BAWAG Group

BAWAG Group Q3 2019 Earnings Call

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Transcription

Speakers:

Anas Abuzaakouk

Enver Sirucic

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

I'm on Slide 3. We had a strong third quarter, delivering pre-tax profit of €164 million, net profit of €124 million and earnings per share of €1.26 with a reported Return on Tangible Common Equity of 15.6% for the quarter. On a year-to-date basis, we delivered net profit of €343 million and earnings per share of €3.47, up 5% and 6% respectively versus the prior year and a reported Return on Tangible Common Equity of 14.2%. The fundamentals of the Bank remain strong. On a pro forma basis - which spreads the regulatory costs evenly across the year and accounts for the full impact of our capital actions – our Return on Tangible Common Equity was 17.7%. 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 that we can control.

We're also on track to execute on our capital distribution plans. On October 18, we received regulatory approval for our share buyback program of €400 million and subsequently launched a partial voluntary tender offer on October 25. We expect the buyback to be completed by the end of November.

In addition to a strong set of earnings this quarter and executing on our strategic capital plans, we've continued to advance on various operational initiatives. To-date, we've made very good progress delivering on *Concept 21*, ramping up our retail partnerships, integrating our recent acquisitions, building out our German platform and driving productivity measures across the Group. Our various operational and strategic initiatives are focused on transforming the business to a greater Retail & SME orientation focused on the DACH region as well as developed markets.

In terms of capital generation, we generated 60 basis points of capital during the quarter and increased our CET1 ratio to 15.7%, which was driven by cash earnings. Year-to-date we now have generated approximately 180 basis points of gross CET1 capital; reflecting a highly accretive business.

I'm moving on to slide four now. A strong third quarter in terms of financial performance. Our profit before tax was €164 million, up 2% versus the prior year. On a year-to-date basis, our profit before tax was €451 million, up 5% versus the prior year. The year-to-date reported Return on Tangible Common Equity was 14.2% with a cost-income ratio of 42.7%, in line with our full year target of under 43%. On a pro forma basis, the Return on Tangible Common Equity was 17.7%, in line with our stated target range of 15% to 20% for the year. Additionally, the CET1 ratio rose to 15.7%. On a pro forma basis, our CET1 ratio would be 13.0%, at the top end of our target range of 12% to 13%.

Moving on to slide five, capital development. At the end of the third quarter, our fully loaded CET1 ratio stood at 15.7%. We generated 60 basis points of capital during the quarter primarily through cash earnings and approximately 180 basis points of CET1 capital on a year-to-date basis. Incorporating the share buyback of €400 million and the dividend accrual for the first three quarters of 2019, we estimate our pro forma CET1 ratio at 13.0%. We believe our pro forma Return on Tangible Common Equity provides a more accurate picture of our underlying profitability, based on our steady state capital base following the return of capital that we have earmarked for distribution to shareholders.

On slide six, more details on the recently approved share buyback program process and impact. The share buyback of €400 million will be executed in the form of a partial tender offer, which was formally launched after receiving approval from the Austrian Takeover Commission on October 25. The offer price was set at €36.84, which was the market closing price on October 17, the day before we received the ECB approval. The total number of shares to be purchased and subsequently cancelled will be approximately 10.86 million shares, representing approximately 11% of total shares outstanding. We expect the buyback to be completed by the end of November. In addition to the positive feedback we received from market sounding, we have now received an intention to tender at least 10.86 million shares from Cerberus, one of our largest shareholders. In the case of an over subscription, shares will be allocated on a pro-rata basis. In terms of total capital return to shareholders: Once the €400 million share buyback is completed, we will have distributed what amounts to a total payout ratio of approximately 140% measured against 2018 net profit attributable to shareholders that was paid in 2019; this is comprised of the €215 million dividend paid in May and the share buyback of €400 million to be finalized by the end of November.

We have a very strong cash 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 that 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.

