BAWAG Group

BAWAG Group Preliminary FY 2019 Earnings Call

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Transcription

Speakers:

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Enver Sirucic

Anas Abuzaakouk: Good morning everyone. I hope everyone is doing well and off to a good start in 2020. I'm joined this morning by Enver, our CFO. So let's just jump right into it on slide 3.

2019 was another record year for BAWAG Group, our second full year as a public company. We delivered profit before tax of €604 million, a net profit of €459 million, a pro forma earnings per share (EPS) of €5.22 and a pro forma Return on Tangible Common Equity (RoTCE) of 17.3%. Just to remind everybody, the pro forma adjusts for the share buyback completed in the fourth quarter of last year. Most importantly, we met all of our 2019 Group targets, as we continue to deliver on our commitments.

In addition to delivering on our financial targets, we continued to execute on our strategy and transform our business. We reached a significant milestone with the completion of *Concept 21*, leading to the full separation from the Austrian Post after executing a two-year separation plan. Today, we have established a centrally managed branch network in Austria of 88 branches, we've hired approximately 200 new advisors, and have redesigned our processes and workflow across our network. We've also continued to make significant progress across Germany integrating multiple acquisitions this past year. We are working towards establishing an International Retail & SME platform focused more on digital channels and products, more specialty finance oriented, and working to grow through various partnerships and platforms. Across the Group, we continue to develop a more Retail & SME focused franchise, as we see multiple organic and inorganic opportunities to drive growth. Today, the Group profit contribution of our Retail & SME franchise stands at approximately two-thirds, but we see this rising to greater than 80% in the coming years.

We are also currently assessing a number of small bolt-on acquisitions in the Retail & SME space, specifically in the DACH-region, with exclusivity on a few transactions. We remain disciplined on pricing, and in 2019, we walked away from a few deals due to valuation. It's critical to us and our shareholders that we only allocate capital to deals that make sense financially and strategically. We are hoping to plan to provide an update prior to the AGM in May as we hope to have more certainty on where we stand on these deals.

Our strategy has been consistent throughout the years; one defined by a strong execution, focusing on the things that we control, being disciplined with regards on M&A, and delivering on shareholder value.

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Besides having delivered on our targets and continuing to execute on our strategy, we also delivered on our promise of being good stewards of our shareholders' capital. We distributed €615 million of capital back to shareholders over the course of 2019 in the form of a €400 million share buyback in November and €215 million dividends paid in May of last year, representing a 140% payout ratio. In line with our dividend policy to pay out 50% of net profits, we will propose a dividend of €2.61 per share to the AGM and assess any further potential capital distribution prior to the AGM in May.

Okay, moving on to slide 4. We achieved all of our 2019 financial targets, delivering profit before tax of €604 million, which is equivalent to 6% growth. Our cost-income ratio came in at 42.7%, down 1.5pts from the prior year and below our target of 43%. Reported Return on Tangible Common Equity came in at 16.1%, in line with our target of 15%-20%. However, the pro forma Return on Tangible Common Equity is a better indicator of the returns of the business as this deducts the equity earmarked for the buyback in 2018 that we executed in the course of 2019. The pro forma Return on Tangible Common Equity was 17.3%. We also ended the year with a CET1 ratio of 13.3%, above our target range of 12% - 13%, after having deducted our proposed dividend of €2.61 per share.

Net profit came in at €459 million, up 5%, or pro forma EPS of €5.22 per share. Our strong performance was driven by growth in our operating income, up 6%, and disciplined cost management, up 2%. As mentioned earlier, we are proposing a dividend of €2.61 per share, up 20% year over year.

Moving on to slide 5. At year-end 2019, our fully loaded CET1 ratio was 13.3%. We generated 230 basis points of gross capital, reflecting our highly capital accretive business model and in line with the average gross capital generation over the past few years. We distributed €615 million of capital back to shareholders over the course of 2019, representing a 140% payout ratio. The closing of 3 transactions in 2019 accounted for approximately 30 basis points as well. This is a good proxy for the type and size of potential deals we currently have in the pipeline.

In line with our dividend policy of paying 50% of net profit as dividends, we will propose a dividend of €2.61 per share to the AGM and assess any further capital distribution as part of the AGM resolutions.

On to slide 6 we wanted to summarize our approach to capital management and distribution. Our key focus is to be good stewards of shareholders' capital and focusing on shareholder value, an approach that remains unchanged since our IPO back in October 2017. Our primary objective is, and will always be, to deploy our excess capital into profitable organic growth, at times supplemented with M&A defined by disciplined underwriting and generating returns consistent with our RoTCE targets of greater than 15%. We are committed to a dividend payout ratio of 50% of net profit, which we have delivered since our IPO. To the extent that we are unable to deploy our capital in organic growth or M&A, we will return our excess capital to shareholders through share buybacks.

In terms of capital distribution, we look to distribute excess capital above our target 13% CET1 ratio on an annual basis. Despite our continued strong operating performance and improved SREP score resulting from a P2R reduction of 25 basis points, we feel it more prudent to set a CET1 target of 13% for capital distribution. This clearly exceeds our fully loaded minimum capital requirements set by our regulators of 10.2%.

