BAWAG Group

BAWAG Group FY 2021

Earnings Call

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Transcription

Speakers:

Anas Abuzaakouk

Enver Sirucic

Anas Abuzaakouk: Good morning everyone. I hope everyone is keeping well despite the very sad events unfolding before us in Ukraine. Our thoughts and prayers are with all those who have been impacted and we pray that the sanctity of life will be preserved in this unjust war and wherever we see an assault on democracy. As usual I'm joined this morning by Enver, our CFO.

Let's start with a summary of full year 2021 results on Slide 3:

For the full year 2021, we delivered net profit of € 480 million, earnings per share of € 5.39 and a return on tangible common equity of 16.1%. The underlying operating performance of our business was very strong with pre-provision profits of € 743 million, up 14% versus prior year, and a cost-income ratio of 39.5%. Total risk costs were € 95 million, translating into a risk cost ratio of 23 basis points with the business on a path to full normalization of risk costs in 2022. The fourth quarter was exceptionally strong with a net profit of € 164 million and a return on tangible common equity of 21.3%, benefiting from a lower tax rate and positive regulatory charges. We delivered on all of our 2021 targets, with return on tangible common equity exceeding our 15% target and a cost-income ratio below our 40% target.

In terms of customer loan growth and capital, average customer loans were up 4% quarter-over-quarter and up 9% for the full year. We ended the year with a CET1 ratio of 15.0%, generating 230 basis points of gross capital and up 100 basis points from year-end 2020 after deducting the 2021 dividend. We will be proposing a dividend of € 3.00 per share, or € 267 million, to the AGM on 28 March.

We have filed a share buyback application for an amount up to € 425 million in tandem with our year-end results, which we plan to execute in 2022, subject to regulatory approvals. After deducting a buyback in the amount of € 425 million, our CET1 ratio for year-end would be 12.85%. Additionally, we will be increasing our dividend pay-out ratio this year to 55% of net profit.

With the strong business momentum coming out of the fourth quarter of 2021, our targets for 2022 are the following: a profit before tax > € 675 million, a return on tangible common equity > 17% and a cost-income ratio < 38%.

We recently held our investor day in September of 2021, where we shared our plans and targets through 2025. We updated our return targets to a return on tangible common equity over 17% and a cost-income ratio under 38%, which represent the normalized return targets for our business going forward. Our 2025 financial targets aim for profit before tax of over € 750 million, earnings per share of over € 7.25, and dividend per share of over € 4.00. Based on our performance in 2022, we will revisit our 2025 targets given a number of potential opportunities that could materialize this year. We also committed to a set of ESG targets for the first time by 2025. We launched several initiatives last year and have a roadmap to achieving, and hopefully exceeding, our specific 2025 targets.

The past 2 years have been incredibly challenging and not without adversity; testing our collective patience and resolve. However, the pandemic highlighted the quality, resilience, and sustainability of our franchise. As we emerge from the pandemic, we recognize that we need to be even more vigilant in addressing the intensifying geopolitical, climate, and health risks. We believe the current geopolitical situation and significant inflationary headwinds will cause real disruptions to businesses this year and in the years ahead. Following the pandemic, this will be yet another litmus test around franchise resilience, quality of operations, and cost management. The resilience of our franchise lies in our ability to deliver for our stakeholders across all cycles.

Moving to Slide 3, a recap of our full year results:

Again, we delivered full year net profit of € 480 million and EPS of € 5.39, both up 68% versus prior year, and a return on tangible common equity of 16.1%. Overall, very strong operating performance across the board with operating income up 5% and operating expenses down 7% versus prior year. Risk costs were € 95 million, down 58% versus prior year and reflecting the normalization of risk costs. Tangible book value per share was € 34.90, up 7% versus prior year and up 1% versus prior quarter. This considers the full year 2021 dividend accrual of € 267 million and the payment of € 420 million earmarked dividends, from 2019 and 2020, that was made during the fourth quarter.

On Slide 4, our performance the last 3 years in a pre-and-post COVID environment:

Two years removed from the onset of the pandemic, we wanted to highlight the resilience of our franchise. When comparing 2019 to 2021 results, in a pre-and-post COVID environment, we grew absolute core revenues by ~5% and reduced operating expenses by over 8%, resulting in pre-provision profit growth of ~5%. In 2021, we delivered an RoTCE of 16.1% and CIR of 39.5%, in line or better than 2019 returns. We generated 230 basis points of gross capital in both years, improving our already strong capital position even further, maintained solid asset quality with an NPL ratio of 1.4%, fortified our balance sheet even further increasing our reserve ratio by 40 basis points to

1.3%, and delivered on our commitments to shareholders in terms of capital distributions while at the same time meeting the requests of our regulator. Most importantly, we grew our earnings and dividend per share by 15% and 16%, respectively.

Our highly efficient banking platform, with a cost-income ratio under 40% generating high mid-teen returns and high levels of pre-provision profits, pre-and post-COVID, gives us the flexibility to proactively and prudently address various risks that may arise. Despite the many challenges we faced over the past two years and will surely face in the future with the rising geopolitical, climate and health risks; we believe this was a true litmus test of the quality of the franchise. We have emerged stronger, more focused, more determined, and are excited to address the many opportunities ahead of us. Our transformation over the past decade has been a response to changing customer behaviors, the changing expectations of our stakeholders, and meeting the challenges of the future.

