BAWAG Group

BAWAG Group Q2 2019 Earnings Call

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Transcription

<u>Speakers</u>:

Anas Abuzaakouk

Enver Sirucic

Anas Abuzaakouk: Good morning everyone and thank you for joining our second quarter earnings call. As usual, I'm joined this morning by Enver, our CFO. So let's get right into it.

On Slide 3, we had a strong second quarter, delivering net profit of €122 million and earnings per share of €1.23, up 4% and 6% respectively versus the prior year delivering a Return on Tangible Common Equity of 15.3% for the quarter. On a half-year basis, we delivered net profit of €219 million and earnings per share of €2.21, up 8% and 9% respectively versus the prior year and a Return on Tangible Common Equity of 13.8%. The fundamentals of the Bank remain very strong. On a pro forma basis - which spreads the regulatory costs evenly across the year and accounts for our proposed capital actions – our Return on Tangible Common Equity was 17.8%. We are on track to deliver on all of our targets in 2019 as we continue to adapt to the changing operating environment and focus on the things we can control.

In addition to a strong set of earnings this quarter, it's been a successful quarter in advancing our strategic goals. We closed on our leasing and factoring acquisitions that we signed last December and continued to make progress across various operational and strategic initiatives. To-date, we've made very good progress delivering on *Concept 21*, ramping up our retail partnerships, as well as building out our German platform. Our various operational and strategic initiatives are focused on transforming the business to a greater Retail & SME orientation across the DACH region.

In terms of capital generation, we generated 60 basis points of gross capital during the quarter and increased our CET1 ratio by 20 basis points to 15.1%. This is after accounting for the closing of BFL Leasing & Health AG.

We're also on track with our capital distribution plans. On April 30, the AGM approved our proposed share buyback program of up to €400 million. We filed our regulatory applications thereafter, with the regulatory approval process ongoing. We've had very good dialogue with our regulators and expect this to be finalized in the second half of the year. In parallel, we are reviewing a variety of execution options and making the necessary preparations for undertaking our share buyback program during the second half of the year. We've also paid a dividend of €215 million this past May, which represents 50% of the 2018 attributable net profit and are reaffirming our dividend policy of 50% of net attributable profit for 2019.

Alright, moving on to Slide 4, a strong second quarter in terms of financial performance. Our reported profit before tax was €160 million, up 5% versus the prior year. This was driven by higher operating income, offset by higher expenses due primarily to the closing of the recent acquisitions. The reported Return on Tangible Common Equity came in at 15.3% with a cost-income ratio of 43.5%. For the half-year, our profit before tax was €287 million, up 6% versus the prior year. The reported Return on Tangible Common Equity was 13.8% with a cost-income ratio of 42.9%, in line with our full-year target of under 43%. On a pro forma basis, the Return on Tangible Common Equity was 17.8%, in line with our stated target range of 15% to 20% for the year. Additionally, the CET1 ratio rose to 15.1%. Again, on a pro forma basis, our CET1 ratio would be 12.7%, again within our stated target range of 12% to 13%.

Moving on to Slide 5, capital development. At the end of the second quarter, our fully loaded CET1 ratio was 15.1%. We generated 60 basis points of gross capital, partly offset by the impact of the closing of the leasing and factoring acquisitions, resulting in a net capital generation of 20 basis points. Incorporating the proposed share buyback of €400 million and the dividend accrual for the first half of 2019, we would have a pro forma CET1 ratio of 12.7%, in line with our target range. We believe our pro forma Return on Tangible Common Equity provides a more accurate picture of our underlying profitability, reflecting our go forward capital base following the return of capital that we have earmarked for distribution to shareholders.

We are fortunate that we have a very strong capital generating business, which provides us with a variety of options allowing us to grow organically as well as inorganically, in addition to returning capital to our shareholders. We reaffirm our annual dividend distribution policy is for a 50% payout ratio of attributable net profit. To the extent we generate excess capital and are unable to deploy such capital through growth measures, we will distribute capital back to our shareholders. We will always strive to be good stewards of capital, ensuring we deploy capital sensibly and meeting our return thresholds of over 15% Return on Tangible Common Equity. This holds true today more than ever given the challenges faced by banks across Europe and the overall macroeconomic environment. Being good stewards of capital, maintaining our conservative underwriting standards, not chasing bad volume, not chasing bad deals, driving profitable growth and focusing on the things we can control through "self-help", we believe differentiates our approach and positions us to win over the long-term.

