BAWAG Group

BAWAG Group Preliminary Q1 2021 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 as usual by Enver, our CFO.

Let's start with a summary of the first quarter results on Slide 3. We delivered net profit of € 74 million, Earnings Per Share of € 0.83 and a return on tangible common equity of 10.2% during the first quarter. On a normalized basis, taking into account the front-loaded first quarter regulatory charges of € 54 million, which equals 90% of full year regulatory charges, this would translate to net profit of €103 million and a Return on Tangible Common Equity of 14.3%.

The underlying operating performance of our business was strong with Pre-Provision Profits of € 179 million and a cost-income ratio of 40.5%. Total risk costs were € 29 million, of which € 13 million were general reserves. The ECL management overlay now stands at €56 million. We also decided not to release any credit reserves, although we see both an improved macroeconomic environment and continued positive developments across our customer base, in particular observing payment holidays falling to 40 basis points across our total customer business as well as decreasing NPLs. We will reassess the management overlay during the second half of the year once we've seen greater normalization of economic activity in a post-lockdown environment and hopefully a successful vaccine rollout across continental Europe.

In terms of loan growth and capital, we grew total customer loans and interest-bearing assets by 3% and 2%, respectively, quarter-over-quarter and 6% and 7%, year-over-year. We continued to accrete CET1 capital, generating 40 basis points of gross capital during the quarter. Our CET1 ratio was 14.2%, up 20 basis point from year-end 2020 after dividend deductions. As of first quarter and after deducting all current dividend commitments totaling € 457 million, we have additional excess capital of € 382 million versus our target CET1 ratio of 12.25%

In terms of dividend distributions in the first quarter, we made the initial down-payment of € 40 million on the total € 460 million earmarked dividend from 2019 and 2020 profits. Our plan is to pay the remaining € 420 million in the fourth quarter 2021, subject to shareholder and regulatory approvals.

Additionally, we signed the acquisition of Depfa bank during the first quarter, which is expected to close in the second half of the year and will be capital accretive Day 1 with no impact on our capital distribution plans. The acquisition is more of a run-off portfolio purchase comprised of a handful of high-quality low margin assets in the form of government bonds as well as covered bond liabilities. The goal is to expedite the existing wind-down of the bank leveraging our operations and existing infrastructure.

In terms of 2021 targets, despite the impacts from the various lockdowns so far in the first four months of the year, we're off to a strong start and feel good about delivering our targeted return on tangible common equity of greater than 13% and cost-income ratio under 41%. We also feel good about delivering a return on tangible common equity of greater than 15% and cost-income ratio of under 40% in a normalized environment, which from today's perspective looks like a 2022 event.

Moving to slide 4: Net profit was € 74 million for the quarter, up 20% versus prior year. Overall, strong operating performance with operating income of € 301 million and total expenses of € 122 million, up 2% and down 3% respectively, versus prior year. Total Pre-provision profits were € 179 million, up 5% versus prior year. Risk costs were € 29 million, down 47% versus prior year and reflecting the gradual normalization of risk costs. Regulatory charges were € 54 million, up 49% versus prior year related to two factors: increased deposit insurance costs tied to the Commerzialbank fraud last year and an increase in deposit contributions stemming from increased overall deposits in the system. As stated, first quarter charges represent 90% of total estimated regulatory charges for the year. Tangible book value per share was €32.62, up 7% versus prior year and flat versus prior quarter. This assumes the deduction of the remaining € 420 million of earmarked dividends as well as the first quarter 2021 dividend accrual of € 37 million.

Moving on to slide 5, at the end of the first quarter, our CET1 ratio was 14.2% after deducting the remaining earmarked dividends from profit reserves of € 420 million and deducting the first quarter 2021 dividend of € 37 million. We are fully committed to distributing the remaining earmarked dividends of € 420 million, as we look to honor commitments to shareholders and believe the bank's continued resilience and overall strong capital levels position us well to resume ordinary capital distributions. From today's perspective, we anticipate this is a fourth quarter event.

