BAWAG Group

Preliminary FY 2017 results

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Transcription

Key Speakers

Anas Abuzaakouk
Enver Sirucic

Operator: Good morning ladies and gentlemen and welcome to the BAWAG Group's Full Year 2017 earnings call. For today's presentation all participants will be in a listen-only mode. The presentation will be followed by a question and answer session. If you would like to ask a question, you may press star, followed by one, on your touchtone telephone. Please press the star key, followed by zero, for operator assistance. As a reminder, this conference is being recorded. I would now like to turn the conference over to Anas Abuzaakouk, Chief Executive Officer, please, go ahead.

Anas Abuzaakouk: Thank you, operator. Good morning, everyone. I'm here, joined by Enver Sirucic, our CFO in the team at BAWAG. Let's just get right into it. It was a very busy fourth quarter. It was an incredibly busy 2017. Let me start by saying that 2017 was nothing short of remarkable for the bank. Just in the fourth quarter alone, we executed the largest IPO in Austria's history. We closed on two acquisitions, PayLife in early fourth quarter, and Südwestbank in early December. And, we actually terminated the Austrian postal agreement and then entered into separation agreements, which we consummated last week for those who were following the Austrian Post announcement. So, a lot happening in addition to our day jobs and everything else going on. So, it was a pretty active fourth quarter and one that was actually quite fruitful.

Let's go by the numbers; record pre-tax profit of 517 million generating a return on tangible equity of 17.9%, assuming a 12% CET1 ratio, which we've always been consistent in outlining. Strong capital generation; so, we landed at 13.5% CET1 fully loaded. If you break that down, that's 330 basis points of gross capital generation, and what's really important is, not just the 330 of capital accretion, but we were able to fully fund two acquisitions, as well as invest in our franchise, and we'll talk about what those investments are.

We continued to transform our franchise. You guys will see that we had a record profit for the year for both BAWAG P.S.K. Retail, as well as easygroup, the continuation, in terms of transforming our retail franchise, not just from offline to online, but just the contributions for the group as a whole. And, I'll touch on that, as well.

Look, not that we're gloating, but this is something that's a great source of pride. We were able to be externally recognized. We won the "Bank of the Year" by *The Banker*, *Global Finance* and, as well, *easybank* won the “number one direct bank in Austria”; so, all external confirmation.

We delivered this record performance, all while continuing to execute on our strategy and the key point that I’m going to address during the presentation is the transformation of our retail franchise. We were able to sign a separation agreement, which we fully funded during 2017, and that was part of the one-off items that Enver will go through in terms of exceptionals for the fourth quarter. That, effectively, puts us on a course to be able to exit the partnership materially with the Austrian Post by the end of 2019, one year ahead of schedule, and effectively absorb those costs during 2017.

We completed and signed three acquisitions, the two that I mentioned earlier, as well as we signed on Deutscher Ring, which is a small Bausparkasse in Germany, which I’m sure we’ll get questions on, which helps with our overall DACH regional growth strategy.

And, lastly, we have been in the midst of a, call it a technology pivot, as we rethink our entire tech stack. And, really, the goal is to think and act more like a technology company with a technology company infrastructure. We made some big hires in terms of a Chief Data Officer and Chief Research Officer, but, more importantly, we’re starting to infuse the organization to think more in terms of technology because we really think this is where the future is going and where a lot of the disruption is taking place.

That was slide three. Slide four, just really high level in terms of the financials. Enver is going to go through the details, but core revenues were up 9%, both NII up 8% up year-over-year and NCI up 12%. Record profitability, which I mentioned earlier. Operating expenses of around 530 million. This is up 20%, but you’ve got to peel back the onion on this. We actually instituted a long-term incentive program, which I’m sure there’ll be some questions around that, which accounted for about 55 million, in addition to restructuring reserves and legal reserves that we took as well, that was part of the one-offs.

If you excluded the LTIP alone, we’re talking about a cost-income ratio for the institution of 41.6% versus the reported 46.5%. I mean, that was a conscious decision that we made, to be able to retain talent and to be able to tie our performance to the targets that we’ve outlined to investors over the three-year period, and I’m sure we’ll get into some more detail on that.

Asset originations of 5 billion, 40% retail, 60% corporates or non-retail related. 65-70% of the balance sheet is customer-driven, when we think about customer loans. Risk costs of 18 basis points – risk-cost ratio – NPL ratio of 2%. If you exclude the City of Linz, which we've now done in the past quarters, it's 1.5%, so still maintaining a conservative risk profile. And, in capital, we came in at 13.5% fully loaded CET1.

Enver is going to go through the different capital components. It's actually even better than the 13.5%. The way I look at it, it is excess capital north of 320 million, against our target of 12%, and we'll be proposing to the Annual General Meeting a dividend of 58 cents per share, which comes out to be 58 million, which we had communicated earlier in terms of the dividend payment, which was in addition to the interim dividend payment that we made in the third quarter. So, all in all, a very successful year.

Slide five: if you look at the 2017 targets that we had communicated at the end of the 2016, we outperformed all the targets. Not to be cheeky, but the cost-income ratio came in at 46.5%. We measure ourselves on kind of an operative basis. If you exclude the LTIP it comes in at 41.6%, so under the 43% target. And, if you see all the other metrics, we outperformed. 2017 is behind us. We have another set of aggressive but, also, I'd say, disciplined targets for 2018, which we'll talk about and we're fully focused on delivering on 2018.

On to the business segments. On slide seven, BAWAG P.S.K. Retail delivered 225 million of pre-tax profit, up 33% versus the prior year. This was a record year for the franchise, for the BAWAG P.S.K. segment. Core revenues were up 13% and OPEX was flat; so, that was really a combination of organic growth and key core products, consumer loans and mortgages, as well as the acquisition of start:bausparkasse and the integration efforts. I think that sums up the story.

As far as overall business development, you can see on the bottom left-hand side of the page, what we tried to do is break out the actual asset development. We've talked about growing into our current account market share, so for BAWAG P.S.K. Retail it's about 14%. For the whole bank it's around 17%. We want to grow our consumer loan market share as well as our mortgages and our auto leases for easygroup into that kind of overall 17%. So, we're continuing to grow in consumer loans, net assets up 6%.

EUR mortgages, which is conventional EUR mortgages which we've been driving, but obviously being disciplined on pricing, consistent with what we've communicated in the past, up 3%. We continued to deleverage, effectively refinance or reinvest into EUR mortgages our Swiss franc mortgage portfolio. This is something that we're proactively doing. This is a very low-yielding portfolio and one that we're looking to de-risk. I think we're down to about 1.2 billion or so on a EUR equivalent basis, and then we have just other parts of the portfolio between real estate financing, social housing and others that, just given where the pricing is in the market, it doesn't make sense to grow those businesses. We're not out of those businesses, it's just a matter of being disciplined from a risk-adjusted pricing standpoint.

Fee income was really defined by 4% growth across our current accounts. We're really doing well in terms of our premium models that we introduced early last year. We entered into a partnership with Spotcap, which is really going to redefine and reinvigorate our small business or SME financing, which really gives us a digital franchise, when we think about being able to underwrite and finance small business customers in a very efficient way.

We continue to see the migration from offline to online. I think it's best described or captured in our over-the-counter transactions. Historically, this was a number that was much more balanced. Today, we see it, 86% is effectively through e-banking, mobile banking or self-service terminals, and you see double-digit declines on that. So, that's probably the best indication of the offline to online migration where you see a lot of transactional activities are going the way of technology or digital and we're spending a lot more time with sales advisory and talking to customers and making sure we have a customer-centric approach to sales.

And, last but not least, the Austrian Post separation. We entered into these discussions in the fourth quarter. We actually signed the separation agreement last week and we'll get into a little more detail on that on the next slide.

So, I'm now on slide eight, the branch transformation. This was actually a real win, I think, for both parties, for ourselves and the Austrian Post. What this allows is for a frictionless and seamless separation to take place over the next 24 months.

So, if we just go by the numbers in terms of the baseline as to where we are today and where we're going. Today, BAWAG owns or leases 74 branches. We plan to effectively have a network of about 100 branches. Our 74 branches are primarily concentrated in urban centers – primarily Vienna, but also in large cities such as

Graz, Linz, Salzburg – and we're going to be more of an urban-focused bank. The Austrian Post, historically, provided us with 350 branches, 200 of which we have exited since 2016, so we're effectively talking about exiting 150 branches, and we're going to be able to build up from 74 branches to up to 100 branches over the next two years.