Alright, moving onto slide 6, the Retail & SME division. Our Retail & SME business delivered net profit of €76 million in the second quarter, a Return on Tangible Common Equity of 22% and cost-income ratio of 45%. Net asset growth was 3% versus prior quarter and up 4% versus prior year, driven in large part by the leasing and factoring acquisitions captured in the Consumer & SME businesses as well as housing loan growth. Customer deposits were up 2% versus prior quarter and prior year. The run-off of our different mortgage portfolios is in line with our projections.

Overall, core revenues were up 4% versus prior quarter driven by NII growth, which was offset by slightly declining fee income. Operating expenses increased by 13% versus prior quarter, however, this is primarily driven by the recently absorbed acquisitions. We expect the cost-income ratio will be under 42% in 2020 for the segment, reflecting a combination of the integration efforts of our various German acquisitions, *Concept 21* being completed by the end of 2019, and further operational initiatives underway to continue to drive synergies across the Group.

Credit and asset quality remained strong across the business with an NPL ratio of 1.9% (which is down 10 basis points from the prior quarter) and a risk cost ratio of 40 basis points for the quarter.

Moving on to slide 7, various operational and strategic initiatives across our Retail & SME business. We continue to execute on a number of initiatives while pursuing new growth opportunities, which has been consistent throughout the years. Our various operational and strategic initiatives are focused on transforming the business to a greater Retail & SME orientation across the DACH region. We see a good pipeline of bolt-on acquisitions. But at the same time, we will always continue to be disciplined. Any acquisition must meet our return target of > 15% Return on Tangible Common Equity post transformation, as well as providing the right fit at the right value.

In our core Austrian franchise, we continued to make very good progress with our retail transformation. On *Concept 21*, our branch network has been reinvented to focus on a high quality advisory experience, an upgraded salesforce, simple and efficient transactional business, and an overall enhanced customer experience. As of June 2019, 60% of customer shifts to new branches were successfully completed with a retention of approximately 95%. We've hired over 160 new advisors and opened 14 new fully redesigned branches, with an additional 15 new branches planned for the second half of this year. Based on our positive customer experience, evolving customer trends, our rollout of digital products and ramp-up of partnerships for new customer growth, we anticipate our target retail network will be approximately 90 branches as we continue to look to the future and transform our Austrian retail network.

We've also seen early benefits of our retail partnerships, driving new customer growth to our platform with core products and a seamless customer experience through enhanced digital offerings across our multi-channel platform. As the only bank partner of the newly founded and largest Austrian jö customer loyalty club - which brings together the largest Austrian retailers including the REWE Group – with 3 million users since the launch in May and a plan for approx. 4 million users by the end of the year, we bring incremental financial value for each jö affiliate transaction made by our customers. Additionally, our exclusive long-term partnerships with leading Austrian retailers such as MediaMarktSaturn Austria continue to ramp up, with full deployment across all outlets in Austria as well as the online webshop. To-date, we've attracted over 20,000 new customers. This will allow us to optimize the personalization of our offerings and provide our customers the products and services they want and value.

We've also released a number of digital products that have been in development the past 18 months, introducing our Point-of-Sale finance product with retailers, revamping our mobile banking app "klar" in Austria, enhancing our SME offering through a simple online product and service offering through integrated technology partnerships, investing in robo advisory capabilities through Savity, and rolling out our German consumer loan *Qlick*. The focus across the DACH region is continuing to roll out digital products across all brands and channels. The goal is to create easy-to-use, easy-to-understand, and transparent digital products designed to meet our customers' needs while creating a seamless and efficient middle & back-office.

Our DACH growth strategy has also progressed with the Südwestbank and start:bausparkasse transformations. The momentum from 2018 has continued during the first half of 2019 and more importantly, we are looking to grow through new products and channels across Germany & Switzerland. With the additions of the leasing and factoring businesses, which we consider specialty finance products, we are in the process of setting up our German platform to continue to drive operating leverage and benefit from Group-wide synergies. We are now beginning to fully leverage our multi-channel DACH platform from branches-to-brokers-to-partners-to-digital products. This means leveraging Südwestbank's banking platform and branch network to drive Retail, SME and private banking. Leveraging *Qlick* to develop direct banking capabilities and working with retail partners across all of Germany. Expanding the niche leasing and factoring products across our broader SME customer base in the DACH region, leveraging technology across the Group, and centralizing specific central functions and middle-and-back office activities to establish a highly efficient platform.