Okay, moving onto slide seven: Our Retail & SME business delivered net profit of €77 million in the third quarter, a Return on Tangible Common Equity of 22% and cost-income ratio of 44%. Net asset growth was up 1% 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 down 1% versus prior quarter and up 2% versus prior year. The run-off of our different mortgage portfolios is in line with our projections that we've stated earlier.

Overall, core revenues were up 1% versus prior quarter driven by NII growth. Operating expenses decreased 1% versus prior quarter, with a cost-income ratio of 44%. We expect the cost-income ratio will be under 42% in 2020 for this segment, reflecting a combination of various integration efforts across our German platform, *Concept 21* being completed by the end of this year 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 2.0% and a risk cost ratio of 41 basis points for the quarter.

On to slide eight, just an update on the various operational and strategic initiatives across our Retail & SME business. We continue to execute on a number of initiatives while pursuing new growth opportunities. Our various operational and strategic initiatives are focused on transforming the business to a greater Retail & SME orientation across the DACH region and developed markets. We continue to see a good pipeline of smaller bolt-on acquisitions. Just to be clear – at all times, we continue to be disciplined on acquisitions. And as a reminder of our criteria, any acquisition must be the right fit, come at the right value and meet our return target of >15% Return on Tangible Common Equity post-transformation.

In our core Austrian franchise, we continued to make very good progress with our retail transformation. On *Concept 21*, our branch network has been transformed to now focus on a high-quality advisory experience, an upgraded salesforce, simple and efficient transactional business and an overall enhanced customer experience.

To-date, we've hired 160 new advisors and will have opened or redesigned 30+ new branches through the end of the year. Based on our positive customer experience, evolving customer trends, our continued rollout of digital products and the ramp-up of partnerships enabling new customer growth, we anticipate our target retail network will be 90 branches as we continue to look to the future and transform our Austrian retail network. We also continue to see the benefits of our various retail partnerships, having attracted fifty thousand new point-of-sale loans to-date thru MediaMarktSaturn. We're excited about delivering on the existing partnerships and rolling out new retail partnerships in the future.

Our DACH platform has continued to progress and take-shape with the Südwestbank and start:bausparkasse transformations as well as the additions of our BFL Leasing, Health Coevo AG & Zahnärztekasse, our leasing and factoring businesses. The strong momentum from 2018 has continued into 2019 and more importantly, we are looking to grow through new products and channels across Germany & Switzerland. With the additions of the specialty finance leasing and factoring businesses, we are in the process of setting up our German platform to continue to drive positive operating leverage and benefit from Group-wide synergies. We're on track to add over €25 million of pre-tax profit from our recent leasing and factoring acquisitions by 2021. We are beginning to fully leverage our multi-channel DACH platform from branches-to-brokers-to-partners-to-digital products. The focus across the DACH region is on 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.

Okay, moving on to slide nine and our Corporates & Public Sector segment. The business delivered net profit of €34 million during the third quarter, a Return on Tangible Common Equity of approximately 13% and a cost-income ratio of 35%. Net asset growth was 1% versus the prior quarter and up 2% 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 up 2% quarter-over-quarter due to higher NII and NCI. Operating expenses continued to fall, down 3% versus prior quarter and 14% versus prior year as we continue to drive operating efficiencies across the business. The cost-income ratio of 35% decreased versus the prior quarter and prior year. Credit and asset quality remain strong, with an NPL ratio of 1.6% and de-minimis 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. 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 haul. Conversely, we continue to see good opportunities in asset backed lending with a solid pipeline of opportunities ahead of us.

With that, I'll hand over to Enver to walk you through the detailed financials.

Enver Sirucic: Thank you, Anas. Continuing on slide eleven. We delivered a strong third quarter with profit before tax of €164 million, which is up 2% versus the prior quarter. Year-to-date EPS of €3.47 is up 6%, before any impact from the €400m buyback.