For the quarter, we generated 40 basis points of gross capital and continue to consistently generate significant amounts of capital, averaging over 220 basis points annual gross capital generation over the past four years. As of first quarter and after deducting all dividend commitments, we have excess capital of € 382 million versus our target CET1 ratio of 12.25% and stand at approximately 500 basis point buffer to our SREP of 9.14%. To the extent that we are unable to deploy our excess capital in organic growth or M&A, we will distribute capital to shareholders through share buybacks and/or special dividends on an annual basis in a normalized environment.

Lastly, we wanted to reaffirm our position related to the City of Linz legal case in light of the recent negative ruling from the Court of second instance. To recap, we have already fully provisioned the City of Linz from a capital standpoint last year, having provisioned the receivable through the use of CET1 capital prudential filters. We continue to feel strongly about the merits of our legal case and look forward to the case now being taken up by the Austrian Supreme Court. The current case revolves around contract validity and does not address any potential damages that BAWAG may pursue.

On slide 6, our Retail & SME business delivered net profit of € 67 million, up 19% versus the prior year and generating a very strong return on tangible common equity of 22% and cost-income ratio of 40%. Average assets for the quarter were € 19.6 billion, up 8% versus prior year and 2% versus prior quarter, driven by growth in housing loans across our core markets. Average customer deposits were € 25.4 billion, up 6% versus prior year and 2% versus prior quarter. Pre-provision profits were € 135 million, down 5% compared to the prior year, with operating income down 3% as we still see customer activity impacted by lockdowns. Overall operating expenses were down 1%, resulting from prior year operational initiatives with a continued focusing on driving synergies across our various channels and products. Risks costs were € 15 million, reflecting a gradual normalization of risk costs without any credit reserve releases. The trend in asset quality continues to improve across our customer base, with payment holidays at 60 basis points as of the end of the first quarter (versus 1.2% at year-end) with a customer payment rate of 89% on all expired deferrals with an average of 7-months. Additionally, 78% of all customer loans that are either in active deferral or non-paying after deferral expiration, are already captured in stage 2 or stage 3 loans.

We've continued to execute on our various operational and strategic initiatives. We expect to see continued average asset growth and efficiency gains across the Retail & SME franchise as well as a shift to a greater percentage of secured housing loans for the balance of the year. We also expect the second quarter to look very similar to the first quarter given the existing lockdowns, however, we anticipate a normalization of customer activity in the second half of the year.

On Slide 7, our Corporate and Public business delivered net profit of € 25 million, up 9% versus the prior year and generating a solid return on tangible common equity of 12% and a cost-income ratio of 25%.

Average assets for the quarter were € 13.8 billion, up 5% versus prior year and flat versus prior quarter, driven primarily by growth in the public sector business. Pre-provision profits were € 56 million, up 13% compared to the prior year. Risks costs were € 15 million, comprised of € 13 million general reserves with no reserve releases taken. The trend in asset quality continues to improve with all payment holidays at 10 basis points and a 100% paying ratio for customers that took up payment holidays over the last year. Also, NPLs were down but we continued to increase reserves through management overlays. On the whole, we have been pleasantly surprised with how our customers have responded and the overall credit performance of the business.

We continue to see solid and diversified lending opportunities as well as a greater normalization of customer activity. We will continue to maintain our disciplined underwriting, focus on risk-adjusted returns, and avoid blindly chasing volume growth.

With that I will hand over to Enver.

Enver Sirucic: Thank you, Anas. I will continue on slide 9: Overall solid results in the first quarter … stable development of core revenues with lower net interest income due to day count and continued improving trend in net commission income, compared to prior year core revenues were actually up 2%. Underlying operating expenses further came down as well as risk costs without releasing any credit reserves. Regulatory charges were up almost 50% versus prior year related to increased deposit insurance costs tied to the Commerzialbank fraud and increasing contributions stemming from increased overall deposits in the system.

On slide 10, an overview of our balance sheet … we saw a growth in customer loans of 3%, offsetting lower securities and bonds, which resulted in average interest-bearing assets, total assets and risk weighted assets remaining largely stable versus year-end … on the funding side we continued improving our long-term funding profile thru issuing a 500m 20yr covered bond in March at mid-swap + 4 basis points.

