BAWAG Group

BAWAG Group Q2 2022

Earnings Call

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Transcription

Speakers:

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 go ahead and get started with a summary of the second quarter results on slide 2. We delivered net profit of € 134 million, earnings per share of €1.50 and a return on tangible common equity of 19.0%.

The operating performance of our business was very strong with pre-provision profits of € 213 million and a cost-income ratio of 35.7%. Total risk costs were € 30 million, inclusive of a € 6 million ECL management overlay, bringing our total management overlay to € 70 million despite sound credit performance and a record low NPL ratio of 1.4%, or 1.0% when excluding the City of Linz legal case.

In terms of our balance sheet and capital, customer loans were up 5% quarter-over-quarter and up 13% year-over-year. We had a very strong second quarter in terms of customer loan growth coupled with the purchase of a high-quality retail and bond portfolio as part of the Sberbank Europe wind-down process.

In terms of capital development, we generated approximately 70 basis points of gross capital during the quarter. Our CET1 ratio landed at 12.7%, after deducting the recently approved share buyback program of € 325 million, our half-year dividend accrual of € 135 million, RWA growth tied to growth in customer loans, impacts to OCI from widening credit spreads, and a high-quality portfolio purchase.

Given the inflationary situation and rising interest rate expectations, the bank is positively positioned for a rising rate environment. Specifically, a 100-basis-point-increase in 3-month Euribor translates into approximately € 100 million incremental NII per year on a proportional basis.

With our strong operating performance during the first half of the year and despite potential headwinds building up, we are reaffirming our full-year targets for 2022: a profit before tax greater than € 675 million, a return on tangible common equity greater than 17% and a cost-income ratio under 38%. We have also increased our core revenue growth outlook to greater than 7%.

With the recent regulatory approval, yesterday evening, of the first tranche of the share buyback program of € 325 million, we will start the buyback as of July 25th. We expect this process to run through the end of the year. We will address the 2nd tranche and further capital distributions around year-end results, based on market developments and subject to regulatory approvals. Above all else, we want to make sure we are prudent in our capital distribution plans, always maintain our fortress balance sheet, and ensure we have sufficient dry powder to address potential organic and inorganic opportunities in the coming quarters.

Given the potential headwinds we see building up from volatility in the energy markets, persistently high inflation, cautious consumer sentiment, prolonged geopolitical conflicts, and the repricing of credit risk, we have added to our management overlay as we take a cautious and prudent approach to provisioning in the quarters ahead. Our ECL management overlay, which now stands at € 70 million, is equal to almost a full year of risk costs. We believe this will address any severe downturns and heightened volatility in the quarters ahead. The bulk of our management overlay was built up during the pandemic. We were very cautious in building up our reserves back in 2020 and will be equally cautious in our risk provisioning as we see a period of extended market volatility ahead; despite our record low NPL ratio and robust credit performance across the business to-date.

Our actions are born out of an abundance of caution, no different than how we reacted during the early days of the pandemic or more broadly the conservatism that underpins how we've run our business over the past decade.

Moving to slide 3: We delivered net profit of € 134 million, up 12% versus prior year. Overall, strong operating performance with operating income of € 331 million and total expenses of € 118 million, up 10% and down 2% respectively, versus prior year. Total pre-provision profits were € 213 million, up 18% versus prior year. Risk costs were € 30 million, up 27% versus prior year, driven primarily by the build-up of our management overlay reserve. Tangible book value per share was € 31.68, down 5% versus prior year and flat versus prior quarter – this assumes the deduction of the first half 2022 dividend accrual of € 135 million and the € 325 million buyback.

Moving on to slide 4, at the end of the second quarter, our CET1 ratio was 12.7%. For the quarter, we generated approximately 70 basis points of gross capital, which was offset by an increase in RWAs from customer loan growth, consuming approximately 20 basis points of capital, and negative OCI movements of approximately 30 basis points, primarily driven by widening credit spreads. Before M&A and capital distributions, we landed at 15.2% CET1, which was up 10 basis points quarter-over-quarter. The purchase of the Sberbank portfolio (which is comprised of German consumer loans and a bond portfolio) consumed approximately 30 basis points. Our capital distribution items amount to 220 basis points after deducting the first half 2022 dividend of € 135 million, which reflects a payout ratio of 55% of net profits in 2022, and the recently approved €325 million share buyback. Net of all M&A and capital distributions, we landed at a CET1 ratio of 12.7%, with approximately € 90 million excess capital above our CET1 target of 12.25%.