Since our IPO, we have distributed or earmarked, over €900 million of capital distribution; comprised of over €500 million in dividends as well as a €400 million share buyback program. On a per share basis, this translates to approximately €9.37 per share since our IPO in capital distribution.

This is all while growing our pre-tax profit over €100 million from €500 million in 2017 to over €600 million in 2019, representing a compounded annual growth rate of 10%. In addition, we also executed on 5 M&A transactions, with a day 1 capital impact of greater than 300 basis points in terms of CET1 capital and continued to develop the business towards a more Retail & SME focus without pursuing volume growth blindly; all while dealing with the negative effects of a negative interest rate environment.

Turning to our Retail and SME business on Slide 7, we had a record year for the franchise delivering pre-tax profit of €395m, up 1% versus the prior year, and a ROTCE of approximately 24%, a cost-income ratio under 43% and an NPL ratio of 1.9%. This was despite one-off provisions with a negative impact of €8m taken during the 4th quarter related to older retail NPL cases. Excluding this, the underlying pre-tax profit would have been up 3%.

For the full year, total assets were up 7%, driven by consumer & SME products as well as housing loans, driven by both organic growth as well as the closing of the factoring and leasing acquisitions during the course of the year. Our international

mortgage portfolios continued to run-off as anticipated, with both the UK and French mortgages collectively amortizing by 16% during the course of 2019.

More importantly, we continue to execute on a variety of operational and strategic initiatives across the Retail & SME segment: From redesigning our organizational set-up, completing *Concept 21* over two years, rolling out multiple retail partnerships and platforms, and continuing to drive operational improvements across the value chain to deliver retail products and services.

On to slide 8: Our focus across Retail & SME franchise is, and will continue to be, on growing in developed markets with Austria as our core and foundation.

During the fourth quarter of last year, we introduced a new management structure for our Retail & SME segment. Given our growth and expansion across multiple countries, we have realigned Management Board responsibilities to deliver growth and to ensure we have the proper leadership in place to continue executing on our strategy.

David O'Leary, will oversee all domestic Retail & SME businesses as we leverage our multiple brands and channels across Austria and drive scale domestically. With the separation from the Austrian Post completed, we have a unique opportunity to redefine our go-to-market strategy across Austria. We are one of the largest centrally managed banks with over 2.4 million customers, leveraging our high quality brands, our physical and digital channels, and new partnerships all while creating a common product factory. This means a renewed focus on financial advisory, enhanced data analytics, more retail partnerships, investing in platform lending, and leveraging technology across all of our processes to better serve the needs of our customers.

Sat Shah, will oversee all international Retail & SME activities in Europe, in addition to having responsibility for leasing and factoring product factories and channels across the Group. The work of integrating our various businesses is coming along well as we continue to harmonize our middle-and-back-office work functions across multiple platforms, as well as we drive organic and inorganic growth opportunities across Germany and Western Europe. Our international Retail & SME focus will be more digital, more specialty finance oriented and working to grow through various partnerships and platforms.

The highlight for the year in Austria was the completion of *Concept 21*. We now have a centrally managed branch network of 88 branches across Austria focused primarily on urban growth cities. Approximately 200 new hires have joined the sales force over the past two years, a redesigned workflow across our branches incorporating real-time customer analytics, more effective lead management, and launching various retail partnerships. We've also continued to rollout digital products and services; such as the point-of-sale financing product, an SME digital product and our new mobile banking app "klar".

Our International Retail & SME platform, which is anchored by our German businesses, continues to be about building a common platform, integrating multiple businesses, and continuing to drive positive operating leverage through centralization of functions, streamlining operations and migrating core systems and applications. We're excited about the successful rollout of *Qlick*, our pipeline of new partnerships and leveraging mortgage platforms using our own credit box to drive asset originations in developed markets.

Given a number of initiatives that we've laid out, we feel confident that we will be able to drive segment net profit growth in Retail & SME of over 10% during 2020 driven by a mix of revenue and cost initiatives.

We are just beginning to fully leverage our multi-channel platform from branches, to brokers, to partners, to platforms, to digital products, across the entire Retail & SME franchise. We're excited about the opportunities ahead and believe our strategy focused on developed markets will allow us to continue to grow the business, with the contribution of the segment growing to 80%, to growing to over 80% in the coming years.

Okay, on the Slide 9, the Corporates and Public segment delivered a solid year despite a very challenging market environment. The segment delivered a pre-tax profit of €190 million, down 4% versus the prior year, and a Return on Tangible Common Equity of over 14%.

We continue to focus on risk-adjusted returns and not absolute volume growth. We've done a good job continuing to drive efficiency across the segment, with a cost-income ratio of 34%, down 4 points from the prior year and ensuring that we proactively manage risks in the business. The NPL ratio was 1.0%, down 20 basis points from the prior year, an indication of our proactive risk management as well as the overall benign credit environment we are currently experiencing.