On slide 11, core revenues. Net interest income down 2% versus Q4 ’20 due to day count with a stable net interest margin of 228 basis points, in line with Q4 ‘20. We still see an overall positive trend resulting from higher interest-bearing assets in prior quarters and consistent with prior quarters we expect our asset mix to change into more secured lending. In terms of net commission income, it was up 5% versus fourth quarter and we saw a continued improvement with a stronger advisory business despite the lockdown situation. We expect the second quarter to look very similar to the first quarter given the existing lockdown measures, for the full year we still expect core revenues to grow by 2% assuming a normalization of customer activity in the second half of the year.

With that, moving on to slide 12. Underlying operating expenses came down almost 2 points year-over-year and showed a positive trend in Q1 as well. Cost–income ratio was at 40.5% for the quarter. Absolute costs came in at below € 122 million and we expect further gradual OpEx decreases over the coming quarters. For the full year we expect to be below € 485 million with a target cost-income ratio of below 41%, having said that we also confirm our mid-term target of going below 40%.

Slide 13, risk costs. In general, we continued with our conservative and prudent approach on provisioning.

In Q1 we booked € 29 million of risk costs without releasing any credit reserves – we had a normal run-rate in Retail & SME of approximately € 16 million of risk costs and we took € 13 million general reserves in our Corporate lending business. In general, the trend in asset quality continues to improve and we expect risk costs to come down by more than 40% year-over-year.

Slide 14 provides more details on reserves. NPL balances started to decrease while overall reserves increased by another 6% versus year-end, resulting in a total reserve ratio of 1.5% and a cash coverage ratio of 47% excluding City of Linz, which was fully provisioned thru a capital prudential filter last year. Total ECL reserves now stand at 149m, up 14% versus year-end, of which almost 40% is comprised of management overlay reserves, which we will reassess during the second half of the year once we've seen greater normalization of economic activity. In terms of NPE backstop provisions all regulatory requirements are fully met as of first quarter including all transitional step-ups. Overall, we see both an improved overall macro environment and continued positive developments across our customer base and asset quality.

To wrap-up, on slide 15: our 2021 outlook and 2021 and mid-term targets are completely unchanged. For 2021 we still expect:

- Core revenues to grow by 2%, while we expect other income to be flat
- Operating expenses to fall below € 485 million
- A reduction of risk cost by more than 40%

- And regulatory charges to land at € 60 million for full year, of which we have taken € 54 million in the first quarter

In terms of targets … despite the impacts form the various lockdowns we feel very good about delivering a return on tangible common equity of greater than 13% and a cost-income ratio of under 41% this year. We also feel confident in our ability to achieve our normalized medium-term targets, generating a return on tangible common equity greater than 15% and a cost-income ratio of under 40%, which from today's perspective could be as early as next year.

Our annual general meeting will be scheduled for Q4 '21, in which the remaining € 420 million of dividends will be resolved upon, subject to regulatory approvals. We are also planning to update investors in our inaugural Capital Markets Day, which we would plan to host after the AGM and Q3 results … this is currently scheduled for November in London, where we hope to meet in person again.

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

Operator: Thank you. 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. Our first question comes from the line of Izabel Dobreva at Morgan Stanley.

Izabel Dobreva: Good morning, thank you very much for the presentation and for taking my questions. I have three questions: The first one is on M&A. So the bank has a sizable capital buffer above the 12% target. So I wanted to ask you about your pipeline when it comes to M&A. Maybe you could update us on any areas which you are actively screening. But also, how do you see the landscape in terms of opportunity? For example, is it probable to say that we may get another deal announcement by year-end?

Then my second question is on costs. In the quarter, they are down about 3% year-over-year. So could you give us an update on the progress made so far along the key milestone which you have set out for the year? And then finally, my last question is on ESG. I saw the new initiatives which you have announced. And I also saw that you are mentioning that you are increasing your ESG-related products. So I was hoping you could elaborate a little bit with some examples of the type of product you're thinking about and whether you see any incremental revenue opportunity here.

