BAWAG Group

BAWAG Group Q3 2020

Earnings Call

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Transcription

<u>Speakers</u>:

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Enver Sirucic

Anas Abuzaakouk: Good morning everyone. I hope everyone is keeping well and healthy. As we enter into the eighth month of the COVID-19 health crisis, we continue to learn and adapt to these unprecedented times, having to address an environment that frankly we have not seen before. Our team will continue to act out of an abundance of caution, hoping for the best, but being prudent and conservative in how we manage and assess the potential risks ahead. With that, let's dive into the third quarter results.

On slide 3, a summary of the third quarter, with net income of € 79 million, earnings per share of € 0.90, and a return on tangible common equity of 11.1%. We delivered a solid operating result with pre-provision profits of € 165 million and cost-income ratio of 43.2% for the quarter.

We continued to remain cautious on the overall environment booking risk costs of € 50 million for the quarter, of which € 14 million were general reserves. We have not updated our economic forecasts or released any prior ECL reserves, and we continue to adopt the ECB's Euro area adverse economic scenario published in June, which assumes a 12.6% GDP decline in 2020 and a modest recovery of 3.3% in 2021. Although full year forecasts have improved across both the ECB Euro area as well as specifically for Austria and Germany, we do not plan to make updates to our model assumptions this year, unless the situation further worsens. We're fortunate that we enter this crisis on very strong footing, having transformed the franchise over the past decade. This will allow us to navigate the challenges ahead and weather any potential further macroeconomic deterioration.

Unfortunately, we had to book a charge of approximately € 12 million related to increased contributions to the Austrian deposit insurance scheme, which is related to the fraud that has taken place at Commerzialbank. Apart from being both members of the Austrian deposit insurance scheme, BAWAG Group has zero ties or exposure to Commerzialbank.

The bank's capital position remained strong, with a fully loaded CET1 ratio of 14.0%, up 60 basis points from the second quarter after deducting the third quarter dividend accrual. The Bank continues to deduct the full year 2019 dividend of € 230 million and the first nine months of 2020 dividend of € 101 million from our capital and we will wait for further guidance from our regulators regarding capital distributions during the fourth quarter. We are fully committed to distributing our earmarked and deducted dividends. We also completely understand the regulator´s position on capital distributions in light of the COVID-19 crisis, acting out of caution and prudence. We will remain patient, as we hope our investors will too, as we wait for further guidance at the end of the year.

With another quarter under our belt and a better feel for customer behavior and overall business development, we are confident in delivering a return on tangible common equity of approximately 10% this year. However, we remain cautious in our approach and will not underestimate the potential impacts from a second wave of COVID-19 infections. We also plan to hold our Annual General Meeting for 2019 resolutions later this week, which has been scheduled for 30 October as a virtual meeting.

Given our strategic focus, strength of the franchise, and the transformation that has taken place over the years and that will continue to take place, we are reiterating our medium-term targets; generating a return on tangible common equity of >15% and a cost-income ratio <40% in a normalized environment.

Moving on to Slide 4. A solid third quarter and year-to-date result in light of the current conditions and the conservative and prudent approach to provisioning we continue to take. For the third quarter, we delivered net income of € 79 million, earnings per share of € 0.90, and a return on tangible common equity of 11.1%. On a year-to-date basis, we delivered net income of € 201 million, € 2.29 per share, and a return on tangible common equity of 9.6%.

Over the first nine months of the year, the underlying operating performance of the business remained solid, with pre-provision profits of € 495 million, down 7% versus prior year. Core revenues are up 2% versus prior year and operating expenses are down 5%, which is offset by lower Other Income. With our ongoing cost discipline and proactive efficiency measures, the cost-income ratio was 43%. We've also booked € 179 million of risk costs on a year-to-date basis, of which approximately 50% is related to ECL reserves tied to macro model assumptions, payment deferrals and other general reserves. We will continue to remain cautious and prudent in our provisioning and will not adjust any of our macro-assumptions or other general reserves taken for the remainder of the year unless the situation deteriorates further, as there is still a great deal of uncertainty on the second wave of COVID-19 infections spreading and the overall economic uncertainty that lies ahead.

In terms of overall balance sheet and customer growth, we've been able to grow interest-bearing assets and customer loans, up 9% and 4% respectively, versus year-end. We will look to use our capital and liquidity to support our customers and communities in the months ahead while also being prudent in protecting and growing our franchise.