Core revenues remained stable versus the prior quarter and improved 4% versus prior year, with a stable net interest margin despite the challenging interest rate environment. Total operating income increased 1% versus prior quarter, driven in large part by the sale of securities as we further optimized our overall securities portfolio. Operating expenses came down 2% versus prior quarter, the cost-income ratio during the quarter was 42.4% and 42.7% for the year-to-date. We are confident we will deliver on our full-year target of under 43% as we realize benefits on multiple group efficiency measures. Risk costs remained at a low level with risk cost ratio of 18 basis points and 15 basis points for the year-to-date. All figures are in-line with our full year targets.

Moving on to slide 12, an analysis of our balance sheet. Customer loans were up 1% versus year-end with customer deposits flat. Given the current macroeconomic and interest rate environment, we focused on optimizing the overall balance sheet. After the early repayment of the majority of the TLTRO II in the second quarter, we continued optimizing the securities portfolio, we grew our customer business and issued a benchmark size senior non-preferred bond and a mortgage covered bond. Risk weighted assets were down 1% versus prior quarter and we maintained a very solid leverage ratio of 7.2%.

On slide 13, core revenues in the third quarter were almost unchanged to second quarter. Stable net interest income versus prior quarter and up 5% versus the prior year, driven in large part by the recent acquisitions and core retail product growth - partly offset by lower interest rates. The third quarter net interest margin remained relatively stable at 228 basis points, reflecting the shifting asset composition towards Retail & SME - core retail products of consumer, mortgage, leasing and factoring.

Net commission income was up 1% versus the prior quarter despite the typical negative seasonality in the third quarter. This was primarily driven by higher income in Corporates & Public sector. Retail & SME fee income was stable taking into account seasonality.

All-in-all, a very stable and 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. We expect a stronger revenue momentum in the last quarter and are positive about the run-rate for next year.

With that, moving on to operating expenses on slide 14. Operating expenses were down 2% versus the prior quarter. The cost–income ratio was 42.4% for the quarter and 42.7% for the year-to-date, which is in line with our full–year target of being below 43%.

The cost base and our discipline around cost, is one of the few things management teams truly control. This efficiency and self-help approach have guided us over the past few years and will always be at the core of our DNA.

We are confident in our ability to meet our cost-income ratio targets even in the face of a potential deterioration in the macroeconomic environment as we continue to identify opportunities across the front, middle and back-office. We have 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 15, another solid quarter on the risk side. The risk cost ratio was at 18 basis points for the quarter and our NPL ratio was 1.9%, 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.

We feel very good about our risk strategy and the credit quality of our book and 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 16, a recap on regulatory capital. Again, a strong quarter of generating 60 basis points of cash CET1. With that, our fully loaded CET1 ratio was 15.7% and our Total Capital ratio 19.5%, prior to the buyback and the dividend accrual. The year-to-date 2019 dividend accrual would cost 80 basis points and the 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 13.0%, which is in line with our stated target range.

On slide 17, 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 18, we are reaffirming all 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. Profit before tax target of greater than €600 million in 2019 and greater than €640 million in 2020. 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%. We will adjust the EPS targets to reflect the benefit of the share buyback, but otherwise the EPS targets are also unchanged.

I'll hand over to Anas for a closing remark before opening the call for questions. Thanks.

Anas Abuzaakouk: Thanks, Enver. I just want to again emphasize how we view capital deployment, where we are in the market today and how we run our business. Our preference is to deploy our capital to grow the business. However, we're keen not to overextend ourselves, grow for the sake of growing and always stay focused on disciplined and profitable growth. This probably 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 that we can control through we call “self-help”, we believe differentiates our approach and positions us to win over the long-term.

With that, operator, let’s open the call for questions.