What does the separation agreement actually do for us? We made a one-time upfront payment of around 110 million. The majority of that went to the Austrian Post but part of that also went to restructuring our network. So, that was 110 million which allows us to defray the cost for the next two years, between 2018 and 2019. We dropped all the legal disputes between both parties and in arbitration, so that's now been resolved. It allows us to accelerate our financial advisory approach, in terms of us owning our staff and really retaining the top talent, and that's something that we're going to effectively work down in terms of the 350 advisors that the Austrian Post historically provided us with.

We will continue to provide over-the-counter transactions with the Austrian Post branches over the next two years as we effectively build up our own capabilities. At the end of the day, the 100 branches capture greater than 80% of our customers, greater than 75% of our new business, and allows us to really transform into a very customer-centric approach, where we're going to have a redesigned branch which really augments technology, focuses less on transactional activities, the customers are moving away from it anyway, and, really, to spend a lot more time in terms of advisory. We think that's where the world is going, and we want to be able to have a value proposition which touches on advisory and be able to support our sales staff in terms of the right resources and tools to be able to provide the customers with a unique, enhanced experience.

If you just go by the numbers, where we're going to end up in terms of just overall cost-income ratio because of this shift. We believe, and conservatively, obviously, in terms of the numbers we put out, we'll be at cost-income ratio of under 42% for the BAWAG P.S.K. Retail franchise by 2020. To put it into context, we were at 49% in 2017, and hopefully we'll be able to accelerate even more than that. We're going to move to larger branches, so the average branch size is going to be over eight people whereas, historically, it was one to two, three to four; it's going to be larger branches with a lot more activity, and we're going to have a very unique customer-centric branch network augmented with a lot of new technology.

So, we're pretty excited. David O'Leary and myself – David O'Leary runs our BAWAG P.S.K. Retail franchise – actually did a roadshow with our branch managers and our regional managers last week. We were in all the different cities across Austria. This has been a real point of excitement. People are really optimistic about the opportunities ahead of us and this is something that we wanted to make sure that we did it in a disciplined way with the Austrian Post which has been a solid partner over the years, but the reality is customers' behavior are changing and the financial landscape is changing. We need to be able to react to that and provide customers with what they're demanding. So, that's the Austrian Post.

On slide nine, easygroup. This was also a record year for easygroup; 126 million of pre-tax profit, up 46% year-over-year; a pre-tax return on tangible equity of over 32%; by all measures, a very successful year. Business originations of around about 0.5 billion, primarily driven by *easyleasing,* which was up 6% year-over-year, and, within *easyleasing* it was truly auto leasing that was the driver, which was up 9%.

On the *easybank* side, consumer lending was up 15% on a year-over-year basis in terms of net assets but admittedly off a very low base. What's important is that we put the processes in place, so when we see more of a migration from offline to online, we are deemed the digital online provider for consumer loans and we do believe this migration is going to happen in a much larger scale in the coming years and we're preparing for that.

The easygroup customer base is now round about a million customers with the acquisition of PayLife, in terms of the number of cards, as well as the unique customers that we have. So, that's a unique ecosystem that Sat Shah, who runs easygroup, and the team is going to be able to address.

The PayLife acquisition not only provides, and I'll get into that in a second, 600,000 cards and unique customers, but also provides us with an enhanced product offering. Historically, we offered credit cards. What PayLife offers is a unique credit card in terms of gold, black and platinum, which are higher-end models, which are kind of consistent with what we're doing on the current accounts and adding more functionality.

And, lastly, *Qlick*. We decided in the fourth quarter, given everything that was going on, to postpone the launch from the fourth quarter to sometime in 2018, the reason being is, we want to be able to not only launch *Qlick* as a consumer finance offering for easygroup, but also integrate the consumer finance offering for Südwestbank, as well as some of the things that we're doing on the SME front in consumer loans with potential other acquisitions into one technology platform. So, we felt that it was more efficient to be able to roll it up, effectively, under one platform, and there'll be more come on that.

On slide ten, the PayLife integration; integration is going ahead of plan. I have to say we've been really surprised with the quality of the management team, as well as the broader team. They really bring a unique experience and expertise when it comes to credit cards and the overall enhancement of our credit card offering. If you look on the left-hand side of the page, it's 600,000 credit cards; 70% are gold, black or platinum credit cards. If you compared that to BAWAK P.S.K. as well as the *easybank*, we have about, call it 300,000+ cards. I would say about under 10% of those cards are of the premium variety versus the 70% that we're bringing on. We're going to do a lot to try to migrate and convert customers to the premium card offering, as well as looking to provide revolvers, and that's something that we're doing target micro-campaigns on.

As far as the overall integration, ahead of plan. We see synergies north of 4 million this year alone. Our pro forma PBT when we ran the acquisition, or the due diligence, was around 12 million of PBT. We're going to come in north of 12 million for this year. So, across the board this has been a fantastic acquisition. We've been really happy with the team that we've been able to bring into the overall BAWAG family, and there's a lot of expectation, both domestically as well as internationally.

One of the examples is, we've now rolled out PayLife for Südwestbank and their customer base in terms of the cards and that will happen mid of 2018, and we're looking at a lot of strategic partnerships between retailers, both in Austria and Germany, that we can roll out the PayLife offering. And, we're effectively putting this under the *easypay*, call it, segment where we're going to integrate all of our middle and back office card servicing and we'll create a center of excellence.

So, slide 11, the non-retail segments. On the left-hand side, International Business came in at 85 million of pre-tax profit. It was down 17% year-over-year. The big driver here is we took two provisions in the first half of 2017 related to oil and gas exposures, which, by the way, are actually performing quite well, and we thought we were pretty cautious on that side. Hopefully that will be something that will be a write-back in the future, but we have to wait and see. Pre-tax return on tangible equity of 22.5%. The business is stable. We see pressures. Overall originations were about 2.1 billion. Where we see pricing pressure and, really, a frothy credit environment, is on the corporate side. We're never going to over-extend ourselves. We don't manage the business based on volume targets. It's based on risk-adjusted pricing. But, where we're seeing that, effectively, pressure is being compensated really on the portfolio financing side, and we've built up a really robust health pipeline of portfolio-financed opportunities in the fourth quarter that will materialize in the course of 2018. So, we feel pretty good about the business and where we're headed. We think the provisions were one-off in nature and will stabilize to kind of a greater than 20% pre-tax RoTE, which is consistent with past performance.

If you look at the DACH Corporates & Public Sector business, 42 million pre-tax profit, down 41% year-over-year. Fourth quarter was not a good quarter for the DACH Corporates & Public Sector business. We actually had two corporate exposures where we had to de-risk or provision. Those two accounted for about 27 million of losses that were incurred, and which is the result of having a loss in the quarter. We believe those are one-off in nature. The story here with the DACH Corporates & Public Sector is you still start to see margin pressure. It's a lot of commoditized lending. We're just going to continue to stick to risk-adjusted pricing and be very focused on transactional business that makes sense for us that hits our return hurdles. So, it's a business that will be stable. Quite frankly, just when we look at the outlook and overall market, you see some irrational things. It's just something that we're not going to over-extend ourselves on.

New business in DACH Corporates & Public Sector was about a billion, so that will be pretty stable. You see the asset development for the international business. If you exclude the FX movements, it was down about 3%. I think the real metric to look at is the average volume from 2016 to 2017, which was around 5.1 billion, so pretty stable. And, if you look at DACH Corporates & Public Sector, the real driver, effectively deleveraging, was on the short-term public financing. That effectively has no yield. So, you see a lot of the swings in assets but it's not really much of an impact in terms of overall NII.

Moving on to slide 12, the Südwestbank integration. We got a lot of questions on this during our last call and during the course of the fourth quarter. I've got to tell you this, similar to PayLife, this has been a real nice surprise in terms of the team that we have on the ground as well as just the performance since we signed in early December. So, really, the way to look at the Südwestbank integration is threefold.

The de-risking capital optimization efforts, which is one. Two is operational transformation and three is growth/bolt-on M&A. So, if we think about the de-risking balance sheet, we actually took a lot of measures in the last three weeks of December to really de-risk the balance sheet. We sold off various fund portfolios, we integrated the securities portfolio, the treasury team, effectively, into the group, and we sold off a number of non-core participations, as well as going through a full review of credit RWAs. The sum of all these activities, effectively, when we bought Südwestbank, was about 5.3 billion of RWAs. From a segmental standpoint, we were able to get it to 4 billion and we'll continue to optimize the overall capital structure, primarily, of course coming from the IRB rollout, which will be a 2018/2019 event, but there's a lot of things that we can do in the short term which we've already exercised on.

Operational transformation: we've got the senior leadership team in place. Wolfgang Kuhn, the CEO, and the team has been put in place. We're really happy with the leadership team, not just the "Vorstand" [Managing Board] but also the division heads that we have. We have an integration plan that we've put in place, starting in the fourth quarter. The team's been great in terms of really embracing the overall group. Wolfgang and the management team there have had constructive discussions with the workers' council. Hopefully, we'll come here to a resolution in terms of the overall social plan, but that's well on plan. They've been incredibly open in terms of the dialogue and we're trying to have a very balanced social plan that we'll roll out in the near future.

