BAWAG Group

BAWAG Group H1 2020

Earnings Call

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Transcription

Speakers:

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Anas Abuzaakouk: Good morning everyone. I hope everyone is keeping well and healthy. As we enter into the fifth month of the COVID-19 health crisis, it goes without saying, we're living in unprecedented times and having to address an environment that we have not seen before. Suffice it to say, our team will act out of an abundance of caution, hoping for the best, but being prudent in how we manage and assess the potential risks ahead. With that, let's dive into the second quarter results…

On slide 3, a summary of the second quarter results, with net income of € 61 million, earnings per share of € 0.70, and a return on tangible common equity of 8.9%. We delivered a solid operating result with pre-provision profits of a € 160 million and cost-income ratio of 43.9% for the quarter.

To address the continued deteriorating macroeconomic environment as well as prudently provision for customer payment deferrals, we posted an incremental general reserve of € 40 million for the quarter, leading to total risk costs of € 75 million for the quarter. This was based on adopting the ECB's Euro area adverse economic scenario, assuming a 12.6% GDP decline in 2020 and a modest recovery of 3.3% in 2021. We're fortunate that we enter this crisis on very strong footing, having transformed the franchise over the past decade. This will allow us to navigate the challenges ahead and weather any potential further macroeconomic deterioration.

The bank's capital position remained strong, with a fully loaded CET1 ratio of 13.4%, up 70 basis points from the first quarter after deducting the second quarter dividend accrual. The Bank continues to deduct the full year 2019 dividend of € 230 million and the first half 2020 dividend of € 61 million from our capital and we will wait for further guidance from our regulators regarding capital distributions during the fourth quarter, following this morning's announcement from the ECB which recommends banks not to pay dividends until January 2021. We are fully committed to distributing our earmarked dividends. We also fully understand the regulator´s position on capital distributions in light of the COVID-19 crisis acting out of caution and prudence. We will remain patient, as we hope our investors will too, as we wait for further guidance in the coming months.

With another quarter under our belt and a better feel for customer behavior and overall business development, we are targeting a return on tangible common equity of approximately 10% for the full year 2020. However, we remain cautious in our approach and will not underestimate the potential impacts from a second wave of COVID-19 infections. We also plan to hold our Annual General Meeting during the fourth quarter, which has been scheduled for 30 October as a virtual meeting.

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

Moving on to Slide 4. A solid second quarter and half-year result in light of the current conditions and the conservative and prudent approach to provisioning we've taken. For the second quarter, we delivered net income of € 61 million, earnings per share of € 0.70, and a return on tangible common equity of 8.9%. For the half-year, we delivered net income of € 122 million, € 1.39 per share, and a return on tangible common equity of 9.8% (this is after normalizing for front-loaded regulatory charges).

The underlying operating performance of the business remained solid, with pre-provision profits of € 330 million, down 5% versus prior year impacted by lower operating income, which was offset by lower expenses. Revenues, in particular fee and commission income, were impacted by the lockdown measures primarily in the second quarter, which we see as a trough for the business. With our ongoing cost discipline and proactive efficiency measures, the cost-income ratio was 43% during the first half of the year.

To address the deteriorating macroeconomic environment, as well as prudently and conservatively provision against the observed build-up of customer payment deferrals due to COVID-19, we booked a general reserve of € 65 million during the first half of 2020, driven primarily by the most severe economic scenarios published by the ECB for the entire Euro area.

Tangible book value per share was € 31.96, up 5% versus prior quarter. This assumes the deduction of the full year 2019 dividend as well as the dividend accrual for the first half 2020.

We were also able to grow both interest-bearing assets and customer loans, up 4% and 1% respectively versus the first quarter and 10% and 3% versus year-end. We will look to use our capital and liquidity to support our customers and communities in the months ahead while also being prudent in protecting and growing our franchise.

On Slide 5, we highlight the capital development during the quarter. With a CET1 ratio starting point of 13.9%, which is prior to the deduction of 2019 or first half 2020 dividends, we ended the quarter at 14.8% CET1 ratio, up 90 basis points for the quarter. We generated 40 basis points of gross capital through earnings and 50 basis points from an increasing OCI, primarily due to positive OCI development as a result of tightening credit spreads. Assuming we are able to make dividend payments for both the full year 2019 dividends of € 230 million, as well as the first half 2020 dividend accrual of € 61 million, our proforma CET1 ratio would be 13.4%.

