Addiko Group YE22 Results: Webcast Transcription

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Herbert Juranek

Good afternoon, ladies and gentlemen! I'm here with my colleagues Edgar, Tadej, Ganesh, and Constantin. It is a pleasure for us to welcome you to the presentation of the 2022 year-end results of Addiko. We have prepared the following agenda for you.

In the beginning, I will present to you the key highlights and the summary of our 2022 results. Then I will hand over to Ganesh, who will update you on our achievements on the business side. In the second chapter, Edgar will provide you with the insights on our financial performance and Tadej will give you an update about our successful progress in the risk area. At the end, I will give you our outlook and do a wrap-up, before we finally move to Q&A.
So, let's begin with the highlights.

2022 was a quite positive year for Addiko in all aspects. With a strong result of €6.1 million in the fourth quarter, we were able to almost double our net profit from €13.6 million year-on-year to €25.7 million. Our cost of risk amounted to 47 basis points, or €15.4 million, already including a prudent management overlay.
The return on tangible equity at 14.1% CET1 ratio increased from 2.5% to 4.5%.

On the back of our Transformation Program, we managed to grow our operating result significantly by 34% year-on-year to €73.6 million. At the same time, we were able to reduce our non-performing exposure volumes by 16% from €194 million to €163 million. In addition, we improved the NPE coverage ratio from 71.9% at the end of last year to 75.4% at the end of 2022.

As announced in our last earnings call, we started the approval process with the regulator in November 2022 for a share buyback programme. This process should be finished soon.

Due to the fact that the Constitutional Court of Slovenia abolished the so-called Swiss Franc Law in December 2022, we initiated the resumption of the dividend alignment process with the ECB. According to our guidance, we will propose a dividend per share of €1.21 to the AGM, based on a pay-out ratio of 60% of the profits for the years 2021 and 2022.

On the basis of our Transformation Program, we managed to achieve the targeted double-digit growth in Consumer and SME business. Although we accelerated our non-focus book reduction to 31% year-on-year in line with the defined strategy, we were able to increase our NBI by more than 5% year-on-year, driven by a strong growth of more than 20% of our new focus business. A strong contributor to this success was our brand repositioning with Oskar as the brand ambassador.

The funding situation of the bank remains very strong with five billion customer deposits and a liquidity coverage ratio of above 300%. The same is true for our capital position. Our transitional CET1 ratio stands at firm 21.1% and fully loaded at 20%. These numbers already include the proposed dividend of €23.6 million, and the reversion of the reclassification of our bond portfolio.

Let me go to the next page to explain to you the background of this reversion. As we presented in our earnings call in November, we did a thorough assessment of the case together with our auditor KPMG Austria. This result was also crosschecked and confirmed by the expert team of KPMG London. The whole assessment took several months. In addition, we asked PWC to give us their independent opinion, which also affirmed our position in writing. Based on that outcome, we were required to reclassify the bond portfolio. At the same time, we followed the suggestion of the auditor and started the pre-clearance process with our regulator, the FMA.

Surprisingly, the FMA came back in January with a different opinion and explained us that despite the fact that the management sticks to its view, the only safe approach for Addiko is to comply with the opinion of the FMA and, hence, to reverse the reclassification. Consequently, we followed the request of the competent supervisor.

Edgar will give you additional information on that topic in his part of the presentation. He will also update you in more detail on the additional capital buffer introduced by the respective competent authorities in Croatia, Slovenia and Austria. Nevertheless, it is appropriate to mention right away that we, as a board, disagree with the introduction of the Systemic Risk Buffer in Austria and therefore filed an appeal against it. In this context, I personally talked to the regulator to make clear that we do not want to harm our constructive relationship with them, but we, as the management, also must defend the interests of the bank.

Furthermore, it is also incomprehensible for us that the SRB and the competent authority in Slovenia takes the position that Addiko Slovenia is MREL relevant within the financial system in Slovenia in the context of consumer lending and plans to introduce an MREL target for our bank in Slovenia.