We've also looked at business line profitability in assessing our overall physical footprint. That physical footprint will be a reflection of the go-forward business and the focus on revitalizing our retail but, really, a heavy emphasis on digital, and that's something that we're focusing on with a lot of resources here, from the group. And, last but not least, the process simplification. Similar to what we did in BAWAG over the past five or six years, it is really to look at everything from an end-to-end basis, your frontline activities, look at the product offerings, streamline your product offerings, make sure that you're allocating capital to the right products and the right channels, ensure that your middle and back office is reflective of those activities.

The last one, growth, really, this is a near to medium term effort. What we've asked the team to do is, as we look at product and channel profitability to allocate immediate capital to customers as well as segments that are meeting our return hurdles. So, we're going to go deeper with our existing customer base. There are no real constraints in terms of ticket size or ability to grow. We're going to reinvigorate the retail franchise, and what I mean by this is, really, our core product offering, similar to what we have at BAWAG, as well as augmenting that with a digital offering. And, last but not least, we signed Deutscher Ring in December. Hopefully, that's an acquisition that will close in the first half of 2018. That's reflective of the type of bolt-on acquisitions that will expand our retail footprint in Germany and we're really bullish about the opportunities ahead there.

On slide 13, what we wanted to do is effectively capture kind of a summarized view as to the performance or evolution of our franchise. So, if you look at the various customer segments between BAWAG P.S.K. Retail and easygroup which account for, I'll call it, our retail segment; International Business and DACH Corporates & Public Sector, which I would call our non-retail segments; and Südwestbank, which was a de minimis contribution in 2017. We think of the world through retail versus non-retail – the retail contribution today is around 70% in terms of the overall group earnings. We see that moving to around about 75% and the non-retail, effectively, today is around 20-25%. I think that will be fairly stable.

What we wanted to do was highlight not just the contributions and the evolution of the customer franchise over the past few years but, also, what are the expected return levels. So, if you look at the pre-tax return on equity for our retail franchises, BAWAG is around 30%, easygroup is north of 30%, the International Business is north of 20% and DACH Corporates & Public Sector is north of 10%. If you then normalize that and say, on a fully tax-affected basis going forward, without the noise in the tax line, what we expect the retail segments to deliver greater than 20% return on tangible equity, the International Business and Südwestbank to deliver greater than 15% return on tangible equity on a fully tax-affected basis, and DACH Corporates & Public Sector to be north of 10%. And, those different parts will get us to an overall outlook, in terms of RoTE, for the group, of 15-20% on a fully tax-affected basis. So, that, at least, gives you a sense of its customer-driven, it's driven by retail and, ultimately, it's going to be driven by exposures to the DACH region which I think, today, account for about 75% of our customer loan franchise. And, with that, I will hand over to Enver to go through the details of the financials.

Enver Sirucic: Thank you, Anas. I'm on page 15 now. Before I go through the financial analysis, I would like to take the time and walk you through the central items that we had in Q4, as Anas indicated at the beginning. So, we really have four elements that I would like to talk about. The first one is the first-time consolidation of PayLife and Südwestbank that took place in Q4. The net effect on the PBT was roughly 230 million and it's basically twofold; one is just purchase price accounting, including the badwill, and on the other side, what we have taken there is already any expected restructuring reserves in combination with these acquisitions.

So, that's one. A part of it, also, just to highlight here, and I will come back to that, on the capital slide is, from a CET1 perspective, these effects are a bit different. Why? Because the badwill, the so-called IFRS 3 accounting, is not closed yet, so we decided to add a prudential filter on our CET1 capital, which is roughly 40 million difference between IFRS and CET1, which means, if you think about it, once we close it, the CET1 will go up by that amount.

The second element is the separation agreement with the Austrian Post and necessary restructuring expenses to transform the business. So, it's really twofold on the branch network, totaling 110 million, that we have taken in Q4 and also on the full year financials. The two remaining elements is the long-term incentive plan that we have initiated, mainly for the management board and for the senior leadership team of the bank. It's a multi-year program. What we have done here is, basically, to provide for the 75% part, which is the performance-vested part. The majority of the program was funded already in 2017, which is the 55 million. And, the last one are additional reserves that we have booked for restructuring but also for legal in the fourth quarter, totaling roughly 60 million of impact on PBT.

So, overall, it's quite a wash in terms of what we have taken from the first-time consolidation and what we have invested in the other items. I'm sure we will have questions on the P&L lines, so I will just give you my simple explanation how I would normalize for that. The main parts are in the other income line, so you have the first-time consolidation that mainly goes through the OOI line. The branch network structure is a bit split, but you can also say it's in the other income. So, if I just look at the other income for Q4, it was roughly 100 million. To simplify things, I would just take that out. There was always a bit of a natural remainder there of 10-15 million that we have on a recurring basis, so I would take out 100, add 10-15 back.

And, then, OPEX, it's really two elements, the LTIP of 55 and directionally, roughly, 30 million that we have in restructuring that we have in the OPEX line. So, these are the two big normalization things that I would do in order to get to our run-rate number for Q4. But, please keep in mind, all the impacts, of course, the separation agreement that you put in place, will have a different run-rate impact going into 2018 and 2019.

Moving on to page 16, Q4 highlights, of course, I would like to mention we had the highest quarterly PBT and also the highest PBT in the year, so far, and it was really driven by a strong top line. We had plus 9% for both, actually, a bit stronger on the NCI line. I will give you some details on that, what is the contribution from the acquisitions and also from the organic business.

On equity and capital, a very good story. Equity went up 16%. It's one of our key focuses to generate capital, and the second one is CET1 ratio; that landed at 13.5%, which exceeded, clearly, what we indicated and also what we expected to be at for the year end. The balance sheet composition obviously changed. This has to do with the acquisitions. So, you see, we had an increase of roughly 6 billion compared to last year, mainly coming from Südwestbank, and you see it also reflected, our customer assets and deposits are now quite matched at 31 billion.

One thing to mention, we have de-leveraged a bit, and de-risked our balance sheet in the fourth quarter, and you see it also reflected with a quite high cash position that currently stands at roughly 5 billion, so there is further room for optimization and streamlining the balance sheet going forward.

On the next page, page 17, this is just the overview of the quarterly trends. I think the main elements are, in all four quarters, we had RoTE pre-tax north of 20%, which is completely in line with what we are targeting for the group. The second one, the focus on capital generation, and also tax. So, what happened in Q4, with the exceptional items and also with the guidance that we provided in Q3, we pretty much landed where we wanted to land in terms of tax rate, so I think it came in at 9.8%, we guided for below 10%. This has to do with just different tax treatment under PPA accounting versus, I would say, the standard accounting rules.

Moving on to page 18, the core revenues. So the two elements, I think probably the first catch is the NIM is depressed, which is expected. Why is that? It's that our NIM, BAWAG Group, before acquisitions, stood at 2.25%. With the acquisition of Südwestbank and the underlying NIM of roughly 140-150 bps, it will just lead to a dilutive effect at the beginning before we transform the business, so we will see that also reflected a bit going into '18 because Südwestbank was only partly consolidated for three weeks in our Q4 numbers or full year '17 numbers.

Very strong development on the NCI front. So, organically, we are very pleased. We had great development on the current accounts being up 4% in terms of NCI, which is our gold product and, secondly, on the securities front up 6%. With PayLife and Südwestbank, we will get additional momentum on the NCI plus, with the separation agreement put in place with Austrian Post, the commission expense will be reduced, of course, going into 2018.

Moving on to OPEX, slide 19. Unfortunately Q4 is a bit distorted with the one-offs that we have but, as I said, on a run-rate basis, still, our cost-income ratio was, excluding the LTIP, below 42% and I would, just to normalize for Q4, take out the 55 on LTIP and probably another 30 million ballpark number for the restructuring expense that we have. Nothing changed in terms of our strategy, so we will further focus on efficiency, streamlining processes and, Anas will come back to that later in the presentation, our heavy focus on technology and investments there.

So, currently, we had expenses, CAPEX, of roughly 66 million for the year. This will probably continue to grow over the next years. Why? Because we really started a fundamental review of our technology stack and want to transform the bank more into a technology company.