As I mentioned earlier we are fully committed to distributing our earmarked dividends, subject to regulatory approval.

On Slide 6, we wanted to highlight the key developments we've witnessed across our home market Austria and the DACH region. As I mentioned earlier, the COVID-19 crisis triggered unprecedented market volatility, central bank support and fiscal stimulus across the countries and regions we operate in. The countries in the DACH region, in particular Germany and Austria, which account for over 70% of our customer business, have gone to great lengths to support their economies and have put in place extensive stimulus packages and support measures, demonstrating their fiscal strength and commitment to tackle the adverse economic impacts resulting from this health crisis. The stimulus package in Austria amounted to over € 50 billion, or approximately 13% of GDP. In Germany, the fiscal stimulus package amounted to over € 1 trillion, or approximately 30% of GDP.

Whether tracking consumer confidence indicators, the unemployment rolls, or retail trade development, all indications are for a gradual recovery, with positive developments observed trending in May and June.

However, given the uncertainties in both scope and length of the pandemic, this may result in an overall challenged and volatile market environment over the coming months as we prepare for a potential second wave of infections and any adverse economic impacts. The reality is this pandemic will ultimately be fixed by science, not by monetary or fiscal actions, which have served as a tremendous buffer to soften the impact of this health crisis.

As a result, we've decided to apply the most adverse scenarios in our IFRS 9 macro-assumptions.

On Slide 7, the Retail & SME business delivered a pre-tax profit of € 67 million, down 12% versus the second quarter 2019 impacted by risk costs. The business generated a ROTCE of 22% and a cost-income ratio under 42%. Net asset growth was up 1% versus prior quarter and up 6% versus the prior year. The growth in mortgages is offsetting the subdued demand we are seeing in consumer loans and auto leases.

Pre-provision profits were € 126 million, up 6% versus the prior year. The solid underlying business performance was driven by NII growth of 6% and costs coming down 8% versus the prior year, offsetting the decline in NCI of 21% due to lockdown measures impacting our advisory and transactions business. The risk costs were € 36 million for the quarter, up € 19 million, or 110% versus prior year levels. This was a result of deciding to book a general reserve of approximately € 18 million from updated IFRS 9 macro-assumptions and customer payment deferrals.

Our teams continue to support our customer base while executing on a variety of operational and strategic initiatives that we had planned for the year. Our main concern at the moment is responding real-time to our customer needs during this health crisis – be it through maintaining a 100% branch openings, maintaining normal servicing hours and access to our ATMs and self-service machines, or through proactive “take care” calls touching base with our customers and seeing how we can help. We will also continue to execute on our long-term strategy creating a Retail & SME business built on simple and efficient processes, digital innovation, data analytics and partnerships to provide the best and easiest banking services to our customers. These are pillars of our strategy that we believe will be accelerated due to the COVID-19 crisis, societal trends and overall change in customer and employee behavior.

On Slide 8, we provide a portfolio overview of the € 18.5 billion of customer loans and leases across the Retail & SME business. We introduced this page during our first quarter results. The page captures the overall credit profile for our key product groups, highlighting the split of secured versus unsecured lending, NPL ratios, total reserve ratios development since year-end, and development of customer payment deferrals. The customer payment deferrals have been updated as of 24 July to provide a real-time update. The key points to highlight are the following:

Number 1: Our Retail & SME business is highly collateralized, with approximately 84% of the lending done on a secured basis, which is comprised primarily of housing loans.

Number 2: Our unsecured lending is made up primarily of consumer personal loans and overdrafts. Approximately 80% of our personal loan customers are primary banking customers with a direct debit salary current account. This provides us with detailed insight into overall customer behavior – most importantly their cash flow profile – stemming from their employment situation, spending patterns, and ability to service their debts.

Number 3: As of the end of June, we observed payment deferrals of 6.8% across the segment (again, this is defined as the sum of total customer loan or leases with a payment holiday request, divided by the total loans and leases). This was an increase of 2.8 percentage points during the months of April, May & June. However, during the month of July, we've witnessed a very positive development in the payment behavior of customers that had originally requested payment deferrals.

