BAWAG Group

BAWAG Group Preliminary FY 2020 Earnings Call

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Transcription

<u>Speakers</u>:

Anas Abuzaakouk

Enver Sirucic

Anas Abuzaakouk: Good morning everyone. I hope everyone is keeping well. I'm joined this morning by Enver, our CFO. It goes without saying that 2020 was a year like no other, but our performance this past year was a true testament to the quality of our people, the franchise and our strategic focus over the years.

Let's start with the full year 2020 highlights on Slide 3. We delivered annual net profit of € 284 million, Earnings Per Share of € 3.19 and a Return on Tangible Common Equity of 10.2% in 2020. The underlying operating performance of our business remained solid with Pre-Provision Profits of € 653 million and a cost-income ratio of 44%. Total risk costs were € 225 million, of which approximately € 100 million were tied to management overlays and increasing ECL reserves. The management overlay, which equals € 38 million of the € 100 million that I just mentioned, are general reserves in excess of modelled reserves, resulting from our decision to apply the ECB Euro area's most adverse economic scenario of -12.6% GDP decline in 2020 which was published last June. This assumption turned out to be overly pessimistic as the actual GDP decline for 2020 was -7%. We decided not to release any credit reserves, although we see both an improved overall macroeconomic environment and continued positive developments across our customer base, in particular seeing payment holidays falling under 50 basis points across our total customer businesses.

In addition to delivering solid operating results, we continued to grow our business despite COVID-19 related headwinds. We grew total customer loans by 5% and interest-bearing assets by 10%. Even with the balance sheet growth we experienced, we continued to accrete CET1 capital, generating 180 basis points of gross capital through earnings, allowing us to fortify our balance sheet through conservative provisioning and capital prudential filters, while at the same time continuing to deduct our earmarked dividends. Our year-end CET1 ratio was 14%, up 70 basis point from year-end 2019 after deducting earmarked dividends of € 460 million, covering 2019 and 2020, or a total dividend per share of € 5.17.

We have a very strong capital position, with a buffer of 180 basis points, or € 360 million of excess capital, versus our CET1 target of 12.25% and a total of approximately 500 basis points, or almost € 1 billion of excess capital, versus our SREP of 9.13%.

Based on BAWAG Group's dividend policy to pay out 50% of net profits, we earmarked dividends of € 372 million for the financial years 2019 and 2020. Additionally, the Managing Board plans to recommend to the Ordinary Annual General Meeting, a special dividend of € 88 million for 2020, so as to keep the absolute annual dividend payment of € 230 million consistent between 2019 and 2020. Given the most recent ECB recommendation from December, a down payment of € 40 million on the total € 460 million earmarked dividend will be proposed to the Extraordinary General Meeting in March (which represents the maximum allowed at the moment), with the remaining € 420 million dividend to be paid in the fourth quarter later this year, of course subject to shareholder and regulatory approvals.

In terms of targets, we see 2021 as a stepping-stone to our medium-term targets in a normalized environment. We are targeting a return on tangible common equity greater than 13% in 2021 and greater than 15% in a normalized environment, which from today's perspective could be as early as 2022. Our focus will be on driving profitable growth and continued efficiency, with a target cost-income ratio under 41% in 2021 and under 40% in a normalized environment.

Moving on to slide 4. We delivered net profit of € 284 million and an EPS of € 3.19 per share. This was down 32% versus prior year. Operating income was down 5%, offset by a net reduction of 2% in operating expenses. Our cost-income ratio was 44%, or 43% after excluding the one-off restructuring charge of € 22 million booked in the fourth quarter. Tangible book value per share was € 32.65 per share, up 5% versus prior year. This assumes the deduction of the € 460 million of earmarked dividends.

Moving on to slide 5, prior to the deduction of any dividends, we ended the year with a CET1 ratio of 16.3% and 14.0% after deducting the earmarked dividends of € 460 million. We generated 190 basis points of gross capital, of which 180 basis points were through earnings, reflecting our highly capital accretive business.