Anas Abuzaakouk: Hi, Izabel, all very good questions. I'll go ahead and address the three questions, and then Enver, feel free to jump in or add. So with regards to M&A, just consistent with what we've said in the past, we're screening a number of opportunities. I hope we can sign something this year, but quite frankly, it's not up to me. It depends on if we get it at the right price, if it's value-accretive to our shareholders and we're going to be disciplined. So we're screening a number of opportunities, small bolt-on acquisitions, product factories, things that we think makes sense for the franchise.

But we're going to be disciplined, Izabel. And everything we look at is we look at through the lens of can we generate at least a 15% return on tangible common equity on the capital that we deploy. So we'll see. We're going to be pretty patient. As far as larger opportunities, I still think we'll only be comfortable once we see kind of the post moratoria environment evolve when we see loans effectively expire in terms of government guarantees. I think you can then better assess the credit situation of potentially larger opportunities. So that's with regards to M&A.

And you're absolutely right, we have a lot of dry powder. Our excess capital today is over € 380 million. But we're going to be disciplined and we're going to assess things on an annual basis. And if we can't grow organically, and obviously there's limitations there, and we're going to be disciplined. If the M&A doesn't transpire, then we're going to be good stewards of capital and return the capital in the form of share buybacks or special dividends. I think we have a track record there. So we've been pretty consistent in how we communicate capital distribution.

As far as costs, Enver mentioned we're going to be under € 485 million this year. We did a lot of heavy lifting in the second half of last year. We booked a € 22 million of restructuring. We gave the guidance in terms of the core operating expenses being down 3%. So that's going on plan. We have a number of initiatives that we still need to execute on, but that is a consistent program year in and year out. Don't think of it as just a one-time restructuring program. The whole retail banking sector is becoming more efficient, and we're just trying to get ahead of the curve there and do what we've been doing over the past decade, to be quite frank. So we feel pretty good about where we stand on the cost front.

And then on ESG, yes, thank you for highlighting that. We've, I think what we've tried to do this quarter, and this is really building on just from last year, is do a better job in terms of disclosures and communicating a number of the initiatives and programs that we have in place. And I think two or three in particular, I'd highlight: Our exposure to kind of high-risk or dubious sectors, if you want to term it as such, is about 10 basis points. When you think about nuclear energy, fossil fuels and some of the other more high-risk sectors. And we've restricted lending or we've banned lending altogether in those sectors.

Our Supervisory Board recently passed the resolution effectively to have one third of female representation, both at the Supervisory Board level as well as the senior leadership team level, which includes the Management Board. That target is by 2027, but you should expect that we're going to meet and exceed those targets much earlier. And that's the right thing to do, and we're trying to do it organically in terms of the right talent that we put in leadership positions or management positions.

And then as far as the products, I'd use one example. We've had a lot of success in the sale of ESG-related funds, almost I think one quarter of our funds sales were tied to ESG-related products. So that's an example of kind of the opportunities. But I think it's going to be greater disclosure just being transparent and communicating the things that we've been doing over the past decade. Thanks, Izabel.

Izabel Dobreva: Thank you.

Operator: We are taking our next question from the line of Gabor Kemeny at Autonomous.

Gabor Kemeny: Hi, the first question would be on core revenues. I'd like to understand what level of conservatism have you built into the core revenue growth, the guidance of 2% as you grew your core revenues by around 2% already in the first quarter. And you are talking about a potential pickup in the business activity in the second half.

My other question would be, just coming back to M&A for a second. I saw that you slightly tweaked your M&A statement in the presentation. And previously, you were talking about primarily targeting companies with turnaround potential and you dropped the primary language. So my question would be, do you now see more of the Depfa-type opportunities and potential takeover in such runoff books?

And my last question would be on provisions. If we were going to see provision releases in the second half, the macro provision releases, would you think that, in that case, we would get back to roughly the normalized provisioning levels already in 2021?