As of 24 July, 47% of customers who requested a payment deferral have resumed paying their loans or leases. 38% of customers have requested an extension of payment deferrals. In Austria, the public moratorium has been extended 4-months to the end of October 2020. Another 13% of customers did not request an extension of payment deferrals, with their payments due by month end, on 31 July. Our experience here is that we expect a high percentage to resume paying when payments are processed. Lastly, and probably most encouraging, we've only observed 1% of customers that originally requested payment deferrals that have migrated to non-paying, neither requesting a payment deferral nor making payments during the month of July.

Given the unprecedented COVID-19 crisis, the deteriorating macroeconomic environment, and the many unknowns ahead of us, we increased our Retail & SME reserves by € 54 million during the first half of the year. As mentioned earlier, this was tied to the most adverse macroeconomic scenarios published by the ECB.

We are going to continue to monitor the macroeconomic environment and will take the most severe scenarios forecasted, as we hope for the best but plan for the worst. Our approach will always be to error on the side of caution and be both prudent and conservative in provisioning.

On Slide 9, the Corporates & Public business contributed a pre-tax profit of € 19 million during the second quarter, down 60% versus the prior year, with a return on tangible common equity of 6.7% and cost-income ratio of 30%. Pre-provision profits were € 48 million, up 6% versus prior year. Operating income was down 3%, but this was more than offset by a 20% reduction in operating costs. Risk costs were € 28 million for the quarter, primarily related to booking general reserves of € 20 million tied to adopting the most adverse IFRS 9 macro-economic assumptions. Additionally, we booked a specific reserve of approximately € 8 million primarily related to exposures in the Oil & Gas sector.

We are continuing to see solid and diversified lending opportunities with good risk-adjusted returns, in particular in the public sector space. We will continue to maintain our disciplined underwriting, focus on risk-adjusted returns, and avoid blindly focusing on volume growth. This approach has served us well pre-COVID-19 and will continue to serve as the fundamental lending principles of our business.

On Slide 10, we provide an overview of the € 13.9 billion of customer loans and leases across the Corporates and Public business. We breakdown key risks we see across the portfolio and exposures to cyclical sectors that are higher risk at the moment as well as observed payment deferrals. The key points to highlight are the following:

In terms of Corporate lending: We've been conservative over the years with a focus on senior secured lending, free cash flow generating companies with defensive business profiles and solid capital structures. We have not been as active over the years in corporate lending as we've found the space challenging from a risk-adjusted return standpoint. As of 30 June, we've had requests for about € 53 million of payment deferrals, approximately 1.2% of the corporate lending portfolio.

Of the € 4.4 billion corporate assets, our net exposure to higher risk cyclical sectors, comprised of Oil & Gas, Shipping, Hotels, Non-grocery retailers, and airlines is collectively under € 80 million, or 1.8% of total corporate assets and 25 basis points of total customer loans. Approximately 28% of the high-risk sector assets, or € 22 million, are non-performing and we have been proactively monitoring these positions, having already taken specific reserves in the first half of the year. We will continue to be prudent and conservative, addressing any reserve requirements as needed.

In asset backed lending, we've taken an equally conservative approach. Our focus has been on senior secured lending with no mezzanine financing and real estate focused. On average, we underwrite to an LTC or LTV of under 65% and an interest coverage ratio of > 2.0x. We work with a handful of established sponsors and have been active in portfolio financing over the years. To date, we've observed solid performance across the portfolio, with positive customer responses and actions taken. Across the entire portfolio, we've had requests for € 67 million of payment deferrals as of 30 June, which is approximately 1.3% of the asset backed lending portfolio.

Given the acute stress on retailers and hotels, we are actively monitoring real estate loans with stand-alone exposure to these types of businesses, which amounts to approximately 8% of the portfolio. The majority of the loans have either an interest reserve, or free cash flow, for approximately 6 months without any payment deferrals requested to date. Of these exposures, over 30% of the principal has been repaid as the vintages date back to 2017 and 2018.

The public sector lending is primarily focused on Austrian government entities comprised of municipalities, Federal States and the Republic of Austria. As the payments provider to the Republic of Austria, we've been active in public sector lending for quite some time and feel good about our exposure.

