Addiko Bank

Addiko Group 2023 Results: Webcast Transcription

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Herbert Juranek

Good afternoon. Ladies and gentlemen. Let me welcome you to the presentation of the Year-End Results 2023 of Addiko Bank on behalf of my colleagues, Ganesh, Tadej, Edgar and Constantin. We have prepared the following agenda for you.

I will start with the executive summary, the key topics and our new mid-term guidance. After that, I will pass on to Ganesh, who will update you on our achievements on the business side. In the second chapter, Edgar will provide you with the details of our financial performance and Tadej will inform you about our progress in the risk area. At the end, I will do a short wrap-up and present to you the outlook on 2024, before we move on to Q&A.

Now, let’s begin with the highlights. I am pleased to be able to announce a 60% year-on-year increase of the net profit for the business year 2023 to €41.1 million. This corresponds to €2.12 earnings per share. The return on average tangible equity went from 3.4% in the year before to 5.5% in 2023.

Our operating result jumped up by more than 41%, year on year, to €103.9 million despite increased funding costs and inflationary impacts on the expense side. This positive result is based on a 6% increase of our customer base as well as a 6% increase of our focus area deposit volumes combined with a double-digit year-on-year growth in our focus business.

In addition, driven by our Acceleration Program, we improved our sales and operating efficiency to keep our cost base under control. Moreover, we made progress to prepare our expansion into the Romanian market. I will come back to that later on.

Now let’s take a look at the risk side. We are proud that we have successfully managed our non-performing exposure down to a historic low of €138 million, which results in an NPE ratio of on-balance loans of 2.8%. At the same time, we were able to improve the coverage ratio from 75.4% at the end of 2022 to 80.9% at the end of 2023. Our cost of risk stayed at a low 34 basis points or €11.8 million.

Based on the overall positive performance of the business year 2023, we will, according to our currently existing dividend guidance of 60% of the annual net profit, propose to the General Assembly in April to pay an ordinary dividend in the amount of €24.6 million. That’s equivalent to €1.26 dividend per share. This dividend per share is 5% higher than the dividend paid out last year, which was, for good measure, based on the profit of two business years, namely, 2021 and 2022.

Let’s go to funding and capital. The funding situation remained strong with €5 billion deposits and a loan-to-deposit ratio of 69%. The liquidity coverage ratio went above 310% at year end. Furthermore, our capital position improved to a very strong TCR ratio of 20.4% fully loaded, all in CET1. The proposed dividend is already deducted in this calculation.

Last but not least, we have published our ESG strategy and made substantial progress on our ESG action plan. All our projects and deliverables are according to the plan.

Now let's look at the attainment of our mid-term targets. As you can see, the positive message on this page is that almost all targets could be fully achieved. Only the sum of other result and expected credit loss expenses on financial assets is with said 1.7%, slightly above the guidance. The reason for this is based on two topics.

Number one, we, the management of Addiko, decided to keep a €6.5 million post-model adjustment for remaining uncertainties in the given economic environment. And number two is the additional provisioning for Swiss franc-related claims to enable faster resolution. As we already communicated, the statute of limitation to file new Swiss franc claims in Croatia expired in June 2023, providing clarity on the final number of cases in the fourth quarter of last year.

Now, consequently, we were able to prepare and to launch a strategy to resolve the unconverted Swiss franc cases in Croatia. Furthermore, we also undertook prudent provisioning for a limited number of Swiss franc related claims in Slovenia. If we would exclude these adaptations, the sum of other result and expected credit loss expenses on financial assets would be at 1.5% for the full year 2023. Next page, please.

Let's have a closer look at the regulatory and the governance front. As already announced, Slovenia will introduce a windfall tax for all banks in 2024 of 20 basis points based on the total assets for a period of five years. In addition, the countercyclical buffers in Slovenia and Croatia and the systemic risk buffer in Austria are becoming fully effective. Both the new tax and the higher capital requirements are already included in our planning assumptions and, respectively, in the mid-term guidance.

As of 1 January, the new SREP conditions are applied with no change in the Pillar 2 requirement and a decrease of 25 basis points in the Pillar 2 guidance.

Since we, as a management, are in charge, we always were transparent in our previous earnings calls when we informed about the intense discussions with our supervisory authorities about our dividend policy. As you know, the regulators expressed their concerns about our target pay-out ratio of 60%, calling it aggressive and urging us to reduce it. After severe discussions, we decided to stick to our guidance and, as mentioned before, to suggest to the General Assembly to pay out 60% of the 2023 net profit in 2024.

However, in order to address the request of the ECB, the forward-looking guidance for the pay-out ratio has been adjusted to approximately 50%. At the same time, the resulting new dividend guidance for 2024 and subsequent years will be changed to a dividend per share target, as I will show you in a minute.

Nevertheless, at this point in time, it is important for me to mention that despite the reduction of the pay-out ratio, it is the clear ambition of us as a management team to be able to pay next year at least the same dividend in absolute terms as we pay this year. In addition to the changes of the dividend policy, we decided to overhaul our mid-term guidance in order to give you more insights into our plans.

This revision is based on the work which has been done within the Acceleration Program and it takes into account our plans based on the opportunities which will be established with the completion of the programme in the second half of this year. The further extension of our net interest margin is just one part of it. But let me show you the full picture.

We grouped the KPIs in three categories, income and business, risk and liquidity and profitability. Furthermore, we increased the outlook by adding the years 2025 and 2026 to the picture. We also included our previous guidance in the last column. An empty box indicates that we have not disclosed this KPI before.

Before I go through the list line by line, I would like to point out three general remarks. Number one, if you want to check the macroeconomic and interest rate assumptions behind these figures, please look at page 21 of this presentation.

Number two, concerning Romania, as we intend to undertake a careful ramp-up to ensure a successful progress, we did not include any notable impact on revenues. However, the estimated yearly OPEX run rate increasing to €3.5 billion and the cumulative CAPEX of below €2 million are included. The intention of this business expansion is to prepare a future growth engine, which will unfold its full potential starting from 2026 onwards.