Just as important is to look at the year-to-date capital developments, where we have generated 120 basis points of gross capital generation, offset by RWA growth (consuming approximately 50 basis points), and negative OCI hit of 50 basis points primarily from widening credit spreads. Despite the FX movements and widening credit spreads, we believe we are well positioned to address multiple market opportunities given our earnings, capital, and funding base.

Following our capital distribution framework, our primary focus is to deploy our capital into organic growth and value enhancing M&A. We currently see several potential organic and inorganic opportunities that we are assessing over the coming quarters. We will address the second tranche of our buyback and any further capital distribution measures around year-end results, based on market developments and subject to regulatory approvals.

On to Slide 5, we wanted to highlight the cornerstones of our franchise. We have a resilient business across all cycles with a very strong earnings capacity, strong capital generation, conservative and disciplined underwriting, and a retail deposit franchise that is the foundation of our funding; this will allow us to consistently deliver quality results across all cycles. We believe the current geopolitical situation, significant inflationary headwinds, volatility in the energy markets, and shifting global supply chains will cause real disruptions in the short and long term. We do not know how this will play out; however, we want to ensure we remain vigilant in managing these risks and conservative in how we run the business, requiring us to be patient and always focused on risk-adjusted returns.

We pride ourselves on having built a fortress balance sheet over the past decade. In terms of asset quality, we have been deliberate in managing credit risks in the past as we felt that credit risk was not priced correctly. We are now starting to see this change. We avoided blindly chasing volume growth and have always believed that sound commercial lending is based on risk-adjusted returns, which we have and will constantly revisit with the repricing of risk, repricing of liquidity, and always maintaining an overall conservative appetite. A high-level view of our total assets reflects the highly liquid and secured nature of our balance sheet.

Taking a top-down view of total assets, we have approximately € 11 billion of assets in cash, representing 20% of the balance sheet, which provides us with significant opportunities if they should arise. Our investment book is approximately € 5 billion, or 10% of our total assets, comprised of 99% investment grade securities with no Southern European sovereign exposure and no exposures to Russia or Ukraine. We have been underinvested in our securities portfolio for several years, given the historically low credit spread levels, which we now see repricing and presenting interesting opportunities.

We have € 38 billion customer loans, approximately 70% of total assets, focused only on developed mature markets; this is split between approximately 73% in the DACH/NL region and 27% within the United States & Western Europe. Across our customer loans, we have no exposure to Russia, Ukraine, or Eastern Europe. We have de-minimis exposure to heavy industry and energy intensive businesses. In total, we have under € 50 million combined exposure to companies, both Corporates and SMEs, that have existing government guaranteed loans.

Our Retail & SME assets of € 22 billion comprise approximately 60% of our customer loans, over 80% are secured lending, with € 16 billion of mortgages between Austria, Germany, Netherlands, and Western Europe with a blended LTV in the mid-60's. Almost a quarter of the mortgage book is Dutch NHG mortgages, which are government guaranteed. Our Consumer & SME assets are comprised of auto / equipment / and real estate leasing, SME secured lending, and unsecured personal loans and overdrafts. Our primary focus is lending to prime and near-prime customers.

Our Corporates, Real Estate & Public Sector business accounts for approximately € 16 billion of assets, or 40% of customer loans. Our Real Estate lending of approximately € 6 billion is focused primarily on the United States and Western Europe - representing approximately 80% of the exposure, with the DACH region under 20%. We pride ourselves on very disciplined underwriting and diversity of underlying assets, with over 40% of the underlying collateral being granular with direct residential exposure. The weighted average LTV of the entire real estate portfolio is under 60% and the NPL ratio is at an all-time low of 70 basis points. Our public sector lending of approximately € 5 billion is comprised of lending primarily to Austrian federal, state and municipal governments. Our corporate lending of approximately € 4 billion is comprised of 2/3rd US & Western Europe exposure and 1/3rd DACH/NL region. No different than the securities portfolio, corporate lending has been a challenge over the years as we believe the risk-adjusted returns were not sufficient given both pricing and underwriting standards. We are now seeing opportunities with the repricing of credit risk and more disciplined credit standards of being applied.