In summary, while some of our clients have experienced increased financial pressure during this crisis, we have been pleasantly surprised at how they have responded to date. We will remain vigilant in monitoring our portfolio to ensure performance continues and are cautiously optimistic that any stress in our portfolio will be minimal. With that I will hand over to Enver.

Enver Sirucic: Thank you, Anas. I will continue on slide 11 – this is an overview of our cash position and our investment book. The cash and cash equivalents, which is mainly the money at central banks went from € 7.1 billion to € 9.1 billion in the first half, main driver was the draw-down of the TLTRO III.

At the same time, in addition to our customer loan growth, we deployed € 2.3 billion of our cash position into high quality securities in the first half, of which roughly € 900 million in the second quarter. Our investment book stands now at € 7.1 billion and remained broadly unchanged in terms of quality. We still have no non-performing assets, 97% of the book is investment grade and has a balanced maturity profile of a bit more than 4 years and has also a high diversification.

Moving on to slide 13, development of our P&L and key ratios. Let me start first with revenues: so core revenues were down 3% versus prior quarter - Net interest income was actually up nicely with 4% versus Q1 – mainly driven by higher interest-bearing assets, while net commission income dropped by 22%, which was expected and we think this was really the trough, mainly resulting from lockdown measures in April and May.

Operating expenses were stable and on track - and despite the current environment the cost-income ratio is at a healthy 43.9% for Q2. Pre-provision profit of € 160 million was 7% lower compared to Q1, resulting mainly from lower operating income. We increased our risk costs in the second quarter to € 75 million reflecting the updated macroeconomic assumptions – and I will provide more details around risk costs later in the presentation. Regulatory charges dropped again in the second quarter, after the usual front-loading in Q1. PBT and net profit remained largely stable versus Q1 at € 81 million and € 61 million respectively.

With that moving on to slide 14. Totals assets were up 12% versus year-end as we grew our customer loans by 3%, which also led to an increase in risk weighted assets of 2% in the first half. As previously mentioned, we deployed more cash into high quality securities, which overall resulted in higher interest-bearing assets of 7%.

On the funding side we issued a € 500 million covered bond in January and we participated with the maximum capacity of € 5.8 billion in the TLTRO III drawdown. Customer deposits were largely stable. Tangible common equity was up 3%, while our CET 1 capital improved by 5% since year-end.

On slide 15, core revenues. A very good quarter of Net interest income, which was up 4% versus the prior quarter, mainly driven by higher interest-bearing assets, while net interest margin came down 5 basis points reflecting a changing asset mix with more secured and public sector lending and also a larger investment book. On the back of nice growth of interest-bearing assets in Q1 and Q2 and also the expected positive impact from TLTRO III, we expect despite the challenging overall environment, the positive NII trend to continue in the coming quarters.

As expected, we saw a very challenging situation in Net commission income, which was down 22% versus the prior quarter, mainly impacted by the lockdown measures primarily in April and May, which we really see as a trough for the business. We expect a gradual recovery, but also a continued challenging environment for the rest of the year assuming negative impacts on our advisory and branch business from the Covid-19 crisis.

So, the outlook for 2020 is positive for Net interest income and gradually improving but challenging for net commission income.

With that, moving on to slide 16. Very consistent with prior quarters. Operating expenses were largely stable, cost–income ratio was at 43.9% and absolute costs came in slightly below € 125m. We have been assessing the implications from Covid-19 on our operating model and we will definitely adapt to this new normal sooner versus later. We think this crisis is actually a good catalyst to rethink and redefine our operating infrastructure, which will result in more digital engagement, both with our customers and employees and we will be laser focused on driving a higher simplification and standardization across the bank. We remain positive about the cost development in 2020 and we think costs could come down approximately 5% versus 2019.

Slide 17, a lot has already been said on risk costs, so let me briefly summarize the key elements of what we did in the second quarter. First, we took an incremental € 40 million general reserve applying the updated ECB adverse GDP scenario with a 12.6% downturn in 2020 and a mild recovery of 3.3% in 2021, and we also updated our reserve on payment deferrals as of end of June. The second one, we had our normal run-rate in Retail & SME of € 17-18 million. And third, we took € 8 million of specific provisions in our Corporates and Public segment which was mainly related to Oil & Gas. So, in a nutshell, € 40 million general provisions and € 35 million specific provisions in the second quarter. NPL ratio remained stable at 1.6%, while our reserve ratio increased from 1.0% to 1.2%, reflecting the build-up of provisions I just mentioned before.