And number three, we consider 2024, with the completion of our Acceleration Program, as the preparation year to enable a bigger step towards our mid-term goals in 2025 and 2026.

So, let's look at the individual KPIs. Instead of giving you an absolute target number of our loan book size for our yearly outlook, we decided to use a 6% compound average growth rate target for the period. This number is a blended rate and includes the intended further reductions in our non-focus portfolio while, at the same time, our focus business shall grow double-digit to achieve more than 95% share of the total loan book until 2026.

Based on this development, we see further potential to continuously increase our net interest margin up to more than 4.1% in 2026. On the same basis, we estimate a net banking income growth of more than 4.5% for 2024, and based on our efforts of the Acceleration Program, we expect the growth rate to go up to circa 9% in 2025 and 2026.

For operating expenses, we have set our target to stay below €191 million. This shall be achieved, also in the later years, through synergies coming from the Operational Excellence Program. Based on the experience we gained with the respective initiatives in 2023, we consider this aspiration as absolutely achievable.

Although we are currently on a very low cost-of-risk level, we took a prudent approach and assumed in our plans a cost of risk for 2024 of 1%, increasing to less than 1.1% in 2025 and less than 1.2% in 2026. While we continue to strive to further reduce our non-performing exposure also in the future, we carefully included an NPE ratio of less than 3% according to EBA definition in the guidance.

Subject to the yearly SREP result, we plan a total capital ratio of above 18.35% going forward. Due to the planned growth of our loan book, our loan to deposit ratio will increase from 69% in 2023 to below 80%.

Now, one of the most important mid-term goals is to achieve a return on the average tangible equity of more than 10%. We are confident that this target will be achieved latest in 2026 based on the results of our Acceleration Program.

The other very important target is the dividend per share. Here, our mid-term goal is to raise the dividend per share on a regular basis to an amount above €2 until the business year 2026.

Now, how to make that happen?

We consider our Acceleration Program as the key engine in order to achieve our mid-term guidance. Therefore, I want to give you more details of the achievements and the outlook for 2024 for each pillar of the programme.

Let’s start with business. The initiatives of the programme enabled a double-digit growth in our focus book and a remarkable 23% growth rate in our lending customer base. Furthermore, we enlarged our partnership universe to more than 560 partners at more than 1,200 locations. This is a great basis to achieve significant, healthy growth rates, going forward.

Consequently, our focus loan book will hit 90% of the total loan book already this year combined with the continued positive impact on our net interest margin. This development will be also supported by broadening of our product offerings and further extensions of our network. At the same time, we will make the digital interactions with our clients even more convenient, while keeping our pricing on premium levels.

Our projects to expand into Romania is well on track and shall start with a soft launch in the second half of the year.

Now, what’s going on in Operational Excellence and Digital? A lot. We gathered a team on artificial intelligence and started to work on a group-wide basis on several use cases, which will create substantial benefits in all three pillars of the programme. Ganesh will tell you more about it.

Moreover, the Kaizen methodology has been rolled out within the organisation and is already used in the respective projects. Based on that, we were able to launch new end-to-end capabilities in three key countries. For example, in one country we achieved to reduce the onboarding time for new SME customers substantially to 20 minutes. This new onboarding process is currently rolled out to all countries. And overall, we accomplished to further grow the number of our digital customers by another 8.5% year on year.

So accordingly, we will continue with our efforts to finish the automation of our key processes in 2024. The completion of this exercise shall give us the opportunity to increase efficiency and to improve our cost base for 2025.

The initiatives in our third chapter, best-in-class risk management, were also quite successful in 2023. We optimised our collection processes and reduced the non-performing exposure again by 15% in 2023 to a historic low of 2.8%. Moreover, we implemented a new risk reporting platform across the group which enables us to better control and steer our exposures. On top of that, we increased the automation in the customer segment by 6%, year on year.

Of course, we will continue that path in 2024 to strive for excellence, to establish a scalable and automated leading-edge underwriting, monitoring and reporting environment. This shall lead to further improvements in terms of efficiency, effectiveness and, most important, also portfolio quality.

So, in summary, we believe that the Acceleration Program will bring us closer to our ambition to be the best specialist bank for Consumers and SME in South-East Europe.

With that, I would like to close here and pass on to Ganesh to tell you more about our achievements and our plans on the business side.

Ganesh Krishnamoorthi

Thank you, Herbert. Good afternoon, everyone.

Moving to page eight. 2023 posed several challenges including rising interest rate, persistent inflation and muted loan demand. However, our strategic approach characterised by maintaining premium pricing supported by unique selling propositions and prudent underwriting enabled us to achieve an impressive 11% growth in our loan book.

With the premium focus yield of 6.3% our new business yields have reached 7.7% in Consumer and 5.7% in SME. Our primary focus remains on optimising our loan portfolio by reducing exposure of low-margin and high-exposure non-focus and medium SME business loans. Instead, we aim to replace these with higher-margin Consumer and micro SME business loans.

Currently, our total book consists of 87% of gross performing loans reflecting a commendable 15% year-over-year growth in new business originations. On the liability side, while observing customer shifts towards term products, we still managed to expand our deposits to €5 billion.

Moving on to page nine. In our Consumer segment, we focus on driving growth by targeting digital-savvy customers and point-of-sale segments and lower-ticket high-priced loans.

Last year, we concentrated on, firstly, expanding lending reach through 564 partnerships across 1,200 locations, doubling our partnership lending business and driving incremental growth.

Secondly, transition from branch-based digital solutions to a more cost-effective branchless end-to-end digital customer experience, eliminating the need of branch visits. Thirdly, we focused on increasing on non-lending product revenue, particularly in cards and insurance, resulting in an 82% increase in cards commission income.

Finally, we also launched a Buy Now, Pay Later programme in Romania offering a customer new financing options while providing valuable insights into lending risk dynamics. These insights will be instrumental as we prepare to launch our consumer lending services in Romania.