As already announced, the Constitutional Court of Slovenia declared the Swiss Franc Law as unconstitutional and void. We very much welcome this court decision, which finally proves that the Slovenian Constitution, the legislation, and the European law have prevailed.

Consequently, as promised, we will catch up on the dividend for 2021 and propose to the AGM to pay out 60% of the net profit for 2021 and 2022 altogether on 4 May 2023, resulting in a capital repayment of €23.6 million or €1.21 dividend per share.

I'm happy to inform you that our ESG programme, which is led by our CRO, Tadej, is well on track. We streamlined our initiatives, extended our plan on a three-year horizon, published our strategy document including the key projects per category and started with implementation.

Now, let me compare our year-end results with our guidance for 2022. The good news is that we are in line or well above the guidance in almost all categories. Only the sum of other result and credit loss expenses on financial assets is with 1.3% slightly above the guidance of around 1%. This is due to the additional provisions built for Swiss franc loans in Croatia based on an unexpected statement rendered by the Supreme Court of Croatia in December. Edgar will come back on that in a minute.

This slide looks familiar to you as we have been using it over the past 18 months in our earnings calls. Now looking back, we can say that the Transformation Program was very successful in all three dimensions.

Based on our initiatives, we were able to substantially boost growth in our focus business. Ganesh will give you more details on that and how we reached 24% growth rates in new focus business.

Driven by our restructuring at the start of the programme, we could significantly reduce our cost base in the first place and afterwards continuously achieve further savings to balance out all counter-effective developments caused by macroeconomic influence.

In addition, the programme led to an essential improvement of the risk exposures of the bank. This was achieved by a reduction of our NPE volume, by an accelerated run-down of low-yielding, capital-consuming non-focus business, which also entailed a reduction of our risk weighted assets. Tadej will give you more background afterwards.

The Transformation Program was designed for 18 months, that is why we closed it at the end of 2022. I will give you an outlook later how we will continue in 2023. For the time being let's stay with 2022 and dig a bit deeper into the development of the focus loan book.

Despite the intended decrease of the low-yielding medium SME business by 21%, we managed to increase the focus book from 74% at the end of 2021 to 82% at year-end 2022. This was possible because we were able to boost our micro and small SME business significantly by 31%.

Overall, the SME book grew by 12% year-on-year to €1,188 billion, our Consumer book grew by 10% to €1,535 billion. Nevertheless, although we are happy to achieve our ambitious growth targets, we also introduced measures to limit our growth to avoid business in vulnerable areas given the macroeconomic situation.

With that, we wanted to make sure to keep our balanced risk approach, as you can see on the next slide.

On the upper half of this page, you see the GDP forecast of the Vienna Institute for International Economic Studies and on the lower half, you will find the monthly development of the new business in 2021 and 2022. In this part, two things are visible. Number one, the positive developments in growing our business. And number two, that despite our ambition for growth, we modified our underwriting criteria in the last year twice to react to the macro influence on our markets, and hence, to stay prudent on the risk side.

Going forward, we believe that our region will perform better than the euro area in average if nothing unforeseen will happen. However, we will continue to fine-tune our prudent risk approach during the year 2023 in order to achieve a positive balance between a sustainable growth and a well-adjusted risk profile.

Now I would like to hand over to Ganesh to give you more insight on the business development.

Ganesh Krishnamoorthi

Many thanks, Herbert. Good afternoon, everyone. On page nine, please let me give you more insights into business developments last year. I'm pleased to inform you that our Transformation Program has produced strong business results last year in spite of significant inflation headwinds and lower demand in Q4.

Our growth momentum continued even after we adapted our business model to reflect the market conditions with increased pricing and more prudent risk controls. I'm proud to say that our business model has not only provided value to customers but also proven to be strong and resilient. Consequently, our new focus business grew 256 million more than 2021 at 24% growth rate and with higher yields.