Across both businesses, we have further tightened underwriting standards across the board to address a more volatile environment.

Moving to slide 6, a snapshot of our funding, capital and earnings profile. Our total funding stack is approximately € 46 billion, comprised of € 34 billion funding, or 75%, € 6 billion covered bond funding, € 1 billion senior paper, and € 6 billion of funding through TLTRO, which we plan to pay down or replace with longer-term funding, based on opportunities we see in the market.

We are fortunate to have a very solid retail deposit franchise, which is the foundation of our overall funding. We have an ability to raise retail deposits, which we have been very disciplined about over the years given the negative interest rate environment. We have not passed on any negative rates or fees to our retail customers as a result of the negative interest rate environment over the last 8 years.

We augment our deposit funding with mortgage and public sector covered bonds, which we currently have further capacity of approximately € 5 billion for funding. We will be disciplined with new issuances, always considering market dynamics, focusing on profitable growth, and avoiding unnecessarily inflating our balance sheet.

From a capital standpoint, we generate approximately 250 basis points of gross capital annually as we have a highly profitable franchise. Our current CET1 capital stands at 12.7%. Our target CET1 ratio is 12.25%, or 311 basis points above our minimum regulatory requirement. Our business is primarily on the standard model methodology, with approximately 65% of assets on standard approach. This is a result of having been a late adopter of IRB models, which was partially introduced to the bank in 2012 as well as the adoption of the standard approach from acquired businesses and portfolios. As a result, we have a conservative overall RWA density.

Our overall balance sheet leverage is around 12-14x (which represents traditional asset-to-equity) depending on our cash balance, with a regulatory leverage ratio of 5.6%, which reflects the recently announced buyback and dividend accruals. We will always focus on generating returns through risk-adjusted pricing and not through leverage.

We are fortunate to have a franchise with very strong pre-provision profits and inherently low risk, that will allow us to address any severe headwinds while continuing to support our customers and taking advantage of idiosyncratic opportunities that may arise.

On slide 7, our Retail & SME business delivered net profit of € 107 million, up 14% versus the prior year and generating a very strong return on tangible common equity of 33% and cost-income ratio of 34%. Average assets for the quarter were € 22 billion, up 10% versus prior year and 4% versus prior quarter. Average customer deposits were € 28.1 billion, up 5% versus prior year and flat versus prior quarter. RWAs in the segment were up 17% versus prior year and 8% versus prior quarter resulting from customer loan growth and the purchase of a high-quality German consumer loan portfolio. Pre-provision profits were € 170 million, up 20% compared to the prior year, with operating income up 12% and operating expenses down 2%, resulting from prior year operational initiatives with a continued focus on driving synergies across our various channels and products. Risks costs were € 20 million, up 37% versus prior year driven by an incremental € 5 million booking of management overlay. The underlying core retail risk cost run-rate continues to run at € 15 million per quarter. The trend in asset quality continues to improve across our customer base, with a record low NPL ratio of 1.9%

We acquired a consumer loan portfolio as part of the Sberbank Europe wind-down process, which added approximately € 500 million of assets during the second quarter. This was an idiosyncratic opportunity requiring a deep dive underwriting of a German consumer loan portfolio. We underwrote the portfolio to a target RoE greater than 30% assuming highly stressed losses and landed at a net profit margin of approximately 4%. We feel very good about the portfolio purchase as this will be highly accretive to the business over the coming years.

Across the business, we will remain prudent and cautious as we've already tightened our credit box in preparation for a period of greater volatility and increased headwinds.

We expect continued earnings growth across the Retail & SME franchise in 2022. However, we see subdued loan growth in the second half of the year given cautious consumer sentiment, impacts of inflation on daily spending, and a wait-and-see approach to new investments.