Overall, we have achieved a strong 46% growth in new customer acquisition accompanied by 121 basis points increase in yields and 16% year-over-year development in gross disbursement.

Shifting our focus to SME, we have prioritised delivering low-ticket sized loans and mandatory account packages to underserved micro and small segments through our digital agent platform, where speed is a prominent unique selling proposition.

Over the past year, we have concentrated on three key areas. Number one, process enhancement. By continuously improving our loan application process, we have reduced time to cash and increased our unique selling propositions allowing us to implement price increases.

Number two, introduction of new online channel. Our commitment to convenience led us to introduce a new online channel and a mobile app enabling SME clients to apply for loans online, distinguishing us as the only bank offering these services in key countries such as Croatia, Slovenia and Serbia.

Number three, product expansion. As part of our Acceleration Program, we were developing new products to enhancing our SME ecosystem and revenue stream. Results highlight a 41% year-over-year growth in our micro business segment and an 18% growth in new business across the small and micro landscape. Notably, we achieved a significant 153-basis-point increase in pricing year over year.

In 2024, we anticipate another strong year as we remain committed to executing our specialist strategy, prioritising customer value through premium pricing and disciplined risk management. Addressing the challenges from the previous year, we aim to turn around our net commission income performance by various factors such as euro introduction in Croatia, fee increase protection in Serbia and conservative payment behaviour from customers.

We believe this is temporary and anticipate a positive shift in the stabilisation of interest rates and a lower inflation, alongside initiatives to engage customers through new product launches complemented by fee adjustments to drive our net commission income up this year.

Moreover, we're dedicated to leveraging technological advancements, particularly AI, to enhance productivity, elevate customer service, automate processes and identify risks. We recognise AI's pivotal role in banking and will actively explore and test various use cases to drive innovation and efficiency.

Moving to page ten, we summarise key states to achieve not only our mid-term guidance but also our banking specialist vision which we outlined three years ago. Our Consumer vision is to enable an ecosystem that offers embedded financing through partners such as merchants, retailers and healthcare providers at the point of sale. We anticipate this channel to contribute more than 30% in the future years.

Additionally, we believe that adding convenience through end-to-end digital lending channels will disrupt the entire region. Addiko, with our best-in-class customer experience, aims to lead this disruption by capturing 20% of the branch business allowing our branch employees to focus on advisory services. Finally, our mobile platform plays a key role in enhancing customer engagement by providing easy access to new products and services.

In our SME vision, we aim to address SME's pain points by offering an integrated platform that minimises administration burdens, secures funding and manages cash flow. We will achieve this by building a comprehensive solution that not only provides fast loans and financing products to the underserved micro and small SME segment but also offers a convenient mobile banking solution, with superior customer experience complemented by good servicing. Furthermore, we will enable seamless connections to their accounting and other financial service providers.

Finally, our vision hinges on our Acceleration Program, empowered by risk and operational excellence, previously outlined by Herbert.

In summary, we are positioned well to deliver strong growth in future as we continue innovating and solidifying our specialist position in the Consumer and SME space. Please let me hand over to Edgar.

Edgar Flaggl

Thank you very much, Ganesh, and hi, everybody. Starting on page 12, where we printed the composition of our audited result for the full year 2023.

In summary, quite an exciting year. Net interest income improved significantly and was up 29.2% compared to the previous year. The quarterly improvement naturally slowed down given the increasing deposit funding cost, but was still visible in the fourth quarter at an increase of 2.1%. As a consequence, our NIM inched up steadily during the year and ended at almost 390 basis points in the fourth quarter and 375 basis points for the full year.

Overall, our key revenue driver, the interest income, so excluding interest expenses, improved by more than 40% year over year. This was driven by higher yields from our premium pricing of new business, repricing of the variable back book, which represents only roughly 20% of our total book, and the contribution from treasury and liquidity management.

We ended the year with 87% of our book in higher-yielding focus loans, which is an improvement of five percentage points in just one year, and we are expecting to reach 90% ahead of schedule within 2024. This was, of course, a key driver for the improving interest income.

As in the previous quarters, the treasury and liquidity management income also significantly increased year-over-year and overcompensated the steady increase in deposit costs. Interest expenses ramped up throughout the year. On one hand, this is a natural increase given the rate environment, and on the other hand, it’s driven by our planned shift from on-demand or a-vista to more term deposits.

We have achieved a healthier composition with 62% a-vista share compared to 68% at year-end 2022 while at the same time increasing deposit volumes and recording a 6% year-over-year increase within our focus areas Consumer and SME, as Herbert mentioned already. For 2024, we expect deposit costs to land slightly north of 120 basis points from approximately 80 basis points for the full year 2023.

The second key income driver, the net commission income, continued to be down year over year due to lost FX/DCC business in Croatia and that as a direct consequence of Croatia joining the euro in January last year. As Ganesh mentioned already, we have a plan to get back to a positive NCI trend going forward. All this led to a solid improvement on net banking income with an increase of almost 19% year over year.

Now to the other income, which comprises the net result on financial instruments and the other operating result. The development in this position is mainly driven by higher deposit guarantee costs and regulatory charges. In the fourth quarter, we also booked a restructuring provision of €1.4 million in the context of our operational excellence initiatives.

Down to operating expenses, which have continued the upward trend in the given environment, as discussed in earlier calls, and are now up by 6.3% year over year due to significantly elevated inflation which ranges from 7.2% to 12.5% in our region.

The main driver remains high wage pressure and cost increases from service agreements that are tied to an inflation index. Our cost-income ratio landed at 60.3% during the fourth quarter and 60.5%

for the full year, which is a year-over-year improvement of seven percentage points.

Despite the previously said inflation environment across our region and all related headwinds, we still managed to achieve our ambitious goal to contain expenses below €179 million for the full year 2023.

In aggregate, we have delivered very positive improvements of our earnings power, which is reflected in a 41% year-over-year increase of the operating result.

The next item is the other result, which includes costs for legal claims as well as for operational banking risks following our prudent approach. As you can see quite a large charge here for the full year 2023, most of which was already booked in the previous quarters and which is mainly driven by the following topics.