Tangible book value per share was € 32.78, up 3% versus prior quarter. This assumes the deduction of the full year 2019 dividend as well as the dividend accrual for the first nine months of 2020.

On Slide 5, we highlight the capital development during the quarter. With a CET1 ratio starting point of 14.8%, which is prior to the deduction of the 2019 or first nine months of 2020 dividends, we ended the quarter at 15.6% CET1 ratio, up 80 basis points. We generated 50 basis points of gross capital through earnings and 30 basis points from an increasing OCI (which is primarily from tightening credit spreads) as well as changing asset mix which impacted RWAs. Assuming we are able to make dividend payments for both the full year 2019 dividends of € 230 million, as well as the first nine months of 2020 dividend accrual of € 101 million, our proforma CET1 ratio would be 14.0%.

Additionally, our CET1 ratio target was reduced from 13.0% to 12.25%, reflecting changes in our P2R composition, having issued a combined € 375 million of Tier 1 & Tier 2 capital during the third quarter. We issued greater amounts of Tier 1 & Tier 2 capital than was required, creating an additional € 4 billion of RWA capacity for growth to meet any future P2R needs.

Lastly, it's important to restate, we are fully committed to distributing our earmarked dividends, which have always been deducted from our capital base, subject to regulatory approval.

On Slide 6, the Retail & SME business delivered a pre-tax profit of € 104 million, up 17% versus the prior quarter and up 1% versus the prior year. The business generated a ROTCE of 25% and a cost-income ratio slightly under 41%. Net asset growth was up 3% versus prior quarter and up 8% versus the prior year. The growth in housing loans is offsetting the subdued demand we are seeing in consumer loans and the continued run-off of our UK and French mortgage portfolios.

Pre-provision profits were € 132 million, up 8% versus the prior quarter and 5% versus the prior year. The solid underlying business performance was driven by operating income growth of 3% versus prior quarter and 1% versus prior year. The risk costs were € 27 million for the quarter, down 24% versus the prior quarter, but still up 49% versus prior year levels. We continue to prudently build-up reserves given the economic uncertainty in the months ahead.

Our teams continue to support our customer base while executing on a variety of operational and strategic initiatives. During the third quarter, we decided to consolidate our domestic and international retail business, to drive even greater simplification and standardization across the business. We will continue to execute on our long-term strategy creating a Retail & SME business built on simple and efficient processes, high-touch, high-quality advisory, digital innovation, data analytics and partnerships to provide the best and easiest banking services to our customers. We believe these pillars of our strategy will be accelerated as a result of the COVID-19 crisis, evolving societal trends and an overall change in customer and employee behavior.

On Slide 7, we provide a portfolio overview of the € 19.1 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 secured versus unsecured assets, NPL ratios, total reserve ratio development since year-end, and development of customer payment deferrals. The customer payment deferrals have been updated as of 22 October to provide everyone with a real-time update. The key highlights are the following:

1. Our Retail & SME business is highly collateralized, with approximately 84% of the lending done on a secured basis, which is comprised primarily of housing loans.
2. Our unsecured lending is made up primarily of consumer personal loans and overdrafts. Approximately 80% of our personal loan customers are primary banking customers with a direct-debit salary current account. This provides us with detailed insight into overall customer behavior – most importantly their cash flow profile – stemming from their employment situation, spending patterns, and ability to service their debts.
3. As of 22 October, we observed overall payment deferrals decreasing to 1.7% across the Retail & SME business, from a high of 6.8% at the end of June, representing almost a decrease of 75% over the last quarter. Just to recap, the payment holidays are defined as the sum of total customer loan and leases with a payment holiday request, divided by the total loans and leases. More importantly, we now observe a paying ratio of 94% for customers with expired deferrals. In Austria, the public moratorium has been extended another 3-months to the end 31 January 2021, from the original expiry of 31 October 2020. Since the

extension of the public moratorium, we have observed only a small number of requests from customers to extend their payment holidays, which is approximately 20 basis points. It's important to note that we benefit from an ingrained payment culture in our DACH markets, and strong or 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 1.7% and a high paying ratio of 94% for customers with expired deferrals, we continue to build-up reserves. On a year-to-date basis, we've built-up € 78 million of reserves in the Retail & SME business, an increase of 44% since year-end 2019, resulting from applying severe macro-economic assumptions, payment holiday provisions and other general reserves.

