post, I think you're referring to the arbitration?

Stefan Maxian: Yes.

Anas Abuzaakouk: The arbitration is with respect to increased transaction fees, that's one where we don't think there's any basis in that. Of course, we have to go through the arbitration process. In reality, the transaction fees, or over-the-counter transactions have been falling off a cliff, almost in double-digits on a year-over-year basis for the past three or four years, and effectively the arbitration is to be able to extract greater cost from our transaction fees, which we feel is counter-intuitive.

Stefan Maxian: Alright, thank you.

Operator: There are no further questions at this time; I would like to hand back to Anas Abuzaakouk for closing comments.

Anas Abuzaakouk: Thank you, operator. Thanks everyone; really appreciate you joining the call. To our new shareholders, to the analysts that had some really great questions, we look forward to talking to you guys in February. Take care. Bye.