Given the overall uncertainty it is still difficult to give a precise outlook on risk costs for the rest of the year, but after having reflected the most severe macro assumptions in the second quarter, we would expect risk costs for the second half to be lower than for the first half of the year. Having said that, we also think there will be potentially more specific versus general provisions in the next quarters.

On slide 18 we wanted to provide more details on reserves. So few things to highlight here:

We've seen a strong migration from stage 1 loans to stage 2 in the first half, going from 4% to 10%. 95% of the general reserve buildup for stage 1 and stage 2 was actually driven by the updated macro-assumptions, so we haven't really seen a relevant deterioration in the actual loan book performance. We also have more than doubled our stage 1 and 2 reserves since year-end, going from € 52 million at year-end to € 117 million as of end of June. And then, if you split our stage 3 or non-performing loans into customer NPLs you would get to a 1.1% NPL ratio with a total coverage of 79%. And then we also have the City of Linz legal case with the remaining € 254 million receivable on our books, which was already marked at 60%. Now, if we would assume a worst case outcome of the case, it would have a total negative impact on our CET1 ratio of approximately 30 basis points. And just a final remark on IFRS 9 generally, just to be clear, we took the full impact in 2018 and we will not make use of the newly proposed transition period.

With that moving on to slide 19, so CET1 ratio came in at 13.4% and our total capital ratio was at 17.0%, both up 70bps in Q2. Both ratios are after deducting the full year dividend for 2019 of € 230 million and a dividend accrual of € 61 million for the first half. So in total € 291 million of earmarked dividends are already deducted from the capital ratios shown on this page.

Risk-weighted assets were almost unchanged. On the one side we observed an RWA increase from growing customer loans and securities which then was off-set by the implementation of the so-called SME support factor. And also to give you an update on other regulatory changes, we expect a positive 25 to 30 basis points from the new treatment of software intangibles in the second half of the year. On the systemic buffers, the Austrian Financial Market stability board decided to basically keep it unchanged, which means a 1% for BAWAG Group. And, the new composition of P2R allows us to meet 88bps of our 200bps Pillar 2 requirement with non CET 1 instruments, which we also intend to issue in the coming quarters, which then will result in an updated CET 1 target of 12.25%.

With that moving on to slide 20. We wanted to provide an updated 2020 outlook obviously reflecting Q2 numbers, but also reflecting new data points we gathered over the last couple of months. So let me summarize the key points: given the strong momentum and growth we have seen in interest-bearing assets, we expect net interest income to improve by up to 3% compared to 2019, while net commission income will be negatively impacted and it will be down somewhere between 10% and 15% for the year. We assume the other income to be flat in the second half.

Our outlook on operating expenses is basically unchanged, so we still expect to be 5% better than in 2019. On risk costs, as mentioned earlier there are still a lot of moving parts and uncertainties, but we think that risk costs will be lower in the second half after we have already considered ECB's severe macro scenario in the second quarter. With all these updated numbers we should land in terms of RoTCE at approximately 10% for the year. Having said that we are committed to deliver an RoTCE of greater than 15% and a cost-income ratio of below 40% in the medium term based on a normalized environment.

Lastly, as you already might know we decided to move our AGM to the fourth quarter, which now has been scheduled for 30 October as a virtual meeting.

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

Anas Abuzaakouk: Thanks Enver. Just following up on remarks I made during our first quarter earnings call, we entered this crisis, which is like none we've seen or lived through before, having spent the better part of the last decade transforming our business and are fortunate to be dealing with this crisis from a position of strength. We did a great job dealing with a lot of heavy lifting over the years, having invested significant amounts to make our business more efficient, more digital, and more dynamic.

It goes without saying that our business will forever be changed by the events of the past few months. As we look at this, this is the future and the changes we've experienced will serve as a catalyst for accelerated changes across our organization, when you think of customer engagement, adoption of digital end-to-end processes, being more data-driven in our decision making and being laser focused on continuing to drive simplicity and standardization across the Group.