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The DACH Corporates & Public Sector space continues to remain challenged from a risk-adjusted return standpoint. However, we are committed to the business and will be ready to actively engage when the market corrects and we're able to pursue profitable growth. We continue to see opportunities outside of the DACH region primarily in asset backed lending. However, with corporate lending in general becoming more competitive our focus is, and will always be, on generating appropriate risk-adjusted returns and we will never be chasing volume for the sake of growth.

Given the challenging market environment for corporates and in the absence of any significant strategic opportunities, we expect net profit in the segment to be flat-to-slightly down in 2020.

On slide 10, we wanted to provide greater detail into our Corporates & Public sector segment; highlighting our conservative and disciplined approach to lending. Over the years, we have developed a strong underwriting culture which is embedded within the DNA of BAWAG's management. We have been disciplined as it relates to growth, never over-extending ourselves, focused on risk-adjusted returns and always taking a conservative approach to credit before anything else. More than any other period, we are cognizant of the fact that we remain in the late stages of a credit cycle and remain vigilant in assessing and pricing risk. When underwriting transactions, we base our loss analysis on through-the-cycle credit losses and idiosyncratic risks, not merely relying on low losses that are a result of a current benign credit environment and not a reflection of the true credit fundamentals of a business.

For example, we underwrite corporate loans based on a very conservative approach to the type of companies we lend to, the capital structure, and the leverage profile of our debt facility. We lend to free cash flow generating companies with defensive profiles and strong market positions in resilient industries. The average net leverage of BAWAG tranches is under 4 times. We continue to see pricing pressure across the corporate lending space and we will remain patient and disciplined in how we lend.

As it relates to asset backed lending, we take an equally, if not more, conservative approach. The asset backed lending is focused on senior secured lending against diverse real estate assets. Our overall portfolio loan-to-value is under 60% and has been this way for the past few years. We focus on developed markets; primarily Western Europe and the United States. From a credit standpoint, we underwrite deals to an interest coverage ratio of greater than 2x. Our deals have a weighted average life of approximately 3 years, reflecting the strong cash flow

generations of the deals we underwrite and the quality of the sponsors that we work with.

Our public client business is focused entirely on Austria serving the Republic of Austria, Federal States and municipalities; leveraging our position as the payments provider to the Republic of Austria.

Overall, we do not place volume targets for our Corporates & Public segment. Our focus is, and has always been, on sound underwriting, risk-adjusted returns, and maintaining high asset quality. At times, this means sacrificing growth and volume, but we believe this will serve us well over the long-term as we develop long-term relationships with high quality customers on a transactional basis.

With that, I turn it over to Enver, to go through the financials in more detail.

Enver Sirucic: Thank you, Anas. Continuing on slide 12, development of our P&L and key ratios: Let me start with revenues first. Core revenues were up 1% versus Q3, with the net commission income being slightly lower after a stronger Q3 and a very solid improvement in the net interest income being 2% higher than in Q3, while the Net Interest Margin has improved from 228bps to 236bps quarter over quarter. Other revenues were 15% lower versus Q3, so that in summary core revenues were up, other revenues down and overall operating income stable, which translates into a better quality of earnings in Q4 versus prior quarter.

Operating expenses remained stable versus prior quarter despite some seasonal expenses in Q4. The cost-income ratio during the quarter was 42.6% and 42.7% for the full year, both in line with our target of staying below 43% in 2019.

We had an increase in risk costs of €8 million in Q4, thus a higher risk cost ratio of 27 basis points for the quarter. This was largely driven by a one-off booking addressing older retail NPL cases, mainly in the mortgage book. Otherwise, the underlying risk costs would have been around €17 million, consistent with prior quarter’s performance.

All metrics overall are in line with our expectations and we see a solid underlying performance going into 2020.

Moving on to slide 13, an analysis of our balance sheet. So customer loans and deposits were largely stable, with net asset growth in Retail & SME and reductions in Corporates & Public sector, which reflects our stronger focus towards Retail & SME

lending. We also continued optimizing the securities portfolio, which increased our cash position, while the overall balance sheet remained unchanged. Capital numbers and ratios were obviously impacted by the €400 million share buyback, which we completed in the last quarter of 2019, which also adjusted our leverage ratio down to 6.5%.

On slide 14, core revenues: A very good quarter of net interest income, which was up 2% versus the prior quarter, driven in large part by the core retail product growth. The fourth quarter net interest margin expanded from 228 basis points to 236 basis points, reflecting on the one side the shifting asset composition towards Retail & SME - core retail products of consumer, mortgage, leasing and factoring and on the other side the ratio was positively impacted by a reduction of our low yielding securities and bond portfolio, thus also reducing the average interest bearing assets. The split between these two positive NIM effects I would say is roughly 50:50.

Net commission income was down 1% versus the prior quarter after a stronger Q3 performance and remains a challenging area, but also an area of opportunities for the future. We have already launched different initiatives especially in the advisory businesses to improve our performance on the securities offering, which over time should have a positive contribution to our net commission income.