Operator: Thank you, ladies and gentlemen. We will now begin the question and answer session. And as a reminder, if you wish to ask a question, you want 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: Hi, good morning. Two questions from me, please. One is on asset quality. You had an uptick in the corporate NPLs in the third quarter and you mentioned that we are late in the cycle and Eurozone economies are slowing. So, going into 2020, would you expect provisioning to move towards the higher end of your target range or potentially above that? And secondly, on the buyback, I mean early days I reckon, but your CET1 ratio pro-forma for the dividends and buybacks is at 13%, which is the high end of your targets range. So, my question is, would you see further buybacks if you generated excess capital from here and at what stage would you make a decision on potential further buybacks? Would you link this to the next AGM or would this decision be made rather in a year from now?

Anas Abuzaakouk: Thanks Gabor.

So really quick, the risk costs, as Enver had mentioned as well as I think we've mentioned in prior quarters, we see kind of through-the-cycle of 15 to 25 basis points, but to be more exact as we kind of look at 2020, we're at the lower end of the range so the way to think about that is probably 15 to 20 basis points as you think about 2020 and the current environment.

As far as the buyback, first I would say we need to complete the existing share buyback Gabor, which we're really proud of and hopefully we'll get executed by the end of the month. And then secondly, just consistent with our overall capital distribution policy, we will assess the capital position at the end of the year. Just to remind everyone our waterfall in terms of, as we look at distributing capital is; a) to grow organically as much as possible and I'd mentioned we'd love to continue to grow the business, but we're going to be disciplined and cautious and conservative.

We have a number of smaller bolt-on opportunities we'd like to grow inorganically. We've committed to the 50% payout ratio, which I reiterated on the call today, in which we've been consistent in prior quarters. And then to the extent that we have excess capital, we will reassess at the end of the year where we are with regards to the different things I've mentioned and make a decision and update you guys at year-end, whether its further distribution to shareholders or wherever we stand on capital.

Gabor Kemeny: All clear. Thank you.

Anas Abuzaakouk: Thanks Gabor

Operator: Thank you and your next question comes from the line of Marcell Houben from Credit Suisse, your line is now open.

Marcell Houben: Good morning, Anas, Enver.

Two questions from myself. On the net interest income, the €220 million, would you say that's the underlying level for the NII given that all the bolt-on acquisitions are in that number or would you say that this was a particularly negative quarter given the three-month Euribor movements q-on-q. That was the first question, the second one on the operating expenses, which was better than expected as well. Could you remind us of the integration programs and the cost synergies of the M&A, how much is, sort of, in there and how much more to expect going forward? Thank you.

Anas Abuzaakouk: So, Marcell, I think you said just €228 million, were you referring to NII or referring to the NIM of 228 basis points.

Marcell Houben: Yeah, the absolute number at €220 million.

Anas Abuzaakouk: €220 million, okay.

Enver Sirucic: So I think on the NIM what we mentioned also previously, we expect it to be very stable in the coming quarters I think, in terms of NII referred in the presentation to a strong revenue momentum in the fourth quarter and also going into 2020 - this mainly related to NII.

Marcell Houben: Thank you.

Anas Abuzaakouk: So, you'll see that Marcel in the fourth quarter and that will obviously translate to a strong run rate going into 2020. I think you asked on the OPEX, the different programs. There isn't one particular program Marcell. It's a variety of things from the acquisitions that we've done over the past two years and further extracting groupwide synergies as we kind of think about building this DACH-wide platform for Retail & SME to extracting greater efficiencies in the middle and back office, to looking at our overall infrastructure spend. We'll have Concept 21 total spend behind us at the end of this year, so that'll kind of peter out or stabilize. But I guess the way to answer it, is, there isn't one specific program, it's a multitude of programs and we kind of take a bottoms up approach, which gives us confidence that we're going to be able to hit our cost-income ratio targets for this year and next and to be able to continue to take out cost.

Marcell Houben: Thank you and just to follow up on that one, Anas. Have we seen any of the integration or the cost synergies from the last three M&A announcements, are those already in those numbers or is there more to come?

Anas Abuzaakouk: Yeah, there's more to come. It's less on the recent acquisitions. What I had mentioned was a €25 million of pre-tax profit that we continue to expect to generate in 2021, in more from the existing acquisitions as well as from the core operations in Austria.