We are going to do our best in navigating these uncertain and volatile times ensuring that we protect our employees, support our customers and local communities, and protect and grow our franchise. The leadership team has worked together for the better part of the past decade, having driven the transformation of the Group, embraced constant change while never growing complacent. We will always focus on the things we can control, be proactive and decisive, and not be deterred by the change ahead.

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

Operator: Thank you. As a reminder, if you wish to ask a question you will need to press star and one and wait for your name to be announced. If you wish to cancel that request, please press the star and hash key. Your first question comes from the line of Mate Nemes from UBS.

Mate Nemes: Good morning and thank you for the presentation. I have 3 questions, please. The first 2 relates to provisioning and cost of risk and the third one to the new lending and the Corporate division. So firstly, if you could talk a little bit about the provisioning approach in the second half of the year. I think it's very clear you took a conservative approach by using the ECB adverse scenario and also updated your reserves for the payment deferrals. Do you foresee any additional general provisions in the second half? Or this is really only about specific provisioning from now on? Also if you could give us a sense in terms of what we should expect on the reserves for payment deferrals. As you pointed out in July, you're seeing already some improvement. Are you going to reflect that already in provisions in the second half? Or this is not as simple? Second question is on the increase in Stage 2 reserves. Can you give us a bit more color on what has been driving that? And which segment is it? Is it mainly Retail & SME? And the third question on corporate lending. You mentioned that you're seeing some idiosyncratic opportunities in corporate lending and that there is a solid pipeline. Can you elaborate a little bit on what kind of opportunities these are? And whether you already have some signed deals that will come to the execution phase perhaps later this year?

Anas Abuzaakouk: Thanks, Mate. All very good questions, as usual. Let me just take and address a couple of the points. So with regards to just any additional general provisions, we've taken as you've rightly stated, the most adverse scenario that the ECB published in June, which is the -12% GDP decline in 2020 and then the modest recovery of 3% in 2021 or 3.3% 2021. If there is any further updates to those scenarios that are more negative, we will apply those. We don't expect that to be the case, but we will apply this from a general provisioning standpoint. Enver had mentioned the second half, the expectation is that, that does not happen and that the second half risk cost will be less than the first half of risk cost, given that we took € 65 million of the total € 130 million risk costs, really tied to the general provisions. That's kind of where we're at, but obviously, we're going to be prudent and conservative. And if there's an update, God forbid, to the overall macroeconomic forecast deteriorating further from a severe standpoint, we'll take that.

You asked also about the payment deferrals. You're absolutely, you're correct. There has been an improvement, a very positive development that we witnessed or observed in the month of July. But I think as it relates to the general reserve that we've taken for the payment deferral, the reality is we don't know how the potential second wave of infections is going to play out. So I think we'll probably be pretty prudent in maintaining those reserves for the course of 2020, just to see how that plays out going into 2021. You mentioned the Stage 2 reserves. We don't break it out by the segment, but that's primarily related to the migration. I think 95% of that -- 90% to 95% is related to just the change in the macro assumptions. Very few of that migration is tied to actual watchlist customers or customer payment deferrals, in terms of the overall volume that you see migrating. And lastly, in terms of the Corporates & Public sector pipeline, pretty healthy pipeline, as we've mentioned, in terms of Public sector. A few deals that have already been signed, we're committed to, that hopefully should fund here in the third, fourth quarter.

And then also, we're seeing some idiosyncratic corporate lending opportunities, not kind of your plain vanilla, but just a few areas where Corporates have decided not to focus on potential government lending programs, some of the guarantees, and looking for more capital market type solutions, and we see some interesting opportunities on that front. So I think all in all, where in the past, we've probably seen a more challenged or struggling corporate lending environment, at least from our perspective, we see some decent opportunities, at least for the second half of the year, and hopefully, going into 2021.

Mate Nemes: Thanks very much, that was very helpful.

Anas Abuzaakouk: Thanks Mate.