All-in-all, a very solid quarter of core revenues. With the strong momentum in NII, a solid growth in Retail & SME, and a healthy net interest margin we feel well prepared to meet our 2020 targets.

With that, moving on to slide 15: Operating expenses were almost identical versus the prior quarter. The cost–income ratio was at 42.6% and absolute costs were at €134 million for the quarter – more interestingly we would typically see higher operating expenses in Q4, driven in large parts by booking restructuring expenses. This was also the case in Q4, and if we normalize for these effects our current run-rate for the quarter would be below €129 million, which gives us a good path to meet our 2020 target of getting below 40% cost-income ratio.

Nothing has changed in our discipline around cost, this is one of the few things management teams truly control. We are strong believers in this efficiency and self-help approach which has guided us over the past few years and will always be at the core of our DNA.

We have already started working through the next level of cost savings, and on slide 15 you can see some of these examples, which among others include a lower than planned branch network, a simplification and a stronger centralization of our group structure and further transformation in Germany and the headquarter functions in Vienna.

That is why we are confident in our ability to meet our cost-income ratio of getting below 40% even in the face of a potential deterioration in the macroeconomic environment.

Slide 16, there was some noise in the quarter on the risk side driven by a one-off booking mainly addressing older retail NPL cases, the ECB guidance on vintage NPLs accelerated our decision to take advantage on strong results and fully provide for these older cases. If we take that out the risk costs would have remained fairly stable compared to prior quarter with a risk cost ratio of 18 basis points instead of 27 basis points including the one-off booking.

NPL ratio improved from 1.9% to 1.7%, reflecting our focus on developed markets with over 70% of our customer loans being in the German-speaking region and roughly 30% in Western Europe and the United States.

Consistent with prior quarters, there have been no changes to our risk strategy which remains consistent with what we communicated before. We have no relevant exposures to Russia, Turkey, CEE, or more broadly, to Emerging Markets. Given our business is mainly domestic mass retail banking, we also do not have any operations in countries with elevated AML risk.

We feel very good about our risk strategy and the credit quality of our book and we expect to stay at 15-20 basis points in terms of risk-cost ratio for 2020 and we expect a through-the-cycle risk-cost ratio of 15 to 25 basis points.

On slide 17, a summary of what happened on the capital front. Most of the highlights have been mentioned earlier in the presentation, but in a nutshell: CET1 ratio came in at 13.3% and our total capital ratio was at 17.0%. Risk-weighted assets came down from €20.6 billion to €20.4 billion driven by the changing asset mix towards Retails & SME, while CET1 was mainly impacted by the €400 million share buy back in Q4 and the proposed dividend of €230 million for the Full Year 2019. Our SREP requirement for 2020 is now at 10.2%, which was positively impacted by the reduction of our P2R from 2.25% to 2%, while our P2G remained stable at 1%. This compares to an average of 2.1% for P2R and 1.5% for P2G across ECB

regulated banks according to recently published figures from ECB.

Moving on to slide 18, so this is a new slide as we wanted to give an update on other relevant topics, which are not directly tied to our operating business performance. So first, the new federal government in Austria announced a very comprehensive program, in addition to various initiatives, the government published plans for several tax measures, such as a reduction of the corporate income tax from currently 25% to 21% and a broad-based reduction of the personal income taxes. The specific timing of the proposed tax program has yet to be communicated.

Regarding the City of Linz case: earlier this year in an interim judgement from the first instance court was issued, stating that contract was not valid, but with no decision about the amount of the potential mutual claims. Our view has not changed, and we feel very strong about our legal position and to put the numbers into context a worst-case outcome would have a negative impact of 60 basis points to our CET1 ratio. A short update on CRD V: We are following the developments closely, specifically with regards to a potential fulfilment of the P2R with capital instruments other than CET1. If we could fulfil P2R with AT1 and Tier 2 capital, the impact on BAWAG would be 88 basis points, or roughly €200 million. And then on the systemic buffers we expect an update in June by the Austrian Financial Market Stability Board.

And last, but not least, an update on ESG initiatives at BAWAG, which was also recently disclosed on our IR website. ESG has become a very important and relevant topic for BAWAG and we are committed to improving our overall communication and transparency related to the many programs and initiatives at the Bank, both new and old. We further enhanced our HR development programs, and also put more focus on green products and green energy across the BAWAG group. We will continue to embed ESG further within our organization and our business model, always pursuing sustainable and profitable growth.

With that I'll hand over back to Anas. Thank you.

Anas Abuzaakouk: Thanks, Enver. On to slide 19, we reaffirm our upgraded 2020 targets that we unveiled last year. In 2020, our targets are the following: A pre-tax profit greater than €640 million, representing an annual growth rate of over 6%. With a more normalized tax rate now, we are providing a net profit guidance of over €480

million. The cost-income ratio target remains unchanged, targeting under 40% in 2020. We are targeting a RoTCE of 15%-20%. However, and importantly, these will be achieved off of a target CET1 ratio of 13%; which will be the threshold we use for capital distribution annually.