On page 20, risk costs. Some of the effects have been highlighted so, to be upfront with you, we had two losses in DACH Corporates and Public Sector; one was already fully de-risked in Q4, so was totally sold, we don't have it on the balance sheet; and one was sufficiently provisioned, from our perspective. Overall, very solid picture with the risk cost ratio at 22 basis points, in line with expectations for Q4. NPL ratio still rock solid, 2%, excluding City of Linz at 1.5. Our geography has not really changed. With the acquisition of Südwestbank it's even more DACH-focused and the customer profile is pretty much stable. You will see there are some ins and outs. I think, overall, we stick to the guidance that we gave on the 30-31 billion customer assets that we have, probably 15-25 basis points guidance on risk cost ratio is still the number that we would guide you to.

Capital, page 21. So, we will see, also, the quarterly development and also what happened, really, in terms of ratio development but there are probably three or four elements I would like to highlight. So, on the earnings generation, we had a very strong year, generating roughly 220 basis points in terms of capital; that moved our CET1 capital from 2.6 to 2.9. Already deducted from there is the dividend payment that we had. That was roughly 60 basis points. The one that we had in Q3 and the one that we announced now, that we will pay in May, or propose to pay out in May.

On top of that we have this prudential filter, because parts of the badwill were not accounted for in the CET1, so this is still on the table. On the risk-weighted assets development, it's really where I think we overachieved is RWA, de-risking and de-leveraging went better than expected. So, our RWA number came in lower because, also, we delivered on the first weeks on Südwestbank and, overall, getting us to a CET1 ratio of 13.5, which was significantly higher than the guidance that we provided.

You'll see some technical elements, just reiterated this, very comfortable in terms of MDA at 0.5 billion, our Additional Distributable Items at 2.9 billion and, also, from a regulatory perspective, just a new update on IFRS 9. We guided for up to 40 basis points. The current number is probably single-digit or has almost no impact on our CET1 ratio; the first-time implication of IFRS 9.

And, in terms of Basel IV, it's still early stages, but we see a very limited impact on us, just given a very high and conservative RWA density that we have. There's one thing that we want to just mention. We are going through the capital structure now, as well, from a BAWAG Group and BAWAG P.S.K. perspective and we'll think through optimization measures for 2018 when it comes to tier one and tier two instruments.

One thing to mention, we had this discussion in Q3 and previous calls, still the situation of the French mortgage portfolio is unchanged, so the risk-weighted assets as of '17, included roughly 1.5 billion for the French mortgage portfolio with an average risk weighting of 140%.

On 22, I think I have captured most of the things, simply the walk what really happened in terms of CET1 ratio for the full year and then, also, for the quarter. So, generation of 330. Basically, what we did, 60 basis points went into dividend and 280 basis points went into M&A. On the Q4, you also see isolated, the badwill filter that I mentioned. This is the part of the PPA that was not accounted for in the CET1. We decided to take a voluntary prudential filter on that. This is still 20 basis points in our CET1. That will get accreted once we close the final PPA accounting.

Last but not least, on page 23, just an update on funding and our leverage ratio. No real big changes, still funding is a key strength of BAWAG Group. What changed? You see the part of customer funding that we have increased, actually, with the M&A of Südwestbank, and this will continue to be the case in the future. LCR comfortably at 150%. I mentioned we have currently roughly 5 billion of cash position on our balance sheet. And, in terms of balance sheet leverage, nothing really changed in terms of economic leverage. Of course, you see the regulatory leverage ratio going down in line with the CET1 ratio because we absorbed the business from Südwestbank and PayLife. With that, I would like to hand over back to Anas.

Anas Abuzaakouk: Thanks, Enver. I'm on slide 25. So, what we wanted to do was take you guys through, just to recalibrate what the outlook was and what are the business drivers and effectively reconfirm our targets and provide more specificity and clarity around 2018 targets, which is the first time, as well as the three-year targets which we had communicated last year.

So, on slide 25, the business drivers, the first four business drivers are what are driving our three-year targets. Five and six, which are related to M&A and rising rates, are not embedded in our numbers. So, I just want to reiterate that, that these targets are pretty conservative. We don't bank on a rising rate environment, that's not how we do our budgets, that's not how we do our long-term forecasting. And, then, M&A obviously is situational. We've done six deals. We'll talk about that, I have a slide, but that's not factored into our overall targets.

So, what are the targets based on? Growing organically, our current account market share for the whole group in Austria is 17%. I've mentioned before growing our consumer loans, growing our auto leases, and mortgages, to a certain extent, into that 17%, and we continue to do that as you look at the net asset growth across our core key product lines.

Proactive move to technology. We have a slide that we're actually going to try to describe what are the things that we're doing on the technology front, and I'm sure that will generate a lot of questions.

But, really, this is all about pivoting to technology, being very smart in terms of how you spend your cash on technology, as we believe this is the transformation that's going to effectively determine the winners versus the losers across banks.

A transformation of our retail franchise. I think we made great headway with regards to the separation agreement and now owning, effectively, our network. Enver talked about the financials, but this is something that we're going to accelerate over the next two years, and really continuing to maintain a conservative risk profile. You know, we like the DACH region. That's where we're doing a lot of our retail business. If you think about the non-retail business, thinking about the frothiness in the credit markets, we're going to continue to be very disciplined, not drive the business based on volume, and I think that's a reflection of overall balance sheet philosophy and trying to maintain a very conservative and low-risk balance sheet.

Slide 26: so, technology. To sum it up, we're trying to move to more of a technology company infrastructure. If we do nothing else, I think embedding technology into the DNA of the bank will ultimately be the goal. I know that sounds a bit kind of wishy-washy, but what it really means is changing the mindset of the team on the ground from the front to the middle to the back office. And, we've defined it, really, I guess, in three workstreams; the first is moving to more of a modular core system. The way to think about this, and you hear a lot about APIs and middleware, is effectively building, using Lego blocks, and then building your systems off of those Lego blocks as opposed to doing everything historically into the core banking system, which is rollout of new products, pricing enhancements, which ultimately becomes cumbersome because you're dealing with a system that was never intended to be able to be that dynamic and flexible.

We have the benefit of having a core banking system that's only been around since, you know, 2003-2004, but even more cognizant of the fact that you can't just do quarterly releases, you actually have to augment that with being a lot more flexible and having more real-time flexible releases to be able to work with third parties, do strategic partnerships. And, really, ultimately, what are we talking about? Meeting needs of customers and being competitive in this new kind of technology landscape.

And, last but not least, on the core modular systems, it's all about quality of spend as opposed to the quantum of spend. A lot of people talk about how much they spend. We'd like to change the conversation so it's more about what are we spending on and why is it changing us, and kind of pivoting to more of a technology company. I think a lot more to come on that front.

The data infrastructure: we've made a lot of progress here. We actually brought in a lot of folks last year to help us redesign our overall data infrastructure. We brought in an individual with no banking experience who is effectively our Chief Data Officer, who is rethinking our entire data design. We've created, effectively, a DACH data warehouse across the different banking entities that we have and using kind of the group data lake. We invested in a Hadoop infrastructure a number of years ago. We're now really starting to exploit and understand the capabilities that this group data lake will have in terms of really taking unstructured data, processing vast quantities of data to be able to do the predictive analytics, to be able to be much more focused on what the customers want, and this is something that's going to play an integral part in terms of, not just our day to day operations, but as we think about M&A, as we take up new customers and really exploiting the data that we get.

And, last but not least, optimizing, kind of aligning processes. What we've done is re-jiggered or restructured our organization. Today, Operations now falls under Finance and Enver's group. The reason we did that is to really have more of an end-to-end seamless approach, ensure that we're measuring things in the middle and back office, and, really, the next drive is towards automation. We've done a lot on the process simplification front. There's still quite a bit to do when you think about and when we measure, at least by our standards. 70% of our processes in the middle/back office are still manual, and there's a significant amount of opportunity there to be able to digitize and to change the customer experience.

And, part of the thing on the data infrastructure which I mentioned earlier is really decommissioning and restructuring kind of peripheral systems; that is something that as the group expands and through M&A, we're going to be able to leverage the overall group and centralize and get the synergies from that. So, just kind of brief highlight on what we're doing on the tech front but there's going to be a lot more to come in the coming quarters and years.

Slide 27, M&A. The core part of our strategy hasn't changed. The fact that we closed two acquisitions and we signed one in December, I think, should give you a sense of the pace we operate at. For those who aren't familiar with the overall strategy, I think it's important when we look at targets, we look at profitable growth. It has to be the right customer franchise, it has to be the right product offering, it has to be the right market, it has to provide opportunities for operational enhancement, and, last but not least, it has to come at the right price point; that is a disciplined valuation from our perspective.

We'll never over-extend or do things just for the sake of doing a deal. We like the DACH region because the macroeconomic fundamentals, if you look at it, are very healthy and they continue to be if you look at the overall forecast over the next two years. We're talking about north of 2% GDP growth, if not higher. Very sound legal system, very stable risk cost; these are things that attract us to the market. If you look at the banking landscape, you know, one statistic in particular that jumps out is the fact that the return on equity for retail banks, and it depends on how you define the banks, but just kind of generally speaking, is under 5% return on equity.