On Slide 5, our capital development and distribution plans:

At year-end 2021, our CET1 ratio was 15.0%. We generated 230 basis points of gross capital as we continue to consistently generate significant amounts of capital, averaging 215 basis points annual gross capital generation over the past three years despite the volatility brought on by the pandemic. As of year-end 2021 and after deducting the full year dividend accrual of € 267 million, or € 3.00 per share, we have excess capital of € 545 million versus our target CET1 ratio of 12.25%, which we are keeping constant despite a reduced P2G to 75 basis points and constant P2R of 2.0%.

Following our capital distribution framework, to the extent that we are unable to deploy our excess capital in organic growth or M&A, we will distribute capital to shareholders through share buybacks and/or special dividends on an annual basis in a normalized environment as part of our ordinary capital distribution plans. Therefore, we are targeting a share buyback in 2022 in an amount up to € 425 million, subject to regulatory approvals. Net of a potential € 425 million buyback, our CET1 ratio would be 12.85%, or 60 basis points buffer above our stated target of 12.25% and 371 basis points above our SREP capital requirement of 9.14%.

Moving to Slide 6:

Our Retail & SME business delivered full year net profit of € 363 million, up 29% versus the prior year and generating a very strong return on tangible common equity of 27% and a cost-income ratio of 38%. Average assets for the year were € 20.3 billion, up 9% versus prior year and 2% versus prior quarter, driven by housing and consumer loans. Average customer deposits were € 26.8 billion, up 8% versus prior year and 3% versus prior quarter. Full year pre-provision profits were € 565 million, up 6% compared to the prior year, with operating income up 3% as we begin to see a gradual normalization of customer activity. Operating expenses were down 3% versus prior year, resulting from several operational initiatives and a continued focus on driving synergies across the franchise. Risk costs were € 60 million, down 52% versus prior year, reflecting a normalization of risk costs without any release of reserves.

We executed on various operational and strategic initiatives last year and will continue to do so in 2022. We expect continued earnings growth across the Retail & SME franchise in 2022 driven by strong operating performance across the board.

On to Slide 7:

Our Corporates, Real Estate, and Public Sector business delivered full year net profit of € 153 million, up 90% versus prior year and generating a strong return on tangible common equity of 16.5% and a cost-income ratio of ~22%. Average assets for the year were € 14.1 billion, up 2% versus prior year and 7% versus prior quarter, driven primarily by real estate and public sector lending. Pre-provision profits were € 243 million, up 24% compared to the prior year. Risk costs were € 29 million, down 64% compared to prior year, reflecting a normalization of risk costs and customer activity.

We continue to see solid and diversified lending opportunities and a normalization of customer activity with a good pipeline of commitments in the first quarter. We will continue to maintain our disciplined underwriting, focus on risk-adjusted returns, and avoid blindly chasing volume growth.

On Slide 8, a recap of how we've executed our strategy in 2021:

Over the past decade we've grown our business from a domestic Austrian bank to creating a DACH/NL regional business (which represents Germany, Austria, Switzerland, and the Netherlands), to expanding to Western Europe and the United States. The common denominator of our core markets is stable and developed countries. The diversity of our people & business is, and will always be, a core strength of the Group.

In 2021 we grew average customer loans by 9%. More importantly, we invested in several new channels and markets that will serve as future growth drivers in the years ahead as we build a banking platform for the future. In terms of M&A, we closed on 2 deals in the fourth quarter of 2021. We acquired Hello bank! Austria, an online brokerage platform that will complement our Austrian Retail & SME franchise. The acquisition will have immediate benefits to the Austrian business while also providing opportunities for future growth in adjacent markets. We also closed on DEPFA Bank, an Irish public sector bank that was placed in wind-down a few years back. This transaction was more akin to a run-off portfolio deal, with the team being able to leverage our Group operational capabilities to expedite the orderly wind-down of the bank without taking any credit risk.

We have always been committed to driving efficiency and operational excellence across the Group, as this is truly the one thing we can control and is the bedrock of our “self-help” DNA. We launched several initiatives over the past two years that have allowed us to counter the significant inflationary pressures we’re confronted with today. A few examples of the actions taken were combining our technology and operations group, further optimizing our physical footprint, continuing to invest in our technology and data infrastructure, and streamlining our organizational design.

As a result of our transformation over the past decade, as well as having executed on multiple initiatives during the pandemic, we will be in a position this year to more than fully offset record cost inflation. To put this into perspective, if we stood idle, we would have experienced total cost inflation upwards of 5% in 2022 from a baseline of € 485 million in 2021. However, because of the operational initiatives and execution over the past two years, we have a plan to reduce our operating expenses by approximately 2% on a net basis in 2022. I bring this up as an example to demonstrate what differentiates our company as well as highlighting the risks of inaction and complacency.

We are inherently risk averse and run the bank to ensure we maintain a safe and secure risk profile. We focus on developed and mature countries with solid finances, stable legal systems, transparent markets and avoid geopolitical hotspots. We do not have any direct exposure to Russia or Ukraine and no relevant exposure to CEE countries. as this has been our strategy over the past decade. We have always maintained a conservative risk appetite and believe that credit markets have been quite frothy over the past few years, requiring us to be patient. Our guiding lending principle as a bank has always been to focus on risk-adjusted returns, and not blindly chasing volume growth. We have a resilient business model across all cycles with consistently strong earnings and capital generation. Our asset quality, funding and capitalization are all very strong, with an NPL ratio of 1.4% (which is 1.0% when excluding the City of Linz), € 35 billion of customer deposits, and a conservative CET1 target of 12.25%. We continue to focus on secured and public sector lending, which represents ~80% of customer assets. We have minimal exposure to the oil & gas industry, with total exposures under 1% of total assets. Our stress test results from 2021 demonstrated the resilience of our balance sheet, with a 3-year adverse impact of -198 basis points on our CET1 ratio versus the ECB bank average of -520 basis points.