Our EPS target, adjusted for the recently completed buyback in the fourth quarter and normalized tax rate, is for an earnings per share of greater than €5.40 per share in 2020. These figures were based on a share count of approximately 89.1 million shares as of December 31, 2019.

The 3 key drivers of growth in 2020 are the following: (1) Achieving greater scale and efficiencies in Austria as a result of completing *Concept 21* and the new organizational set-up that I went through; (2) Continued integration momentum in Germany and centralization of activities as part of our international Retail & SME activities; (3) and NII tailwinds from Q4 resulting from net asset growth in our Retail & SME segment that we discussed.

As we wrap up our second full year as a publicly listed company, I wanted to reiterate not just our targets, but our commitment to consistently executing on our strategy year-in and year-out and focusing on the things that we can control. We believe that it´s what defines us and is true to how we operate. We're extremely proud of how the business performed in 2019 despite challenging market conditions and the contributions of all of our team members across the Group.

Lastly, as we near the 3-year anniversary of our IPO in October later this year, we plan to update investors in our inaugural Capital Markets Day and layout a new set of targets. Please mark your calendars, as we are planning this for September 21st in London. However, it's important that we first deliver on our original commitments and then we will layout the plans for the coming years.

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

Operator: Thank you ladies and gentlemen. We'll now begin the question and answer session. And as a reminder, if you wish to ask a question you will need to press star and one on your telephone keypad. And your first question comes from the line of Gabor Kemeny from Autonomous Research, your line is now open.

Gabor Kemeny: Oh, hi. Thanks for the presentation. First one is on capital return planning. I understand that you are looking at a couple of bolt-on M&A opportunities. Now, if we assume that you don't find potentially attractive targets by the AGM in May, would you then consider distributing the excess capital you have above a 13% CET1? And if you do, then would the basis be the Q4 or the Q1 capital ratio you would be working on the basis on?

Anas Abuzaakouk: Hey Gabor. A good question. A belated Happy New Year. Excess capital distribution, I think related to what we mentioned earlier in the presentation, anything over 13% excess capital, we will look to distribute to our shareholders. We'll base that off of the year end figure, so that would be the 13.3%. More importantly, we have a few deals that I mentioned earlier that we're exclusive on and if you kind of take just the size of those deals and the overall contribution, it'll probably mirror, if this actually goes through, the deals that we did in December of 2018. So that's obviously our priority. We've been working on that quite diligently. But in the absence of that, we would then propose, if that doesn't materialize, we would propose a potential capital distribution to the AGM. So I think that'll align nicely with the first quarter and the AGM.

Gabor Kemeny: Okay. And would you need a new ECB approval process for that?

Anas Abuzaakouk: Yeah, absolutely. But we don't want to get ahead of ourselves, obviously we want to go through the process we're at with the M&A at the current moment.

Gabor Kemeny: Understood. Thank you

Anas Abuzaakouk: Thanks Gabor.

Operator: Thank you. And your next question comes from the line of Mate Nemes from UBS. Your line is now open.

Mate Nemes: Yes, good morning and thank you for your presentation. I have three questions please. First of all on asset backed lending, you commented that you see a solid pipeline in that segment. Can you describe perhaps the opportunities there? What kind of opportunities are there? Is that mainly NPL finance or real estate finance? Any color on that would be interesting. Secondly, on corporate lending, I think you were quite clear that they're competitive at the moment but still the 21% quarter on quarter drop in that segment - if you could provide some color, what happened there and what to expect in the next maybe two, three quarters, that would be helpful as well. And thirdly, the net profit growth, in excess of 10% targeted in 2020 for Retail & SME.

Can you confirm, is that purely organic growth and, and if so, how much of that growth is expected from costs and how much from revenues? Is it fair to expect that it's mostly cost integration of the previously acquired businesses and so on. Thank you.

Anas Abuzaakouk: Thanks, Mate. So I'll take the question on the asset backed lending and then I'll hand over to Enver for the corporate lending as well as the net profit growth. So asset backed lending, we mentioned we have a pretty healthy pipeline. The way to think about this Mate is we've been consistently mentioning just the challenges in the corporate lending space. That asset-backed lending will effectively offset some of the, call it 'erosion', in corporate lending, or when I say erosion, just the continued reduction in the corporate lending volumes. As far as the pipeline, it's a mix of NPL financing, traditional real estate financing, but in developed markets, no different than what you've seen in prior years. We think the business will be fairly stable to slightly down in terms of overall net profit. So asset backed lending will effectively compensate for just any rundown that you see on the corporate lending side. And then as far as the corporate assets, I think you mentioned the 21%. I'll give it to Enver.

Enver Sirucic: So Mate, on the Corporate lending side, the asset drop, there are two factors: One is truly a reduction of the asset base, which is in line with our expectations with the move towards Retail & SME. We also had the technical topic that was from Q3, although in Q4, that has to do with cash in the banks that are presented that segment. We will move that from Corporates to Treasury to make it a cleaner picture. But in reality, it was really half of that which was truly a business reduction.