That, to us, if you were just to take cost-income ratio north of 80% and bring that down to something which we would even say is not that aspirational, of 50%, you're talking about going from a 5% to 10% return on equity, just by focusing on operational enhancements, outside of doing the things that we've done in terms of de-leveraging and product focus and a lot of the areas that we've focused on through BAWAG.

As far as our sweet spots, you know, we've talked about a pipeline of around 25 billion of customer loans. It's no different than it was a quarter ago. The mix, obviously, has changed a bit. We're still focused predominantly on German opportunities but there's a few Austrian opportunities as well. The sweet spot for us is probably under 5 billion, but that does not preclude us from doing larger deals. We're actually looking at one or two larger deals, as well. For us, it's a matter of is it the right customer fit, is it the right product offering. I think If you look at Südwestbank and PayLife, Volksbank leasing and the like, and start:bausparkasse; that'll give a sense of the type of deals that we do.

As we think about M&A and kind of what we're focusing on, we look at a 100% acquisition to strategic partnerships, so we look at structural alternatives that we can apply, anything that'll further enhance the franchise, allow us to do strategic partnerships, and we're looking at quite a few things.

So, you know, it's been a busy start of the year. We have quite a few things that we're working on. We don't provide specifics in terms of the opportunities that we're looking at for obvious reasons, but we're pretty optimistic about what lies ahead.

And, as far as the integration front. start:bausparkasse was, in large part, completed during the course of 2017. We feel really good about that transformation. PayLife and Südwestbank, as we've mentioned, are off to a great start, so we're really excited about the opportunities ahead.

Slide 28, just reconfirming the three-year targets with greater clarity, specificity. Pre-tax profit CAGR of greater than 5%, which is consistent with what we've said before. We're also now guiding to greater than 600 million of pre-tax profit, just to give you guys a sense of where this thing lands in 2020. This actually translates, on average, over the three-year period to a pre-tax profit per share of greater than €5.70. Why we say that is the €5.70 is, effectively, what our long-term incentive plan is based on.

So, and Enver had mentioned it earlier, we've funded the majority of the LTIP. We've actually tied these targets to our long-term incentive plan. So, if we don't hit these targets then, effectively, the long-term incentive plan, we're not able to execute on the 75 performance component, and 25% is time vesting. So, I think if you look at the market and our practice, this is probably best practice, where we've kind of gone all in to be able to say, look, we're comfortable on being able to deliver on the targets that we've communicated.

Cost-income ratio under 40% by 2020, the reason being you're going to get the inflated costs. It's not because of the one-offs that you saw in the fourth quarter, it's because you're going to get an inflated cost base with Südwestbank as well as PayLife, and we're going to work through that restructuring and transformation in the coming years to get us under to the 40%, which we see as kind of our natural entitlement.

Return on tangible equity: more clarity here. 15-20% on a fully tax-affected basis, and Enver has walked through the tax components in the past. And, continuing to maintain a fully-loaded CET1 percentage of greater than or equal to 12%. As far as 2018, the targets are greater than 5%, so consistent with the three-year targets. You guys might say that's pretty boring, but we try to be disciplined in this approach. Cost-income ratio under 46%. Return on tangible equity, full tax-affected, greater than 15%, and the CET1 greater than 12%.

One thing I should mention is if you look at the excess capital today, through the excess capital that will be generated through the end of 2020, we're talking about a quantum north of 2 billion of excess capital that'll be generated. To be consistent with the past, we've already earmarked 50% of our net profit to dividend payments over this three-year period, and I think that's something we've talked about before.

In addition, with the excess capital, in the event that we are unable to deploy it towards organic opportunities, which is our primary focus, as well as earning-accretive M&A that meets the return levels of the overall group, in the absence of both of those elements, we will do an annual assessment, we'll go through our excess capital and either perform stock buybacks and/or a special dividend, but that's something that we're going to assess on a yearly basis. So, with that, operator, I think we'll take questions.

Operator: Ladies and gentlemen, at this time we will begin the question and answer session. Anyone who wishes to ask a question my press star followed by one on their touchtone telephone. If you wish to remove yourself from the question queue, you may press star followed by two. If you are using speaker equipment today, please lift the handset before making your selections. Anyone who has a question may press star followed by one, at this time. And, the first question is from the line of Markus Pops, with Goldman Sachs. Please, go ahead.

Markus Pops: Hi, there. Good morning and thanks for the presentation. Two questions from my side, please. So, first on Südwestbank. If I remember correctly, during the IPO process, you were targeting the cost-income ratio at Südwestbank to be below 40% by 2020, so I'm just wondering if you can comment whether this is still the case and is the three-year timeline to get there a reasonable assumption, from your perspective?

And, secondly, on the IRB model rollouts, I know you mentioned Südwestbank, but I know that your also previously talked about the rollout of foundation IRB models within your other retail segments in 2018. So, maybe, you can just comment on whether this process is on track, as well, and what's the level of RWA reduction that you're targeting from these initiatives. Thanks.

Anas Abuzaakouk: Thanks, Markus. So, I'll address this and then Enver will correct me if I'm wrong, if I say something incorrect. So, for Südwestbank, just to correct you, we always said at a group level under 40% cost-income ratio, we never specified for Südwestbank but, obviously Südwestbank, there's a number of transformational opportunities there, but we never specified what the cost-income ratio for Südwestbank would be. We always said it in the greater context of the overall group.

In terms of the RWA optimization opportunities going forward and the rollout of IRB, one of the rollouts for IRB will be Südwestbank, but that will be an '18-'19 event. The best way to look at is what we guided last year. We will land at, effectively, and RWA density of 40-45%. And, to really communicate, kind of, the opportunities, the additional optimization opportunities through that lens, that'll be call it a hybrid of the rollout of IRB advanced here in BAWAG, the foundation, and certain parts of the BAWAG business, as well as in Südwestbank, so it's kind of an overall mix, but we feel pretty good.

Enver mentioned the Vermeer portfolio. That's, I think, a perfect example. So, 140% of risk weight, 1.5 billion, and we haven't optimized that yet and that's something that we're going to address in 2018. Was that helpful?

Markus Pops: All right, thank you. Yes, yes, thanks.

Anas Abuzaakouk: Thanks, Markus.

Operator: And, our next question is from the line of Simon Nellis, with Citibank. Please, go ahead.

Simon Nellis: Oh, hi. It's Simon.

Anas Abuzaakouk: Hey, Simon.

Simon Nellis: Hi, there. How are you?

Anas Abuzaakouk: Good. How are you doing?

Simon Nellis: Yes, good thanks. First question would just be on the dividend. You're saying that you're going to pay a 50% payout, ongoing, but you only paid out 36% of 4Q. I'm wondering why you didn't pay out 50% of 4Q. And, just on the 2 billion excess capital, that also includes the 50% that you're planning to pay out. That would be my first question.

Anas Abuzaakouk: Yes, so let's address that. The dividend is a subset of the north of 2 billion of excess capital, correct. And, I think the first part, you want to explain…

Enver Sirucic: Yes, I think there was a bit of confusion on the calculation of dividend. What we've, basically, always indicated, we will take 50% of the average quarterly result. You can take it differently, just take the next profit for the year divided by eight and it will get you to the 58.3, so it's exactly 50%.

Simon Nellis: Got it. Okay, very clear.

Anas Abuzaakouk: I guess there was confusion. We were surprised. I thought we were pretty clear on that. Okay. Sorry, Simon, there were some other questions?

Simon Nellis: Yes, my other question would just on the prudential filter. Can you just run through exactly how that works? You're saying that you might be able to get that back at some point. I didn't quite understand that. And, then, on IFRS 9, you're saying there's no impact but is that on a phased basis? If it was a fully-loaded basis, what would the impact be?

Enver Sirucic: So, on the first one, it's just the accounting treatment. So, under IFRS 3, you have a 12-month window to close the PPA accounting. Since we only closed in December, this window is still open. We decided to take of the first-time consolidation effect a part aside, and just apply a voluntary prudential filter. So, of the 230, let's put it that way, only 190 went into CET1, 40 are on park. Once we close the PPA completely under IFRS 3, this 40 will be released as a prudential filter.

Anas Abuzaakouk: It's just a matter of when we close it.

Simon Nellis: So, when would that be, roughly, do you expect?

Enver Sirucic: During 2018.

Simon Nellis: Okay. And, then, just on the separation with the Post. The provisions that you've made just deal with…

Enver Sirucic: And, the IFRS 9? Do you want to talk about that?

Anas Abuzaakouk: You didn't address the IFRS 9.