On slide 8, our Corporate, Real Estate & Public Sector business delivered net profit of € 42 million, up 19% versus the prior year and generating a strong return on tangible common equity of 18.5% and a cost-income ratio of 22%. Average assets for the quarter were € 15.8 billion, up 18% versus prior year. Pre-provision profits were € 66 million, up 13% compared to the prior year. Risks costs were € 8 million, with no reserve releases taken. The trend in asset quality continues to be solid, with our NPL ratio of 70 basis points, down 40 basis points versus the prior year.

We continue to see solid and diversified lending opportunities with a strong pipeline and commitments that we expect to fund over the course of the year. We will continue to maintain our disciplined underwriting, focus on risk-adjusted returns, and avoid blindly chasing volume growth. As the markets reprice credit risk, which we believe was long overdue, we have further tightened our credit box and adjusted our risk-return criteria given the uncertainty ahead and reflecting our disciplined approach to lending.

With that I will hand over to Enver.

Enver Sirucic: Thank you, Anas. I will continue on slide 10. A very strong operating performance in the second quarter with core revenues up 1% versus prior quarter, with net interest income being up 3% and net commission income down 4% due to a slowdown in the advisory business. With lower operating expenses and higher revenues our cost-income ratio landed below 36% for the quarter. Regulatory charges of € 7 million came in a bit higher for the quarter than expected due to increased contributions to the resolution fund. We booked total risk costs of € 30 million in the second quarter; while the underlying asset quality remained strong, we decided to take an additional € 6 million of overlay provisions and to increase our total management overlay provisions to € 70 million.

On slide 11 we wanted to show key developments of our balance sheet. In terms of assets, we grew our customer loans by 6%, while our securities book was up 1%, translating into average bearing assets being up 6% for the quarter. Part of that increase was driven by the consumer loan and bond portfolio that we acquired from Sberbank Europe in May. Capital was largely stable versus prior quarter, while risk weighted assets were up 4%, which is in line with the net asset growth. On the funding side we issued two mortgage covered bonds with a volume of € 1.5 billion in second quarter, further improving our liquidity structure and our long-term funding profile.

On slide 12, core revenues: strong net interest income up 3% versus first quarter, driven by higher interest-bearing assets including the acquisition of Sberbank Europe consumer loan and bond portfolios in May. Net interest margin came down to 225 basis points for the quarter, which will improve with Euribor rate re-fixings on the asset side, that will start materializing in the third quarter. Our interest rate sensitivity remains unchanged with 100 basis points increase in 3-month Euribor leading to approximately € 100 million increase in net interest income per year. Net commission income down 4% as we see a slowdown in our advisory business given the uncertainty and volatile market environment, which is likely to continue for the rest of the year. Having said that, we have a positive view on core revenues for the rest of the year, that is why we updated our outlook from previously over 4% core revenue growth to over 7% growth in 2022.

Moving on to slide 13. We continue to reduce operating expenses despite significant inflation. Again, as mentioned on the prior earnings calls: this is only possible because we have worked on several initiatives over the past two years that now allow us to counter these inflationary headwinds. Cost–income ratio continued to improve and fell below 36% for the quarter which is well ahead of our 2022 target of below 38%. We will also continue to focus on our absolute cost-out target, and we are confident to achieve a net cost-out of around 2% in 2022.

Slide 14, risk costs. Overall, unchanged conservative and prudent approach on provisioning with stable underlying trends and a strong asset quality performance. The underlying core retail risk cost run-rate continues to run at around € 15 million per quarter and the total risk cost ratio is around 20 basis points. The trend in asset quality continues to improve across our customer base, with record low NPL ratio of 1.4%. We continue to be very conservative and decided to take an additional € 6 million of overlay provisions in the second quarter. The ECL management overlay now stands at € 70 million. For the rest of the year, we expect a stable underlying risk cost ratio of around 20 basis points. In addition, we will continue to build up the management overlay throughout the year.

On slide 15, I wanted to reiterate and reaffirm our 2022 targets of a return on tangible common equity of greater than 17% and a cost-income ratio of under 38%.