Marcell Houben: Got it. Thank you.

Anas Abuzaakouk: Thanks Marcell.

Operator: Thank you and once again, if you wish to ask a question, you will need press star and one on your telephone keypad. Once again, if you wish to ask a question, you will need to press star and one on your telephone keypad. And your next question comes from the line of Pawel Dziedzic from Goldman Sachs. Your line is now open.

Pawel Dziedzic: Hi, good morning. Two questions from me as well. So, the first one is on your PBT targets and you're on track to deliver over €600 million for 2019. And then I guess my question is if you can give us a little bit more insight into how you plan to generate the incremental €40 million in 2020 because if you look at this from outside, and I think you also referred to this in your opening remarks, the operating environment has changed slightly since, you know, last quarter, we have more negative yields. You talked about just now about the M&A and PBT impact that will only come in 2021 and so on. So, you know, if you can give us a sense of how you split this PBT uplift of around €40 million into maybe higher revenues and lower cost and where would that come from? That would be really helpful.

And the second question is on your M&A strategy. Again, you mentioned that it will be, you know, your preferable way of deploying capital if the opportunities materialize. And I think in the past, you also said that this lower rate environment could be additional motivation for some of the sellers of the assets in the region to actually come forward. Over the last months, have you seen any incremental willingness to engage with you over M&A? Thank you.

Anas Abuzaakouk: Hi Pawel. Very good questions.

So, on the PBT for the target of over €640 million, I think we stated this in prior quarters as well. It's really a mix between the different P&L line items. But you know, we don't give guidance in terms of core revenues or specific loan growth. We try to focus on the bottom line, but I'll tell you it's going to be a mix of cost-out as well as on the operating income. And the one difference I think if you look at the other income, historically, we said 3-5%, I would imagine that's going to be on the higher end of that range as you look at 2020. And Enver had mentioned, obviously the run rate in the fourth quarter for NII, which it should be a good launchpad as you think about run rate for 2020. So it's going to be a mix of cost and then on the revenue side. Plus, we gave some guidance as to the risk costs, 15 to 20 basis points, probably at the lower end of that range.

But it's a lot of work, man. It's not like it's in the bag. You have to actually execute and we have a number of programs in place that we're looking to execute on, but we feel pretty good. And then on the M&A, Pawel, I think I'd mentioned this in the prior quarter as well, what we see, the flavour of the type of deals is similar to what we've seen over the past two years, smaller bolt-on acquisitions. We're seeing more opportunities, without a doubt. But again, it has to be the right strategic fit. Price is always a huge component and at times we just don't come to a clearing price that we think makes sense because we're holding ourselves to a threshold of greater than 15% Return on Tangible Common Equity. And we don't really rely on revenue lift and when we look at acquisitions, so we have a pretty disciplined and I would say conservative underwriting approach, but we do see more opportunities. So it’s a matter of if all the things line up, hopefully we'll be able to execute on a few deals. And I think we had said before, the nature of the deals would probably be something of the flavour that you saw last year, you know, 50-75 basis points if things materialize. But that's not a given, right? You actually have to come to a final agreement with the seller and make sure things make sense from a bank standpoint.

Pawel Dziedzic: Alright. That's very clear. Thank you.

Anas Abuzaakouk: Thanks Pawel

Operator: Your next question comes from the line of Thomas Unger from Erste Group. Your line is now open.

Thomas Unger: Good morning and hi, thank you for taking my questions. I have three if I may. First of all, just to, to confirm from your presentation when you talked about the share buyback program, I believe you mentioned that you received the intention to tender 10.86 million shares from Cerberus. Is that correct?

Enver Sirucic: Yes, that's correct.

Thomas Unger: Okay, good. The next question is on the customer loans. They were down quarter-on-quarter by more than €300 million. Was there a specific reason for that decline in the third quarter alone? And then also if you could talk about your bonds and security sales and security portfolio was down 6% and it was already mentioned that you increased the bond sales and generated some gains. Could you tell us how much exactly you generated in terms of gains in the third quarter and from those sales, is there any NII impact you expect going forward? Thank you.