On Slide 9, an update on our recently signed US community bank acquisition. We recently signed on the purchase of Peak Bancorp earlier this year, which is the holding company of Idaho First Bank (known as IFB). IFB is a Retail & SME focused community bank that will provide us with a platform to drive organic growth across Idaho and the broader United States – growing in a core market that is deep, broad, and transparent. The focus will be on raising deposits and providing mortgages, consumer, and small business loans through various channels – be it branches, platforms, or partnerships. We plan to implement various digital capabilities, allowing us to scale the business by leveraging Group wide operational and technology capabilities. We have over a decade of lending experience in the United States, focused primarily on corporate and real estate lending and recently opened a US representative office to help maintain and source new business across our customer base.

The purchase price of the bank was $65 million, which is still subject to shareholder and regulatory approvals. The acquisition will have approximately a 25 to 30 basis point impact on our CET1 ratio upon closing, which could take up to one year. The plan is for the bank to generate an RoTCE of over 17% and contribute over € 30 million of pre-tax profit by 2025, which would represent year 3 of the acquisition. This will have no impact on our overall Group capital distribution plans and will be incremental to our profit before tax target in 2025.

We're excited about the combination of community focused banking augmented with access to new asset origination channels as we continue to buildout a scalable and efficient banking platform across the Group, providing us with yet another growth channel across one of our core markets.

With that, I'll hand over to Enver to go through the financials and outlook in more detail.

Enver Sirucic: Thank you, Anas. I will continue on slide 11. We had a very strong fourth quarter: core revenues up 3% versus third quarter, with a very strong net interest income, up 4% and net commission income up 1%. Compared to prior year, core revenues were actually up 6%. On the back of strong core revenues and almost unchanged operating expenses our cost-income ratio further came down and stands at 38.3% for the quarter. Risk costs of € 20 million show a more normalized picture with a risk cost ratio of 17 basis points in the fourth quarter, which is in line with our long-term trend … while we maintained a management overlay of more than € 60 million. Regulatory charges and the tax line were positively impacted: regulatory charges by lower than expected guaranteed deposit balances and recoveries from prior insolvency cases and the tax line by the positive badwill impact from the DEPFA acquisition.

Slide 12 shows key developments of our balance sheet: In terms of customer loan growth and capital, average customer loans were up 4% quarter-over-quarter and up 9% for the full year with asset growth across our customer segments. We ended the year with a CET1 ratio of 15.0%, up 100 basis points from year-end 2020 after deducting the 2021 dividend of € 3.00 per share, or € 267 million. We also increased our cash position as we believe that being patient at the current interest rate and spread levels will provide an interesting opportunity in the future to deploy our excess cash. On the funding side we continued improving our long-term funding profile through issuing € 1.5 billion mortgage covered bonds, including our first green bond in Q3.

On slide 13, core revenues: Very strong net interest income … up 4% versus Q3 and a better net interest margin of 226 basis points for the quarter or 227 basis points for the full year, clearly outperforming our outlook for 2021. In terms of net commission income, positive trend continues, up 1% versus an already strong third quarter – overall we saw a very consist trend in 2021 especially with a stronger advisory business and improving, but still challenged payments business … overall we're back at pre-pandemic levels. For 2022 we expect core revenues to grow by more than 4% as we continue to see a positive trend in NII for the coming quarters which is coming from asset growth and a better interest rate environment not considering any rate hikes in 2022 – just to remind everyone: a 100 basis points increase of the 3- month Euribor would translate into € 100 million of NII per year.

With that, moving on to slide 14. We managed to keep operating expenses at a very stable level throughout the year despite inflationary pressures we are seeing everywhere. This was only possible because we launched several initiatives over the past two years that have allowed us to counter these significant inflationary pressures we're confronted with today. Cost–income ratio continued to improve and stands at 38.3% for the fourth quarter or 39.5% for the full year, which is better than what we targeted and well on track to meet our 2022 target of below 38%. We will also continue to focus on an absolute cost-out target, as we did over the last decade, despite inflation we think we can achieve a net cost-out of around 2% in 2022, and as I mentioned before this is only possible because of all the initiatives we launched over the last couple of years.

Slide 15, risk costs: Overall, unchanged conservative and prudent approach on provisioning with improving underlying trends and a strong asset quality performance. Our focus continues to be on developed and mature countries with 73% of our exposure in the DACH/NL region and 27% in Western Europe and the United States. We have no relevant exposure in the East and do not have any direct exposure to Russia and Ukraine. In general, we have also been very careful with releasing credit reserves and the ECL management overlay now stands at € 61 million versus € 38 million as of year-end. In Q4 we booked € 20 million of risk costs – mainly driven by a normal run-rate in Retail & SME of approximately € 14 million. For the full year risk costs were € 95 million, translating into a risk cost ratio of 23 basis points with the business on a path to full normalization of risk costs in 2022 to around 20 basis points.

On slide 16, I wanted to reiterate our 2022 targets. We are targeting a return on tangible common equity of greater than 17% and a cost-income ratio of under 38%. We expect core revenues to grow by more than 4% and operating expenses to decline by around 2%. Regulatory charges should fall below € 50 million and our risk cost ratio is expected to normalize at around 20 basis points – this would lead to a profit before tax of greater than € 675 million for 2022, which is more than 12% higher than our 2021 PBT.

Page 17 – few months ago we held our first investor day, where we shared our plans and targets through 2025. We updated our return targets to a return on tangible common equity to over 17% and cost-income ratio under 38%, which represent the normalized return targets of our business going forward and which already apply in 2022. For 2025 we target a profit before tax of more than € 750 million, earnings per share above € 7.25, and a dividend per share of more than € 4.00.