Going into the Consumer segment deeply. Our strategy is to sell lower ticket loans to new digital savvy and point of sale customer segments through our partnership and digital channels using speed and convenience as a USP. We executed this strategy last year by improving our digital lending capabilities and with signing new 350 partners and communicated with strong brand repositioning and marketing campaigns.

As a result, we were successful in driving substantial 150% growth in new customer acquisition followed by 22% incremental growth in our gross disbursements from 500 million to above 600 million compared to 2021.

Additionally, we were able to cross-sell the newly acquired customers with account packages, insurance and cards to deliver 12% year-over-year NCI growth.

Last but not least, with elevated interest rates and inflation we have gradually increased the fees for services and prices for new loans as being the first mover in the market.

On the SME front, our key focus on SME business is to sell lower ticket loan combined with mandatory account packages to underserved micro and small segments through our digital agent platform with speed as a clear USP. We enabled this strategy by improving the platform by integrating with risk engines and automating end-to-end processes.

Overall, we are seeing more exciting results in our micro and small SME businesses. Our customer base in micro and small area is up more than 31% year-over-year, and this is accompanied by approximately 80 basis points year-on-year increase in newly contracted interest rates in the total SME segment. Based on these remarkable results, we achieved and elevated our new gross disbursement in these two segments at an outstanding growth rate of above 50% year-over-year from €388 million to €585 million.

Moving on to this year's new business priorities. Unfortunately, we are seeing continued elevated inflation, energy crisis and the worsening of geopolitical situation driving the demand down. However, we found prudent ways to continue with our adaptive business model. Our top four priorities are the following:

Number one, on the marketing front. We will further develop our brand image to drive Addiko's consideration for fast cash loans, followed by low-cost customer acquisition with improved digital marketing.

Number two, pricing front. We will continue to keep the prices premium as our products provide better value in speed and convenience and we expect competitors to follow our lead in repricing. We will continue to leverage the new interest rate environment.

Number three, on the risk front. Tadej's team will continue with the tightened underwriting criteria to be extra prudent.

Number four, finally on the growth side. We will continue to expand with our partnership programme and we'll introduce digital lending capabilities to Consumer and SME clients to do lending without going to the branches or visiting an agent. This will help us to reduce our costs for operating our loans. We believe this is key to continue providing strong differentiation to other players that are active in this region.

Moving on to page ten. My key messages are: firstly, technology has been a key enabler for our business strategies and USPs. On the Consumer front, from expanding our partnerships or enabling Euro implementation in Croatia or introducing variable pricing or card developments or introducing Buy Now Pay Later with a key partner. Technology has always been at the forefront to differentiate us from the competition.

The same is true for SMEs. We have introduced a new mobile app in Croatia followed by enabling variable pricing and risk engine integration to our lending system. We were working on further optimising our paperless end-to-end lending online.

Secondly, we also focused on reducing our IT running bank cost. We have saved roughly €2.4 million so far compared to last year while enabling the key differentiators. Last but not least, technology has been the pioneer in driving operational excellence on our focus topics going forward.

Moving to page 11. Now let's take a quick look at the progress of our work on Addiko's Ecosystem. I would like to highlight that we are on a good path to deliver our vision to become the best specialist bank in the region. And we are convinced that the Addiko Ecosystem is the key to achieve the specialist status.

As you can see on the slide, we have already implemented our Ecosystem's top priorities for 2022. Fortunately, they are positively contributing to the excellent result in customer acquisition. Furthermore, we are working on fully digitalising on SME processes and are expecting to launch end-to-end digital lending capabilities in our key markets in the first half of the year 2023.

The implementation of all priorities this year will be an important step to extend our Ecosystem. This will give us the opportunity for further expansion to become an attractive plug and play embedded financing platform for our Consumer related and SME partners.

With that, please let me hand over to Edgar.

Edgar Flaggl

Thank you, Ganesh and thanks to all for joining this call today. Now, on page 13, on the summary of our exciting financials for the year 2022. Starting with the composition of the P&L and the main drivers of our result.