First, on Swiss franc legal claims. As a reminder, the group has not disbursed any Swiss franc loan after the year 2008. However, still, there are some dynamics here more than decade later. Most provisions are related to Croatia and reflect developments during the year 2023, specifically a higher inflow of new court cases.

On a positive note, the deadline for filing new claims in Croatia expired on 14 June last year, which means we have now more knowledge on the potential total number of cases and can initiate a strategy to resolve claims from customers with unconverted Swiss franc loans, as Herbert pointed out already.

For Slovenia, we also booked a low single-digit euro million provision for related legal matters.

Furthermore, this position includes impacts related to external factors that affected all banks, such as an interest rate cap introduced for housing loans in Serbia, a change in view from the tax authority on VAT for card business in Bosnia and Herzegovina and the pre-payment fee topic in Slovenia, often referred to as Lexitor.

Now to credit loss expenses which, in summary, came in benign in the year 2023. Tadej will provide insights on the very positive development in a moment.

To conclude, a strong result on the back of ongoing momentum in the topline, successful cost containment and sound risk management, which allowed us to achieve the audited net profit of €41.1 million, which is up 60% versus the €25.7 million we achieved the year before, and all that while digesting quite a bit of legacy that originated more than a decade ago.

Over to page 13, which illustrates our further strengthened capital position. At the end of the year 2023, our capital ratio landed at a strong 20.4% fully loaded, and all of that in CET1. This figure now includes the audited profit for the year with the proposed dividend of €1.26 per share already deducted. As you can also see in the chart, our OCI continued the trend of recovery, adding back roughly 1.1% in CET1 for the full year while RWAs continued to grow on the back of loan book growth.

Briefly on SREP, Herbert has already mentioned the final SREP for 2024. In that context, we added an overview on requirements and guidance for the capital stack on page 64 for your reference.

To summarise, a strong capital position with substantial buffers for continued growth. And now over to Tadej to share insights on risk management.

Tadej Krašovec

Thank you, Edgar and good afternoon, everyone.

2023 was a great year from the risk perspective. We kept strong overall portfolio quality and were continuously focused on collection, which essentially resulted in a record low NPE portfolio and NPE ratio.

As we can see on the left-hand side of the slide, the stock of the NPE portfolio decreased from €163 million to €138 million. That led to a decrease of the NPE ratio to a historically low 2.8%, as mentioned already before. The right-hand side chart indicates that the fourth quarter of 2023 was especially strong from the perspective of NPE reduction.

During the last quarter, we have resolved, upgraded, sold, written off or achieved repayments of €40.4 million of NPEs. At the same time, we had an inflow of €24.9 million in the NPE portfolio, almost half from the Consumer segment. This segment represented the largest share of NPE inflow but was at the same time materially lower than what we had anticipated.

Higher NPE inflow in non-focus in the last quarter compared to the previous quarters was driven by one legacy large client. Due to positive restructuring actions, I'm optimistic that it will be successfully resolved.

Overall, strong risk performance led to risk costs that I will present on the next slide.

The credit loss expenses for the year 2023 amounted to €11.8 million including €6.5 million of post-model adjustments. This was decreased from €18.5 million by end of third quarter 2023. This resulted in a cost of risk of just minus 0.34%, showing a performance that was much better than anticipated.

Provisions were released in the non-focus segment resulting in a positive cost of risk of 1.77%. Excluding the non-focus segment, the cost of risk would have been minus 0.65%. That would amount to €19.4 million of provisions.

Looking at the last quarter of 2023, bottom left table, we can observe that we had provisions releases in Consumer segment and a relatively higher allocation in SME. However, fourth quarter of

2023 was still lower or better in that segment than the last quarter of the year 2022.

I would like to conclude that from the risk behaviour and the risk quality perspective, we have had a better year than planned. Strictly managed risk rules for new business and a dedicated NPE management programme led to lower NPE inflow and very successful NPE reduction. All that, at the end, reflected in a relatively benign level of provisions while keeping in mind that we have further increased the NPE coverage ratio that is now standing at 80.9%.

Of course, unpredicted macroeconomic environmental changes can potentially put our credit portfolio in specific segments under pressure. However, I believe that we are well equipped to detect potential deteriorations quickly and react decisively to keep the credit quality inside our prudentially defined risk thresholds. Besides that, we continue building new, enhanced risk solutions under our continued risk excellence programme.

With that, I hand back to Herbert.

Herbert Juranek

Thank you, Tadej. We're coming to an end of the presentation. I will do a short wrap-up and give you the outlook for 2024.

Here, you see the figures of the outlook 2024 again, which are an integral part of the beforehand-presented mid-term targets. We are confident that we will be able to achieve them, although the macroeconomic environment is still difficult as the armed conflicts in the Ukraine and Gaza are going on with all its negative consequences.

There are no big news concerning our region. Our competitors continue to be reserved on increasing loan pricing. However, together with the expected interest cuts driven by waning inflation figures, we also see the pressure to increase deposit pricing going slowly down.

By and large, based on the forecast of our external economic research and based on our own view, we are assertive that the business development in our region will outpace the growth in Europe. Therefore, we will continue to expand our business in our existing geography on the basis of our prudent underwriting criteria. At the same time, we will continue to successfully perform our Acceleration Program to facilitate the next step to reach our mid-term targets.

To sum it up, we, the management team of Addiko, believe in our business model and we are very positive for 2024. Hence, we will work with full energy to further improve the results during this year and to prepare a beneficial entry into 2025. Our ultimate goal is to create value for our clients and for our shareholders.

With that, I would like to conclude the presentation. Our next events are the AGM on 26 April and our 1Q24 earnings call on 8 May.