During 2020 the CET1 ratio target was reduced from 13% to 12.25%, reflecting changes in our P2R composition, after having issued a combined € 375 million of Tier1 and Tier2 capital during the third quarter. We issued greater amounts of Tier 1 & Tier 2 capital than was required, continuing to fortify our balance sheet and creating an additional € 4 billion of RWA capacity for growth to meet any future P2R needs of the business.

Given our overall capital strength, we decided to fully provision the City of Linz from a capital standpoint, even though we continue to feel strongly about the merits of our legal case. The receivable on the balance sheet stands at € 254 million, which is marked at 60% of the original amount owed to the Bank dating back to 2011. The provisioning of the receivable was through the use of CET1 capital prudential filters and resulted in a net impact of minus 60 basis points in 2020. We decided upon this action to ensure that the City of Linz legal case, which we expect will ultimately be referred to the Austrian Supreme Court in the absence of any reasonable compromise, does not become a lingering distraction and we can capitalize on the multiple organic and inorganic growth opportunities ahead of us.

On to Slide 6, we wanted to summarize our approach to capital distribution. Our aim, has, and will always be, to be good stewards of shareholders' capital and focusing on shareholder value, an approach that remains unchanged since our IPO dating back to 2017. Our primary objective is to deploy our excess capital into profitable organic growth, at times supplemented with M&A defined by disciplined underwriting and generating returns consistent with our ROTCE targets of at least 15%. We are committed to a dividend payout ratio of at least 50% of net profit, which we have committed to since our IPO. To the extent that we are unable to deploy our capital in organic growth or M&A, we will return our excess capital to shareholders through share buybacks and/or special dividends. In terms of capital distribution, we look to distribute excess capital above our target 12.25% CET1 ratio on an annual basis in a normalized environment.

We ended the year with a CET1 ratio of 14%. This is after deducting € 460 million of earmarked dividends tied to 2019 and 2020 earnings, which we have had to postpone distribution due to the continued ECB recommended dividend ban. Based on our dividend policy to generally pay out 50% of net profits, we earmarked dividends of € 372 million for the financial years 2019 and 2020. Additionally, we plan to recommend to the ordinary general meeting, a special dividend of € 88 million for 2020, so as to keep the absolute annual dividend payment of € 230 million consistent between 2019 and 2020. The Management Board proposed this special dividend as a show of appreciation and gratitude for the patience of our shareholders during these extraordinary times, many of whom are comprised of pension funds, retail investors and institutions that have come to rely on our dividend payment. Given the most recent ECB recommendation, we plan to make a down payment of € 40 million on the total € 460 million earmarked dividend during the first quarter 2021, with the remaining € 420 million dividend to be paid in the fourth quarter 2021, subject to shareholder and regulatory approvals.

We fully understand the regulator's position on capital distributions this past year in light of the COVID-19 health crisis and dealing with these extraordinary and unprecedented times. We will remain patient, as we hope our investors will too. We are fully committed to distributing our earmarked dividends, as we look to honour commitments to shareholders and believe the bank's resilience this past year and overall strong capital levels position us well to ultimately catch-up on past dividend commitments and resume ordinary capital distributions.

Our year-end CET1 ratio of 14% represents an additional € 360 million of excess capital versus our target CET1 ratio of 12.25%. Our CET1 target of 12.25% represents an MDA buffer of 312 basis points, or approximately € 620 million, versus our SREP of 9.13%, which represents our minimum CET1 capital requirements. In total, this represents 490 basis points, or approximately € 980 million of CET1 capital, between our 14% CET1 ratio (post-dividends) and our 9.13% SREP.

We've maintained a very strong capital position, continued to fortify our balance sheet through conservative provisioning and capital prudential filters, and consistently generated average annual CET1 capital generation through earnings of over 200 basis points per year since 2017.