We will continue to remain cautious and will act in a prudent manner given the overall economic uncertainty in the coming months. Our approach will always be to err on the side of caution and be both prudent and conservative in provisioning.

On Slide 8, the Corporates & Public business contributed a pre-tax profit of € 26 million during the third quarter, up 38% versus the prior quarter and down 43% versus the prior year, with a return on tangible common equity of 9% and cost-income ratio of 29%. Pre-provision profits were € 48 million, flat versus the prior quarter and up 6% versus prior year. Risk costs were € 21 million for the quarter, primarily related to booking € 16 million of specific reserves in exposures to higher risk cyclical sectors. The remaining € 5 million of reserves were tied to general reserves.

Net assets were down 2% versus the prior quarter, primarily driven by redemptions in corporate loans. However, we continue to see solid and diversified lending opportunities with good risk-adjusted returns. We will continue to maintain our disciplined underwriting, focus on risk-adjusted returns, and avoid blindly focusing on 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 9. Here we provide an overview of the € 9.3 billion of customer loans and leases across the Corporate and Asset backed lending portfolio, excluding the public sector assets of € 4.3 billion, as these assets represent exposures to Austrian municipalities, Federal States and the Republic of Austria with no NPLs or payment deferrals. The page captures the overall credit profile of the business, highlighting the NPL ratio, total reserve development since year-end, and development of customer payment deferrals. The customer payment deferrals have been updated as well as of 22 October to provide a real-time update. The key highlights are the following:

1. As of 22 October, total payment deferrals for the € 9.3 billion of corporate and asset backed lending assets, were 60 basis points or € 55 million loan volume, down over 50% 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. The remaining payment holidays are comprised of approximately 30 clients and represent smaller exposures in the DACH region.
2. We have taken a cautious and prudent approach to provisions given the overall economic uncertainty. Although we see solid performance across our customer base, we continue to conservatively build-up general and specific reserves. On a year-to-date basis, we've built-up € 54 million of reserves in the segment, an increase of 71% resulting from applying severe macro-economic assumptions, taking specific reserves, in particular to exposures in the Oil & Gas sector, and other general reserves.

In terms of Corporate lending, you guys have heard me say this before. We've been conservative over the years with a focus on senior secured lending, free cash flow generating companies with defensive business profiles and those companies with 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 and continue to see net asset declines as we remain disciplined and focused on risk-adjusted returns.

Of the € 4.3 billion corporate assets, our net exposure to higher risk cyclical sectors, comprised of Oil & Gas, Shipping, Hotels, Non-grocery retailers, and Airlines is collectively € 60 million, or said differently, it is 1.4% of total corporate assets and under 20 basis points of total customer loans. Approximately 25% of these exposures, or € 15 million, are non-performing and we have been proactively monitoring these positions, having already taken specific reserves in the first nine months of the year totaling approximately € 30 million. We feel comfortable with the remaining exposures, where we see another 35-40% reduction during the fourth quarter resulting from scheduled redemptions and amortizations. However, we will continue to remain prudent and conservative with our provisioning.

In asset backed lending, we've taken an equally conservative approach. Our focus has been on senior secured lending with no mezzanine financing and real estate focused. On average, we underwrite to an LTC of under 65% and an interest coverage ratio of greater than 2.0x. We work with a handful of established sponsors and have been active in portfolio financing over the years. 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 portfolio. The majority of the loans have either an interest reserve, or free cash flow, of approximately 6 months. Of these exposures, approximately 32% of the 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, 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 10 – this is an overview of our cash position and our investment book. The cash and cash equivalents, which is mainly money at central banks went from € 7.1 billion at year-end to € 9.3 billion in September, the main increase came from the draw-down of the TLTRO III in June.

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 € 6.8 billion and remained broadly unchanged in terms of quality, with no non-performing assets, 97% of the book is investment grade, has a balanced maturity profile of 4.4 years and a high diversification.