Anas Abuzaakouk: Let me take the M&A and then Enver, if you want to take the core revenue and provisions, that would be great. As far as M&A, Gabor, nothing's really changed, I guess, very good observation in terms of the specific wording, but I think it's a mix of Retail & SME banking opportunities, right. Your traditional bank, which kind of like a similar like a Südwestbank that required significant operational turnaround.

We also like the specialty finance type opportunities, similar to the leasing business like BFL, or the factoring businesses that we purchased. We're looking at different product factories, whether it's brokerage or other type of opportunities. So I think it's a mix of a lot of things. You shouldn't read into it that we're going down one path versus another, we're just seeing where the best risk-adjusted returns are that increases franchise value.

You mentioned Depfa. Depfa is more of a one-off. We're able to leverage our advisory unit and our operational capabilities and some of the kind of this portfolio runoff. And I think it's more a kind of a portfolio runoff as opposed to a traditional M&A. And those are more the exceptions than the norm. So I hope that answers your question on the M&A. Enver, do you want to take the core revenues and provisions?

Enver Sirucic: Yes, sure. So on the core revenues, Gabor, it really depends on the outlook for the year or the lockdown situation, vaccine rollout. It's going to be, we said first half, it's going to be still more of these long-term situations. Second half, we would assume more normalization of economic activity. If that happens, we feel confident with the 2% growth. It could be potentially more, but I think we would kind of stick to the 2% guidance.

On the risk cost, look, I think we are already below 30 basis points without releasing any reserves that we had. And similar to the core revenues, we just want to wait until we see a normalization of the activity. We see kind of the government programs running off and see how the asset quality will look like. Would it be more back to normalized levels if you release? Yes, if you release. I think that's the question. That's something that we would like to talk then in the second half.

Gabor Kemeny: Thank you very much.

Operator: We're taking our next question from the line of Johannes Thormann, HSBC.

Johannes Thormann: First of all, a follow-up on the risk situation. Do you expect the NPLs to peak this year or rather into next year? And how should we think about your cost of risk after this additional generic reserve in this quarter? Should it be rather flattish in the next quarters? And then just looking at the fee income in your Corporates & Public business, it has declined again, now the second year of significant declines. What is driving this decline?

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

Enver Sirucic: Sure. Look, I think, similar with what Gabor asked and what we said is on the risk cost we are already below 30 basis points, which is in line with our guidance that we gave on Q4 '20 as well as now being just 40% less than last year. Again, without releasing any credit reserves, I think second quarter I would assume to be quite similar from kind of the early developments you are seeing in the first couple of weeks. And then second half will be the decision, what we are doing with the, how the macro environment looks like, what economic situation we are in and assessing the -- especially the management overlays, that will depend on it.

And the second question I think was about the asset volumes and the corporate lending part. Is that the question?

Johannes Thormann: No, the decline in fee income in the quarter, yes. What has been driving...

Enver Sirucic: The decline in fee -- okay, I got it. Well, that is also -- one part of that is truly also COVID-impact because, again, in the Corporates & Public Sector business, a majority of that income is coming from payments, and payments is being impacted through COVID. So that's why we have seen also a decline in Corporates & Public Sector as well, very similar to what we have seen initially on the Retail side. So that will even more depend on probably the recovery of the overall economic situation.

Johannes Thormann: Okay. And the peak in NPLs this year or next year, please.

Enver Sirucic: We're not giving any specific guidance to that. But what we said is, we see actually NPL balances coming down. So you would not be...