On slide 7, our Retail & SME business delivered net profit of € 281 million, down 5% versus 2019, but still generating a very strong return on tangible common equity of 22% and net asset growth of 6%, driven by growth in housing loans across our core markets. The decrease in profits relates to booking risk costs of € 126 million, up 66%, after applying prudent and conservative provisioning. Pre-provision profits increased to € 532 million, up 7% compared to the prior year, with an increase in net interest income of 6% more than compensating for COVID-19-related lower fee and commission income, down 10%, impacting our advisory and transactions business. Overall operating expenses were down 3%, resulting from prior year operational initiatives.

While responding in real-time to our customer needs during the crisis, we continued to execute on our strategic initiatives. We completed an important step in the simplification of the Group by consolidating our domestic and International Retail & SME businesses, focusing on building out a multi-channel and multi-brand retail & SME customer franchise providing simple, straightforward and reliable financial products and services. We also continued to execute on a number of operational initiatives to drive greater growth and efficiency across the business, building a strong front-end sales organization across key products and channels, leveraging central functions in order to provide customers with a seamless experience, and continuing to drive synergies across the Group. Overall, we saw customers acting out of an abundance of caution and retail customer activity impacted by the various lockdowns put in place. This has impacted consumer loan demand and depressed consumer spending levels; however, we are hopeful that we will see a gradual resumption of activity in 2021 and expect to see more normalized levels during the second half of the year.

On Slide 8, we provide a portfolio overview of the € 19.2 billion of customer loans and leases across the Retail & SME business. The page captures the overall credit profile of the business, highlighting the split of housing loans versus Consumer & SME assets, total reserve ratio development since year-end, and development of customer payment deferrals. The customer payment deferrals have been updated as of February 5th to provide everyone with a real-time update. The key highlights are the following:

1. Our Retail & SME business is highly collateralized, with approximately 85% of the lending done on a secured basis, which is comprised primarily of housing loans. Approximately 80% of personal loan customers are primary banking customers with a direct-debit salary current account, providing us with insights into the financial health of our customers.
2. As of February 5th, we observed overall payment deferrals decreasing to 60 basis points across the Retail & SME business, from a high of 6.8% at the end of June, representing a decrease of over 90% since the summer peak. More importantly, we now observe a paying ratio of 91% for customers with expired deferrals with an average paying period of over 6 months.
3. In Austria, the public moratorium expired January 31, 2021 and we do not expect any further moratoriums, be it public or private, to be put in place. It's important to note that we benefit from an ingrained payment culture in our DACH markets and strong creditor friendly legal systems. This has always been a key factor in our strategy to focus on the DACH region and core continental Europe given the overall stability and solid macroeconomic fundamentals.
4. We have taken a cautious and prudent approach to provisions given the overall economic uncertainty. Although we see significantly improving development in customer behaviour, in particular a low payment deferral percentage of 60 basis points and a high paying ratio of 91%, we continued to build-up reserves. We've increased reserves by € 105 million, up 60%, to € 281 million total reserves at

year-end in the Retail & SME business; this is driven by ECL, management overlay and general reserves.

On Slide 9, the Corporates & Public business. This contributed a net profit of € 80 million for the full year, down 44% versus the prior year, with a return on tangible common equity of 9% and a cost-income ratio of 29%. Pre-provision profits were € 197 million, up 2% versus prior year. Risk costs were € 80 million, of which € 49 million were tied to specific reserves primarily related to residual oil & gas exposures that have been written-off.

Net assets were up 6% versus prior year, driven by growth in public sector and asset backed lending. We continue to see solid and diversified lending opportunities. However, we will continue to maintain our disciplined underwriting, focus on risk-adjusted returns, and avoid blindly chasing volume growth. This approach has served us well pre-COVID-19 and will continue to serve as the fundamental lending principles of our business.