Moving on to slide 12, our P&L and key ratios. Positive trend in core revenues, up 5% versus prior quarter and even compared to prior year core revenues were up 2%. While net interest income was up nicely with 3% versus Q2 – mainly driven by positive effects of TLTRO, net commission income also showed a positive development and started recovering from the low in Q2 and improved by 13% versus last quarter but is still 10% below pre-Covid levels. Operating expenses were stable and on track with a cost-income ratio of 43.2% for Q3. Pre-provision profit of € 165 million improved by 3% compared to Q2, resulting mainly from stronger core revenues. Risk costs, as expected, came down quarter-over-quarter after we booked € 50 million in Q3. We also booked extraordinary regulatory charges of € 11.6 million for a deposit guarantee scheme case in Austria, which is related to the fraud that has taken place at Commerzialbank. PBT of € 101 million and net profit of € 79 million, both improved by 25% and 29% respectively versus Q2, which is also reflected in a 2 percentage points uplift of the RoTCE from 9% in Q2 to 11% in Q3.

Moving on to slide 13, totals assets were up 12% versus year-end and largely unchanged compared to Q2. As previously mentioned, we deployed our excess cash into customer loans and high-quality securities in the first 9 months, which overall resulted in higher interest-bearing assets of 7%. On the funding side we issued a € 750 million covered bond in September, after we raised € 175 million of Additional Tier 1 capital and € 200 million of Tier 2 capital, further improving our funding and capital stack. Tangible common equity was up 6%, while CET1 capital improved by 5% since year-end. Risk weighted assets came down versus Q2 and versus year-end mainly due to the change in our asset mix.

On slide 14, core revenues. A very strong quarter of Net interest income, which was up 3% versus Q2, mainly driven by higher net-interest bearing assets from prior quarters and the positive TLTRO impact, which also brought back the net interest margin above 230bps, actually up 4bps versus prior quarter. Over time we expect the change in our asset mix to continue with more secured and public sector lending.

We saw a very challenging situation in Net commission income in the second quarter which was down 22% versus Q1, mainly impacted by the lockdown measures primarily in April and May in Austria. So, Q2 was really a trough of activity and as expected we observed a gradual recovery in Q3 with NCI improvement of 13% versus Q2. In terms of net commission income, we stand now at 90% of pre-Covid levels. So with the gradually improving but continued challenging environment in commission income and on the back of a strong performance of net interest income, we expect core revenues to be overall stable in Q4 compared to Q3.

With that, moving on to slide 15. Operating expenses were largely stable, cost–income ratio was at 43.2% and absolute costs came in at € 125 million, very consistent with prior quarters. We have started working on different measures to redefine our operating infrastructure, which will result in more digital engagement, both with our customers and employees and we will put a lot of focus on driving a higher simplification and standardization across the bank. We remain positive about the cost development in 2020 and expect underlying costs to come down 5% versus 2019, while we are planning to take up to € 25 million of restructuring cost in Q4 to accelerate future efficiency measures.

Slide 16, risk costs. We continued with our conservative and prudent approach on provisioning and also have not adjusted any of our macro-assumptions or other general reserves taken.

1. We took € 16 million specific reserves in our Corporate lending business mainly to address cyclical exposures
2. We had a normal run-rate in Retail & SME of approximately € 20 million of risk costs
3. We took € 14 million of additional general and other reserves

So, in a nutshell, € 36 million specific and € 14 million in general reserves, in total almost € 50 million of risk costs in Q3. Underlying risk cost ratio remained stable at around 35bps, while total risk cost ratio came down from 74bps in Q2 to 49bps in Q3. We will continue with our provisioning approach and will not adjust any of our macro-assumptions or other general reserves taken unless the situation deteriorates further. Having said that, we would expect risk costs for the second half to be lower than for the first half of the year.

Slide 17 provides more details on reserves. Consistent with the prior page we see a continuous build-up of reserves since year-end. Year-to-date reserves increased by € 128 million or 50%, of which ECLs were up € 70 million and Stage 3 reserves were up € 58 million. In Q3 total reserves went up by € 41 million, mainly in stage 3, which also resulted in an improved NPL cash coverage ratio of 43% versus 39% in Q2. As mentioned before we have not updated our economic forecasts or released any prior ECL reserves, and we continue to adopt the ECB's adverse economic scenario published in June, assuming a 12.6% GDP decline in the Euro-area in 2020 and a modest recovery of 3.3% in 2021. We will continue to remain cautious and prudent given the overall economic uncertainty in the coming months. Our approach will always be to err on the side of caution and be both prudent and conservative in provisioning.