Simon Nellis: Oh, yes. Sorry, yes.

Enver Sirucic: IFRS 9, this is quite safe. So, in terms of fully-loaded… transitional or fully-loaded doesn't really make a difference for us. This is quite safe, so it will have a very, very limited impact in terms of CET1 ratio.

Simon Nellis: Well, that's super. And, then, just last on the separation with the Post. I guess these charges don't cover the expense that you'll have to take to build new branches. Just wondering how much that's going to cost and when will we see that cost and how much will be CAPEX and how much in OPEX over the next two years?

Anas Abuzaakouk: You're right, Simon. We don't communicate, call it, the transformation costs or the one-time kind of upfront, but that's going to be something that's embedded within the targets that we put out. So, we're able to address the commission expense. You'll see more of a shift because a large part of your expenditures were through commission expense, so you'll see the NCI line shift, be more predominant. And, then, of course, we're going to have the upfront costs for the transformation in terms of redesign of the branches, hiring of staff, and the like, but that's all factored into the overall CAGR. We just don't, at this point, give any guidance as to what those figures are.

Simon Nellis: Right. Okay, thanks so much. That's all from me.

Operator: And, the next question is from the line of Gabor Kemeny, with Autonomous Research. Please, go ahead.

Gabor Kemeny: Hi, it's Gabor from Autonomous. The first question is on your capital generation guidance.

Anas Abuzaakouk: Hi, Gabor. How are you?

Gabor Kemeny: Hi, there. Good. And, you upgraded the capital generation guidance. Now, you guide for more than 2 billion by 2020. What do you think drove this increase? Are you now more confident on RWA reductions or did this upgrade really come from the earnings side? And, do you think your M&A pipeline is sufficient to fill this increased capital generation?

A second question will be on fees. You mentioned that very strong fee performance. How shall we think about the run rate for the next few quarters? Most of items you mention, most of the positive contributions seem to have been recurring, so it will be useful to understand how much of the increase was related to seasonality.

Anas Abuzaakouk: I'll take the capital and, Enver, do you want to take just the fee?

Enver Sirucic: Sure.

Anas Abuzaakouk: So, on the capital, you're right, Gabor. As I said, we reconfirmed our targets and we're more specific, so it is north of 2 billion, which we hadn't put that number out before. We don't split the amount between the earnings. We'll stick to the pre-tax profit growth of greater than 5%, but, obviously, with the developments in the fourth quarter in, kind of, our excess capital starting off at the end of '17, in terms of our kind of, I'd say, overperformance on that front, we felt really comfortable by putting out that greater than 2 billion, but we don't split it out between RWA versus deductions versus earnings. Do you want to take the fees?

Enver Sirucic: Sure.

Gabor Kemeny: Right. Sorry, just to follow up on this. I think you earlier mentioned a 1 billion or 1 billion+ guidance. With now more excess capital generated or more excess capital coming through, would you expect this additional to be deployed through M&A or do you think there's a higher chance of capital distribution?

Anas Abuzaakouk: Gabor, we'd love to put every single cent towards organic opportunities as well as M&A. It's just a matter of… you saw the pipeline, right, and we don't want to get into too much detail because what we find is people trying to triangulate against our pipeline, the number of opportunities, and then people speculating on the deals that we're pursuing. We're not going to do that anymore, but we'd love to put all towards organic as well as M&A, if it was possible, as far as all that excess capital.

Gabor Kemeny: Okay.

Anas Abuzaakouk: It's got to be at the right price point, it's got to be the right fit. I mean, you know the drill.

Enver Sirucic: Now, Gabor, there are three elements, all that we mentioned. It's PayLife it's mainly NCI business, also what we highlighted in Q3. So, that will contribute for our full year, of course. It was only for two months, two and half months in '17. That will have a positive impact. That's not seasonal. That's why you see it a bit higher in Q4 versus Q3 or Q2. The second was Südwestbank, of course, will also contribute. You only had it for three weeks; will be a full year. And, the third element, we can't give more guidance, but is just the separation agreement where the majority was taken through commission expense so far. That will be reduced, of course, going into '18, given the one-time payment.

Gabor Kemeny: Okay. So, your fees could even increase further from here on the back of lower fee expenses paid to the Post. Is that the right way of phrasing it?

Enver Sirucic: Say that again.

Anas Abuzaakouk: Can you repeat the question?

Enver Sirucic: So, would you expect, from the Q4 levels, an additional positive impact from lower fee expenses paid to the Post in 2018?

Anas Abuzaakouk: You're going to see a greater shift towards NCI, without a doubt. Whereas, historically, it was 80:20, you're definitely seeing that move towards 75:25 and even, maybe, a greater percentage towards fee income, which is, by the way, the natural split for our bank. It was only distorted because of the commission expense.

Gabor Kemeny: Understood. Thank you.

Anas Abuzaakouk: Yes, thanks man.

Operator: Next question is from the line of Stefan Maxian, with RCB. Please, go ahead.

Stefan Maxian: Hello, yes. A few questions from my side. First, on the Austrian Post. With that upfront payment that you took right now of this 110 million, does that mean that you won't have any payments to the Austrian Post in the next two years; that means, so last year you had, I think, this 57 million in terms of payments, and does this 57 now go to zero?

Enver Sirucic: Stefan, there are two elements. The upfront payment was for the old contract that we have and also what I mentioned for additional restructuring expenses, not tied to Post but tied to the branch network in the 110. How to think about it? We still have services provided by the Austrian Post till end of '19 and we will, of course, pay for it, but on a different basis. So, there will be payments and, also, we will also make investments in our branch network. So, it doesn't go from 100 to zero.

Anas Abuzaakouk: But, you can imagine, the lion's share of the expenditures are now addressed, and these are now at market rates.

Stefan Maxian: Okay. So, roughly, could I understand that it's half, like for the next two years or how can we…?

Anas Abuzaakouk: No, it's significantly less than that, and these are at market rates based on…

Stefan Maxian: Right. And, the rental agreement is also still… so, we still have the split in OPEX and in fee and commission expense?

Anas Abuzaakouk: Sorry, Stefan, can you say that again? The rental agreement?

Stefan Maxian: Do we still have the split here in OPEX and in fee and commission expense?

Anas Abuzaakouk: Yes.

Enver Sirucic: But the lion's share is in commission expense.

Stefan Maxian: Okay. Yes, that remains there. Thanks. Then, just a few questions on the segments. I mean, first, in the retail, this seasonality that we see, or this higher 4Q OPEX, is that a regular seasonality for the fourth quarter or is there also some restructuring costs included?

Enver Sirucic: Just cost allocation that happens, because we allocate, pretty much, all the costs to the segments. So, in Q4 if there is some, of course, if we have additional bookings, that will be allocated to segments, so you can't say it is seasonal.

Stefan Maxian: Okay. And, higher risk costs in the retail segment. Is that anything special there?

Anas Abuzaakouk: No. So, we book provisions, obviously, in terms of just where the overall business development was, but one thing I'd say is we executed an NPL sale during the first quarter of this year. In January, I think, is when we executed the NPL sale and there was a good guy there, so I think it's a reflection of just kind of catch up.

Stefan Maxian: Okay. Just briefly, on easygroup, we have, now, in the fourth quarter, seen commission of roughly 13 million, that comes from the consolidation effect of PayLife. What is, like, the run rate? Or, to put it like this, how much is it a seasonal fourth quarter in that business?

Anas Abuzaakouk: Stefan, we don't disclose that. I think the more important thing, it's a de minimis impact for '17, for PayLife, just with all the moving parts. The thing to focus on is the 12 million that I mentioned earlier of PBT, that it's going to contribute greater than 12 million in '18. If you're trying to draw just the conclusion from just the fourth quarter, I don't think it's going to be very meaningful just because of a lot of moving parts.

Stefan Maxian: All right. And, then, finally, you booked 20 million positive risk costs, I think, in the corporate center. What does this refer to?

Enver Sirucic: It's a reversal of an impairment that we had there, in previous years.

Stefan Maxian: Sorry?

Enver Sirucic: It's a reversal of an impairment that we had in previous years.

Stefan Maxian: Okay. Was it related to the City of Linz?

Anas Abuzaakouk: Stefan, you know we don't disclose that, but good try.

Stefan Maxian: Of course.

Anas Abuzaakouk: We would like to get the City of Linz finalized, if that was possible; if you can help us with that.

Stefan Maxian: Okay. And, two others. One, on the legal reserves that you booked. What are they referring to?

Anas Abuzaakouk: We don't disclose the details.

Stefan Maxian: Okay. And finally, you had been mentioned as part of the consortium of HSH Nordbank. What would your function be in that? I mean, it's quite a different animal, as far as I understand.