Anas Abuzaakouk: … I would add just, Johannes, if you look at -- we probably have a detailed reserve page. And if you look at the trends in

	terms of stage 1, 2 and 3, using year-end 2019 or fourth quarter 2019, you can start to see kind of this peak to trough, this kind of U-shape development. I would imagine that continues.
	And to Enver's point, obviously, we don't give guidance on NPL ratio, but you'll see from year-end last year to first quarter, NPL is effectively down, albeit as de minimis. But I think that's a trend that you'll see continue, which again reflects our, I think, positive outlook in terms of this gradual normalization of risk costs and just overall asset quality, when you look at all the micro data that's available. So I hope that answers the question.
Johannes Thormann:	Yes, thank you very much.
Operator:	We are taking our next question from the line of Tobias Lukesch at Kepler Cheuvreux.
Tobias Lukesch:	Thanks for the presentation. Quickly touching on the bank levy, again, given that RBI, Raiffeisen Bank, said that it will opt out of the deposit insurance scheme and build an own one, do you think there will be an additional burden from the Commerzialbank default basically for BAWAG going forward? And secondly, it's a very strong core revenue result in Q1. Have there been any one-offs, gross one-offs that potentially net each other out during the quarter? Thank you.
Anas Abuzaakouk	Thanks, Tobias. I'm going to pass to Enver again, but this is more because of the deposit insurance and just the assessments given the Commerzialbank fraud last year, that was obviously totally out of our control. But go ahead, Enver.
Enver Sirucic:	Thanks, Tobias. So no, it has nothing to do with Raiffeisen maybe opting out of the deposit guarantee scheme. So the Commerzialbank fraud case is behind us, and it was already fully taken by the deposit guarantee scheme last year. So that you will not see any additional charges coming out of that because of Raiffeisen leaving the scheme. And on the core revenues, no real one-offs really to highlight in Q1. So two elements: NII down because of day count and really the NCI picking up mainly driven by the strong advisory business.
Tobias Lukesch:	Thank you.
Operator:	We're taking our next question from the line of Mehmet Sevim at JPMorgan.
Mehmet Sevim:	Good morning and thanks for taking the questions. Just coming back to the capital return topic for a second, your capital position obviously speaks for itself. And we're waiting for the remaining dividend payments in the last quarter of the year.

But also taking into account the current excess level and the expected capital throughout the year, can I please get your thoughts on expected capital return after that point?

And you obviously explained your thinking on M&A, but excluding that, what are your thoughts on a special dividend payment? And what would make you contemplate, for example, another large buyback? So what's your thinking on these different ways of capital return? And similarly, given your capital strength and basically the organic part of it within that, do you think your 50% dividend payout strategy is still the right level? And what would make you rethink it?

Anas Abuzaakouk: Mehmet, all good questions. Let me address the excess capital, which you rightly state there's a lot of dry powder. We've earmarked the dividends, which is still the remaining € 420 million from 2019 to 2020. We made the initial down payment of € 40 million. Hopefully, everything goes as planned. Obviously, subject to regulatory approvals and the AGM approval, we'll pay the € 420 million in the fourth quarter of this year.

And then we still have a running balance on the € 382 million of excess capital, which is as of the first quarter. So you rightfully state, what are you going to do with that excess capital? I think we're going to do what we've done over the past few years. We will assess on an annual basis where we stand. Our target is 12.25%. We try to capture that running balance so investors know, obviously, where we are with respect to excess capital.

And then come at the end of the year and hopefully with a more normalized environment in terms of economic activity and kind of life resuming to kind of pre COVID levels, hopefully, we'll be able to put back in place our normal capital distributions. Which is to look on an annual basis at that excess capital, obviously, organic growth. M&A, if it doesn't transpire. We'll then look at share buyback program, which we've executed in the past. As well as the special dividend, which by the way we're in the process in the € 420 million, there's € 88 million of a special dividend from 2020 in that number as well.

So we'll do our best to be good stewards of capital. And if we don't find opportunities to deploy that capital, we'll give it back to shareholders in one form or another. But that's been consistent with our distribution policy, Mehmet, over the years. So I hope that answers your question.

Mehmet Sevim: Yes, and just maybe on that point, so what would make you think about large buyback once again? Can you please tell us what you're thinking about the ways of the dividend distribution? And secondly, you're obviously, your capital strength speaks for itself, plus you're generating this organic capital. And can we then expect that we will see further special dividend payments at the end of each year? So basically, the 50% dividend payout is the right level because you want to assess at the end of each year the opportunities. Or would you say that this -- based on the strength of it, this is running low in terms of the dividend payout strategy on an ongoing basis?