On Slide 10, we provide an overview of the €13.9 billion of customer loans across the Corporate and Public business as well as a breakout of the Corporate and Asset backed lending assets. The page captures the overall credit profile of the business, total reserve development since year-end, and development of customer payment deferrals. The customer payment deferrals have been updated as well as of February 5th to provide a real-time update. The key highlights are the following:

1. As of February 5th, total payment deferrals for the € 9.0 billion of Corporate and Asset backed lending assets, were 20 basis points or € 14 million loan volume, down over 85% from a high of 1.3% at the end of June. More importantly, we now observe a paying ratio of 100% for customers with expired deferrals.
2. We have taken a cautious and prudent approach to provisions given the overall economic uncertainty. We continued to conservatively build-up general and specific reserves. We've increased reserves by € 38 million, up 50%, to € 115 million of total reserves at year-end in the Corporate & Public business; driven by ECL, management overlay and specific reserves.

In terms of Corporate lending, we've been conservative over the years focusing on senior secured lending, free cash flow generating companies with defensive business profiles and solid capital structures. We have not been as active over the years in corporate lending as we've found the space challenging from a risk-adjusted return standpoint. We will continue to remain disciplined and focus on risk-adjusted returns.

Of the € 4 billion of Corporate assets, our net exposure to higher risk cyclical sectors, which is comprised of Oil & Gas, Shipping, Hotels, Non-grocery retailers, and Airlines was collectively € 22 million as of the end of January (this is down 81% since year-end 2019), representing approximately 50 basis points of total Corporate assets. Just as important, none of these exposures are non-performing loans. During the course of 2020, we proactively managed down our higher-risk cyclical exposures, writing off € 25 million of residual oil & gas exposures and taking a conservative approach to provisioning.

In asset backed lending, we've taken an equally conservative approach. Our focus has been senior secured real estate lending. On average, we underwrite to an average loan-to-cost (or LTC) of under 65% and an interest coverage ratio of greater than 2.0x. We continue to observe solid performance across the portfolio, with positive customer responses and actions taken.

Given the acute stress on retailers and hotels, we are actively monitoring real estate loans with stand-alone exposure to these types of businesses, which amounts to approximately 8% of the total asset backed lending portfolio. Of this sub-set of loans, 16% is in Stage 3 and conservatively provisioned. The majority of the loans have either an interest reserve, or free cash flow, of approximately 6 months. Additionally, 39% of the original principal has been repaid, as the vintages date back to 2017 and 2018.

In summary, while some of our clients have experienced increased financial pressure during this crisis and have been impacted by multiple lockdowns, on the whole we have been pleasantly surprised at how they have responded to-date. We will remain vigilant in monitoring our portfolio to ensure performance continues and are cautiously optimistic that any stress in our portfolio will be minimal. With that I will hand over to Enver.

Enver Sirucic: Thank you, Anas. I will continue on slide 11. Our cash position, including money held with central banks, went from € 7.1 billion in 2019 to € 10.9 billion in 2020. The main increase came from the draw-down of the TLTRO III program in June of last year. At the same time, in addition to our customer loan growth, we partly deployed our excess cash into high quality securities. Our investment book stands now at € 6.5 billion and remained broadly unchanged in terms of quality, with no non-performing assets, 96% of the book is investment grade, has a balanced maturity profile of more than 4 years and a healthy diversification.

With that, moving on to slide 13. We saw stable development of core revenues in the fourth quarter, compared to prior year core revenues were up 1% with strong NII growth of 4% and a very challenging situation in net commission income in 2020, which was mainly impacted by the various lockdown measures. Other income was slightly positive in Q4 and overall flat for 2020. Underlying operating expenses were stable and on track, and as mentioned in Q3 we booked additional restructuring cost of approximately € 22 million in Q4 to further accelerate our future efficiency measures. Risk costs further came down quarter-over-quarter, while we continued to apply a prudent and conservative provisioning approach. Profit before tax of € 107 million and net profit of € 83 million, both improved by 6% and 5% respectively versus Q3, which is also reflected in a solid quarterly RoTCE of 11.5%.

On slide 14, we provide an overview of our balance sheet, which was growing in 2020 through increased customer loans and interest-bearing assets. Overall, totals assets were up 16% versus year-end and up 4% compared to Q3. On the funding side we have seen a continued increase of our customer deposits and improved our long-term funding mainly through issuing covered bonds in 2020. Additionally, in Q3 we also raised € 175 million of Additional Tier 1 capital and € 200 million of Tier 2 capital, further improving our total capital stack.