There are still three main opportunities that we have not captured in our plan.

First: We assume rates are static as of today. An increase of the 3-month Euribor by 100 basis points would translate into € 100 million of NII.

Second: Our plans do not assume any M&A, be it bolt-on or large transaction M&A. We will look to acquire or invest in platforms or small universal banks in DACH/NL region, Western Europe or the United States. The focus would be on Retail & SME asset originations in deep, broad, and mature markets. All M&A investment would be underwritten to an RoTCE target of >17% along the lines of overall group targets. Our latest acquisition in the US, that we signed recently, will contribute over € 30 million pre-tax profit by 2025, this is incremental to our initial target of more than € 750 million.

Third: Today, our securities portfolio is under-weight as a percentage of total interest-bearing assets. This has been a conscious portfolio management decision given credit spreads have been very tight over the past decade. If there is a reversion to mean credit spreads, there is also an opportunity to build-up our securities portfolio once again.

We will revisit our 2025 targets by year-end based on business developments and our performance in 2022 and will consider potential positive effects stemming from our improved operating performance, earnings accretion from recent M&A, and the potential benefits from a rising interest rate environment.

And with that operator, let's open up the call for questions. Thank you.

Operator: Thank you. As a reminder, to ask a question you need to press * 1 on your telephone. To recall your question £ 1. Your first question today comes from the line of Máté Nemes from UBS.

Máté Nemes: Yes good morning and thank you for the presentation. I have three questions, please. First of all, I would like to start with the indirect exposure - indirect exposure to Russia and Ukraine. And I heard you, more than clear, you don't have a direct exposure. But I was wondering if you could elaborate what do you exactly mean by no relevant exposure to CEE? And secondly, if you could comment on any indirect exposure to the region, be it any sort of interbank exposure. Secondly, any potential Eurozone firms, the not insignificant share of revenues or other exposure to Russia or Ukraine. Anything on that would be much appreciated.

Secondly, on the Peak Bancorp acquisition: Thank you for the additional details there. I'm wondering if you could give us perhaps a bit more sense of what is the strategic rationale here. Is this going to be a retail beachhead in the US? Or is this something that helps you provide cheaper funding locally that can support the corporate lending business? And also, should we expect the weight of the US as a contributor to the group increase significantly from here onwards?

And then finally, just a question on regulatory charges. I think you're guiding for broadly similar regulatory charges like in 2021. Can you explain the rationale for this? Are you seeing higher recoveries than expected from the legacy two bankruptcy cases in Austria as the lower need for the recovery fund?

Anas Abuzaakouk: Thanks, Máté. I hope you're doing well, buddy. I'll go ahead and take the first two questions, and Enver, you want to take the regulatory charges. So I would say, Máté, great question. In terms of indirect exposure, so we have no direct exposure to Russia, Ukraine, Belarus, emerging markets, China and so on. And when we say we have no relevant exposure to CEE countries, we have some securities positions in banks that we feel very comfortable with in terms of senior preferred, senior nonpreferred, which is de minimis. The thing that we've been focusing on kind of the indirect is energy-intensive industries given just the potential impact on energy costs of corporates and the like. And if you kind of go through the different industries from cement to building materials and anything that is heavily dependent on energy costs. When we look at that exposure, it's under 1%. So even that, we feel really good about kind of the indirect exposures, which is really a knock-on effect because of rising energy costs, if this continues this spiral control. And when we look at the exposure of our corporate portfolio to companies that have sales reliant on Russia or Ukraine, it's de minimis. So we feel pretty good. But the reality Máté is, this goes back to our focus on Western, call it, European, United States, developed markets, companies that really are domiciled there and a lot of their business is based in these countries as well. So it’s just - I think the transparent markets, the rule of law, all of these things, which we've been saying for a decade, and I think you've heard Enver and I speak of this over the years. That comes into play when you have a crisis, which obviously is no one's fault here. But this was something that we've always factored in when we underwrite risk. And I think it comes to fruition, you see it today. And then the US acquisition, the way I think to look at the US acquisition best is it's just another growth channel across another one of our core markets. The US has been a core market for us over the past decade. We've historically done corporate and real estate lending more transactional. Now we have -- you'd mentioned the beachhead - I'd say more, it's just a growth channel that we'll be able to originate Retail & SME assets. But it's a growth channel, just like the Netherlands is a growth channel for NHG mortgages, Germany is a growth channel for us in terms of mortgages and consumer loans. Austria is more a full-scale retail banking. We will be able to raise US deposits, but that's the context of how we look at the US acquisition. And then in terms of the overall mix of the business: Today, we're 73% in DACH/NL region, 27% in Western Europe and in the States … it's going to fall between the 70 to 30, 75 to 25 a similar split in the years ahead as we continue to grow across our different markets. I'll pass over to Enver for the regulatory charges.

Enver Sirucic: Yes, Máté, on the regulatory charges, it is as you said: So we expect higher recoveries from the insolvency cases that took place over the last years, that's one element and the other element, we use some of the badwill that we generated through the DEPFA acquisition to frontload some of the regulatory charges as well. That's why we have a good line of sight that the regulatory charges will come down, not only in 2022, but also in the next years.

Máté Nemes: Thank you very much, very helpful. I have a couple of more questions, but I'll rejoin the group and let other ask questions.

Operator: Thank you. Your next question comes from the line of Gabor Kemeny from Autonomous. Go ahead, your line is open.