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

Gabor Kemeny: Thank you for the detailed P&L guidance. I would come back to provisions for a second. This is the line where you understandably prefer not to be very specific. I just have some rough estimates, just based on this 10% RoTE guidance and the rest of the P&L guidance. And I think this would imply about 65 to 70 basis points provisioning for the full year. Question is, what prevents you from making this part of your 2020 guidance? Second question is about the ECB announcement on dividends this morning. How do you think about capital distribution in light of the guidance, not to pay a dividend and do share buybacks over 2020. Would this, would you now be more inclined to consider bolt-on M&A? And do you see any opportunities here? Or would you prefer to maximize dividend and buybacks once it becomes possible? And the final question would be about the potential impact of the recent bank failures we had in Austria. Do you see this potentially increasing your deposit insurance payment? Thank you.

Anas Abuzaakouk: Thanks, Gabor, all very good questions, again, as usual. Let me take the first and second on the guidance around reserves and the capital distribution, then I'll have Enver address the deposit insurance and the specific case that you had referred to in Austria. As far as the guidance -- the general reserve, as I mentioned in my answer to Mate, we don't see that increasing. So I think we feel pretty good, kind of where we're at as far as the macro assumptions. The reality is we also want to be cautious Gabor, in terms of any potential specific reserves. We've highlighted some of the high-risk cyclical sectors, our exposure, which I think is pretty de minimis on a larger scale, if you think about our total corporate assets. But having said that, we don't know how things will develop in the second half, in particular, with the second wave of infections, I don't think there's going to be general lockdowns like we've seen before, but we're just being very cautious and prudent in acting out of an abundance of caution. So there might be specific reserves that we would take, but that's, just to answer your question about the specific reserves or just reserve guidance in the second half. That's the reason why I think we feel comfortable saying second half will be lower than the first half. But not providing any specific guidance on risk costs. So that was the first one.

The second one, capital distribution versus M&A. Everybody has obviously seen the guidance from this morning. I don't think it's a surprise, quite frankly. I think if you kind of just read the different announcements over the past few months, you got a sense that this was probably going to be a 2021 event. As I mentioned when we went through the deck, we understand fully where the ECB is coming from in providing the new recommendation this morning. We are fully committed to distributing the dividends, which I think as of first half is now € 291 million. When you think of 2019 as well as the first half dividend accrual. We expect to pay those dividends. It's just a matter of when we get the green light, and we're going to be patient, and we hope our investors are patient as well. And that, in no way, takes away from our ability to execute on M&A, which I think was part of your question as well.

The M&A that we've been doing historically, which are the bolt-on type acquisitions, were generating a healthy amount of capital. I think you saw that just in the second quarter alone in terms of 90 basis points of gross capital generation, albeit 50% of that was due to OCI and tightening credit spreads. But I think, you're going to see capital accretion take place during the second half of the year. So I think we'll have more than enough capital if there are M&A targets. We're also being very cautious when it comes to M&A. I think I've mentioned this before. In terms of -- it's hard to underwrite the credit book of any potential target. We're focusing more on operational turnarounds. But we'll see. Obviously, we're vetting a number of opportunities at the moment. And the capital distributions and the commitments on the dividends in no way refrains us or limits us in terms of our M&A appetite to answer your question. And I'll pass it over to Enver to discuss the deposit insurance.

Enver Sirucic: Thank you. So Gabor, on the deposit insurance contributions. It's still too early to say it is a small case, and the assessment is still ongoing. So, to kind of remind you of what we have been paying so far. So we are paying € 20 million a year overall for the group, of which € 16 million we paid to the Austrian deposit guarantee scheme per year. And our share is 10%. So whatever the outcome is, our contribution would be 10% of that, which then will be how many tangible assets that the bank have less the guarantee deposits. As I said, it's a bit too early to say what the outcome will be.

Gabor Kemeny: Thanks. All very useful comments. A small follow-up on M&A. Do you see any potentially interesting opportunities out there now with the economies gradually opening up in Europe?

Anas Abuzaakouk: Yes, Gabor, we have a screen of different opportunities from leasing businesses to different kind of specialty finance to universal banks that are in need of operation turnaround. That screen existed pre COVID-19, we're rerunning those screens obviously. We had a couple of deals that we did not execute on, given just the stress in the market. We're revisiting all of that and taking our time and obviously reassessing what makes sense at the moment. But we're going to be very cautious given that it's hard to really underwrite the credit book for any potential acquisition, at least at the moment.