Anas Abuzaakouk: Stefan, we can't comment on transactions, so I can't address your question because we can't comment on whether we're part of a deal or not, but we're actively looking at lots of opportunities.

Stefan Maxian: Of course. Well, okay. Well, thanks, that's it. Thank you.

Anas Abuzaakouk: Thanks, man, appreciate it.

Operator: And, the next question is from the line of Giulia Miotto, with Morgan Stanley. Please, go ahead.

Giulia Miotto: Hi, good morning, and thank you for the presentation. Three questions from me, please. So, the first one regards the LTIP, the 55 million through the P&L. So, first, could you provide some general explanation of how the LTIP works, how many years for vesting, how much of the compensation is deferred, and how does the accounting work, and also how many people are covered by the LTIP?

Anas Abuzaakouk: Do you want the names, too, of each individual?

Giulia Miotto: No, no, no, just the number of people.

Anas Abuzaakouk: Keep on going. Sorry, Giulia.

Giulia Miotto: And, then, the second on IT. I found it quite interesting what you're doing, and I would like to hear more. So, are you particularly focused on customer journey, at the moment? So, is the IT investment that you're doing more focused on the interface with the customer or are you really tackling the backbone and, hence, you expect more benefit from, you know, the whole process and back office side?

And, then, my final question on Bausparkasse. I was a bit surprised by the type of acquisition and I would like to understand more why this business is appealing to you because I hear many other German banks saying that, perhaps, that's not the most interesting business. So, is it really predominantly a cost story or, I don't know, perhaps a way to acquire more customers or anything else? Thank you.

Anas Abuzaakouk: Okay. That was a lot of questions. No problem. Okay, I'll take this and, then, correct me if I'm wrong on anything. LTIP, so 75% is performance based. It's a three-year LTIP program. 75% is performance, 25% time vesting. The performance base, as Enver had mentioned earlier, was fully funded in the first part for the amounts that were allocated. The program is for about over 55 individuals, the management board, as well as the senior leadership team. So, we wanted to make sure it was a broadbased program which was retentive in nature, and which was also based on performance. So, I'd mentioned earlier, in our three-year targets the €5.70 per share on a pre-tax basis. It's on a graded basis, but to be able to realize the LTIP in full we have to hit those targets. So, what we wanted to do is make sure that we aligned our performance targets that we communicate to our investors, as well to effectively the LTIP program or the bonus program that we put in place. So, I think that addressed the LTIP. Any follow-up on that before I go on to technology?

Giulia Miotto: No. So, if I understand it right, you have already funded, basically, the LTIP for the next three years.

Anas Abuzaakouk: For the performance side, correct.

Giulia Miotto: Yes, for the performance side, correct. Okay, cool.

Anas Abuzaakouk: Yes. Obviously, that's just accounting in terms of the time vesting that has to be done each year, and that's based on who is still around over the three-year period.

Technology, good question, I would say it's a mix of front, middle and back office. So, the front is really, you know, when we talked about modular core systems, that's thinking about how we interface with our customers, and we've gone through kind of developing through this API layer on each product, both our consumer loan product, for SME, which, effectively, with Spotcap, that's going to help accelerate there, on current accounts with the rollout of our new e-banking, our mobile banking.

All of these are taking into effect how we interface with the customer, and to make that a seamless, easy process and one that customers will migrate to. When I say migrate to, it is easier for them to interact with us and they get all the information at their fingertips, so that, effectively, we can address a lot of the front-end activities through these digital platforms and become less reliant as we roll out new products in terms of relying on our core banking system.

So, you know, I mentioned the analogy of Legos. You can kind of build one Lego on top of another Lego, versus having to hardwire all of the programming of new product introduction, new retailer partnerships, all the customization, whatever it is, doing that into your legacy core banking system. We want to be able to do that out of the core banking system and, effectively, have the core banking system act more as a transactional ledger and give us the dynamism and flexibility to be able to do things on a more consistent basis in terms of just how we interact with our customers.

And, then, the second piece of that is really what you're doing with your data as well as kind of the middle/back office. We see a lot of opportunity for optimization. When you think about 70% of manual touchpoints, which impacts the customer because you have more of an enhanced customer experience post-funding and, then, effectively, on the data side, we think that's the future around predictive analytics. You know, our CRM today and those teams are going to be more data scientists as we think about how to optimize our data structure and leverage the disparate pieces of information that we have between CRM, between our data warehouse, between the core banking system, between your social media footprint, and all the different pieces of information that we're collecting.

That's kind of a combination. I think you're going to see benefits across the board but it's something that, you know, takes some time, and you've got to also change the culture so people realize that technology is not a threat, but it's an opportunity, and I think that's going to be the biggest challenge and that's why I said we want to infuse the bank's culture to have technology kind of embedded in our DNA.

And, then, lastly, you said Bausparkasse. You're not the first one to mention that we look at things differently. I think we've been pretty open about being contrarian. What we see in the Bausparkasse is a steady platform, a good customer base. I think it's around 90,000 or so customers.

The issue with the Bausparkasse, at least through our lens, right, and I can't speak to how others look at it, is the balance sheets need to be restructured, and you also need to restructure the operations, and that also has to be a reflection of the purchase price, to be able to allow you to restructure the balance sheet to avoid the interest rate risk issues that are out there, as well as to treat that Bausparkasse as a product that's part of your core product offering, even though it's still a regulated bank.

So, a lot of what we've done with start:bausparkasse, here in Austria, I think you can do a read across in terms of what we plan to do with Deutscher Ring. And, we see other opportunities in that space, as well. But, we are definitely contrarian. I think most people think that's a dying industry that's not very appealing and we don't take that view. But, of course, you have to address the operational and the balance sheet restructuring.

Giulia Miotto: Thank you.

Anas Abuzaakouk: Yes, thank you.

Operator: And, the next question is from the line of Marcell Houben, with Credit Suisse. Please, go ahead.

Marcell Houben: Good morning, all. Thank you for taking my questions. I have three, as well, if I may. The first one is on the Südwestbank acquisition. Just on the cost synergies, and it's a little bit of a follow-up on the previous question, because I can remember that you guided for a 40% cost-income ratio target. Does that still stand, and could you elaborate a little bit more on the integration process, as well as some of the synergies that you're realizing right now? Then, the second question is on the P.S.K.

Anas Abuzaakouk: Sorry, the first question, just, maybe, in summary format: what was the question?

Marcell Houben: Yes, during the IPO process you guided for 40% or at least a target for a 40% cost-income ratio target for Südwestbank.

Anas Abuzaakouk: No, we didn't. Under 40% for the whole group, but I think I addressed that question before.

Marcell Houben: Right, okay. Sure. And, then on the cross-selling or at least the BAWAG P.S.K. Retail division, I think you targeted the cross-selling ratio of roughly 2.5 times product by 2020. You had roughly 2.1 by the end on of 2016. I was just wondering what the ratio was by 2017. And, two more.

The third one is on the excess capital accretion. Again, a little bit of a follow-up on the previous question there is your previously guided for 1 billion of excess capital, now you guide for 2 billion. It is not clear to me what the driver is for the double of the excess capital generation. And, the last one is the exception items on slide 15. If you can help us a little bit to allocate all the one-offs there per division. Thank you.

Anas Abuzaakouk: Okay. So, let's talk about the capital. I think the cross-sell, we'll come back to that. But, on the capital, I think, again, that you misunderstood because historically we said north of 1 billion of excess capital post dividends, right. So, now we're saying greater than 2 billion of excess capital and a subset of that is the dividend payment. So, it's just structured differently the full quantum.

Just so we're clear, right. So, greater than 2 billion, total quantum; we're already at 320, if you take the 12%, at year-end '17; and, then, a subset of that we'll pay out in dividends and then the remaining excess capital, which historically we said was just 1 billion, but I think you can do the math, that will, effectively, go to organic and M&A and, in the absence of that, stock buybacks and/or special dividend. Is that clear?

Marcell Houben: That was very clear. Thank you, Anas.

Anas Abuzaakouk: Okay. And, then, what was the last one?

Enver Sirucic: Exceptional items.

Anas Abuzaakouk: Oh, the exception items. Yes.

Enver Sirucic: But, I think, I mentioned already how you can allocate it. So, the majority goes in the other income line, so what you see in Q4, the 100 million net is basically an offset of the elements, and if you take that out for normalization you probably have 10-15 left on a recurring basis that you also had in the past as well in the other income P&L line. And, then the OPEX part is merely the restructuring piece and the LTIP piece that goes into OPEX; 55 of LTIP and roughly 30 million ballpark on the restructuring expense.

Anas Abuzaakouk: And, then the cross-sell, that's not something that we… oh, go ahead.

Marcell Houben: Sorry, the one-offs, is that all in the corporate center or is it divided into the divisions?