Anas Abuzaakouk: And then there was net profit.

Enver Sirucic: The third was net profit in Retail. So we don't split it into what is organic and M&A because after a full year of integration, everything is organic, in our view. And the split between revenue and costs, I think it's both. So what we said previously, not only for retail but in general for the bank, it's going to be both in the top line but also the OPEX. So good NII momentum that you saw in Q4 for the bank but also in Retail as well as OPEX will drive the 10% growth in retail for next year.

Anas Abuzaakouk: And Mate, just to be clear but I don't know if this was the nature of your question, that over 10% net profit growth is not dependent on any further M&A. So if that was the question, this is all based on our current business, not reflecting any M&A that we have in the pipeline.

Mate Nemes: Okay, perfect. That's very clear. Thank you.

Anas Abuzaakouk: Thanks Mate.

Operator: Thank you. And your next question comes from the line of Pawel Dziedzic of Goldman Sachs. Your line is now open.

Pawel Dziedzic: Good morning. I have just two questions from my side. So first one may be a little bit more broad. So you reiterated all your targets for 2020, but you didn't give any guidance for 2021. So I'm wondering if you can just comment and give us, you know, some understanding why unlike a year before, you are not really willing to look one year forward. Does it have to do anything with more challenging outlook that I think you mentioned or perhaps, there are other reasons? So just the clarity on that. Then the second question is a follow-up on your comments on Corporates & Public sector. So you mentioned that net profit should be flat. If we look from outside, the volumes are coming down, maybe perhaps a little bit less on the underlying basis than on the headline basis, but nonetheless they are shrinking and I think in your presentation you also highlighted pricing pressure and obviously the impairments this year were, you know, relatively low.

So can you give us an idea, you know, what will drive this, let's say, stable PBT. Are there any cost measures that you're taking? Is it a big part of, let's say, maintaining the same result or other reasons? And I think that third question that I would have is on your comments on CRD V and the positive impact there. So it's obviously potentially a good news, I guess for the future capital deployment, but can you clarify if you see at this point, any headwinds or regulatory headwinds for your capital ratio? Be it related to Basel IV, you know, anything coming from TRIM calendar provisioning, or maybe perhaps, you know, this domestic add-on in Austria. And I think that would be the question. Thank you.

Anas Abuzaakouk: Very good questions, Pawel. Hope you're doing well, man. I'll take the question on the targets and then the Corporates & Public sector segment, and then, Enver if you can take the CRD V and just the capital questions would be great. So 2021 Pawel, as I mentioned, let´s first deliver on 2020. Do not read into it that we didn't put out a 2021 target, that there's concern or that there's a decline. That is the last thing from the truth. We just want to make sure that we execute on 2020, our original commitments. And then I mentioned the capital markets day on September 21, we'll use that opportunity to give a new three year targets, effectively from 2021 to 2023, which we're working on and there's a number of initiatives. Rest assured that the goal is not to show a decline year over year, but we're still working through things and I think it's important that we just focus on our

original commitments and then we'll address 2021 and beyond hopefully later in the year.

So that's on the future targets. Corporates & Public sector: The reality is the corporate lending is going to continue to be challenging, you can see it. That's why we showed the three year, effectively asset volumes and you can see kind of the continuous decline. Some of that is noise related to just bank loans that Enver had mentioned. But the reality is we don't see that improving, at least in the near term, given just the tenders that we continue to lose, just the overall pricing. Historically it was a pricing issue. Now we're more concerned about credit. Just in terms of lack of covenants and it's not just leveraged loans, it's across the continental European landscape and more pronounced probably in the DACH region. So I think that'll be offset. Those are probably lower yielding assets historically, that'll be offset by asset backed lending. Even though you might see a volume decline, I think you'll see from a profitability standpoint, that should be flat to slightly declining. With the mix of revenue as well as that we have a number of cost initiatives as well.

And we're at 34% cost-income ratio. We're obviously continuing to work on that, but I think that's a business that just given the current environment just to be static, we feel pretty happy. And this is, by the way, absent any strategic opportunities that we might pursue, in that space. And with that, I'll give you CRD V.

Enver Sirucic: So on the regulatory events: So we have a close look on the developments. I would say in general Basel IV, TRIM, NPL provisioning should have really a minor impact on us just given our structure, high RWA density, low NPL ratio. Systemic buffers is what I said on the call. So there will be a review by the Austrian Stability Board and that should be, it should give I think an update by mid-year 2020. Nothing on the horizon that would worry us right now.

Anas Abuzaakouk: And to say again, on any headwinds, like there's nothing from a Basel IV standpoint that we have any concerns on.

Pawel Dziedzic: Okay. That's very clear. And maybe just one very short follow up. You mentioned that you would distribute everything above 13% and your reference point would be year-end capital ratio, so 13.3%. So should we understand that, let's say absent of M&A, you will propose to AGM, distribution of this 30 basis points, you know, through buybacks and so on or you know, is this the wrong way to think about this?