On slide 15, core revenues. So a solid quarter of Net interest income, largely stable versus Q3 with a Net Interest Margin of 228 basis points, in line with the full year performance. We see an overall positive trend resulting from higher interest-bearing assets and over time we also expect a change in our asset mix to more secured and public sector lending. In terms of Net Commission Income, we saw a very challenging situation in 2020, especially in the second quarter which was really a trough of activity, mainly impacted by the lockdown measures and travel restrictions which have been put in place. In the second half of the year we observed a gradual recovery with NCI improvement in Q3 and Q4. We stand now at above 90% of pre-Covid levels and assuming a more normalized environment in the second half of 2021 after continued subdued activity in the first half, we expect core revenues to grow by approximately 2% in 2021.

With that, moving on to slide 16. Underlying operating expenses, excluding restructuring cost, came down 6% year-over-year and showed a positive trend in Q4 as well. Underlying Cost–income ratio was at 43% for the year and at 41% for the last quarter. Absolute costs came in at € 145 million for the quarter including approximately € 22 million of restructuring costs, that we took in Q4 to further accelerate our future efficiency measures. As indicated in our last earnings calls, we have already started working on different measures to redefine our operating infrastructure, which will result in more digital engagement and we will also put a lot of focus on driving a higher simplification and standardization across the bank. What this means in terms of cost out is a further reduction of our operating expenses to below € 485 million in 2021 with a target cost-income ratio of below 41%, having said that we also confirm our mid-term target of going below 40%.

Slide 17, risk costs. In general, we continued with our conservative and prudent approach on provisioning. In Q4 we booked € 45 million of risk costs - we took € 19 million specific reserves in our Corporate lending business mainly to address cyclical exposures, and we had a normal run-rate in Retail & SME of approximately € 16 million of risk costs. Underlying risk cost ratio further improved, and was below 30 bps in Q4, while total risk cost ratio came down from 49bps in Q3 to 44bps in Q4.

Full year risk costs were € 225 million, of which approximately € 100 million were tied to management overlays and increasing ECL reserves. We didn’t adjust our macro assumptions and instead built a management overlay of € 38 million, which are general reserves in excess of modelled reserves.

We also decided not to release any credit reserves, although we see an overall improved macro environment and continued positive developments in payment deferrals, now being under 1% in total across our customer businesses.

Because of our conservative provisioning approach in 2020 and the improving overall environment we anticipate risk costs for 2021 could be more than 40% lower than in 2020.

On slide 18 we provide more details on reserves. Consistent with the prior page we see a continuous build-up of reserves in 2020. Reserves increased by € 140 million or 54%, of which ECLs were up € 73 million million and Stage 3 reserves were up € 67 million. We booked approximately € 100 million of reserves tied to management overlays and ECLs.

Additional stage 3 reserves in Q4 also resulted in an improved NPL cash coverage ratio (excl. City of Linz case) of 46% versus 37% in 2019. We also decided to fully provision the City of Linz worst case from a capital standpoint, which is best reflected in a significantly improved NPL cash coverage of 62% versus 32% in 2019.

As mentioned before we have not released any prior ECL reserves and will continue to be prudent in our provisioning approach.

With that moving on to slide 19, Capital. I just mentioned that we decided to fully provision the City of Linz case from a capital standpoint through a CET1 prudential filter, that resulted in a net impact of 60 basis points in 2020. This means, that even in a very unlikely worst-case scenario we would not see any impact on our CET1 capital. This was largely offset by the positive impacts resulting from new capital rules on lower deductions from software intangibles and the so called 'SME factor'.

We ended the year with a CET1 ratio of 16.3% prior to the deduction of any dividends, and 14.0% after deducting the earmarked dividends of € 460 million. Despite the overall challenging environment, we generated 190 basis points of gross capital, again reflecting our highly capital accretive business model.