Anas Abuzaakouk: So Mehmet, at the moment, the dividend policy is 50% of net profits. That's what we accrue to on a quarterly basis. If we make any changes, we'll revisit that in the second half of the year and then make any announcements with regards to our Capital Markets Day. I think we'll have a better sight in terms of where we stand in overall macroeconomic environment, how customer activity has normalized. And then we'll talk about the capital distributions, hopefully, in the fourth quarter when we get to that point with our Capital Markets Day.

Mehmet Sevim: Thanks, Anas.

Operator: We are taking our next question from the line of Jovan Sikimic.

Jovan Sikimic: Good morning and thanks for the call. I had just a general question on what's your first take, if I can say like this, on this Austrian government plan for reopening of the economy by mid/end May? I mean in my case or in my opinion, it goes a bit quicker than anticipated simply because of the situation in Vienna. But what is your general first view on that in terms of your, let's say, outlook for the second half? Does it feel also kind of a bit of aggressive or in line with your expectation?

Anas Abuzaakouk: Great question. I'll give you my thoughts and Enver, obviously, share your perspective as well. We have in terms of just our economic forecast, we're assuming kind of the impact from these partial lockdowns. Don't forget our branches are still open, but this impacts consumer sentiment and economic activity. This will continue for the first half and that will see this kind of gradual normalization creep into the third quarter and then hopefully into the fourth quarter, we get to more normalized levels.

I think it's -- if you kind of think of an analogy, Continental Europe, obviously~~,~~ Austria~~,~~ being amongst that, is behind the curve when you kind of think about other Western Countries -- the U.K. or the U.S. But I think with the adoption of the vaccines ~~and~~ it's starting to get back on track, hopefully, we're only 1 to 2 months behind, maybe 3 months. But I think we'll see that normalization in the third and fourth quarter. The exact dates that you said mid-May, we don't know specifically. I think we're going to see the second quarter is going to look a lot like the first quarter, at least from how we're forecasting things. Hope that helps.

Jovan Sikimic: Okay, okay. Of course, I mean, there are no details at this stage. So it's also not easy to make an assessment, but simply kind of rough statement from your side. Thank you very much, appreciate it.

Operator: Our next question comes from the line of Thomas Dewasmes at Goldman Sachs.

Thomas Dewasmes: Thank you very much, good morning Anas, good morning Enver. I had two questions. So the first one is on the lending mix. I appreciate the comments ongoing towards secured lending versus unsecured. For the first time in four quarters, SMEs & consumer credit book has grown in the Retail division. Can we expect this to trend back to normal levels? Or do you still feel that you need to wait a few more months or quarters to assess the overall health of the consumer before resuming to previous levels?

And then my second question is on DEPFA. So I appreciate it might be capital accretive on day 1 on the CET1 basis, but would you be ready to share a Tier 1 leverage impact, a broad one, if you can?

Anas Abuzaakouk: Thomas, all good questions. I would say in terms of the lending mix with consumer and SME, you'll still see kind of this, I'd say, slower growth just because we're being cautious and conservative. I think you'll probably see more normalization, albeit to your point, you rightfully captured that you're starting to see that uptick, but it's not going to be at the same velocity that you see in terms of the housing loans. I think that's going to be more of third quarter, fourth quarter, which we always talk about the second half of the year. And then what was the second question on...

Enver Sirucic: I can take that. I think it was the Depfa Tier 1 leverage impact.

Anas Abuzaakouk: Oh yes, sorry. Go ahead.

Enver Sirucic: I think rather de-minimis because the balance sheet will be smaller. By the time that we close, the overall impact is really limited.

Thomas Dewasmes: Thank you very much.

Operator: We're taking our next question from the line of Izabel Dobreva at Morgan Stanley.

Izabel Dobreva: Hello and thanks for taking my follow-up question. I have a quick one on the City of Linz. Could you quickly remind us of the bull/bear on the case? So by when can we expect a decision on the appeal? And in the case that the decision is upheld, meaning that it goes against you, what is the potential financial risk beyond what is already provisioned? I think from memory they we're seeking some damages in the kind of double-digit million number. And then on the bull case side, if you do win, how much of a write-up could core Tier 1 see in basis points?