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Anas Abuzaakouk: Oh, that's the right way to think about it. Yes. But we just don't want to get ahead of ourselves Pawel, just given the transactions that we're looking at the moment. That's right.

Pawel Dziedzic: Okay. Thank you.

Anas Abuzaakouk: Thanks man.

Operator: Thank you. Your next question comes from the line of Tobias Lukesch from Kepler Cheuvreux. Your line is now open.

Tobias Lukesch: Hey. Three questions from my side as well. First, I have again to touch a bit on the 2021 outlook that you, kind of were trying to give. I totally understand. However, I mean if we do look at the revenue line and the fact that, you know, other revenues played a more significant component than in the last year. So we saw basically an increase in 2018 and now in 2019, so you have bonds sales and security sales. This is for sure not sustainable going into the future. Maybe you can shed a bit more light on what the impact exactly was this year and how you expect this to continue and probably then to be offset by sustainable core growth. Secondly, if we touch on the risk cost, you just said you're focusing on or expecting kind of 15-20 basis points for 2020 and you said, if I understood you correctly, you see a 15-25 basis points through-the-cycle. So I was just wondering, given your business shift also with regards to consumer loans and so on, how come that you end up with such a low number since that's the number that we currently all see, you know, with some banks in the DACH region, who do a kind of normal course of business and are already above that kind of, yeah, 15-25 basis points guidance. And thirdly, again, on the costs, you mentioned that in the past you argued that the below 40% cost-income ratio might be challenging. Consensus did not expect you to really strike below the 40%. So, from today's notes, I take a bit more of a bullish view on that. Maybe you can, you can shed a bit more light on that. Thank you.

Enver Sirucic: Sure. So I think Tobias, on the 2021 outlook, we would like to get the updated three-year-targets at the Capital Markets Day, but generally you´re right so other revenues we would expect to come down on the midterm basis and core revenues would go up. Still, if you look at the mix, I think almost 95% of our revenues are core revenues, so that will further improve over the years. On the risk-cost, why we feel comfortable. Yes, if you look at 2020, 15-20 basis points, through-the-cycle 15-25 basis points. You mentioned consumer lending, but consumer lending is truly only 20% of our asset mix in Retail. So still the dominant asset class is mortgages and if you look at the long-term unemployment rates, which is a direct, correlated factor to the risk-cost in Retail, that was super stable in that 30-year-horizon

in Austria. So that's why we feel very comfortable with the guidance we are giving. And with costs below 40%, I think we have been always bullish about getting below 40%, but it's not easy. You don't find a lot of banks being below 40%. That's why it's a lot of execution. All the programs that we started earlier this year, actually early at 2019 to have the full impact in 2020, its all execution at the end and we feel very comfortable now or more confident because we see that they are already working out for us.

Tobias Lukesch: Thank you.

Anas Abuzaakouk: Thanks Tobias.

Operator: Thank you. And your next question comes from the line of Johannes Thormann of HSBC. Your line is now open.

Johannes Thormann: Good morning everybody, Johannes Thormann from HSBC. Three questions as well if I may: First of all, just to get a better feeling for your M&A appetite, is this rather in the retail space or will it be in SME Corporate space? Which kind of business would you prefer or is it at the end just a simple question of price? Secondly, if I understand you correctly, you want to increase your volumes from traditional real estate financing, which countries would you target? And last but not least, the technical question on the impact of the Austrian tax rate proposal going from 25 to 21% - so the 4 % reduction, would this also feed to your tax rate or should we halve it or what would be a good feel for that? Thank you very much.

Anas Abuzaakouk: Hi Johannes. Very good questions. So the M&A is straight forward. The things that we're looking at currently, the exclusivity and what's in the pipeline is in the DACH region and it’s Retail & SME focused. So it's similar to what you've seen in December 2018 in terms of nature of size and the kind of the product orientation. So we're pretty excited about that, but obviously the deal has to get done on the right terms and we're going to be disciplined as far as price, as far as valuation and the returns that we have to generate. That was the Retail & SME. The second question was real estate financing. You were saying, is that on the Corporate & Public, or are you referring to mortgages?

Johannes Thormann: Corporates, please.

Anas Abuzaakouk: Yeah, that's, I would say it's a mix of Western Europe and the United States, less so in the DACH region to be honest, where we don't see the right debt yields or LTVs don't fit our credit box. So this is stuff that you see in France, the Netherlands, Spain, it's kind of a mix. And I mentioned NPL financing, traditional commercial real estate in the States as well. Not the same type

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of pipeline that we've seen in the past, but I think a sufficient amount of pipeline, they give us comfort that we'll probably have, from a segmental standpoint, pretty static, just slightly declining net profit. And then the last question, I'll give it to you Enver.