In Germany & Switzerland, the focus will continue to be on multiple integration initiatives designed to create a focused Retail & SME platform, providing specific products, leveraging digital capabilities, growing through partnerships and continuing to assess strategic M&A bolt-on opportunities to help build out our Retail & SME franchise.

Moving on to Slide 8 and our Corporates & Public Sector segment. The business delivered net profit of €36 million during the second quarter, a Return on Tangible Common Equity of 13% and a cost-income ratio of 36%. Net asset growth was 2% versus the prior quarter and down 3% versus the prior year; driven in large part by growth in asset backed lending which was offset by declines in Corporate & Public Sector lending.

Core revenues were down 6% quarter over quarter mainly due to lower NII, which primarily reflected the impact of higher redemptions and refinancings in the corporate lending space. This was partially offset by lower costs, which fell 5% versus prior quarter and 14% versus prior year quarter as we continue to drive operating efficiencies across the business. The cost-income ratio of 36% slightly increased versus the prior quarter and improved 4 percentage points compared to prior year.

Credit and asset quality remains strong, with an NPL ratio of 1.2% (down 10 basis points from the prior quarter) and positive risk costs. We have been, and will continue to be, disciplined as it relates to growth, never over-extending ourselves, focusing on risk-adjusted returns and always taking a conservative approach to credit before anything else. We believe we are in the late stages of a credit cycle and the whole management team remains 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 just relying on current low losses that are a result of a benign credit environment and truly not a reflection of the credit fundamentals of the business. We have stayed committed to our disciplined underwriting approach, focusing on senior secured lending, Day 1 average LTVs under 65%, and maintaining an interest coverage ratio of greater than 2.0x.

As has been the case for several quarters, we continue to see pricing pressure across the corporate lending space. We will remain focused on assessing financing transactions based on risk-adjusted returns that make sense and will not chase volumes or put on unprofitable business. We believe being patient and disciplined will pay off over the long period. Conversely, we continue to see good opportunities in asset backed lending with a solid pipeline of opportunities ahead of us.

With that, I will turn it over to Enver.

Enver Sirucic: Thank you, Anas. Continuing on slide 10. We delivered a strong second quarter with profit before tax of €160 million, which is up 5% versus the prior year. On a normalized basis - which spreads the regulatory costs evenly across the year – profit before tax would be at €153 million and net profit at €116 million. EPS on this normalized basis was €1.18 per share for the quarter and €2.34 for half-year, up 6% and 7% respectively.

Core revenues improved 1% versus the prior quarter and 6% versus prior year, with net interest margin improving by 4 basis points to 2.3%. Total operating income increased 5% versus prior quarter, driven in large part by the sale of securities as we optimized our overall securities portfolio. Operating expenses increased 8% versus prior quarter, primarily reflecting our new acquisitions, where the integration has begun and where we fully expect to complete it over the next 12 to 18 months, as well as various smaller impacts. The cost-income ratio during the second quarter was 43.5% and 42.9% for half-year. We are confident we'll deliver on our full-year target of under 43% as we realize benefits on multiple group efficiency measures, *Concept 21*, and progress the transformation of recent acquisitions. Risk costs remained at a low level with risk cost ratio of 16 basis points on the lower end of the 15 to 25 basis points guidance range and 14 basis points for the half-year. All figures are in-line with our full year targets.

Moving on to slide 11, an analysis of our balance sheet. Customer loans were up 2% versus year-end with customer deposits flat. Given the current macroeconomic and interest rate environment, our focus during the quarter was further optimizing the overall balance sheet. This entailed an early repayment of the majority of the TLTRO II, optimizing the securities portfolio, continuing to grow our customer business and looking to take advantage of the favourable long-term funding environment. We've also completed our capital optimization program issuing €400 million of Tier 2 capital earlier this year on the back of the Tier 2 tender and Additional Tier 1 issuance in 2018. Risk weighted assets were up 1% versus prior quarter, reflecting our recent acquisitions. The leverage ratio increased 40 basis points to a very healthy 7.4%.