As you can see, we have upgraded our core revenue growth outlook from previously greater than 4% to greater than 7%. Net cost-out of around 2% is unchanged, regulatory charges now expected at around € 55 million given higher contributions to the resolution fund and our underlying risk cost ratio is expected to be around 20 basis points, while we will continue to build up additional management overlay reserves throughout the year – overall, unchanged profit before tax outlook of greater than € 675 million for 2022.

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

Operator Thank you. (Operator Instructions) And your first question comes from the line of Mehmet Sevim from J.P. Morgan. Please ask your question.

Mehmet Sevim: Good morning. Thanks very much for the presentation. I wonder if you could talk a little more about how you balance risk rewards in this market environment. We know you have always been conservative and underwrite for returns over the cycle. But at the same time, in the second quarter, there was a lot of growth, you put quite a lot of capital to work, particularly in the corporate segment. So how does this acceleration, particularly in the corporate growth sit with what's currently going on in the world? And maybe could you give some more color on how you're pricing for that risk?

Anas Abuzaakouk Yeah. Hi, Mehmet, a great question. So, of the 5% growth that you saw quarter-over-quarter, just to reminder, right, a third of that was from the portfolio that we bought from the wind-down process from Sberbank. So, it's about 3.5% of real customer loan growth. And as you mentioned, there is really good activity on the corporates, in particular, the real estate and public sector business. What we've done is tightened our credit box and we've gone back to our customers, the world has changed. If you look at just liquidity costs, we're reflecting that in kind of our risk-adjusted returns. We have a different pricing expectation. And also, even though our risk appetite has been conservative, we've also kind of taken a more cautious view as to what lies ahead, and that's reflected in the overall risk-adjusted pricing.

So, I think the combination of those different variables, Mehmet, provides us I think with interesting opportunities. And when you have capital and liquidity, and I think when you're disciplined in how you underwrite, I think there's pretty good opportunities that present themselves.

What you saw in the second quarter was a pipeline that's built up over the past few months, and rest assured that was underwritten conservatively and priced I think appropriately, at least, for our standards. Thank you.

Mehmet Sevim: Thanks very much, Anas. Just on that, how is the pipeline looking for the second half? And should we expect similar trends, therefore, and the remainder of the year?

Anas Abuzaakouk: Yeah. So, Mehmet, in the corporate real estate, we see again more idiosyncratic opportunities. We'll see, we have, commitments, but obviously, those need to fund. In the world, you know, things are pretty dynamic, but we feel pretty good that the pipeline is robust, and we should see that fund through the third and fourth quarter or through the balance of this year.

On the retail side, I mentioned it when we were going through the presentation, there'll be subdued loan growth. We already see it in May and June, and this is – you know, there is a lot of factors. I think our customers are cautious. Overall sentiment is cautious. People I think are holding back on investments. So I think you'll see a slowdown in the second half as opposed to the first half in the Retail & SME side.

Mehmet Sevim: Great, that's very helpful. Thanks very much for the color.

Anas Abuzaakouk: Thanks, Mehmet.

Operator: Thank you. We will take our next question. Please standby. Your next question comes from the line of Johannes Thormann from HSBC. Please ask your question.

Johannes Thormann: Good morning, everybody. Two more technical questions from my side, please. First of all, on your risk cost guidance, as you expect the underlying risk cost to be around 20 basis points, do you expect or how likely are additional management overlay in the next two quarters? And secondly, on your RWA density, you elaborated that you use a standard approach. Was this the main reason for the increase by more than 1 percentage point in the quarter versus last quarter, and this is a new run rate for the RWA density in the next quarter? Thank you.

Anas Abuzaakouk: Hey, Johannes, I'll take the first question and Enver, maybe you take the second question. Johannes, when it comes to the risk costs, Enver mentioned that we see underlying 20 basis points risk cost ratio. If you look at the business today and just the trends, the NPL ratio, credit performance is quite robust. You know, we delivered, I think, a really solid second quarter. If you look at on the first half basis and you extrapolate that, that's about 18% and 19% RoTE.