With that moving on to slide 18, capital. So a few things to highlight here:

1. CET1 ratio came in at 14.0% after deducting the full year dividend for 2019 of € 230 million and a dividend accrual of € 101 million for the first nine months of 2020, so in total € 331 million of earmarked dividends are deducted from the capital ratios shown on this page.
2. We still expect a net positive 25 basis points from the new treatment of software intangibles in the fourth quarter of the year.
3. We issued € 175 million of Additional Tier 1 and € 200 million of Tier 2 capital in September, which helped us a) address the changed P2R composition, b) gave us additional RWA capacity for future growth or M&A and c) improved our Tier 1 ratio by 150bps and our Total Capital ratio by more than 250bps in Q3.
4. We also reduced our CET1 target from 13% to 12.25%, which gives us now an implicit buffer of more than 300bps between our target ratio and regulatory requirements or almost 500bps, if you compare it to our actual CET1 ratio.

With that moving on to slide 19. An update of our 2020 outlook:

We expect net interest income to improve by up to 4% compared to 2019, while net commission income will be down around 10% for the full year. We assume other income to be zero for the full year 2020. Our outlook on underlying operating expenses is basically unchanged, so we still expect to be 5% better than in

2019. However, we are planning to take up to € 25 million of restructuring cost in Q4 to accelerate future efficiency measures. On risk costs we will remain cautious, but we think that risk costs will be lower in the second half than in the first half of 2020. With all these updated numbers we should land in terms of ROTCE at approximately 10% this year, consistent with our outlook from Q2. In terms of medium-term targets nothing has changed. We are committed to deliver an RoTCE of greater than 15% and a cost-income ratio of below 40% in the medium term based on a normalized environment.

Lastly, as you already know we decided earlier in the year to move our AGM, which will take place on October 30th as a virtual meeting. We also wanted to highlight and reiterate what we intend to do in terms of capital distribution on slide 20. We have earmarked and fully deducted from capital € 230 million of dividends for 2019, which we intend to pay out as soon as we get the green light from our regulators, this could then be resolved in the next general meeting in 2021, which could also take place as an extraordinary meeting. For 2020, we have been accruing dividends according to our dividend policy, which is 50% of net profit and we intend to decide on the 2020 dividend in the next regular general meeting in 2021.

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

Anas Abuzaakouk: Thanks Enver. Before we jump into Q&A, as in prior quarters, I wanted to highlight what has enabled us to be resilient during these uncertain times, allowing us to be both cautious and prudent. We entered into this health-induced crisis, having spent the better part of the last decade transforming our business and are fortunate to be dealing with this crisis from a position of strength. We did a great deal of heavy lifting over the years, having invested significant amounts to make our business more efficient, more digital, and more dynamic.

However, we are now looking to the future and the changes we've experienced over the course of this year will serve as a catalyst for accelerated changes across the Group. We are going to do our best in continuing to navigate these uncertain and potentially volatile times, ensuring that we protect our employees, support our customers and local communities, and protect and grow our franchise. We will always focus on the things we can control, be proactive and decisive, and not be deterred by the changes ahead.

With that operator, let's open the call up to 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 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 go ahead.

Izabel Dobreva: Hello, good morning and thank you for the presentation. I had two questions. The first one is on costs and the restructuring charge, which you are taking in order to accelerate the cost reduction. Could you give us some examples of the types of cost initiatives you're working on? And also, what this means for the 2021 cost line. In other words, can we expect another year of costs to be down 2% to 3% in light of the new plan? So if you could give us a sense of how much the cost can be down next year, that would be very helpful.

And then my other question was on provisions. As we know, your macroeconomic assumptions are very conservative and from what I can see, the payment moratoria is also trending down. So I was a little bit surprised about the € 14 million of generic provisions, which you took this quarter given those two things. So could you give us some more color on what exactly those related to? And how you see things evolving in the commercial real estate portfolio?

Anas Abuzaakouk: I'll go ahead and answer and then Enver, just feel free to jump in and add on. So Izabel, obviously, very good questions. I hope you're doing well. As far as the cost, let me start with the 2021 outlook. The cost in 2021, we'll talk about that when we present our year-end numbers and give the targets for 2021. So it's a bit early. But rest assured, 2021 will be lower than 2020. And when we talk about the booking of up to € 25 million in restructuring in the fourth quarter, we're assessing a variety of things. When you think about your physical footprint and just the impact to our operating model, when you think about the consolidation of our retail business between international and domestic and the potential synergies we're going to extract there, there's a variety of things that we're working on. And quite frankly, I mentioned it earlier, I think COVID-19, this whole experience over the past 8 months, in particular, has accelerated a lot of things that we were planning on doing, and there's more of a catalyst to getting them done. So that € 25 million, the return on that € 25 million effectively if we booked that restructuring in the fourth quarter will be immediate. I don't want to get into the specifics of what's the quantum for 2021 as we're working through a number of initiatives. But rest assured, it's going to help us become more efficient, more focused in terms of running the overall operations of the group. So that's on the cost side.