On slide 12, we saw a stable development of core revenues in the second quarter. Core revenues were up 1% versus prior quarter and up 6% versus prior year. Net interest income was up 3% versus prior quarter and up 9% versus the prior year, driven in large part by the recent acquisitions, core retail product growth and overall balance sheet optimization measures - primarily reducing excess cash balance - offset by the full cost of our recently issued Tier 2 capital in March of this year. The second quarter 2019 net interest margin increased 4 basis points during the quarter and 15 basis points from the prior year quarter to 2.3%, reflecting the shifting asset composition towards Retail & SME - core retail products of consumer, mortgage, leasing, and factoring. Customer loans and interest bearing assets grew 3% year on year.

Net commission income was down 3% versus the prior quarter and 2% versus prior year. This was primarily driven by lower income in Corporates & Public sector. Retail & SME fee income was fairly stable taking into account seasonality, and we see opportunities to further improve income from securities and insurance sales.

All-in-all, a solid quarter of core revenues. We will continue to grow in our core Retail & SME products, be disciplined and cautious, and adapt to the overall changing macroeconomic environment – both from a credit as well as rates standpoint.

With that, moving on to operating expenses on slide 13. Operating expenses were up 8% versus the prior quarter driven by absorbing the costs from the newly closed acquisitions as well as various smaller items. The cost–income ratio was 43.5% for the quarter and 42.9% for the half-year, which is completely in line with our full–year target.

Efficiency and a “self-help” mentality has, and will always be, at the core of our DNA. This has been the approach that has guided us over the past few years and is the catalyst of our transformation. The cost base, and our discipline around cost, is one of the few things Management teams truly control.

We are confident in our ability to meet our cost-income ratio targets despite any potential deterioration in the macroeconomic environment as we continue to identify opportunities across the front, middle and back-office. We’ve already started working through the next level of cost savings and will continue to work hard on cost control and remain laser-focused on efficiency.

Slide 14, another solid quarter on the risk side. The risk cost ratio was at 16 basis points for the quarter and our NPL ratio was 1.8%, reflecting our focus on developed markets with over 70% of our customer loans being in our home countries, which is the German-speaking region and roughly 30% in Western Europe and the United States.

There have been no changes to our risk strategy which remains consistent with what we have communicated in previous quarters. 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 do not have any operations in countries with elevated AML risk.

For the rest of the year, absent any unforeseeable events obviously, we expect to stay at the lower end of our through-the-cycle guidance of 15 to 25 basis points in terms of risk cost ratio.

On slide 15, more details on capital: Our CET1 ratio was 15.1%, our Tier 1 capital ratio was 16.6% and Total Capital ratio 18.9%, all before any capital actions. As of half-year, the 2019 dividend accrual would cost 50 basis points and the proposed share buyback of €400 million would translate to 190 basis points of CET1 capital. As stated earlier, this would result in a pro forma CET1 ratio of 12.7%, which is in line with our stated target range of 12 to 13%.

On slide 16, we layout the normalized P&L and Return on Tangible Common Equity ratios over the past 6 quarters as this gives a good view of underlying earnings development. This spreads the regulatory costs evenly across the year versus the frontloaded charges in the first quarter, which is required under accounting and regulatory standards.

To conclude on slide 17, we are reaffirming our targets. At our 2018 year-end we upgraded our targets by moving our original 3-year targets one year forward on the back of strong operating performance in 2018. Our profit before tax target of greater than €600 million in 2019 and greater than €640 million in 2020, represents annual growth rate of over 6%. The target cost-income ratio under 43% in 2019 and a target of under 40% in 2020. The Return on Tangible Common Equity target also remains the same within a range of 15% to 20% and our CET1 ratio target ranges from 12% to 13%. Our pre-tax EPS targets are greater than €6.00 per share in 2019 and greater than €6.40 per share in 2020. Our target post-tax EPS is greater than €4.50 per share in 2019 and €4.80 per share in 2020. Please note that all EPS targets are before the impact of any capital actions.

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

Operator: Thank you. As a reminder, if you would like to ask a question, please press star and one on your telephone keypad and wait for your name to be announced. If you wish to cancel that request, please press the hash key. That was star and one for questions. Your first question today is from the line of Giulia Miotto from Morgan Stanley. Please go ahead.

Giulia Miotto: Hi, good morning. Two questions from me please. One on capital and one on NII. So on capital, it seems to me like your share buyback case should be quite straight forward i.e. you have excess capital, you generate a lot of excess capital. So can you just give us some colour on why it is taking so long and how the process works? That would be useful. And then on the second point, so NII, you provided some sensitivity on what further negative interest rates could do to your top line, which is very helpful. If I understand you correctly, your targets exclude any impact from interest rates higher or lower. So can you perhaps give us more details on how you plan to mitigate, the negative trends should the ECB cut rates further. Thank you.