Enver Sirucic: On tax rates, so yeah, you're right. That's coming down from 25 to 21, four percentage points better, but most of our income is in Austria, so we would benefit from that reduction. Just to keep one thing in mind, we still have an old goodwill amortization that we benefit from, so our tax-rate is slightly reduced. That's why our effective tax rate, that is shown there is roughly 24% versus the 25%. So I would say most of the four percent should come through, but not 100% of it.

Johannes Thormann: Okay that was it, thank you.

Anas Abuzaakouk: Thanks Johannes.

Operator: Thank you. And your next question comes from the line of Stefan Maxian of RCB. Your line is now open.

Stefan Maxian: Yeah hello, just two questions remaining. One on the restructuring OPEX of €5 million that you flagged for the fourth quarter, in which segment was that? And the second question actually relates to the increased assets in the Retail & SME book. Here you have an 8% increase in your portfolio book, and at the same time, of course your international mortgages are coming down. So what's the increase in that book? Quarter on quarter? Thank you.

Anas Abuzaakouk: Ok. Hey Stefan. Very simple. On the restructuring, it's primarily Retail & SME. That's where you see the biggest advantages of scale. And I've mentioned kind of the new management structure in terms of domestic versus international Retail & SME. So it's kind of split between both international domestic as it relates to…

Stefan Maxian: That actually €90 million OPEX is not a run-rate, but the run-rate would be rather €5 million below that, right?

Enver Sirucic: So it affects mostly Retail & SME, but we always centrally book the restructuring expenses in Corporate Center.

Stefan Maxian: Ah, ok, ok.

Anas Abuzaakouk: I was just talking about what it's related to while you were asking about the booking. Okay, that's why Enver should answer the questions and not me. He actually knows the numbers. And then the second question…portfolio. Yes, so Stefan, you're right, you saw the UK and French mortgage portfolios similar to what we said at the IPO, 15, 16% amortization. We were fortunate

	enough to execute on a portfolio purchase and distribution agreement in Germany, which we can't give the details, but that was a couple of hundred million and that's why you see the portfolio increase and why we broke out the part related to the UK and French, and then you can see the overall portfolio.
Stefan Maxian:	Alright, alright. Okay and the rundown of the UK and the French mortgage portfolio will continue to come down?
Anas Abuzaakouk:	Yeah, it's about 15, call it 15-20% on an annual basis. So at least we're pretty consistent.
Stefan Maxian:	Okay.
Anas Abuzaakouk:	Thanks Stefan.
Operator:	Thank you and your next question comes from the line of Simon Nellis from Citibank, your line is now open.
Simon Nellis:	Hi Anas. Thanks for the presentation.
Anas Abuzaakouk:	Hey Simon.
Simon Nellis:	Hey, my question would be on consumer lending. It's been growing very rapidly. Just wondering if there's anything skewing the 24% year on year growth. If there is any M&A or issues there? And what's the outlook going forward? And maybe an update on your German consumer lending ambitions.
Enver Sirucic:	So Simon, it's going very well organically, but if you look at the 24% versus prior year, it needs to be considered that we had the M&A in there as well. So the additions in Germany and in Switzerland are presented here as well. And it's going well. The Austrian initiatives as well as the German initiatives, but it's not 24%, the 24% is including the new M&A.
Anas Abuzaakouk:	You have the factoring and leasing businesses, which fall under Consumer and SME, is embedded in that number. So when you strip that out, I think its 5%-6% type of growth. That's driven by the point of sale finance obviously. *Qlick* has been, we're actually starting to get good traction and momentum. And we have a number of other partnerships, Simon, that effectively it's a great asset origination channel for us, using our own credit box. We feel good. Look, obviously with consumer unsecured, you have to be on top of it. We look at the delinquencies 30, 60, 90 day past dues. But that's part of the reason we like being in a DACH region, because of the macro stability, the sound legal system, you don't have the same levels of consumer indebtedness that you've probably seen in Anglo countries. So all of that's a good mix. We like this space.

Simon Nellis: And just one more question on capital. I see that you're saying that article 104a will have a potential 88 basis point positive impact on your CET1. If, I guess you have no idea about timing, but if that does kick in, would you then, pay out excess again, still above 13% CET1 or how would you think about changing your capital distribution plan if that kicked in?

Anas Abuzaakouk: It would definitely reflect into our capital distribution plan. But the big thing Simon, is that we put it as 'if'. If all of these things fall into place and we're eligible. That's why we wanted to highlight what the quantum is, but without a doubt that would factor into our capital distribution plan that we just mentioned. But I think there's a lot of "if's" and there's a lot of timing as well.

Simon Nellis: Yeah. So it would take a while basically to get that approval you think?

Anas Abuzaakouk: Yeah. I think at this moment we just don't have any information, any real facts as far as timing, but we want to just highlight what the actual impact would be potentially.

Simon Nellis: Yeah, okay. That is all from me.

Anas Abuzaakouk: Thanks Simon.

Operator: Thank you, there are no further questions at this time, please continue.

Anas Abuzaakouk: Thank you, operator. Thank you everyone for joining our year-end call. We hope to talk to you at first quarter. All the best and have a great day.