As far as the provisions, that's a mix, the general reserves of € 40 million. It's a mix of ECL reserve, stage 1, stage 2 and just building up general LLPs for stage 3 assets. And Enver mentioned the increase in cash coverage. It's ironic because I think your question is, things seem to be better, if you look at it through today's lens, in particular, the payment deferrals or the payment holidays, which we've been very pleasantly surprised. We saw it happening in July, but it's continued in terms of the momentum. We've also seen less of an uptake as far as the extension of payment holidays, which is, I think, a positive sign as far as customer discipline and in servicing their debts. And I think that's a testimony to the regions that we operate in, in particular, Austria and Germany, where you have a lot of discipline in paying back loans, plus the fiscal stimulus and a lot of the macro support that the governments provide but we want to be cautious. So that € 40 million is a mix of general LLPs on stage 3 plus the stage 1 and stage 2. We could adjust the macro assumptions today because things have improved. But I think you'd be -- just looking at it through today's lens gives a false impression or false view as to what's really happening. And we would rather wait for kind of this COVID second wave during this winter months to better understand kind of the impact in the portfolio. And quite frankly, we have the ability to be able to be cautious and disciplined and prudent in our provisioning. I hope that answers your question as well.

Izabel Dobreva: Thank you very much, and any comments on the commercial real estate book?

Anas Abuzaakouk: Yes, sorry, the last one. Yes, the commercial real estate, the asset back lending. The payment holidays that we have are de minimis. Similar to the second quarter, we've continued to see positive responses from our customers. We have to obviously see what happens in the winter months. But by all indications, we feel pretty confident given where the portfolio is, given the day 1 underwriting, which I think put us in a pretty good position. And then the quality of the sponsors that we work with, but no issues from a commercial real estate or asset-back lending standpoint from what we see today.

Izabel Dobreva: Thank you.

Anas Abuzaakouk: Thank you.

Operator: Your next question comes from the line of Gabor Kemeny from Autonomous Research. Please go ahead.

Gabor Kemeny: Hello. A few questions from me, please.

Anas Abuzaakouk: Hi Gabor.

Gabor Kemeny: Hi, One on the resolution charge you booked in relation to the Commerzialbank case, what do you think is the likelihood that this charge will recur in 2021 and over the coming years?

Secondly, a follow-up on provisions. I understand that you prefer to be cautious when the new lockdown measures are being introduced and there is a wide range of possible outcomes. Under your baseline macro scenario, would you expect lower provisioning in 2021 than in 2020?

And then finally, on this other income line, which you guide towards 0 for 2020. How shall we think about the run rate here? If the yield curve stays around the current shape. I think you earlier guided for up to 5% of revenues coming from this line. It would be useful to get an update on this?

Anas Abuzaakouk: Sure. So Gabor, I'll take the provisions and Enver, if you want to take the resolution charge, get some detail there as well as the other income, that would be great.

On the provisions Gabor, if we were to apply the baseline scenario, and next time, we can provide the sensitivities around that, obviously, there will be a release in the ECL reserves. Even when you look at the severe scenarios that we're applying, and I think the updated ECB assumptions of, I think, -10.5% and I think it's 15 basis points recovery next year, there is a positive development on the ECL reserves. But as we stated earlier during the presentation, we're going to be pretty static and keep the assumptions that we have in place through the end of the year just because we don't know. And I think anybody who declares victory and looks at it through today's lens, which might not be the right picture, things, I think, are pretty frozen because of moratorium and the significant amount of fiscal stimulus and a lot of the governmental support, I think it's better to wait going into 2021. But without a doubt, if the macro picture improves, and we get to what a baseline because I think in Austria, we're talking about 6% or 7% and the same in Germany, I think 8%, that will have a positive impact on ECL reserves and overall provisioning for the bank.

Yes. So Enver, you want to take the resolution and other income?