Anas Abuzaakouk: Hi, Giulia. Good questions. So I'll take the capital and Enver will take the NII question. As far as the capital, we got the AGM approval on April 30, which I alluded to on the call from when we went through the presentation. We filed the regulatory application shortly thereafter and to be quite frank, this is just the normal course of action in terms of dialogue with the regulators. Very positive feedback and there was a very constructive dialogue. And we expect this as a second half 2019 event in terms of approval as well as execution on the proposed share buyback and nothing out of the ordinary. We feel very confident about the process that's underway, but this is just the process from a regulatory standpoint, so I hope that answers the question on capital.

Enver Sirucic: Hi, Giulia. On NII, so the impact on the targets, I would phrase it that way, yes we have not included any positive or negative rate movement. That's why we disclosed this sensitivity, so you have the transparency, what would happen if rates change. I would say partly it is reflected in our targets because rates, especially on the long-term, have moved over the last couple of quarters significantly, in the shorter end we have only seen a few basis points move, that is considered. So any additional moves are not reflected yet. On the measures, we would focus, as we mentioned in the call on “self-help”, so it would be more on the cost side, but we are also working on a few revenue initiatives to cover if rates really change in that direction.

Giulia Miotto: Thank you. So I can assume that your targets can be hold even if rates go more negative.

Anas Abuzaakouk: That's correct, yes.

Giulia Miotto: Okay. Thank you.

Anas Abuzaakouk: Thanks Giulia.

Operator: Thank you. The next question is on the line of Pawel Dziedzic from Goldman Sachs. Please go ahead.

Pawel Dziedzic: Hi, good morning and thank you for the presentation. Two questions from me as well. Just to follow up on the buyback, you mentioned that you are looking at several execution options. Can you just clarify what you meant by that? What options are you looking at and how do they differ? Any pros and cons or anything related to the process going forward? And the second question is on your 2020 target and cost-income and PBT. It assumes €40 million PBT improvement and could you help us understand what part of this improvement do you expect to come from costs and what part of that could come from revenues? Because given the more downbeat revenue outlook, it seems that most of this will come through cost. And if this is the case, can you maybe spend a little bit more time and just give us a flavour of what are those next level cost savings and how quickly they can be delivered and so on? That would be very helpful. Thank you.

Anas Abuzaakouk: Hi Pawel, again, good questions from your end as well. I'll take the questions and Enver will add on any specifics. So on the capital process, we can't be specific in terms of the execution options, that's obviously for a variety of regulatory and commercial reasons, but, I think I mentioned this in the second quarter or the first quarter call, in all likelihood the greatest proportionality will be towards a large tender. We are talking about a €400 million share buyback. Given just the liquidity in the stock, I think you can see it, the preponderance will be towards a large tender, but we're going through all the different options and that's something that we're looking through in the third and fourth quarter as far as an execution standpoint. But we feel that the execution options that are ahead of us, will hopefully be successful, but we obviously don't want to get the cart in front of the horse. We want to make sure that we get the regulatory approval done and dusted first before the execution itself. But we feel good. I think it's been a really constructive dialogue and we think we have a number of options ahead of us that'll be successful.

On the 2020 target of €640 million, obviously negative rates, if that does come through in the second half of this year, for the rate cuts, is not helpful. But having said that, we've always been committed to execution and we've talked about "self-help", that's been the approach, not just, since we were public, but even when we were a private company. So what we've done over the past two months is really dig deep in terms of understanding what areas of optimization we have across the group. In large part, this is cost, but we don't give any guidance, and that's something that we've stayed away from. We'd like to focus on Return on Tangible Common Equity of over 15% when we say 15 to 20% as far as the range. But I tell you, look, the other income, we've always said it's under 5%. That's kind of been in the 3 to 5% range. That would probably be on the upper end of that, just given where the overall securities portfolio is. And then the cost-income ratio under 40%, absolutely it is a challenge and in a declining rate environment, you don't get the lift from incremental revenue. You know, we always assumed a static rate environment, so we're potentially now dealing with a negative rate environment. But I think if you look at what I said on the Retail & SME, we're at 45% post the acquisitions being absorbed and that was part of the reason for the cost inflation this quarter. If you look at that for 2020, I stated under 42%. So that kind of starts to give you a roadmap as to how we actually take out further costs and in large part, a lot of that is embedded within the Retail & SME. And look, the reality is if negative rates continue at this level, we'll start to continue to see a benign credit environment. So I think when we guide at 15 to 25 basis points on a risk cost, that'll probably be a tighter range similar to what you probably see this year and last year as well. So I think a combination of those factors will probably get you to our 640. But we try to avoid individual P&L line items because things are dynamic. What we are committed to is executing on our targets, our bottom line targets and making sure that we hit the €640 million target. We moved that forward this year because we were confident in the operating performance and we'll continue to take the measures necessary to be able to hit those targets, both this year, over 600, as well as next year, over 640. That was a long answer, Pawel.