After having issued a combined € 375 million of Tier1 and Tier2 capital in Q3, the CET1 ratio target was reduced from 13.0% to 12.25%, reflecting changes in our P2R composition. This also led to an improved total capital ratio of 19.6% post-dividends in 2020, up 260bps versus 2019.

That gives us now an implicit buffer of more than 310bps between our target ratio and regulatory requirements or almost 500 basis points, if you compare it to our actual CET1 ratio of 14.0% post-dividends.

With that moving on to slide 20, we wanted to provide you with our 2021 outlook

In terms of revenues, we expect subdued activity during first half of the year given continued lockdowns followed by a more normalized environment in the second half of the year. Core revenues we would assume to grow by approximately 2%, while we expect other income to be zero for 2021.

Our focus on efficiency is unchanged and approximately € 22m of restructuring cost, that we have booked in Q4 will further accelerate our ongoing efficiency measures and translate into a reduction of greater than 3% of core operating expenses, ultimately resulting in operating expenses for 2021 to fall below € 485 million.

With the increased annual deposit insurance payments of € 12 million per year following the Commerzialbank fraud in 2020 we would expect total regulatory charges to be around € 60 million for 2021, assuming no recoveries.

During the course of 2020, we have taken a cautious and prudent approach to provisions. We proactively managed down our higher-risk cyclical exposures, applied the most conservative macroeconomic scenario in our models, booked approximately € 100 million of reserves tied to management overlays and ECLs. Now we see a significantly improving development in customer behaviour, in particular a very low level of payment deferrals and a high paying ratio. Because of these actions and the overall improved economic environment, we now anticipate risk costs for 2021 to be more than 40% lower than in 2020.

And with that I would hand over to Anas for final remarks. Thank you.

Anas Abuzaakouk: Thanks Enver. To wrap-up, on slide 21, I wanted to reiterate our 2021 targets. We are targeting a return on tangible common equity of greater than 13% and a cost-income ratio of under 41% this year. We feel confident in our ability to achieve these targets and that 2021 will be a steppingstone to our normalized medium-term targets, consisting of generating a return on tangible common equity greater than 15% and a cost-income ratio under 40%.

We are planning an Extraordinary General meeting for March 3rd, to approve the € 0.45 per share dividend, or € 40 million down payment, on our total earmarked dividends of € 460 million. The ordinary annual general meeting, in which the remaining € 420 million will be resolved upon, will be scheduled for the second half of the year. We are also planning to update investors in our inaugural Capital Markets Day, which is currently scheduled for September in London.

Our strategy has been consistent throughout the years. One defined by consistent operational execution, focusing on the things that we can control, driving profitable growth, being good stewards of capital and doing our best to deliver shareholder value. I'm extremely proud of how the business performed this past year and the contributions of all of our team members across the Group.

With that operator, let's open up the call for questions. Thank you.

Operator: Thank you. Ladies and gentlemen, we will now begin the question and answer session. As a reminder, if you wish to ask a question, please press star and one on your telephone and wait for your name to be announced. If you would like to cancel your request, you can press the hash key. Once again, that is star and one if you would like to ask a question. Your first question today is from the line of Izabel Dobreva from Morgan Stanley. Please ask your question. Your line is open now.

Izabel Dobreva: Good morning and thank you very much for your presentation. I have 2 questions, please. My first question is on your dividend proposal, which you have outlined very clearly. But my question is more regarding the timing and if you could give us a sense of your conversations with the regulator and any colour on how those have evolved. Specifically, I would like to know whether the proposed amount, including the specials beyond the cap, have been discussed with the ECB. And then regarding the timing,
how confident do you feel or how likely is it that the payment can be made already in Q4? So is it a matter of just the ECB cap being lifted? Or is there anything else we need to think about regarding BAWAG's specific variables, for example? So that's the first question.

And my second question is on the core revenue guidance. The 2% year-on-year growth, how should we think about the mix between NII and fee growth within that? And more specifically, you mentioned you expect a slow first half. So what would be your total loan growth outlook for 2021 considering the kind of slowdown we're seeing in consumer? Thank you.