Gabor Kemeny: Following up on Idaho: Can you give us a sense on what your competitive edge is going to be in US Retail & SME lending? You mentioned leveraging the group-wide tech and operational capabilities, but a little more color on that?. And you are guiding, I think, more than € 30 million PBT from this business in 2025. So I understand it is going to be a balance sheet business basically. So could you give us a sense of what sort of volumes are you anticipating to build up here by then? And just the other question on the cost: You are still guiding for a cost take-out, similar to the September CMD, which is impressive given where the trends are heading in the rest of the sector. So maybe you could elaborate a bit on what you are doing differently? And how do you think about the impact of the inflationary environment going forward? Thank you.

Anas Abuzaakouk: Thanks, Gabor. Great questions. Let me start with the cost, and then I'll take, where we see opportunities in the US and kind of just the overall thesis there. So the cost takeout, Gabor: The past two years, we used the pandemic, and I mentioned it going through the earnings pages. We really reflected on what are we doing well and what are areas that we can improve. And we took the opportunity over the past two years to really streamline our processes. One example is we looked at our technology group and then we looked at our operations group and said that actually, a lot of this is really converging. So we combined that group, and there was a lot of synergies through that combination. The combination allowed us to even streamline our front-to-end processes more so than we've done in the past. And help us think more holistically about end-to-end processing, which then the outcome of that will be how do you reduce touch points but also how do you start to think about automation and how do you scale your business even better. So that's one example. Another one obviously is, I think the most obvious, is your physical footprint: the number of branches, your headquarters' real estate. We permanently put in place a home office working model. So we had one in place pre-COVID. Post-COVID, we found that it could be incredibly effective when we did employee surveys, I think the majority of responses being over 80% or 90% people wanted to have the option to work from home for 2 to 3 days a week, and then we've instituted that into our workplace environment. Of course, you have to have the tech infrastructure around that to support people working from home from different cities and different countries. But that had a direct impact on our real estate costs, which then has an impact on your utilities costs and the maintenance costs and all the other knock-on effects. And we also redesigned our organizational setup and streamlined, despite as efficient as we've been in the past, there was more areas to really think through our organizational design and root out any entrenched bureaucracy, even though it's unintended, right? You still have to go after it. So I think those were some of the lessons learned in the examples. And I gave an example of had we not done anything, Gabor, we would have seen 5% cost inflation. But because we have this continuous mindset and part of our DNA, it's not just a buzzword, this is what we live. It's continuous improvement. We questioned and challenged in trying to drive productivity in the areas that we thought made the most sense. So that's been a big driver in the 2% net cost out despite we are seeing inflation everywhere. You have your collective bargaining agreement that will be 3% to 4%, and you have wage inflation outside of your collective bargaining agreement, which is when people leave to competitors, you're seeing that upwards of double digits in some cases.

The energy costs, I think, speak for themselves in Europe, and we were able to do things from hedging energy costs, locking in rates over a number of years to being able to absorb some of the headwinds on that front. So there's a whole host of things we can go through a lot of the detail. But I think the key message is we were proactive and we didn't just stand idle and accept having a great efficiency ratio, we realized there was a lot more to do. And I think that will continue to inform the way we operate. And that's the reason why you have the net 2% cost out. We're probably one of the few banks, at least from what I've seen reported, that'll be able to confidently say we'll have net cost out this year. And then in terms of the competitive edge in the US, it really goes down to - you'd mentioned that it's going to be a balance sheet, more of a lender, it's less of a fee business. We like US mortgages. We think the risk-adjusted returns are really good. We think consumer loans, if done the right way through partnerships and platforms - and we have a number of relationships - we think that will be pretty interesting. But we can do it, Idaho gives us an opportunity to have a US bank license and to really scale that business and really try to implement a lot of the, I call it, the tech ops, which is your technology and operations know-how from the group to, and kind of the lessons learned to what we're going to do, in the States. We're not competing with the large US global banks. We're looking at certain asset classes in certain channels that we think are really attractive and through that, we think we're going to be able to generate over € 30 million of pretax profit by 2025 and it will be through Retail & SME lending and we feel pretty good about it. It's another core market for us. It's not foreign to us and it gives us opportunities to continue to grow the business and will continue to grow in the DACH/NL region as well as Western Europe as well as the United States. Thanks, Gabor.

Operator: Thank you. Your next question comes from the line of Simon Nellis from Citibank. Please go ahead, your line is open.

Simon Nellis: I guess my first question would just be back on Idaho again. It's a bit of a strategic shift. Can you just elaborate a bit on? I mean, it's obviously a platform. So what else are you planning to do there? Are you targeting further M&A? And should we be expecting kind of a very quick ramp-up of SME and retail? Just a little more thoughts on that would be useful. Also, I think I saw that there's some legal challenges to the valuation, if you could comment on that.

And then my other question would just be on the volume growth that you're expecting, what's the pipeline looking that's underlying the above 4% core revenue growth forecast for this year's target.

Anas Abuzaakouk: Thanks, Simon. I'll defer to Enver on the volume growth, but I'm not sure he's going to say much. But on Idaho, just really quick: primarily organically, Simon. So it's $0.5 billion balance sheet. We're going to look to grow that organically through a number of channels that we're looking at that you have a digital front as well as platforms for consumer loans and SME and the like and mortgages, which we're really bullish on. As far as M&A, it's going to be in the context of, I think, the M&A that you've seen in the past, if there is any M&A. So small bolt-on type acquisitions. I think more importantly, Simon, the question came in earlier, I think from Máté, it will be the same kind of mix of 70-30, 75-25 in terms of DACH/NL region versus Western Europe and the United States. I don't see that. I think I kind of see that as a kind of a goalpost in terms of our overall exposure. And hopefully, we're growing across all of our markets. As far as the legal challenge, I can't really comment on anything, but we feel pretty confident that the deal will go through. So -- and that's obviously something like a shareholder regulatory process.