We can afford to be conservative and our nature is to be really cautious. It's not something we just suddenly started to do. If you look back at 2020, during the pandemic, how we reacted. If you go back over the past decade, we are by nature, very conservative and cautious. And there are headwinds potentially building up. We just want to be prepared for whatever comes up. And we'll continue to build the overlay, and that's just something I think we're fortunate to be able to do.

Enver?

Enver Sirucic: Yeah. Johannes, on the RWA density, yes, it changed a bit, but this is really due – because of the asset changes, right. So, we put on the consumer loan portfolio that there is a high-risk credit.

It was more on the real estate and corporate side, which also carries a high-risk credit. But I think directionally it's right to assume a similar RWA density going forward.

Johannes Thormann: Okay, cool. Thank you.

Operator: Thank you. We will take our next question and your question comes from Gabor Kemeny from Autonomous Research. Please ask your question.

Gabor Kemeny: Hi. A few questions from me: First one is on the gas situation. I mean you're clearly comforting that you'll be at further overlay provisions in Q2, and you are planning to be a bit further in the second half. But if you think about the negative macro scenario here like Russia potentially stopping gas flow to Europe, hopefully not going to happen, but just in case, can you give us a sense about how this may impact your provisioning, that would be useful.

And the second question would be about the share buyback. Can you talk a bit about the execution from here? I understand you are planning to complete it by the end of the year. I was just looking at the recent trading volumes of your stock, and it looks like that it might be a stretch to stay below, let's say, a quarter of the average trading volumes, if you are planning to complete by year-end. So I guess my question would be is a tender an option if trading volumes won't improve from here? Thank you.

Anas Abuzaakouk: Thanks, Gabor. I will take your first question in terms of I believe on just the potential gas cut-off and the impact to the business and how we're preparing, and then Enver to the extent we can answer, just on the buyback.

Gabor Kemeny: Yeah.

Anas Abuzaakouk: So, Gabor, obviously, super relevant, we see the news today. I think that's partially good news, but we hope this continues and first and foremost, obviously, we want to see peace above all else and avoiding kind of geopolitical conflicts. But how we're preparing, Gabor, the way we look at it, we express the cut-off of gas really through kind of the GDP scenarios - severe GDP scenarios.

So, if you look at the ECB severe scenario, first year severe kind of shock, it's minus 1.7%. If you look at the IMF, I think it's minus 2.7%, and then you have the Bundesbank which I think minus 3.2%. And if you take those kinds of first-year shocks, right, at any point in time, and this is not about 2022, or '23, I'm just saying kind of at our level. And you compare that to what we saw during the second quarter of the pandemic when we assumed a first-year shock of I think minus 12.9%, taken the ECB assumptions.

We kind of looked at it in the kind of comparative basis. And effectively the risk cost that you had in 2020 were about € 225 million, which about € 100 million was ECL, and a lot of that obviously has been carried over from the pandemic by way of a management overlay.

So, if you had to do kind of bookends and you said, what's your normalized risk costs, you know, € 70 million, € 80 million, € 90 million, whatever you want to use, 15 basis points to 20 basis points risk cost ratio. And then if you look at 2020, which was kind of at the extreme end using that first-year shock, that was about 3X than normalized risk cost ratio. I think that kind of gives you a sense of how we look at the world. The only difference this time is it's the GDP scenarios. The negative GDP scenarios are less severe and again we express it, at least, at the macro level through the GDP scenario primarily. And we have now € 70 million of management overlay going into any potential crisis or headwinds that we have to deal with which we will continue to build by the way in the subsequent quarters.

So, we feel we're doing everything that we can do - I mean, everything that we can control. And then there is idiosyncratic risks that we also measure within different parts of the portfolio that we feel we're pretty comfortable with. But all of what we're doing from a provisioning standpoint, Gabor, is trying to prepare for kind of a worst-case scenario and being just super cautious.

We're fortunate that we have a business that generates the type of returns that we have, and we'll be prudent and cautious and conservative in provisioning. And hopefully, it never comes about and there is a more normalized environment, but if it does, we're going to be prepared. As I mentioned I think earlier, we're going to deliver across all cycles, you know, benign as well as volatile. So, we feel this is just a matter of preparing. But hopefully, that helps in terms of just some of the ranges that I provided.