Enver Sirucic: The vast majority is in the corporate center.

Marcell Houben: Okay, thank you.

Anas Abuzaakouk: And, then, the cross-sell, that's not something that we publish, at least for '17, but that's something that we can address in future quarters. It's not a problem.

Marcell Houben: Okay. Can you say that there's an improvement?

Anas Abuzaakouk: We don't publish it, so I wouldn't tell you what the number is, given that it's not out there.

Marcell Houben: Okay. Thank you.

Operator: And, the next question is from the line of Victoria Cherevach, Bank of America. Please, go ahead.

Victoria Cherevach: Hi. Thank you very much for your time. I have four questions. I appreciate your patience. The first is on the Austrian Post agreement which is now signed. So, I assume things are a little bit more clearer from this perspective. So, could you just tell me a little bit about who, if anybody, will be taking your place in these Post locations?

Anas Abuzaakouk: That's an easy. Let's address that quickly. You should ask the Austrian Post. That's probably the easiest, because I don't know but I wish them all the best. What's the next question?

Victoria Cherevach: Have they mentioned anything about whether they plan to put anybody in those locations or have they said anything? Is that part of the agreement?

Anas Abuzaakouk: We're focused on running our own business. If I had the time to worry, or Enver or anybody else to worry about what they're doing with their business, then we're probably not doing our job very well. But, to answer your question, I don't know, nor did I ask.

Victoria Cherevach: Okay. Well, my second question is on IT spend. I understand that you plan to increase your CAPEX. Do you also expect IT spend to rise, as a whole, because I think previously, if I understand correctly, you expected it to fall over 2018?

Anas Abuzaakouk: I think what we had published before was 80 million of cash spend, part of that was OPEX and part of that was CAPEX. I think we actually said 50:50, 40 million: 40 million. That's still the right proxy to use. We don't break out the details in terms of how much is coming out in '18, '19 and '20, but obviously that's going to be part of our overall optimization. The issue is not on how much we're spending. I'd say we're spending more than enough. The issue is, as I mentioned before, you've got to really think about what's the quality of the spend and is it part of your, kind of, multi-generational or multi-year technology roadmap, which is what we've launched. But, 80 million, I guess, is kind of the baseline and we can kind of come back to that and give you guys a sense of how that spend is developing, but it's CAPEX/OPEX.

Victoria Cherevach: Oh, that would be great. Perfect. Thank you very much. Then, I have one more… well, two more questions; one is on margin progression in BAWAG P.S.K. Retail. Could you just give some color on how this has developed over the last few quarters, because I would imagine that there's some impact from mix, you know you're trying to do more with consumer loans, and I guess, also, with pricing, whether there's any development there?

Enver Sirucic: It's quite consistent, what we said in the previous quarters. Yes, we see a bit of margin uplift in retail coming from the consumer loans. Also, the new business is pricing a bit higher than the stock, so front book is a bit stronger than the back book, and the mortgages we are keeping the line what we had done also in '17. So, that's quite stable on the key products. And, the same is true for auto leasing, so very stable margin in terms of new business compared to the stock.

Victoria Cherevach: That's great. Thank you very much. And, my final question is, because I didn't hear what you'd said on cost of risk, so could you please just reiterate your cost of risk guidance? Thank you.

Enver Sirucic: I think we've always imagined 15-25 basis points. I think this is realistic, what we guide.

Victoria Cherevach: That's great. Thank you very much. I appreciate it.

Anas Abuzaakouk: Thanks.

Operator: If you would like to ask a question, please press star followed by 1. Next question is from the line of Victor Galliano, with Barclays. Please, go ahead.

Victor Galliano: Yes, it is Victor. Just a couple of quick follow-ups from me. Most of my questions have been asked and answered. Just looking at slide 13 in terms of your expectations there over the long run, segment return levels, and focusing on Südwestbank; more than 15% RoTE. So, can you just give us, sort of, three bullet points of how you get from where you are now to there, to over 15% RoTE? Is it product, is it volume, cost reduction? And, how are you planning to deal with the German, shall we say, trade unions in terms of get those costs and manning levels down to give you that sort of a return over the medium term? But, if you can just give us your three main, sort of… really, how you get there, how you get to a 15% RoTE? Thank you.

Anas Abuzaakouk: I would say, Victor, obviously, now you're asking about kind of the roadmap, and we don't give the specificity other than saying greater than 15% but, look, it's a lot of hard work, focus, perseverance. But, on top of that, it's really the operational transformation, really going after and ensuring that it's an efficient platform, augmenting that with retail and reinvigorating the retail channel and providing a lot of the digital capabilities that you see here in the BAWAG Group under easygroup, and augmenting that into Südwestbank – and, they have a great platform and a great franchise – and going deeper with customers. So, it's a mix of revenue, it's a mix of cost, it's a mix of overall capital optimization that'll get us to the greater than 15% return on tangible equity. We've done this before. This is something that we feel really good about.

Your question on the unions or the trade unions. We've been in discussions with them for the past two months, almost three months now, and they've been very constructive, open discussions and, hopefully, we'll be able to report next time we speak on a successful development on that front. But, they've been very constructive, very open. Wolfgang Kuhn, our CEO for Südwestbank, has done a great job working with the workers' council. They've been very open-minded, and we'll report on activities in the next update. But, we feel good about that 15%. We feel good about it.

Victor Galliano: Okay. And, in terms of sort of cost of funding, is that an important part of the equation, as well. Do you feel there's an opportunity there, as well, if there isn't so much scope on the sort of yield side, on the asset side?

Anas Abuzaakouk: Not as much as probably what you saw in BAWAG historically, when we went through, kind of, the overall NIM development, so it plays less of part, but there's always opportunity, right.

Victor Galliano: Yes, thank you.

Anas Abuzaakouk: You're welcome.

Operator: And, the next question is from the line of Gilles de Bourrousse, with Octo Finances. Please, go ahead.

Gilles de Bourrousse: Yes, good morning. Thank you for taking my questions. I have a couple of questions. The first one is related to your consumer lending and your target of 14-15% market share. I was wondering where do you stand now? My second question is related to your coverage ratio, your NPL coverage ratio, which looks quite high if I compare the numbers with the one you published in your third quarter report. So, are they just new provisions? But, I don't see any in the P&L, so I was wondering where does it come from? And, my last question was about your issuance for 2018. Do you plan to issue sub-debt and maybe AT1 since you disclosed the ADI you had at the end of 2017? Thank you.

Enver Sirucic: Let me start with the last one. I think we cannot comment on any planned issuances. I think what I said is we'll look into optimizing further our capital structure. On the other two, I was not sure, the first one was consumer lending market shares?

Gilles de Bourrousse: Yes. Where do you stand now, because you target 14-15% and I was wondering what was your current market share?

Anas Abuzaakouk: So, we're about, I think, almost 13%. So, the guidance I said about the organic growth is we're 17% as an overall group. I look at it in the total group context, but that's between BAWAG P.S.K. as well as easygroup. We're around almost 13% or slightly below that. And, that's what we see continuing to grow over the years and we think that's our natural market share entitlement as we continue to grow net assets in the consumer loan side, both for easygroup as well as for BAWAG. What was the second question?

Gilles de Bourrousse: Yes, my second question was related to your NPL coverage ratio, because you disclosed that you had quite high numbers in the Retail and easygroup. I mean, they're quite high when I compare them with the numbers we can see in your third quarter report. And, I was wondering if you increased, specifically, your coverage this quarter?

Anas Abuzaakouk: Sorry, I don't have the numbers in front of me. What are you comparing 3Q to 4Q?

Gilles de Bourrousse: Okay. I'm looking at slide 20. You have the coverage ratio of 82% for BAWAG P.S.K. Retail, and we look at your third quarter report, it looks like it's a bit lower, so I was wondering if you…

Anas Abuzaakouk: That's what I'm asking. What is the third quarter? I don't have that in front of me.

Gilles de Bourrousse: Oh, I'm sorry. It's on the report of the third quarter.

Anas Abuzaakouk: Look, I don't need the number in the third quarter. I can tell you, just, that the provisions are the normal course of provisions. So, I'd be surprised if there was a significant delta that you're referring to. Okay.

Gilles de Bourrousse: Okay, thank you.

Anas Abuzaakouk: Thank you.

Operator: There are no questions at this time. I will now hand back the conference to Anas Abuzaakouk.

Anas Abuzaakouk: Okay, thank you operator. Thank you everyone for joining the call. Hopefully, that was helpful in terms of addressing questions and we look forward to talking to you guys at our first quarter update. Thanks a lot and have a great day. Bye.

Operator: Ladies and gentlemen, the conference is now concluded and you may disconnect your telephone. Thank you for joining and have a pleasant day. Goodbye.