Enver Sirucic: Thanks Thomas. Good questions. So I think, on the bond sale, just to pick up the recent one. So the overall other income, which you know was around €25 million, which is bond sales but offset with some provisions that we booked, but mainly deposit that comes from the bond sales. We don't disclose what the other reserves are on the bond sale but I think on the other one, the impact on the NII is very limited. We have also seen it in previous calls, because the yield is rather low on these bonds, so it's just really to crystallize the gains coming from the distortion of the current market environment. You asked about the loan book and also the change versus prior quarter. That's really a technical, if you look at the interest bearing assets, they're actually up. Some loans are just in transition and are being booked on the receivables to banks instead of receivables to customers. That's the reason for that.

Thomas Unger: Okay. Thank you

Operator: Thank you, there are no further questions at this time. Please continue. There's still questions that came through and your next question comes from the line of Simon Nellis from Citibank. Your line is now open.

Simon Nellis: Oh, hi everyone. I was just hoping you could elaborate a bit on the consumer and SME growth that we saw. It was up 3% quarter on quarter, 18% year on year. Can you just give us some more granularity about where that's coming from, what kind of credit you're underwriting? That'd be excellent. Thanks.

Anas Abuzaakouk: Hi, Simon. The Retail & SME, we alluded to obviously the closed acquisitions, which was BFL Leasing as well as the factoring that gave a lift on the consumer and SME portion of the Retail & SME segment. In addition to that we're seeing good development on just our traditional consumer loans, with the introduction of the retail partnerships. I mentioned 50,000 point of sale finance loans for MediaMarktSaturn as an example. So that continues to kind of grow. And housing loan growth, which is our core conventional mortgages in Austria. That's growing at a nice clip if you kind of think about just the past quarter. So, it really is kind of a combination if you extract the portfolios, which we've always guided, that will kind of amortize about 20% a year, which I think has been consistent if you look at the past few years, that's the UK and the French mortgages. That's being offset by the core retail product growth across consumer loans, across mortgages and across auto leases as well, from an organic standpoint.

So, we feel pretty good. I mean we're growing at a few points above nominal GDP, which is I think a good indication.

Simon Nellis: And if you strip out the impact of M&A, are you still growing that book underlying?

Anas Abuzaakouk: Yes.

Simon Nellis: Okay, Thanks.

Anas Abuzaakouk: I think I'd mentioned it before Simon, the way to think about it, is probably 1-3 points above nominal GDP growth. If we do really well, we're at three points. If it's slower, it's probably at one point. I think we're at 2-3% at this point.

Simon Nellis: Super, thank you

Anas Abuzaakouk: Thank you.

Operator: Thank you and your next question comes from the line of Michael Dunst of Commerzbank. Your line is now open.

Michael Dunst: Good morning everyone. My remaining question concerns there are your targets for risk-weight density in the low forties. Could you give us an update here and how the process is progressing to switch from some models from standard approach to advanced approach please?

Anas Abuzaakouk: Hi, Michael. Good question. As it relates to actual models and onsite reviews, we can't comment. Obviously, that's something that's between the bank and the regulator and we're not able to comment the specifics there, but I will tell you we're making good progress in the Retail & SME orientation. If you think about just the growth that's taking place and the shifting composition of our business, you will start to see more Retail & SME, as opposed to Corporates & Public Sector. And the Retail & SME density obviously, is of a lower density as opposed to the Corporates and Public Sector. So, I think as that business continues to transform, that'll translate itself into the risk-weight densities as well.

Michael Dunst: Okay.

Anas Abuzaakouk: Thanks Michael.

Operator: Thank you and there are no further questions at this time. Please continue.

Anas Abuzaakouk: Okay. Thank you, operator. Thanks everyone for joining our call and we look forward to talking to you guys in February. Take care and all the best.