	I would like to thank you for your attention. We are now ready for your questions. Operator, back to you.
Operator (Q&A)	We will now begin the Question-and-Answer session. Anyone who wishes to ask a question may press star and one on their touchtone telephone. You will hear a tone to confirm that you have entered the queue. If you wish to remove yourself from the question queue, you may press star and two. Participants are requested to use only handsets while asking a question. Anyone with a question may press star and one at this time. If you participate via the audio webcast, you can write questions in the Q&A function on the webcast by pressing the question mark button. The first question from the phone comes from Mladen Dodig from Erste Group. Please go ahead.
Mladen Dodig	Good afternoon, gentlemen. Thank you for organising the call, and of course, congratulations on the very nice results and continuing to be on the right path, I would say. I have a couple of questions, so maybe I should go one by one, if that’s okay with you.
Herbert Juranek	Yes, please. Go ahead, Mladen.
Mladen Dodig	So did I understood correctly this recommendation, let’s call it like this, from the regulator came as an individual letter to your bank or this was widespread, how should I say, correspondence with other banks in the region?
Herbert Juranek	Hi, Mladen. Thank you for your response and also for the question.
Mladen Dodig	Thank you.
Herbert Juranek	As I said beforehand, we were very transparent about our communication on this topic with the regulator. And this is an ongoing process now since we are in charge in this company. And we had conversations with representatives of the JST. And these were in-depth discussions and the expectations which were raised from their side did not… How shall I phrase that correctly? We had different views, let’s call it that way, because we got requests down to, let’s put it that way, down to 30%, what would be appropriate. And as this seemed to be a really important topic of the regulator, especially when we paid out last year the dividend for two years, after careful discussions internally and also with our Supervisory Board, we decided to keep to our promise and pay out the 60% for the previous year in this year in 2024, but at the same time also, look up to the written general recommendations from ECB. And

	here, I would like to hand over to Edgar, because this was based more or less on what has been announced in writing from the ECB.
Edgar Flaggl	Yes. Hi, Mladen. Great to have you on the call again.
Mladen Dodig	Thank you.
Edgar Flaggl	Look, I think in general, the ECB is following the stance that somehow, pay-out ratios out of profit which are going above 50% are looked at with a certain priority, let's call it this way, regardless of the bank. And this is our understanding also, based on their paper or actually the ECB paper, I think it's called the ECB Bulletin issue or something like this, which was published in June last year.
Mladen Dodig	Yes, I saw it. Yes.
Edgar Flaggl	Yes, where there was a comparison of many banks and a clear indication that 50% is – regardless of profitability - 50% more or less came out as kind of the expectation. They also based it, in a sense, on a transition or a contribution of transmission for monetary policy tightening, if banks that are getting more profit or achieving more profit, pay out more. So, at the end of the day, it's clearly an expectation in direct conversations, I think Herbert already mentioned, and we hope that this is also seen positively.
Herbert Juranek	But maybe also important to mention and I want to reiterate what I said already beforehand. On the one hand, we adjusted our guidance to the expectation of the supervisor, but on the other hand, we as a management team have the clear ambition to increase the dividend paid per share going forward. So, our clear ambition for the coming year is, as well, to have at least a level - despite the fact that the pay-out ratio is lower - we want to see that as the basis what we paid out this year and further increase it.
Mladen Dodig	Okay. So basically, it's fair to say that, for example, the next year conversation on this matter will again hinge on the overall macroeconomic and geopolitics picture in the world. Right?
Herbert Juranek	No, well, we don't know what will come, if circumstances severely change. But from today's perspective, we want to stick to the 50%.
Mladen Dodig	Okay.

Herbert Juranek	So, we don't see any further reductions. Let's put it that way.
Mladen Dodig	Yes, no, okay. I was even meaning towards coming back to 60%, but okay, all in good time. Regarding Croatian provisioning, so now that you have more clarity on everything and considering that these court cases or reimbursements might come or might not, do you think that some of this provision might come back to the profits?
Edgar Flaggl	Mladen, I'm going to take this. So, very good question. Now we are confident that we are adequately provisioned, this was also confirmed as part of the year end audit. We are not planning - if you refer to our guidance - we are not planning any.
Mladen Dodig	Additional
Edgar Flaggl	Updated provision. So, now we can work on the cases. We have, as I said before, finally a transparency on the number of cases that we can expect. We have provisioned those cases in terms of assumptions on how much we lose, etc. prudently. So, in this sense, I would not expect any releases out of that.
Mladen Dodig	No releases. Exactly. Okay. In one of the previous talks with your competitors from Slovenia, there was mentioned at some point of time this balance sheet tax, that it might be again a question of potentially joint action by the banks with the Slovenian authorities and probably either lowered or even avoided - I'm referring to the whole episode with the previous Swiss franc law. But do you think that this 0.2% might be changed at some point of time or will live through its whole intended five-year period?
Edgar Flaggl	So, you're referring to the special banking tax or windfall tax?
Mladen Dodig	Yes, 0.2%, yes, on balance sheet.
Edgar Flaggl	Yes, that was introduced just before Christmas last year. It's 20 basis points on total assets, starting 2024 and it's going to be there for five years. So there is no indication that this would change. What does this mean for us in the other income position, which is basically the sum of the net result on financial instruments and the other operating result? It's roughly €3 million per year. This is already included in our guidance.