Simon Nellis: Are you focusing mostly around Idaho region for now? Or are these rollouts going to target the larger part of the US?

Anas Abuzaakouk: So Simon, two-pronged approach. We have Idaho, and we see a lot of opportunities just within the state of Idaho. It's about over 2 million citizens. And then we see broader US pockets through platforms and partnerships to be able to originate assets using our credit box, and we think that's interesting as far as a channel. Sorry, Enver, you have the volume growth?

Simon Nellis: Yes, the volume growth.

Enver Sirucic: I think, Simon, just overall, I think what I said, part of the NII increase we are expecting for 2022 will be obviously from volume growth. I will, we, don't give specific numbers, but I would think about it more in the context also of the 4% or more than 4% core revenue growth that we are indicating.

Simon Nellis: I mean some margins you're expecting to be roughly flat.

Enver Sirucic: From the net interest margin, you're saying? I mean if you look at the last couple of quarters, I think the net interest margin moved down like 1, 2 basis points. So it was really extremely stable, and that's what also we expect to happen in 2022. And as I said, we don't assume any rate hikes, which will obviously change the picture if that happens.

Simon Nellis: In terms of the mix of the volumes, are you expecting it to shift in any way, like the resumption of consumer loans?

Enver Sirucic: We are not disclosing that yet.

Simon Nellis: Okay. Okay. So I'm just wondering about the outlook on the environment, right? And I think last year had been slow for consumer. Obviously, things might change now.

Anas Abuzaakouk: So Simon, we saw a take-up in the consumer loans in the second half of last year. Hopefully, that continues that kind of pace. But yes, it was really driven by housing loans, large part. We'll see how it goes for 2022.

Operator: Thank you. Your next question comes from the line of Izabel Dobreva from Morgan Stanley. Please go ahead your line is open.

Izabel Dobreva: Hello, good morning. I have a couple of questions. So firstly, I had a follow-up on Idaho. And I know you elaborated already a little bit. But could you expand a little bit on the strategic rationale as to why you chose to go into US retail. How does that fit with the rest of the group's franchise? And I'm thinking here more around what led to the decision to prioritize expansion in the US compared to, say, an acquisition in Europe? And overall, should we expect for you to keep doing M&A in the US and bulking up the market share around that cluster? Is that the long-term vision here?

Then my second question is on NII. And I've seen the guidance of € 100 million for 100 basis points. But could you help us understand how that impact differs for the first 50 basis points relative to the next 50 basis points. So is there a difference in the sensitivity up to the zero bound and then beyond? And I also assume this guidance is on a static balance sheet. So what would be the incremental upside if we also normalize the size of the treasury book? And then finally, on the buyback, I had a question: When would you expect to launch execution? And if we think about liquidity volumes, how long would you expect the execution to plan for?

Anas Abuzaakouk: Thanks, Izabel. Let me start with the buyback and then the US and then Enver will take the NII. As far as the buyback, look, we put the application in with year-end results, as I mentioned as we went through the earnings, we can't really comment any further, but we look forward to hopefully being able to execute during the course of 2022. And I think you have a number of examples on other banks. So hopefully, that's a good proxy. That's as much as I can say on the buyback, but we feel confident there. The question on the US, again, this one, Izabel, if there's a great opportunity in Austria, like Hello bank! Austria, we're going to be able to execute. If there's a great opportunity in Germany, we'll be able to execute on that from an M&A standpoint or any other core market for us. This was a really interesting opportunity to be able to have a growth channel in the States and to be very disciplined in kind of growing in asset classes that we think we understand and that generate great risk-adjusted returns. You should not read into it that that is a strategic shift in any way. We have 7 core markets - we have Austria, Germany, Switzerland, Netherlands, the UK, Ireland and the US. We will continue to look at opportunities across those core markets. And they come in different shapes and sizes and different opportunities. Sometimes it's a bank, sometimes it's a platform, sometimes they're portfolios. But the consistency is a focus on risk-adjusted returns. It's a focus on efficiency. And obviously, we manage everything at a group level. So there's really no more to read into it than that it was a really good opportunity we thought to be able to drive profitable growth. Enver?

Enver Sirucic: Yes, Izabel. Good question on the NII sensitivity. So you would see an NII pickup from the first rate hike. It's very similar for the first 50 basis points and the second 50 basis points in our case, it's slightly more skewed to the second 50 basis points than the first, but it's very comparable.

Izabel Dobreva: And could you comment on the size of the treasury portfolio given the move we've seen in the swap rates and the bond deals year-to-date. How are you thinking about deployment?

Enver Sirucic: Yes. I mean we don't focus so much on the interest rate situation in the treasury book. It's more on the credit spreads, right? That's why we have been underinvested in the treasury portfolio for the last couple of years. Now I believe we stand even below 15% of total assets. And if you go back, I mean, you can see also a picture where we have 25% to 30% at the right levels, I'm not saying that would happen overnight, but there's a lot of potential, actually, to increase that portfolio if the spreads are right and the quality is right, obviously.

Anas Abuzaakouk: Enver mentioned it when we went through the pages, Izabel. If you just look at the credit spreads this year so far, they've widened by 25 basis points across senior financials or Euro investment grade. We think, historically, they've been incredibly tight, that potentially, there's an opportunity of repricing of risk here. And if that takes place, we have ample capital and liquidity, and we'll be able to redeploy as we've been underinvested in securities for a number of years. So that could be an added benefit. Well, we'll be patient, right? No different than the years past.