Net interest income improved by 4.1% year-over-year in the bridge year 2022. Our strong business development in focus overcompensated the lost income from the intentional and accelerated run-down of the non-focus portfolio. And even within focus, we reduced medium SME loans, which are lower yielding and higher ticket. This was supported by an uptick of net commission income by 8.5% year-over-year.

In summary, a solid development on net banking income showing a good increase of 5.3% year-over-year.

The other income continued to be mainly driven by first, lower gains from the sale of financial assets, and second, higher deposit insurance costs.

In contrast to 2021, there were no restructuring costs during 2022.

Now, down to operating expenses where we can also see the fruits of the successful execution of our Transformation Program. Our operating costs are down year-over-year despite €3.9 million one-off costs for the Euro introduction in Croatia, brand repositioning costs, higher sales incentives and elevated inflation.

All this led to a significant improvement of our earnings power reflected in the 34% year-over-year increase of the operating result.

Now, the year 2022 was also influenced by charges related to active and passive legal claims reflected in the other result. This includes our costs for fighting the Swiss Franc Law in Slovenia as well as the provision we took in the fourth quarter to be able to settle some legacy legal damage claims.

The main part of the legal provisions during the last year are related to Swiss franc claims in Croatia. As part of our quarterly legal review, we also booked an additional charge of €5.4 million following an opinion and a statement published by the Croatian Supreme Court in late December, which refers to additional compensation even for customers who were already compensated as part of the conversion law in the year 2015.

While the opinion does not contain insights on the calculation for such provision or compensation, we aligned our understanding with our auditor and booked a provision on this.

Now back to a more benign development in credit loss expenses. In short, asset quality improved while we increased the management overlay provision to address the current market volatility. Tadej will provide additional flavour on risk metrics later.

So, all this allowed us to achieve an audited net profit of €25.7 million versus €13.6 million the year before. The fourth quarter alone resulted in a profit of €6.1 million.

Now a few remarks on the right-hand side of the page. As pointed out earlier, we see positive results from the Transformation Program on the business side and a strong fourth quarter in our main revenue driver, the net interest income, while net commission income in the last quarter was influenced by the following two main topics. First, the usual seasonality, and second, the impact related to regulatory curbs on fees that can be charged to customers.

The chart on the upper-right hand side of this page illustrates a good trend in terms of improvements in net banking income generation over the last quarters.

So, in a nutshell, a strong finish of the year 2022 and fundamentals to start 2023 on the right foot. We have a clear plan and we are working hard to improve the bank's earnings power and also to compensate for lost mid-single digit Euro million fee income, which was related to FX/DCC following the Euro introduction in Croatia.

While our Transformation Program enabled us to create momentum on the top line, it also enabled us to turn the needle on the cost income ratio, supported by executing cost reduction and cost containment measures.

The dynamics caused by inflation we saw already in the second half of last year will be more pronounced during the year 2023, specifically weighting in on wages, cost of energy and general supplies. Herbert will elaborate on our guidance, where we started with a more cautious view into the year 2023 while this environment remains challenging. However, we will not take our eyes off OPEX.

Over to page 14 which illustrates our strong capital position. At the end of the year 2022, our capital ratio, and this is including profit and deducting the proposed dividend, amounted to a strong 20% fully-loaded – and all of it in CET1.

As Herbert pointed out already, we executed the reclassification of the treasury portfolio in our EU entities with the third quarter results, to reflect our new treasury strategy, following the opinion we obtained from our group auditor.

We also disclosed that we started a pre-clearance process with the Financial Market Authority or the FMA, as already mentioned by Herbert, and received negative feedback in January 2023. This means, the investment securities bought before the approval of the new treasury strategy must continue to be classified in Hold-to-Collect-and-Sell and, therefore, measured at fair value.

Therefore, you see the reversal in the fourth quarter on that page. Without this reversal, the CET1 ratio would have been even higher at 22.2% on a transitional basis and 21.8% fully-loaded. Now, Addiko does not expect operative impacts and expects that the accumulated negative OCI related to these instruments will reverse until maturity. And that is given to the high credit quality of the issuers, predominantly CESEE governments.