Enver Sirucic: Sure. So let me start with the deposit guarantee scheme. On the case of Commerzialbank, so we booked € 11.6 million in Q3, which is for the full year 2020. But the expectation for next year is a bit difficult to assess because it will depend largely on what the recovery ratio will be from the resolution of that bank. In a worst-case scenario, you will see another 4 years of this € 11.6 million charge to completely address it, which will then be offset by any recovery that we receive. So it really depends on how much we get back from the resolution of the bank.

And on the other income Gabor, as previously we guided to, I think, 3% to 5% but we also said this is something over time that will go down. So from my perspective, the best assumption for the other income line is a flat line for the outer years.

Gabor Kemeny: Okay, thank you. Understood.

Operator: Thank you. The next question is from the line of Mate Nemes from UBS.

Mate Nemes: Hi, good morning and thank you for the presentation. I have 3 questions, please. The first one is on housing loans. So you had a plus 7% sequential improvement in outstanding loans, housing loans. Could you give us some color what drove this?

And it seems like you're also saw strong sequential improvement in Germany in Retail. Is that related? Any color on that would be appreciated.

Secondly, on net interest income. So you're quite clear that you expect the current trend to continue for the rest of the year, but you're flagging a changing asset mix over time. If you could be a bit more specific on what exactly that means for heading into 2021. Should we expect the net interest margin actually to trend down from these levels?

And the third question is on the significant other income item, it's minus € 60 million Corporate center. Could you give us a bit more detail on where that's coming from? Thank you.

Anas Abuzaakouk: Enver, you want to go ahead and take the questions?

Enver Sirucic: Sure. So let me start with the NII question, the changing asset mix. So yes, you said positive trend for Q4 to continue but also for '21. It's a bit too early to give an updated outlook on '21, but there will be no change.

On the changing asset mix, Mate, you're right. So this is more long term. And you see it already happening in our balance sheet. So we have more, as you mentioned, housing loans, we have a higher portion of secured and public sector lending on the Corporate and Public sector side. So overall, that will lead probably to a slightly declining net interest margin over time. While, at the same time, you have the offsetting development because the interest bearing assets are going up, that we'll see or have seen an increase of NII at the same time. Housing loans is a mix of different things on the increase. So we have quite a stable development in Austria, increasing in Germany and we are also adding mortgages in Western Europe. So we have started originating mortgages in, for example, in Netherlands, which also contributed to higher assets there.

On the third one, on the Other Income, I would always look at Other Income, really not on an individual segment performance, but overall, because they are all tied. Sometimes you have sales, you have hedging elements against it. But in Q3, it was slightly negative, driven by various things. First of all, I would highlight the market development was not in our favor with rates trending more negative and the curve being more flat on the long end. The second one, we had some increased hedging costs and some structural pull-to-par from the hedges as well. And third, we just have not taken any measures to offset as we did in the past quarters.

Mate Nemes: Thank you very much.

Operator: Thank you. The next question is from the line of Johannes Thormann from HSBC. Please go ahead.

Johannes Thormann: Johannes Thormann. Good morning from HSBC. Two questions, if I may. First of all, in terms of the positive TLTRO impact on your NII, should we just take the 50 bps on your take up? Or is there anything we should put as a countermeasure? Are you, where you need to share revenues with clients?

And secondly, on your risk cost just in terms of future normalization, will this ever happen? Do you see structural changes in your customer portfolio quality? Or would you say in some years' time, it's likely that risk costs are coming back to 15 to 25 bps as you've seen before?

Anas Abuzaakouk: Enver, go ahead, do you want to take that, please? Thanks Johannes.

Enver Sirucic: Sure. The first one, yes, it's quite simple. It's 50 basis points, pretty much on the € 5.8 billion of drawdown. That's the positive TLTRO NII an impact. On the other one, I mean, it's really difficult to extrapolate the kind of multiyear future. But we think, this is also a chance to show how resilient our book is and how good the asset quality is and so far, knock on wood, everything looks fine. So long term, I think we are still aiming at the 15 to 25 bps on a normalized level for risks.

Johannes Thormann: Thank you.

Anas Abuzaakouk: Thanks Johannes.

Operator: Thank you. The next question is from the line of Mehmet Sevim from JP Morgan. Please go ahead.