Izabel Dobreva: Makes sense. Could I ask you one more question on loan growth, if you have a minute. Could you just give us a view on mortgage loan growth in Austria and in Germany given the countercyclical measures which are being activated in both markets.

Enver Sirucic: Yes. Look, Izabel, I mean it's probably a bit too early to see that impact. Right now, we are not really seeing it in the customer demand. So the new business was very stable after the measures have been announced. And we still believe there is significant customer demand in both markets. So I think there will, there might be, an impact from that. But what is more important, I think, is with the increasing rate environment, what impact will that have. We think that is more relevant than the macro prudential measures being put in place.

Anas Abuzaakouk: We're very supportive of those macro prudential measures, I think it's a really positive thing. It introduces much more discipline into the market. We found it sometimes challenging given the overall pricing. And it will be interesting how people price mortgages, especially given the movement in 10- to 20-year swaps and that's really reflected. And I think that overall it brings more discipline to the market. And that's a good thing.

Operator: Thank you. Your next question comes from the line of Johannes Thormann from HSBC. Please go ahead, your line is open.

Johannes Thormann: Johannes Thormann from HSBC here. Just a follow-up question first on your mortgage business. You just explained the German business should have no impact from the tightening of the countercyclical buffer. But on the other hand, it will only happen in February 2023. And then the question is, you described yourself as being more in the niche areas of the German market. Is this only in terms of the different durations or also in terms of the LTV. And the next thing is on the mortgage business, you have so far done your mortgage business in Europe from one platform. Will this platform to use in the US or at least the technology? Or do you have to do because of the regulatory differences, a completely different platform in the US? That's my first question. And secondly, you just elaborated that you're looking for bolt-on deals in M&A terms. Is there any size limit from your perspective where you would say we don't feel comfortable acquiring a bank with € 20 billion assets or with a purchase price of more than € 1 billion or so? And the last question would be just on the regulatory costs: Any idea what the potential implications would be if there's a bank which needs to be bailed out and € 1.1 billion deposits or insured deposits have to be paid by the other banks? Thank you.

Anas Abuzaakouk: Thanks, Johannes. Do you want to go ahead and take it, Enver?

Enver Sirucic: Yes. A lot of questions. So I think on the mortgage business, look, we are not -- we are a niche lender. It doesn't mean we are lending kind of only niche products in Germany. So when it comes to mortgages, I think our offering is very similar to the market. You might be here and there some product features that we focus more than the rest of the market. And you're right, a counter-cyclical buffer will only kick in 2023, but you would still expect, right, that the market kind of adjusts to that. We haven't seen that yet reflect in the pricing, it's what Anas said, we hope actually it will bring more discipline to the pricing of the mortgages. That's our expectation.

Anas Abuzaakouk: Just -- and Johannes, the niche is -- when we say niche lender in Germany, it's more specialty finance, so factoring, IT and mobility leasing. Those are the type of when we say niche or consumer loans. Mortgage is pretty plain vanilla. Quite frankly, mortgages have been, we think, mispriced to a large extent in Germany for some time. So hopefully, these macro prudential developments will bring more discipline. But let's see.

Enver Sirucic: I think next question was on the different platforms between US and European business. Obviously, there will be a difference. I mean it's a different payment system, different processing systems. So, it will be 2 different platforms. But we will still try to leverage what we have from a group perspective that we could also use for the U.S. market. Third question I had was the bolt-on acquisitions versus large: I mean no, I think we said in the past, we would also like to do larger M&A, but it's what is available in the market, what makes sense from a risk return perspective. And we are absolutely willing to do larger M&A. And even in the case that we would need to raise capital, I think we are willing to do so. but it will depend on the opportunities that we see.

Anas Abuzaakouk: Just to add, when we talk about large M&A, that would be something which we would target as far as a large operational turnaround, and that will be more focused to the DACH/NL region where we have a real opportunity to drive synergies.

That's not for some of the other markets, in particular in the US. That's a small bolt-on. So, when we say we're open to all acquisitions, the large is really more in the domestic market and kind of the adjacent markets to Austria.

Enver Sirucic: And I think the last one, I guess, you're addressing the Sberbank Europe situation. Look, I think it's totally manageable. It's not a large bank. And it's not clear what is going to happen. But even if we would assume the deposit guarantee scheme case, which is, again, not the case right now, that the impact overall would be quite limited.

Operator: Thank you. Your next question comes from the line of Tobias Lukesch from Kepler. Please go ahead, your line is open.

Tobias Lukesch: Good morning. Just two follow-up questions on issues we have almost touched on. On the mortgage business first, with regards to the price volumes you're seeing in the DACH markets. Are you kind of extrapolating the nice mid-single to high single-digit growth, both in volumes and prices that we have seen in these markets? Or is there any other underlying assumption you may have for that? You said it's plain vanilla, are you expecting further margin pressure? I understood that in the past, you also highlighted the fact that Germany is very competitive and that is really hard to go for volume in that market.

Secondly, yes, there are some pilot schemes on artificial intelligence and so on to ramp up volume. Is that something which is really material in the coming years? Or is it rather a subject for the second half of that decade? Secondly, on the developments, of course, Russia, Ukraine and so on. You just mentioned there will be hardly implications potentially for reg charges and so on, if I understood you correctly. But thinking of your business. I mean you came through the pandemic quite well, you have an exposure, which was hardly hit by pandemic issues, now again, hardly hit by this Russian-Ukrainian situation. So is there any change to the business strategy or tactics that you have talked about, which are on the cards and where we may see a different approach to something? Or is that still yet to be seen very external given and not yet to be discussed?