Mladen Dodig	Okay. So, you don't expect changes there, no? Can you tell me, please, I noticed in your Serbian subsidiary, the end of third quarter, there was a quite substantial profit and then in fourth quarter it almost halved from 1.2 billion dinars to 660 million. Of course, the provisioning jumped up, but are there any other, I don't know, specific reasons that led to such developments?
Edgar Flaggl	Sorry, can you say again? We had a bit of a sound issue here.
Mladen Dodig	Yes. So, I noticed in your Serbian subsidiary here in Belgrade that there was a very hefty result at the end of the nine months, so one-point-something billion dinars, and then suddenly in the fourth quarter that amount almost halved, so 660 million. I noticed the jump in provisions, of course, and also some other items. Are there any specific reasons, what happened in Serbia or is it something else?
Tadej Krašovec	Hi, Mladen. Tadej speaking.
Mladen Dodig	Hi.
Tadej Krašovec	There was no general, I would say, decrease of the quality of the portfolio. But the impact that we see in the last quarter is driven by the modelling changes that we did based on the new macroeconomic projections, but mostly due to applying the local regulatory demands in our models also. We did that in two steps. And change in the last step is driven by these model changes.
Mladen Dodig	Okay, thank you. And a final question from me. So, I would say that I agree generally with your estimates on how the ECB deposit rate might evolve. But if we encounter in, how it's popularly said, the higher for longer rates, how do you expect it would affect the demand in the region? We have seen, of course, and everybody expects, that the region will advance faster than the developed economies in Europe. But do you think that a longer period of higher interest rates might affect this demand in a rather stronger way or the way that we have seen so far? I would say that, so far, the demand was satisfying, considering all the inflationary environment and the high interest rates.
Herbert Juranek	Well, look, for the time being, we don't see any big impacts overall. And what we see is that especially on the consumer side, the demand is quite good and healthy. We see some impacts on the SME

	side. Maybe, Ganesh, if you want to shortly comment, the overall picture.
Ganesh Krishnamoorthi	Hi, Mladen. This is Ganesh.
Mladen Dodig	Hi.
Ganesh Krishnamoorthi	Yes, we see on the SME side some soft demand overall but I believe the SMEs are waiting for the rate cuts. And we believe the demand will come back on the SME side in the second half of the year. But apart from that, I think you've seen also our slide showing the market itself is growing around 7% to 9% depending on the market, except for Serbia. So quite healthy growth rates we are looking at in all the markets where we are.
Mladen Dodig	Yes, most people talk about the muted demand and everything. But when you talk to individual banks, the banks I cover, the performance is rather strong. So, yes. Thank you very much for the time. Sorry if I took maybe …
Herbert Juranek	Thank you, Mladen.
Mladen Dodig	Sorry if I took…
Edgar Flaggl	No worries.
Herbert Juranek	No worries. No problem.
Mladen Dodig	Thank you very much, and all the best.
Herbert Juranek	Thank you, Mladen.
Operator	The next question comes from Hugo Cruz from KBW. Please go ahead.
Hugo Cruz	Hi. Thank you for the time. I have a few questions. Perhaps I'll do one by one as well, like my previous colleague. First of all, what fee growth do you assume for 2024?

Edgar Flaggl	I think that's an easy answer. If you look at our guidance also for 2024, we guide on net banking income level and not alone on fee level.
Hugo Cruz	Yes, I know. I was just trying… Well, let me rephrase it. I was just trying to understand. So, you target 6% loan growth. You target flat NIM. So, let's assume the NII should grow 6%. So why shouldn't the net banking income…? So I guess you're assuming quite a weak fee growth there. And I was just trying to understand, is that being conservative or are there any particular trends to justify that weak fee growth?
Edgar Flaggl	Well, I wouldn't call it weak fee growth in that aspect. Also, if you look at year-over-year NIM, we ended the fourth quarter at almost 3.9% NIM, but the full year 2023 was 3.75%. So, we do expect a further expansion on the NIM side. That's one hand. And of course, as Ganesh pointed out before, and I think I also mentioned it, that we are planning to get back on a growth trajectory on the NCI side. The drop, as also mentioned a few times, I think in each call, just to remind everyone, in NCI year-over-year was predominantly related to Croatia joining the euro. So, they won't join the euro again in that sense. If you would take that out, it would have been flattish or a low single-digit growth year over year, 2022 versus 2023.
Hugo Cruz	Okay. Then my next question was around one of the slides mentions restructuring efforts in 2024 ongoing. I was just wondering if in the OPEX target or elsewhere in the P&L you expect to book any one-off restructuring charges in 2024.
Edgar Flaggl	That's a very good question. So currently, we don't see that we would need a top-up in restructuring charges in 2024. That doesn't mean that it could not happen in the second half if, within the execution of the measures that are ongoing, we see additional potential to take OPEX run rate out from 2025 onwards. But currently, we don't see a top-up. And if there would be a top-up, it would be less material than the one we did in the fourth quarter, i.e. €1.4 million.
Hugo Cruz	Very good. And then on the launch in Romania, I was just wondering, what are the costs that you expect, start-up costs there, in both 2024 and 2025?
Edgar Flaggl	So, I think as Herbert mentioned before, we are doing a soft or planning a soft launch in the second half this year. So, we are ramping this business up, purely digital, slowly. We have disclosed

	actually on the new mid-term guidance page what the cumulative CAPEX is until 2026.
Herbert Juranek	€2 million. It's €2 million.
Edgar Flaggl	Exactly, so up to €2 million. And the OPEX run rate in 2026 would be €3.5 million. Before that, since it's a ramp-up, slightly below.
Herbert Juranek	So, it's slowly increasing as we start.
Hugo Cruz	Thank you. And then slide 28 talks about RWA optimisation. I was just wondering if you could tell us a bit more what that is. Is that synthetic securitisations or something else? What could be the potential impact and the timing of any decisions?
Herbert Juranek	Can you go to 28, please?
Edgar Flaggl	So, I know exactly which page Hugo is referring to. So, this is ongoing optimisation. We are currently not planning any SRT transaction or anything like this or other transactions that would lead to RWA relief. Of course, we are running the accelerated run-down for our non-focus. Part of that is also RWA optimisation, especially at low risk-adjusted yields. And besides that, there is, I would say, an ongoing RWA reduction on a lower scale. But piece by piece, in sum, if you do it many times, it also adds up to a number that is big enough to be happy about. But nothing extraordinary, I think that's the key message.
Hugo Cruz	Got it. Okay. And then two more questions. Sorry for that. First, any plans to issue AT1s or Tier 2 to optimise the capital stack? And second, do you have any plans to enter other countries after Romania?
Edgar Flaggl	Maybe I'll start with the first one. And the second one, Herbert can chime in. So currently, yes, we have a very high-quality capital stack. It's actually one stack only, as you can all see, CET1 highest quality. Currently, we don't contemplate to plug in additional Tier 1 or Tier 2. Also, looking at the ROE, it starts to make sense once your ROE is ideally higher than the expected, or the cost of the instrument. That doesn't mean that we are not revisiting the topic on a regular basis to review. But currently, we don't plan it.
Herbert Juranek	And on the other question on the plans for other countries, we want to concentrate, in the first place, on Romania. We want to make sure that this project will fly and put our focus on that. But I would