And then, Enver, I think there was a question.

Enver Sirucic: Yeah. So, Gabor, on the buyback, you're right, I mean, liquidity could be higher, obviously. But if you take into account the Vienna Stock Exchange and the MTFs, I think we feel quite confident that it's realistic to actually execute a full buyback till year-end, and even if not, we have the possibility to extend it into the next year as well. So right now, I don't think a tender would be an option for us. So, we are still positive we can execute it till the year-end.

Gabor Kemeny All very useful color. Thank you.

Anas Abuzaakouk: Thanks, Gabor.

Operator: Thank you. We will take our next question. The question comes from the line of Mate Nemes from UBS. Please ask your question.

Mate Nemes: Yes. Good morning, and thanks for the presentation. I have a couple of questions, please.

Firstly, on management overlays. I think you've been quite clear that you intend to add to management overlays in the second half, over next couple of quarters. Could you just give us a sense, you know, what magnitude to what extent should we expect top-ups here? And what exactly would be driving this? Would that be simply based on severe or adverse GDP or macro scenarios, or could there be perhaps the sector-specific overlays as well? And in terms of the quantum, is the € 6 million that you booked in Q2 indicative here?

Secondly, a question on the upgraded core revenue guidance. Now you expect more than 7% year-on-year growth. If I just look at the first half, you had 9%. Clearly, you've been adding volumes on the corporate side, and potentially, we could be seeing some tailwinds from rates as well. Is it fair to say that 7% plus guidance is rather on the conservative side? Or could there be perhaps headwinds that you would be keen to flag?

And the last question is on the Sberbank Europe portfolio. You mentioned that you underwrote it at 30% plus ROE, highly stressed losses, and a net profit margin of 4%. Could you perhaps describe what sort of highly stressed losses you're assuming here? Is that 3 times normal, or that's sort of ballpark? And also, how your current portfolio compares to that 4% net profit margin? Any color on that would be appreciated. Thank you.

Anas Abuzaakouk: Thanks, Mate. A lot of good questions. I'll take the first one on Sberbank and then Enver will address the other questions.

You know, the way we look at highly severe losses is, we look at kind of the peak of consumer loan portfolio in the financial crisis, and again this is a prime, near-prime customer base that we have, and we've effectively doubled that from where it was from the kind of financial crisis peak losses. And that I think is reflective of a highly stressed loss assumption that we applied which we mentioned when we underwrote the portfolio.

As it relates to the net profit margin, we don't disclose that. We were just trying to provide some color on this particular portfolio given just the dynamics and the overall environment, so people get comfort on that. And we were very diligent in our approach.

Take the other question, Enver.

Enver Sirucic: Yeah. So, Mate, on the management overlay, it is really more macro-driven, just assuming the severe stress assumptions. And on the magnitude, look, I mean € 6 million this quarter, that's probably a good proxy also for the rest of the year, so kind of 5 to 10-ish area is probably what we assume. On the core revenue growth, you're right. So, there are a lot of tailwinds, you mentioned them, right. We have higher interest-bearing assets, rate hikes are in front of us. Maybe just one headwind to consider is the TLTRO. I mean it will roll off. We added in our numbers. And the question is at all, what is still to come on that side? But we are, yes, very confident on the 7% plus, and there is a conservative assumption.

Mate Nemes: Great. Thank you.

Anas Abuzaakouk: Thanks, Mate.

Operator: Thank you. (Operator Instructions). And your next question comes from the line of Izabel Dobreva from Morgan Stanley. Please ask your question.

Izabel Dobreva: Hello. Thank you for taking my questions. I have three. The first one is regarding your capital return plans. I have a follow-up, given your commentary around the buyback and your plans to execute between now and the end of the year. So, my question is, what does this mean for the remaining € 100 million of capital return from the original commitment? And would you be open to doing a special dividend at the end of the year in order to meet that original distribution plan of € 425 million for this year?