Anas Abuzaakouk: Thanks Izabel. I hope you are doing well and a belated Happy New Year. I'll take the first question on the dividends. And then, Enver, if you can take the core revenues, that would be great.

So on the dividends, Izabel, the € 40 million, that's obviously the maximum allowable per the ECB communication in December. We hope to hold the Extraordinary General meeting on March 3rd, and that will be € 0.45 per share. I think the bigger question that you were asking about is the residual € 420 million. As we've said before and as our time as a public company, all the discussions we have with the regulators are confidential. Rest assured, obviously, we share the information that we share with you and the public with our regulators beforehand. But I think this is going to be dependent upon the actions taken vis-à-vis the dividend ban. We believe as the ECB has stated, these are extraordinary and unprecedented times. And hopefully, the dividend ban is lifted.

But from a capital standpoint, we've deducted the earmarked dividends of the total € 460 million from our CET1 capital. And we'll look to make those distributions when the time comes. And hopefully, that's the fourth quarter. So I can't give you any more than that. So thank you. Enver?

Enver Sirucic: Izabel, so on the core revenue split, we don't provide actually the details. But directionally how to think about it, is it's probably a bit skewed to the NCI, so would expect better recovery on the NCI front. On the loan growth, also here, we don't provide any details on that. But what we would assume is at least that the growth momentum that we have seen on the secured lending side will also continue for 2021. I hope that's helpful.

Izabel Dobreva: Thank you very much,

Operator: Thank you and your next question comes from the line of Thomas Dewasmes from Goldman Sachs. Please ask your question, your line is open now.

Thomas Dewasmes: Thank you, good morning. I had just one, actually. You've reclassified your assets breakdown by geography and type of assets to now put Netherlands in the core region, it seems. Is it a region where you expect to grow even faster organically or inorganically?

Anas Abuzaakouk: Hi Thomas. Look, the reason we have the DACH/NL, which is Germany, Austria, Switzerland and Netherlands, because they share similar characteristics from a macroeconomic standpoint, we see that as kind of core Europe. We like the underlying macro fundamentals. And then when we look at the whole retail market, we look at it as one market. We don't look at it as kind of of a balkanised Austria, Germany, the Netherlands, we look at it as one single market and we see interesting opportunities across the retail product. So that's the reason that we've kind of expanded the scope, and we see a number of organic opportunities and, hopefully, inorganic opportunities as well. I hope that helps.

Operator: Thank you and your next question comes from the line of Gabor Kemeny from Autonomous Research. Please ask your question, your line is open now.

Gabor Kemeny: Yes hi. A few questions from me. First one is on the hotel/retail exposure, where you now disclose a 16% NPL ratio. What share of this do you classify as Stage 2? And if you could give us some colour on how much additional provisions do you assume here this year when you guide for an at least 40% decline in the group's provisioning charges.

Second one also on provisions. I seem to recall that you set aside provisions for the debt under moratoria, in particularly, the consumer unsecured debt. Can you remind us how much provisions do you have set aside for these exposures now given that most of these loans have been coming out of the moratoria and performing?

And then my final question is on the long-term incentive plan for management. I think up to one million shares are to be vested this year, and the vesting was linked to pretax profits in the last 3 years, I think, to remember. Can you give us an update about the expected vesting? Thank you

Anas Abuzaakouk: Hi Gabor. Happy New Year to you as well and congratulations on many fronts. So the first as far as the provisions, what we did on the Corporates & Public segment, we provided a little more detail specifically on the asset-backed lending. And you are referring to the specific exposure to retailers and hotels. And what we did was we wanted to just break out the Stage 3 or NPL exposure there, which is 16% of the 8% of the total portfolio, so call that around € 60 million or so, which we have indicated during the presentation is conservatively provisioned. We did that purposely just to highlight where we see some areas of stress but also to give some comfort that we feel pretty good about the portfolio, at least the developments during the course of 2020. So that was done purposely, and I hope that provides a little more guidance around just the areas that are probably higher risk in terms of asset classes.