	say at the end of 2025, we would also then potentially think about the next step. So overall, it is that the model is copy-paste-able to other countries and we would have the potential. We investigated this as well, but we are not disclosing it for now.
Hugo Cruz	Very good. Thank you very much. Also, for these results, thank you.
Herbert Juranek	Thank you. Thank you, Hugo.
Edgar Flaggl	Thanks, Hugo.
Operator	Ladies and gentlemen, that was the last question. I would now like to turn the conference back over to Constantin for questions on the webcast. Please go ahead.
Constantin Gussich	Thank you, operator. I have a couple of questions received via webcast and email. Here's the first one from Dalibor Botkuljak from Zagrebačka Banka. Please explain, A, a high cost income indicator, which is one of the worst with comparable leading banks in the region. B, revenues and profit growth is less than the growth in leading banks, UniCredit and NLB, in the region.
Hebert Juranek	Yes, maybe I start with a more general explanation and hand then over to our CFO. So, you have to understand where we are coming from as a bank. This bank is doing a transformation journey, which started in 2021 and had a five-year plan which will end in 2026. And the clear target is to bring the bank to a range which is around 50% on the cost-income ratio. We think this is achievable. We are in the midst of this journey, a bit ahead of our plan, and we believe we are well on the way in order to achieve that and improve here further. And if you look to the overall business model compared with universal banks, we want to be the best specialist bank and also comparably in doing our business, we believe that we will be more profitable than universal banks going forward when we have achieved the full extent of this transformation. So, as we are currently in the midst of the process, the situation is a bit different for us compared to our direct competitors. Edgar, you want to comment anything?
Edgar Flaggl	Sure. Well, Dalibor, thanks for reminding us what we of course know. On your second point, our revenue and profit growth is less than the growth in leading banks, UniCredit and NLB, in the region. We are of course observing also the results of other banks, specifically the two you mentioned that came out recently, UniCredit first, NLB thereafter. And we, of course, congratulate

	them for excellent results. When you look at the profit increase still, our 60% I think is a visible improvement also versus UniCredit group 54%, NLB 23%. Now, on the main drivers, all the banks had tailwind in the last year, specifically those that have a high share of the loan book in variable loans. And as I mentioned before, we don't have 80% in variable loans, like most universal banks, including those two, roughly, but we have 20%, which means we had less of a tailwind that we could profit from during 2023. But at the same time, we have a good, stable position going forward when it comes to rate cuts that, according to current expectations, are inevitably going to come in. So, this should be a more stable NIM in that sense.
Hebert Juranek	So as a final remark to that, what we see is we still have potential to further improve. And if you look to our mid-term targets, you'll see also the ambition we have. And we believe that this will be achieved by us.
Constantin Gussich	The next question is from Wolfgang Matejka from Matejka & Partner Asset Management. Congrats to that excellent result. How did you do in comparison to other banks in the region? How is the current shareholder structure? Best, Wolfgang.
Edgar Flaggl	Hi, Wolfgang. Great to have you on the call. I think the first question we probably already touched. If not, please shoot us a message if you want to go deeper. On the second one, Herbert will…
Hebert Juranek	I will answer that. So as far as we know, there is not a big change on the current shareholder structure. There were no recent purchases or sales from our existing shareholder base. The AGM is coming up soon, and will then, latest in April, we will know if there were changes. But you also know that if something would have changed on a more significant basis, we would know, because there is the obligation, if a threshold is breached, and these thresholds are 4% and 5% or 9.9%, then we would know.
Constantin Gussich	Then I have received a couple of questions from Simon Nellis from Citi, who could not join today's call. So first, on the other income: Can you provide a bit more detail on the restructuring charge taken in other income in the fourth quarter and what this is funding? Are you likely to book further restructuring charges this year? Also, why did the deposit guarantee expense rise so much in the fourth quarter? What portion of the €7.1 million is bank levies, and where? What is the outlook for deposit guarantee costs this year?

Edgar Flaggl	Okay, thank you, Simon. Great to have your questions. A pity to not have you here in person this time. I'm going to take those as three questions. So, the other income, can you provide a bit more detail on the restructuring charge taken in the other income in 4Q, and what is it funding? So, these are restructuring provisions related to initiatives and measures of the operational excellence stream within our Acceleration Program. And they should fund release of resources related to process improvements and further automation that we are working on. I believe also Tadej mentioned parts of that, including Ganesh. Now, on the next part, are you likely to book further restructuring charges this year, I think I already answered that to Hugo. The answer is we currently do not see a need for a top-up. Can we rule it out? No. But currently, no need. And if we would need to top it up, it's probably going to be immaterial. The next one. Also, why did the deposit guarantee costs rise in 4Q, and what is the portion of the €7.1 million in bank levies, and where? And the outlook. Deposit insurance expenses rose during fourth quarter due to the notifications of the Croatian Deposit Insurance Agency to again charge banks, also due to the expected increase of the overall deposit base. And this is roughly €1.5 million for two quarters, meaning also the charge for the third quarter was expected to come in, which it did at the end. The bank levies and other taxes. They're not included in the €7.1 million you're referring to, but they are shown as a separate position within the other operating income. In 2023, we recorded there expenses in the amount of €2.7 million, out of which €1.9 million are related to ECB and SRB fees alone for all the EU entities where we are present. And I think the next question is only what we expect for 2024, right?
Constantin Gussich	Outlook for deposit guarantee costs, yes.
Edgar Flaggl	Yes. So, for 2024, we expect these charges to be roughly on a similar level as in the year 2023, plus don't forget roughly €3 million per year for this special banking tax in Slovenia, which also would be in this P&L line item.
Constantin Gussich	Okay. The next question is on the other result. Why did modification losses decline versus the third quarter level? What is the outlook for legal provisions this year and next year?
Edgar Flaggl	All right. So, I think I will take this one. So, to the first leg of the question, the modification loss that you are referring to is mainly related to the Serbian housing loan interest rate cap that was set in