Then my second question is regarding your risk appetite when it comes to M&A because on the one hand, you have just bought a consumer business, but then on the other hand, your commentary around overlays build up, signals a degree of caution. So has the M&A pipeline now evolved in line with your plans that you had at the time when you decided to tranche the buyback? What I'm really trying to understand is whether there has been a change in your risk stance when it comes to appetite for M&A, or whether we should expect a ramp-up in deal announcements in the second half.

Anas Abuzaakouk: Excellent. Okay. Thanks, Izabel. I will take these questions. Let me start with the M&A, and then I'll get to the capital distribution.

So Izabel, about the Sberbank portfolio, which is a German consumer loans and a bond portfolio, that was idiosyncratic, we did a deep dive on the underwriting that was unique. We tried to give some color as to the level of underwriting and how we priced it to give people comfort. We feel really good about it. We were not oblivious to the fact that there was a number of headwinds confronting us and that was reflected in the pricing, and we think that's going to be highly accretive. The M&A that I was referring to when I was talking about inorganic opportunities during this period would be more akin or more similar to these type of opportunities. To buy a bank in this environment, to be able to underwrite the entire balance sheet where you're unable to underwrite each individual line item of that particular asset class or asset classes, I think would be pretty challenging.

So, I think the things that I mentioned would be more similar to portfolio-type opportunities which we would adjust our risk-adjusted pricing as I had mentioned. Liquidity costs look different today than they were six to nine months ago. Cost of risk is different. In our risk appetite, as I mentioned, we tighten our credit book. So, all of that would be reflected in any potential when we say M&A, a portfolio purchase or asset purchase.

As it relates to capital distributions, A, we need to get the € 325 million done, the first tranche, but I also mentioned when we went through the earnings deck, we'll revisit the second tranche, the € 100 million obviously, that you're referring to as well as any further capital distributions around year-end results. We'll have a better kind of sense of how things have developed based on the overall market, based on our business development in terms of both the organic and inorganic opportunities, and then we'll come back and address any specifics around the second tranche or special dividends or just the overall capital distributions. So just be patient.

Izabel Dobreva: Okay, thank you. I had a final question to Enver. We've spoken many times before about the composition of the balance sheet and the high percent of this cash, and the scope to add more in the investment book. So, my question is, how are you thinking about the timing here? And when do you plan to start deploying?

Enver Sirucic: I think, Izabel, we are getting to the right levels right now, so we will start investing on the investment book. So, you have seen, we have deployed a lot of capital in customer loans in the second quarter in the portfolio, and I think you will see a bit more on the investment book in the coming quarters.

Izabel Dobreva: Thank you.

Anas Abuzaakouk: Thanks, Izabel.

Operator: Thank you. We will take our final question, and the question comes from Tobias Lukesch from Kepler Cheuvreux. Please ask your question.

Tobias Lukesch: Yes. Good morning. Just a final one on the NIM development basically. And Enver, could you give us a sense how that would have developed without the inclusion of the Sberbank asset deal?

Enver Sirucic: Yeah. I think we mentioned it that it would be 1.5 percentage points lower, that is pretty much what was attributed to portfolio. So instead of 5%, it would be 3.5% growth.

Tobias Lukesch: The NIM, the total was 2.25%, right, that we saw in Q2?

Anas Abuzaakouk: Tobias, it's hard to hear you. There is a bit of an echo. Maybe you can speak up a bit?

Tobias Lukesch: I hope that is better now. I was referring to the 2.25% NIM, and I was wondering if you could give us guidance with regards to the usual development without the extraordinary of the Sberbank deal, right, how that would have developed basically.

Enver Sirucic: Yeah. We don't break it out between organic. But I think, in general, we think I said in Q1, I think around 230 is kind of I think baseline run rate to expect.

Tobias Lukesch: All right. Thank you very much.

Anas Abuzaakouk: Thanks, Tobias.

Operator: Thank you. There are no further questions. So, I hand the call back to the speakers for closing remarks.

Anas Abuzaakouk: Thanks, everyone. I hope everybody enjoys the remaining summer period and hope to catch up with you guys during third quarter results. Thanks, and take care. Bye.

Operator: This concludes today's conference call. Thank you for participating. You may now disconnect.