Pawel Dziedzic: Yeah, I didn't mean to push you into individual line items, more just to get a sense, because you did refer in your presentation that the measures you're going to take are under your control. So I take that most of that is really on the cost side where you have a good clarity. On the rate impact, can I just maybe follow up on the sensitivity - do you assume any tiering for instance or any offsetting, any mitigating measures that can be implemented or this is just ...

Anas Abuzaakouk: No, honestly we didn't factor in any potential positive impact from tiering, if that comes through that's great, but the reality is we can't bank on that. We will bank on if there are negative rates, we know where we are on the curve and what the headwinds are for 2020 and we have measures to be able to offset that. And primarily that is focused on the cost side, but also that makes a more benign credit environment and there's things you can do in terms of your securities portfolio as well as just overall risk cost. But in large part, it is a “self-help” through the cost line.

Pawel Dziedzic: Thank you very much.

Anas Abuzaakouk: Thanks, Pawel.

Operator: Thank you. The next question is from the line of Gabor Kemeny from Autonomous Research. Please go ahead.

Gabor Kemeny: Morning. I have two questions please. One is on the corporate segment where I saw your net interest margin dropped quite significantly, 14 basis points to about 1.7%. Was it driven by low interest rates and what do you think is the outlook here for the rest of the year? And just on your 2019 PBT guidance, which is more than €600 million. If we look at just the first half, I think you were running a little bit below that level. I understand that on the one hand you had the regulatory charges, on the other hand you had the bond gains, but it would be useful to understand where you think the improvement could come from in the second half.

Enver Sirucic: Okay, Gabor, let me take the NIM question, Corporates & Public. Yes, we had a drop in the second quarter on Corporates & Public. On the one side we had a good asset development, you have seen that across the product lines - the growth. It's really Q1 that was a bit higher than the average over the last couple of quarters if you look at the numbers. I think that 169 is probably a bit on the low end, I would expect it to be in the 170's going forward, which is kind of in line with what you have seen over the last quarters. The impact we see there is that sometimes we have early redemptions, where we then have front loaded NII impact. So there is a bit of volatility across the quarters but I think from a run rate, it should be higher than what you've seen in the second quarter.

I think on 2019 PBT - the €600 million - I think we have really good line of sight for the target. You mentioned there, the one obvious thing is the regulatory charges that are front loaded. If you normalize for that, it's already that we are on track to hit the €600 million and everything that Anas said before on the 2020, will already apply in 2019, so some of the things that we're working on, you will see positive impacts across the lines. So a bit on the revenue side but more also on the cost side - not so much in Q3, but going into Q4 I would expect an improvement in there.

Gabor Kemeny: On the cost side especially.

Enver Sirucic: Yeah.

Gabor Kemeny: Okay. That's clear. Is it coming from the Südwestbank restructuring or any other measures you would like to call out?

Anas Abuzaakouk: No. See Gabor, it's a mix. Obviously we did a lot of heavy lifting on Südwestbank last year. There's some positive this year, but this is a reflection of a lot of the group-wide initiatives that we're launching from the front, middle and back office: Be it on the operations, technology spend, we talked about more of a defined perimeter for our retail network. So there isn't one single silver bullet, it's a collection of a lot of small initiatives that'll get us to the positive operating leverage. So that's what we're really confident in being able to deliver.

Gabor Kemeny: Ah, that was useful. Thank you.

Anas Abuzaakouk: Thanks, man.

Operator: Thank you. The next question is from the line of Simon Nellis from Citibank. Please go ahead.