Now to RWAs which is a continuous focus in terms of optimisation and where we managed to further reduce during the fourth quarter. This is mainly from the reduction in non-focus on top of the developments we discussed earlier in our quarterly calls.

So, to summarise, a strong capital position with substantial buffers while these ratios do already include the profit for the year and the proposed dividend, as pointed out before.

Last but not least to page 15 which provides an overview on developments in the regulatory environment. On this new page, we present the current status on capital requirements and guidance. This is in response to the new macroprudential buffers that are being introduced across our markets and in Austria.

What you can see on the left side of the slide is the impact of the local Countercyclical Buffers in Slovenia and Croatia, which partially filter through on capital requirements for the Group. And in addition to that, a Systemic Risk Buffer in Austria. The chart also illustrates the composition in terms of the capital stack.

Now, the Austrian regulator has prescribed such a Systemic Risk Buffer to Addiko Group, but not to Addiko Bank AG or the issuer, based on Addiko's and the Austrian banking sector's concentration risk to CESEE. Since we do not believe this should apply to a bank of our size, we have, as Herbert pointed out before, submitted an appeal against this decision to the Federal Administrative Court.

So, overall quite some development in terms of combined buffer requirements triggered by these recent macroprudential decisions.

Briefly on SREP valid for the year 2023 where we have no changes to our disclosure from the third quarter last year. Our P2G increased to 3.25% on the back of the results of the Comprehensive Assessment Stress Test, as disclosed earlier. Our P2R remained unchanged at 3.25%.

To conclude, the current capitalisation continues to be strong and allows us to execute our plans. Out of prudency and until we see some normalisation of the regulatory environment, we have reflected these elevated requirements in our outlook for the year 2023 and also in the update of our Mid-Term Targets.

Let me now hand over to Tadej to share the good news on asset quality and risk metrics.

Tadej Krašovec

Thank you, Edgar, and good afternoon everyone. Now to the credit risk part starting on page 16.

The year 2022 was very successful from the perspective of keeping the credit portfolio strong in terms of quality, which reflected also in benign risk provisions and significant reduction of the NPE portfolio.

Our focus was on advanced and close monitoring of the portfolio development while prudently and sensibly tightening the risk criteria and on managing problematic exposures. As I said on the last call, we took additional measures in the fourth quarter to further reduce NPEs. And as we can see on the left-hand side of the slide, the reduction was successful ending in an NPE ratio of just 3.3% according to the EBA definition. That represents a 16% decrease year-over-year and means that we ended the year with only €163 million of NPEs.

With our intensive management of problematic loans, we have overachieved our expectations from the beginning of the year. The NPE decrease was driven by the full collection toolbox. This includes increased repayments, debt settlements, upgrades of successfully restructured clients - so-called cures - and a few successful portfolio sales and internal write-offs of the exposures where any further repayments are unlikely.

I would like to revert your focus to the right-hand side of the chart. Here, I would add that a lower NPE ratio was achieved, even though we took a conservative and prudent stance and migrated more SME clients to non-performing in the last quarter of 2022 compared to the previous quarters. This is €12.7 million respectively.

Overall, our asset quality remains at a high level, which we are managing also through tighter risk criteria implemented during the year. The last tightening was done in the fourth quarter, as already mentioned before. For more information on asset quality, I would refer you to slide 51 of this presentation.

I continue on slide 17. Credit loss expenses in 2022 came in at €15.4 million resulting in a cost of risk of 0.47 on a net loan basis.

While Consumer and SME were naturally the source of credit loss expenses, the non-focus portfolio remained a source of provision releases with positive cost of risk of 1.04%.

The higher provisions in the SME segment are not only the result of the macroeconomic deterioration but also reflect our prudent approach of migrating some borderline clients into NPE, as I have mentioned before. Altogether that led to a cost of risk of 1.05% for the SME segment.