Gabor Kemeny: Thanks very much.

Anas Abuzaakouk: Thanks Gabor.

Operator: Once again, if you do wish to ask a question, please press star and one on your telephone and the hash key to cancel that request. Your next question comes from the line of Johannes Thormann from HSBC. Please go ahead.

Johannes Thormann: Good morning everybody. Two follow-up questions on the risk situation and one on the balance sheet. First of all, your balance sheet has grown quite strongly due to the TLTRO in the second quarter. Do you expect it to be similar size for the next quarters? Or do you want to go down to old levels again? How confident are you with the larger balance sheet? And secondly, on the risk situation, you especially mentioned real estate loans to hotel and shopping, which you are monitoring. Is there any other property type, which concerns you? And then what is the most important to watch? And last but not least, is there any scenario where you could see your risk provisions dropping to the level in Q4 '19 again?

Anas Abuzaakouk: Thanks, Johannes. Let me just address the questions here, Enver. The balance sheet growth. Look, we're at € 51 billion. The reality is if there were great lending opportunities, and obviously, we want to support the real economy. Our existing customers as well as potentially new customers, would love to grow. We don't have any constraints with respect to capital. So it's just a matter of finding good risk-adjusted returns. Are we going to be able to deploy all of that liquidity? We'll see. But we're going to be prudent and we're not going to change our lending principles, which has served us well over the years. So that's with respect to the balance sheet growth. On the property type, Johannes, the questions we've gotten primarily, and obviously, I think the most obvious is retailers and the stress that we see across retailers in Europe, in the United States as well as with hotels, given the lockdowns. So we wanted to highlight that as a percentage of our asset-backed lending, which is primarily real estate lending. That's 8%. In terms of other asset types, I mean over 1/3 of the asset-backed lending is residential, in terms of the underlying asset class, which we feel pretty good about. Its granular. But the thing that gives us the most comfort is how we underwrite, Johannes. Which is the day 1 LTCs, the level of amortization, the cash sweeps, the interest coverage that we have and when we look at all of those credit metrics, we feel pretty good about the portfolio. But we want to just highlight the retail and the hotel because we've gotten a lot of requests on that point. And also, I think the obvious nature of, those are the businesses that are most stressed that we see in today's environment. What was the last question, sorry?

Johannes Thormann:	Any scenario where your risk provisions could drop to Q4 '19 levels again?
Anas Abuzaakouk:	Look, I think, hopefully, the second wave will be addressed head on and that we will return to a more normalized environment sooner versus later. I don't see that happening this year. I think that's something that we'll see what happens after the second half and see overall customer behavior, but I don't think it's going to return to the fourth quarter would be my assessment.
Johannes Thormann:	Ok, thank you.
Anas Abuzaakouk:	Thanks Johannes.
Operator:	Your next question comes from the line of Simon Nellis from Citibank. Please go ahead.
Simon Nellis:	Hi, thanks for the call. My question would just be actually on the non-fee and commission income, especially the other income, the trading line. Can you just give us, kind of the rundown of why it's so weak this year and why you expect it to be quite weak in the second half? And what do you think is a normal run rate, kind of in a more normalized environment?
Anas Abuzaakouk:	Enver, do you want to take that?
Enver Sirucic:	Yes, sure, Simon. So I think what we initially said is we want to have core revenues more than 95% of the total income, and we always guided it to be kind of between 3% and 5% in other income in the prior years. And maybe on a long-term basis, this is, again, something realistic. This year specifically is what is different to prior years. We don't intend to sell any of the bond portfolio. And also to crystalize any reserves that we have there. That's the main reason why we are guiding for a flat outcome here.
Simon Nellis:	So it's mostly driven by not selling NPLs?
Enver Sirucic:	No, not selling bonds.
Simon Nellis:	And not selling bonds, okay, sorry, not NPLs. Got it, thank you. That is all from me.
Anas Abuzaakouk:	Thanks Simon.
Operator:	There are no further questions at this time. Please continue.
Anas Abuzaakouk:	Okay. Well, thank you, everyone, for joining the second quarter call. I hope everyone stays healthy and stays safe, and we will update you guys in the third quarter. Take care and all the best.