	motion beginning of October. This triggered a modification loss, which we booked as an adjusting event in our Q3 results. Back then, the calculation was performed using conservative assumptions on the whole portfolio of customers that can theoretically be affected by this regulation. I don't want to call it law. Regulation. And during the year-end closure, the calculation was further refined, and the expected impact was calculated only on the subsegment of customers that were affected, leading to a slight reduction of the initially recognised impact. Just as a reminder, this interest rate cap on Serbian housing loans at 4.08% will be in force until the end of this year. At least, this is the current knowledge. To the second leg, we are adequately provisioned, which was also confirmed in our year-end audit. I think I mentioned that before. We deem this sufficient assuming that there are no new dynamics in the legal environment. For cautionary reasons, we have included a buffer in our guidance for any potential additional legal provisions in the high single-digit million euro amount.
Constantin Gussich	The next question is on dividend. Did the ECB provide any indication of what it needs to see to allow a pay-out of larger than 50%? Is there some sort of profitability level?
Herbert Juranek	I think this is already answered by the question asked before, so…
Edgar Flaggl	I think so too. Maybe just to add, according to our understanding, this 50% is to a large extent not based on any expectation, meaning 50% out of profit that is related to single bank profitability levels of risk metrics. It seems rather based on the ECB's view that high pay-out ratios contribute to the transmission of the monetary policy tightening. There is even a document I mentioned before to Mladen that is published. So this can be found, ECB Bulletin, I think, June 2023. If anyone wants to have the file, please reach out to Consti. He can send you the public link.
Constantin Gussich	And then the last question from Simon on taxes. What was behind the reduction in effective tax rate this year versus last year? And what is the expected effective tax rate going forward?
Edgar Flaggl	Okay, so that's me again. There is no earnings call without a tax question from Simon. Thank you very much for that. So to the first part, taxes were partially positively offset by the effect from the remeasurement of deferred tax assets on existing taxable losses, following the future increase of the corporate income tax in Slovenia, so technically had to be done.

	To the second part, what we expect going forward, we do expect a tax rate of smaller or equal to 19%. I believe we have included that as a footnote also on the new mid-term guidance page, which is page…
Constantin Gussich	Six.
Edgar Flaggl	Six. That's all.
Constantin Gussich	Okay. Then I have a last set of questions related to Romania from Ingrid Krawarik, der Börsianer. How much are the start-up costs in Romania? How does such an online market entry succeed? Don't you have to be there? What does it mean, unsecured personal loans? What happens if you default? What is so attractive in Romania? And a cost-income ratio of 60% seems to be high for an online bank.
Herbert Juranek	Okay, I will start, and then maybe some of my colleagues want to add. So on the start-up costs, we already mentioned that it's €2 million capital expenditures and it's €3.5 million costs ramping up until 2026 on an annual basis for the ongoing costs on the Romanian operations. Why is that so low? Because we have this digital model already available. We are just adapting it to the local market conditions. And that's why we can do it in a very cost-effective way. How does this market entry work online? One of the main reasons why we decided for Romania is that the country and the possibilities are very digitally savvy, which means that we have ideal conditions for our business model there. We have access to data of the respective customers on the level of income and on the level of employer. And our main business which we will start in the first step, which is unsecured consumer lending, requires exactly these features. And our clear ambition is to do that in a digital way. We believe that we can provide a solution which is better than what is currently offered on the local market and we believe that we have a competitive advantage with our processes and with our product there. And that's why we also believe that there is not a necessity to have a branch or to be presented on-site. We see a clear case for a digital entry in the country. On the question of unsecured lending, I maybe would pass on to Tadej, as this is anyway our current model, and it's core of the business. Maybe you'll explain it briefly, why we don't consider that as a problem.
Tadej Krašovec	Yes. I think what has to be mentioned here is that our risk rules, processes, controls, fraud checks are actually developed to support

	that kind of a business. And what we are doing now on our current markets, we will adapt to the Romanian market and continue business there in a digital way. So our consumer unsecured business is our core business in this respect. You would like to add, Ganesh?
Ganesh Krishnamoorthi	Yes. I will just add one thing. As I mentioned in the call, first of all, we've already launched Buy Now Pay Later in Romania, which basically means we are oriented to the market already and we already see the performance from a risk point of view and from the business point of view, which helps us to refine our value proposition what we have in the market. That's one. And just to add an additional topic with what Herbert mentioned before, one of the things we are noticing is that the digital business for new customers is not so prominent in Romania. And that is our value proposition against the competition. And that's something where we have a unique space and we would like to disrupt that market with that.
Herbert Juranek	Okay. And the final question was on the cost-income ratio of 60%. Isn't that high for an online bank? Yes, we completely agree. So, 60% is too high. We want to bring it down to at least 50%. And that's what we are working on. But I also have to admit that we are not a pure online bank. So, we also have a branch network and it will be different then for Romania. And already in our existing markets, like in Slovenia, we already achieved cost-income ratios well below 50%, so we are in certain markets at 47%, 46%. So, we believe that it's only a question of time, when we will reach it on group level.
Constantin Gussich	I have received a follow-up question from Wolfgang Matejka regarding the already running share buyback programme. Do you think about a new programme being implemented in due course of 2024?
Herbert Juranek	No. We currently don't plan a new programme.
Constantin Gussich	Okay. I don't have any more questions, so I will hand back to Herbert to close the presentation.
Hebert Juranek	I would like to thank you very much for your attention. 2023 was from our perspective a very successful year and with the management team, we'll do our best to make 2024 even more successful. With that, I would like to thank you and we look forward to seeing you latest on the AGM or at our 1Q24 earnings call in May. Thank you. Have a nice day.