Mehmet Sevim:	Thank you very much for the presentation this morning. Just one question from me. In terms of your stable core revenue expectation for the fourth quarter, is it reasonable to say that this would be rather on the conservative side, if you assumed lending trends will continue this way and activity levels will recover as well into the year-end?
Anas Abuzaakouk:	Enver, do you want to go ahead?
Enver Sirucic:	Hi Mehmet. Yes, probably it's rather conservative, to keep it short.
Mehmet Sevim:	Okay thanks very much. And just one follow-up question to the earlier question. So the TLTRO benefit of 50 bps, that's accrued at € 7 million, right, and it will continue until the first half of 2020?
Enver Sirucic:	That's correct. So it's about € 7 million per quarter. Yes.
Mehmet Sevim:	Thank you.
Anas Abuzaakouk:	Thanks Mehmet.
Operator:	Thank you. The next question is from the line of Simon Nellis from Citibank. Please go ahead.
Simon Nellis:	Hi Anas, hi Enver. Yes. My question, I know it will be difficult to ask, or to answer, but I'll ask it anyway. We saw Erste Bank cut their proposed 2019 dividend in half. They're kind of saying they're trying to balance regulatory concerns with their shareholders' needs and wants. I know what's the risk that you see that the regulators just kind of force you to take an abundance and even more abundance of caution and limit the extent. Would you pay something out anyway? Or, at this point, do you think because your capital ratios are just so much higher than target that the discussions you're having with regulators could be different than what Erste had?
Anas Abuzaakouk:	I would say, Simon, yes, it's a tricky question. But I would say, look, we're waiting just like everyone else to see the guidance

that comes at the end of the fourth quarter. We fully understand where the ECB is coming from. There's a lot of unknowns, right? And I think we've highlighted in our presentation in terms of a lot of the uncertainty. Even though through today's lens we feel really good about the credit portfolio and how things have developed, whether it's payment holidays or specific reserves in high-risk sectors, but I think they're acting out of an abundance of caution and trying to be patient and all we ask our investors and what we are going to do as management is be patient and that act out of an abundance of caution.

I hope at some point, I don't know what the date is, but there will be a green light, if you have a resilient business model, and you've taken the provisions and you've done all the right things that you'll then be able to distribute capital. That's our expectation. That's what we keep on communicating. Those are the commitments that we've made to investors. What I don't know is when that timing comes. Hopefully sooner versus later. But at the same time, I fully understand the position of the regulators. And I think they've done a nice job of communicating. I know it might be sometimes frustrating for investors, but they're being cautious and trying to communicate their position. So wait and see. I know probably that's not the answer you probably wanted specifically, but I think it's a wait and see. And you can see it in our capital levels and our returns and our provisions, I think we're in a good place, hopefully, to be able to distribute capital once that time comes.

Simon Nellis: Definitely. Ok, thanks very much.

Anas Abuzaakouk: Thanks Simon.

Operator: Thank you. The next question is from the line of Fritz Hobbs from One Equity Partners. Please go ahead.

Fritz Hobbs: So Anas, kudos to you and the team, it continues. I'm glad you're so positive on the ECB. Tell us, give us your view on your stock price. Really would like to, you know, frustrating that given the great job you guys have all done over the last couple of years, why aren't we getting more positivity in your stock price?

Anas Abuzaakouk: Thanks, Fritz. Great to hear from you, man. I would say, first, when we look back at, at least the last 2 years, and we see the development of the stock, I mean, all we can do as management is obviously deliver results. And hopefully, the market is on to kind of the underlying performance of the business. I would say, if you look at this year, although albeit it's frustrating, the stock is down almost, I think, 18%, 19%. The 7E and 7P are down over 40%. And so we've outperformed the index, but that's not any comfort to our investors nor is it comfort to management. You can say the same thing in 2019, you outperformed the index. I think sometimes it's a challenge in terms of the overall sector, right? And that's something that we can only focus on the things that we control. And hopefully, the dynamics across the sector will improve. And I think that will provide a lift.

It is, I think if you look at it on a day-to-day basis, it can be sometimes frustrating. We're looking at kind of the long-term and hopefully, things that people will see are the benefits of the actions that we've taken, not just this year, but over the years and the resilience of the franchise.

Fritz Hobbs: Thank you.

Anas Abuzaakouk: Thanks Fritz.

Operator: Thank you. And there were no further questions, so I'll hand back to the speakers.

Anas Abuzaakouk: Thank you, operator. Thanks, everyone, for joining the call. Hopefully, everybody stays well, stays healthy during these next few months, and we look forward to updating everybody at our year-end results in February. Take care. All the best. Bye.