Simon Nellis: Oh, hi. Thanks for the call. Yeah, just a few questions. Firstly I'd just be interested in any update on the outlook of the M&A pipeline. I guess your focus is on the buyback but you still seem to have some firepower, any comments you'd say there? On slide 6, I see that you're showing some pretty good consumer and SME lending growth. If you could just elaborate on what's driving that and I'd be particularly interested in knowing how developments are in Germany. I think you launched or integrated *Qlick* into Südwestbank and how that's progressing. And then, just last I'd be interested in a little more detail on the strong treasury result and then what was behind that. I think in the morning Enver, you said that it should be NII neutral. If you could just again, kind of explain why that's the case, the bond sales. Thanks.

Anas Abuzaakouk: Thanks, Simon. I'll take the M&A and then Enver will address the consumer & SME as well as the treasury results. So just to let you know, we're equally focused on the day to day operations, as well as pursuing M&A, in addition to the buyback. So it's not a focus purely on the buyback. We're confident that we'll be able to execute that, but there's a lot of other things going on. As far as the pipeline, it’s pretty robust. It's more a reflection of small bolt-on acquisitions, similar to what you saw last year with the three acquisitions in terms of size and flavour. It's all obviously a matter of ‘can we get a deal at the right price’? We are looking at a few things both in Germany and Austria and it's just a matter of if it's the right fit ultimately, and if it comes at the right value and if we actually win the deal. So we're pretty positive, but obviously that's something that we don't factor into our targets. If it happens, fantastic, if it doesn't, we'll continue to be disciplined and execute on our day to day operations. But we're still bullish on the M&A front.

Enver Sirucic: So Simon, on the consumer & lending growth: I will say a couple of things that are helpful or supporting the development. So on the one side, domestically in Austria, the teams are doing a great job with the new partnerships, bringing in new volumes. Obviously also the acquisitions that we did, add or support the positive growth. But also in Germany, the initiatives that we launched over the last couple of quarters are already showing an impact. So, for example, *Qlick*, the online consumer lending went live a few months ago and we are seeing a steadily increasing volume coming through that channel as well as, for example, on the mortgage brokers channel.

So everything so far in Austria and Germany, really very positive and we expect that trend to continue on both the consumer but also on the mortgage loans. And I think on the treasury result, so what really happened is we optimized our securities portfolio. What we did is, we sold some bonds which were primarily negative yielding, so that's why you don't really see an impact on NII. They had still embedded hidden reserves, just given the distortion in market and the change in interest rate curve over the long-term and we took advantage of that situation.

Simon Nellis: Right, okay. Maybe just one follow up on the Corporate & Public Sector division. Can you just tell us how much exposure you have to CRE and what's the geographic mix? And how much NPL financing you have and again, the geographic mix would be useful. Thanks.

Anas Abuzaakouk: Simon, we don't break out - I don't think unless we have it in the risk report - we just put it under asset-backed lending, which is primarily real estate lending. It makes up traditional commercial real estate as well as the NPL financing, which we called portfolio financing in the past. I would say that's the mix. I don't have the exact numbers but that's a mix of Western Europe and Spain to a certain degree. But that’s traditional commercial real estate, to be quite frank, we haven't done much of that for the past few years. Just as you've seen cap rates fall below 5% or 4%, you can see some really irrational type of deals out there and pricing. The NPL financing, we love that, we like that asset class. But that's just a matter of bringing on deals and we have some things in the pipeline, but obviously it takes time to come to fruition. But for overall blend, we can have Jutta come back to you on the specific breakout.

Simon Nellis: Okay. Thanks so much.

Anas Abuzaakouk: Thanks, Simon.

Operator: Thank you. The next question is from the line of Marcell Houben from Credit Suisse, please go ahead.

Marcell Houben: Morning. Thank you. Multiple questions have been answered, but there's two left I suppose. On the Corporate & Public, honestly, you were saying about the group optimization of cost and back office. We have seen some good cost delivery on the Corporate & Public Sector. What should we expect going forward? Is it that you expect more cost savings in that division?

Predominately, especially if revenues continue to be under pressure a little bit? That was the first one. The second is on the cost of risk in the Corporate Center, which was quite inflated this quarter. Is that something special or just a one off? Thank you.

Anas Abuzaakouk: So on the Corporate & Public Sector, Marcell, it's not just specific to that segment, it's across the whole group, but absolutely, you'll start to see efficiency gains there. I think we came in at 36% cost-income ratio. Probably the way to look at that is 30-35% for the Corporate & Public sector, which if you think on a run rate basis, historically it's kind of always been in that range. But it's not something that's just specific to that business unit, it's across the entire group.