Anas Abuzaakouk: Enver, go ahead.

Enver Sirucic: Thanks. So look, I think just what was important to understand, what Anas said on the call, right, so we are right now in the question of validity, that goes to the Supreme Court. Next will then be to decide on damages or to decide on the quantum of the impact, right? So if I just take the plain numbers, right, you said kind of bull/bear. Obviously, the bear is you lose, but the worst case, it's basically 0. There are some damages that it will claim, but that's quite limited. So I would say, from a capital perspective, the worst case has been taken. There is not really any further impact on that side.

And really, the positive upside case is actually we are suing them for, I think, more than € 500 million, but the original receivable was € 418 million. So in the best case, you would see a complete write-up of that if in the last instance, we would win everything. So that's kind of the nothing in a worst-case and potential write-up would be pretty much the full € 400 million of the original receivable from a capital perspective.

Anas Abuzaakouk: Izabel, you asked about the timing, we'd like to see it this year. This has been going on for over a decade. We feel strongly about our case. It's about contract validity. We think there's a lot of commercial precedents to the case as well. But look, we wanted to - that's why we provisioned through the prudential filter last year - we didn't want this to be a distraction. So this doesn't impact any of our capital plans, this doesn't impact our operational performance. But we would like just to have this behind us and hopefully win in the Supreme Court, and we think we have a strong case. But we'll see. This one is out of our control.

Izabel Dobreva: Thank you.

Operator: Thank you. We're taking our next question from the line of Mate Nemes at UBS.

Mate Nemes: Good morning and thank you for the presentation. I have two quick questions on the lending book. Firstly, on housing loans, obviously, you had really good growth in the first quarter. I'm just wondering, is this primarily the Netherlands? Or is growth actually also similarly strong in Austria? If you could comment on that.

And secondly, in corporate lending, I think after 5 quarters of continuous decline, now we are seeing a bit of a turnaround there, a positive growth. And I'm just wondering, is this just a natural kind of bounce back after a difficult year? Or are you seeing better opportunities in the market there?

And maybe one more follow-up question on M&A. I'm just interested in your thoughts on landscape in general. Have you seen profound changes actually in the type of assets and the type of sellers that are in the markets after the pandemic here? Has pressures intensified for some of the sellers or no broad-based changes quite yet? Thank you.

Anas Abuzaakouk: Great. Thanks, Mate. All good questions. As far as M&A, it's pretty much the same flavor pre-COVID. We have come across a number of opportunities. But there are certain things that we're just not prepared to be able to underwrite given there's still a lot of unknowns in terms of the balance sheet risk and just overall credit profile. But I would say it's still pretty much the same flavor. I do think we are going to get an acceleration of opportunities once the moratoria expires and we'll see who is in a strong capital position, who's been running a franchise in a resilient way and who hasn't. So I think that will lend opportunities to us, hopefully.

As far as housing loans, it's broad-based. It's across the core markets. Netherlands obviously is one market, but as well as Germany and Austria. The Netherlands is just coming from a much lower base, right, so you don't have the amortization there. But we're seeing it's a pretty healthy broad-based development across the DACH/NL region as we term it.

And then corporate lending, you rightfully highlight that it is the first quarter, I guess. Quarter-over-quarter, there's an uptick. But we're going to be conservative, Mate. We're not going to stretch. And if there's good lending opportunities, we've always said we're in the corporate lending space, we've never retracted or retreated, it's just we have to find good risk-adjusted returns. And I think we were fortunate in that respect, and I hope that trend continues.

Mate Nemes: Thank you.

Operator There are no further questions on the line. Please continue.

Anas Abuzaakouk: Thank you, everyone. We hope to catch up for second quarter results. I hope everyone has a good day. All the best. Take care. Bye.

Operator: That concludes the call for today. Thank you for participating. You may all disconnect.