The second question on debt moratoria, the more important thing, it's not the provision on the debt moratorium, I think, that we took in the second or third quarter. We rolled that, so any positive development, and we had mentioned that the peak was 6.8% in the Retail & SME business during the month of June, and it's now down to 60 basis points, right? Any positive development there, we effectively rolled that into the management overlay, which I'd mentioned earlier was € 38 million of the € 100 million of ECL/management overlay/general reserves. So I hope that provides you with some insight there.

And on the LTIP, that's something that is up for the Supervisory Board. You'll see a release on the LTIP tied to our performance over the past 3 years. But I think we've been able to demonstrate we've consistently hit our targets despite 2020 being a challenging year. I think we were able to perform, and we will see a certain vesting of the LTIP in that regard.

Gabor Kemeny: Thank you, that's helpful. A quick follow-up, when do you expect the Supervisory Board decision on the LTIP?

Anas Abuzaakouk: Yes, that's been taken. So you'll see that in the outstanding shares.

Gabor Kemeny: Okay. so it's fully vested?

Anas Abuzaakouk: The part that's related to the 3-year performance and part of the timing is fully vested, yes, but there's still other elements that are outstanding.

Gabor Kemeny: Understood. Thank you.

Operator: Thank you. Another reminder, if you wish to ask a question, please press star and one on your telephone and wait for your name to be announced. The next question comes from the line of Johannes Thormann from HSBC. Please ask your question, your line is open now.

Johannes Thormann: Good morning everyone, Johannes Thormann from HSBC. Two questions. First of all, what are the lessons learned on different corporate sectors and probably also the needed margins in those businesses and as well as the general underwriting policy of your bank? As you said, you're not as active due to the challenging environment. What has changed versus before?

And secondly, you elaborated on the City of Linz case will go to the Supreme Court because there is no reasonable compromise available. Can you put up some more thinking behind this as well? Thank you.

Anas Abuzaakouk: Hi Johannes. Let's start with the City of Linz. What I said was in the absence of any reasonable compromise. We've been pretty vocal that we're pragmatic. We have the receivable marked on our balance sheet. And this is since 2011 at € 0.60. We are pragmatic people, but it takes two to be able to reach a compromise. It can't be a unilateral decision. And that's part of the reason why from a prudential filter standpoint, we went ahead and provisioned it. We have very strong capital levels. We didn't want it to be this lingering distraction. And we have every intention effectively to fight for what we believe is a very strong legal case. And if that takes a couple of years, so be it. We'd like to have a settlement much earlier, but that again takes two parties. It can't be done unilaterally.

And then your question on the corporate lending. We have been pretty consistent, Johannes, in these presentations over the years of talking about we thought it was, corporate lending was getting a bit irrational. It was a really frothy market. When I say disciplined underwriting, we look at certain sectors and we look at leverage ratios and certain corporates were massively over-levered. This is pre COVID. And we thought high-risk sectors, which we didn't have a lot of exposure coming into pre-COVID, in which we've managed down now, post-COVID, down to the € 22 million that I mentioned. That just wasn't priced appropriately from a risk-adjusted return standpoint. And what we've seen now in a post-COVID environment is there's two tracks. You have kind of the government guarantees, and that's something that, obviously, if we can support, we would. And then you have, I think, more capital markets pricing. And we saw at least in the first few months after the pandemic spread that we saw more firm pricing. Now we're even seeing that kind of capital markets pricing getting ahead of itself. And we're going to continue to be disciplined and we won't overextend ourselves. And we won't just blindly chase volume. We'll do good lending. We think that makes sense from a bank standpoint as well as from a borrower standpoint. So I hope that helps.

Johannes Thormann: Ok, thank you.

Anas Abuzaakouk: Thanks.

Operator: Thank you. There are no further questions at this time, therefore, I would like to hand back to Mr. Abuzaakouk.

Anas Abuzaakouk: Thank you, operator. Thanks, everyone, for joining our call. I hope everyone stays safe. Keep well, and we'll catch up with you guys in the first quarter earnings. Take care and all the best. Bye.