Enver Sirucic: And in the second one, yes, it was a one off in a corporate center. Nothing that you would expect to repeat.

Anas Abuzaakouk: Okay. Is that helpful?

Marcell Houben: Yeah. Thanks.

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

Mate Nemes: Hi, yes, good morning and thanks for the presentation. I have two questions left: The first one on, still the Corporate & Public segment. I noticed that the public client balances or assets started to grow actually for the first time in a year or so. What is happening there? Has it actually stabilised there or risk adjusted returns looking better? What is your outlook on that pocket and secondly on RWAs, specifically on average risk rates or risk density, I think it has increased from 44% last quarter to 47% now. If you could just give us some colour on the move and also perhaps talk a little bit about the low 40s level that you're targeting. If you could just give us some timeline there and how exactly you're planning to get there. Thank you.

Enver Sirucic: Okay, thanks Mate. So on the Corporate point, yes, we had funded that in as a change in the Public sector as well. What we did there was a campaign with the municipalities in Austria that was very successful. It made sense also from a risk return perspective for us if you are a bit more defensive on that sector, so we actually, of course want to keep and develop the relationship but usually we will not take it on our balance sheet. In this case it can be made sense of just because we got a bit more return for the exposure. I would not expect that to be a growing segment over the next quarters. So I think it should be fairly stable. On the RWA density, that was really a very technical impact. I mean you have seen the RWAs went up 1%, which was largely because of the new acquisitions. The density increased because we reduced our balance sheet. We repaid the majority of the TLTRO II, which was almost €2 billion. With that, the denominator was shrinking and that's why RWA density went up. So I think we are very positive about the development in the future, but it will also depend a bit on the overall balance sheet conversation and how this develops.

Mate Nemes: Okay. Thank you.

Operator: Thank you. Then next question is from the line of Stefan Maxian from RCB. Please go ahead.

Stefan Maxian: Hello. Yes, actually just one question remaining to understand the fee and commission line a bit better. I mean firstly, was there M&A related impact in the last quarter on fee and commission and also like going forward, do you see this erosion that we see currently in the fee and commission line to end in the coming quarters or what initiative do you have actually to stop that erosion?

Enver Sirucic: So Stefan on the NCI, yes, there was a small impact from the new acquisitions where most of the contribution went to the NII line. For the coming quarters, Q3 is usually the toughest quarter in terms of NCI, just the seasonal impact of the summer holidays. There are a couple of things that we want to improve on, especially on the advisory business, which is in the securities and insurance. We think we can do a better job on that. Will you see the impact in the next quarter? Probably not because as I said, with that seasonality, it’s a tough quarter in terms of NCI, but all of the next, the longer term for 2019 and 2020 - yes, we are planning to launch different initiatives to support that P&L line.

Stefan Maxian: All right. Thank you.

Operator: Thank you. The next question is from the line of Geoff Adamson from Goldentree Asset. Please go ahead.

Geoff Adamson: Good morning Anas and Enver, how are you doing?

Anas Abuzaakouk: Good Morning Geoff. It’s early for you.

Geoff Adamson: Haha, yes it is. Congratulations again on another strong quarter and differentiated execution. I just want to drill down a little bit on the question that Guilia asked earlier about approvals for capital return. I understand that management doesn't control the timeline and I'm respectful that the regulators must complete their due process. That said, can you share with us the timeline, under which you think the ECB is operating? Or perhaps another way, is there a specific date by which the ECB is obligated to give you an answer or does it just take as long as it takes? Thanks.

Anas Abuzaakouk: So Geoff, we put in the application shortly after the AGM. Obviously there's defined parameters, but it's been a very constructive dialogue. This is not a matter of somebody being on the clock and time expiring for them to come to a conclusion. This is more just the back and forth in terms of questions, making sure that any open questions are answered. I think we've done a really nice job on that front. They've been incredibly open and transparent in this process and this is just something that takes some time. This is obviously a very large, share buyback. Its €400 million what we're contemplating. This is one of the first of its kind, so this will take some time, but we feel confident in being able to see this through resolution or conclusion here in the second half of 2019 and also hopefully executing in the second half of 2019.

Geoff Adamson: Great. Thanks very much.

Anas Abuzaakouk: Thanks Geoff.

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

Anas Abuzaakouk: Thank you everyone. I hope everybody enjoys the remaining part of the summer holidays in August and we will catch up with you on the third quarter call. Take care. All the best.