Anas Abuzaakouk: Thanks, Tobias. I'll take just a second one in terms of no change in our strategy. It's the same strategy that we've had since 2012. It's pretty straightforward, right? Focus on developed mature market, stable legal system and the ability to enforce. That's why we say stable legal systems, right? Transparent markets where investors have confidence that you can both invest and lend into. So that stays the same. Our underwriting has been very disciplined in the past, even with the macro prudential kind of measures that are put in place. We are supportive of that because we think that's the right thing to do. And it reflects a kind of a conservative credit box that you're able to apply. But we'll -- we're not going to put any volume targets. That's been kind of our approach in terms of how we grow our business. We think when you do that, you do irrational things. So we don't put volume targets in our Corporates, Real Estate and Public Sector business nor in our Retail & SME. If the opportunities are there, we're going to be able to hopefully exploit them, but if they're not, we're going to be patient. So from a strategic standpoint, nothing that we're changing. I think our strategy has been sound. You focus on the things that you can control Tobias, which is your cost and your risk appetite, and you take what the market gives you, right? And if there's opportunities, we have capital and liquidity, I think we're blessed in that respect, we'll be able to deploy it. But if the risk-adjusted returns are not there, we'll just be patient. And that approach has served us well over the past decade and I think we'll continue to be our North Star in terms of guiding us how we run the bank. So, you want to take the next?

Enver Sirucic: Yes. I think the last thing that Anas said is basically the key principle when we think about volume growth. We basically don't focus on volume growth, right? That's always been risk-adjusted when we don't chase volume. The same is true for mortgages. We don't provide kind of sale product guidance or what we expect. But I can tell you how we thought about 2022: It was a very, very strong 2021 in terms of loan growth. We were more prudent and more conservative on the assumptions for '22, but it will again depend on the pricing in the market that is taking place and also the interest rate moves that we have seen over the last couple of weeks especially how that gets translated into real business. And if you find risk-adjusted pricing to be fine, we will obviously continue to grow our market share. And if not, we are happy not to do the business as well. That was always our key principle.

Anas Abuzaakouk: One thing you had mentioned, Tobias, in terms of just AI. And I think some people sometimes think that, that's a big driver, and that's all the innovation. The reality is what we've seen the most beneficial innovation is simplifying your process, reducing your time to yes on the mortgages, right? Having a middle office sales support that can address the broker channel or aggregator channel to be very responsive, being disciplined with your credit box. The basic blocking and tackling, that's what makes all the difference, right? And then obviously, you automate parts of the value chain in terms of overall end-to-end processing, that more than anything else. But you got to be disciplined also on pricing in terms of -- in your credit box, and we'll never sacrifice that. Those are the things from an operational standpoint that I think gives us an edge.

Tobias Lukesch: Very clear. Third one, if I may, quickly on capital. Just to interpret the kind of post share buyback at 12.85% CET1 ratio. Is that a kind of new regulatory guidance target, so to say, to be rather on the closer to 13% rather than down to 12%. Given the current environment, is that something we should basically incorporate a bit in the thinking, and it was like calculating potential dividends or share buyback potential for the coming years.

Anas Abuzaakouk: No. I think really nothing to read into the 12.85% on a pro forma basis. That 60 basis point buffer gives us opportunity to pursue organic growth, M&A, we've always said we'll do an assessment on an annual basis. And we still have our target of 12.25% despite the P2G being reduced from 1% to 75 basis points, and you saw that in our ECB stress test. So nothing to read into. We're sticking with our target. Thanks, Tobias.

Operator: Your next question comes from the line of Jovan Sikimic from RBI. Please go ahead, your line is open.

Jovan Sikimic: I have just one follow-up question maybe on the strategic one from the previous analyst and it is, can you imagine under some, I don't know, special circumstances, maybe we have them right now, to go for any kind of M&A in the Central Europe outside the DACH/NL region should something really interesting appear. And second -- the question I have one technical is...

Anas Abuzaakouk: Jovan, on that one. No. Just to be clear. I know what you're saying and it's a good question, but that's not our risk appetite. Hope you understand this part.

Jovan Sikimic: Times are changing, and then yes, that's why. But okay, thanks for this, perfect. And a technical one, I think there was a bit of corporate growth in the fourth quarter. Does it come from some DEPFA consolidation or some any other special issues? Or was it kind of just normal business? If you just explain that, please.

Anas Abuzaakouk: Just normal course of business, I think the DEPFA was like €200 million or so around that of public sector assets, but yes, but normal business, I would say.

Operator: Thank you, we will now take our last question, and the question comes from Mehmet Sevim from JPMorgan. Please go ahead, your line is open.

Mehmet Sevim: Congratulations. Just one question and I know you may not be able to answer this, but in any case, have you had any initial conversations with the ECB and do you have a feeling that their view may change on SBBs right now given the current geopolitical situation not in a specific way to BAWAG, but just in general. And do you think there could be any delays to the approval process on that?

Anas Abuzaakouk: Mehmet, as you know, we're limited in what we can say, but we have not -- obviously, these are fast-moving events and is more recent. But we feel comfortable in terms of the capital generation that we have on an annual basis. We've been conservative in terms of our targets. I think we've been good stewards of capital. So we'll leave it at that, but no, we have not had any specific conversations.

Operator: Thank you. I will now hand the call back to you for closing remarks.

Anas Abuzaakouk: Thank you, operator. Thanks, everybody. Really appreciate the time this morning. Look forward to catching up with everybody for our first quarter results. Take care and today safe. Bye.