The Consumer segment ended with a lower cost of risk of 0.59%, also driven by IFRS 9 model adjustments.

It is important to point out that the provisions also include post-model adjustments, so-called PMA, of €11.7 million to reflect uncertainties and high volatility in the macroeconomic environment. Altogether, with the PMA recognised already in 2021, the level of post-model adjustments as of year-end 2022 stands at €20.7 million.

We believe that such level represents a prudent approach and positions us well in the uncertain economic environment. I can conclude that our 2022 risk results were better than expected. They were achieved by thorough and advanced portfolio monitoring and risk management that supported business development, in which we will continue also in 2023.

With that, I conclude and I hand back to Herbert for the wrap-up.

Herbert Juranek

Thank you, Tadej.

Let's have a look how we want to continue for the next 18 months. In order to further drive value generation, we have designed the Acceleration Program with three main pillars.

Number one is related to the exploitation of the business potential within our current geography. We see additional revenue and profit pools in the scope of our strategy, which we want to tap. At the same time, we will use 2023 to verify and to test potential expansion of our business model into other markets. It is worthwhile to mention that we did not include any revenues of such an expansion into our financial plan.

The second pillar is about operational excellency and enhancing our digital capabilities. We will make our business processes end-to-end digital as far as legally possible. Those further improved digital capabilities should give us also potential for additional cost reductions.

And the third area deals with the objective to become best-in-class in risk management. We are convinced that our goal to become the best specialist bank for Consumers and SMEs in Southeast Europe is only achievable if we become superior on the risk side. This includes also continued focus on effective NPE management.

We will give you more insights to this program in our next earnings call when we will present the first quarter results in May.

As we entered into the new year, we revised the validity of our Mid-Term Targets and made the following adjustments:

Based on the accelerated run-down of our non-focus portfolio and due to higher profitability, our focus portfolio shall reach more than 95% of our gross performing loans in the mid-term. Consequently, due to the accelerated shift into focus and respectively, higher portfolio yields, we also target a net interest margin of more than 3.8% in average.

As we will further improve our risk capabilities, we plan to get through the cycle with a lower cost of risk. Instead of 1.4%, we will project 1.2% cost of risk over net loans.

Our cost income ratio goal of 50% in the mid-term stays intact.

Due to the recent changes on our capital requirements, we adjusted our objectives. Instead of the Return on average Tangible Equity at a 14.1% CET1 ratio, we set the target on the Return on average Tangible Equity to be in the mid-term above 10% and the targeted Total Capital Ratio is increased from 16.1% to 18.6%, as Edgar already explained.

We, the Management Board of Addiko, are fully committed to deliver these achievements of targets in the mid-term.

Now, finally, the wrap-up and our guidance for 2023. We expect gross performing loans to be approximately €3.5 billion at the end of this year based on an intended double-digit growth rate in focus business.

We aim for a 10% increase in Net Banking Income, which should be positively impacted by the rising interest rate curve despite increasing funding costs and the further run-down of our non-focus business.

We want to keep our Operating Expenses below €179 million despite negative pressure coming from inflation.

Our Total Capital Ratio shall continue to be above 18.6% on a fully-loaded basis and the sum of other result and credit loss expenses on financial assets should end up around 1.2% on average net loans and advances to customers.

We reconfirm our original guidance on an annual dividend pay-out of 60% of our net profit.

Concerning the macroeconomic environment, we believe that the high level of market volatility will continue to stay as the Russian-Ukrainian war seems to go on for the foreseeable future. As a consequence, we might be confronted with ongoing negative impacts to the local economies of our region. However, we will stay vigilant and proactively fine-tune our risk management systems to find the optimum balance between business development and a prudent risk approach in order to reach sustainable business growth.

We, the management team of Addiko, are positive on our business model, as well as on our opportunities in the given environment.

	We continue to work with full ambition to further improve the bank to create value for our clients and for our shareholders. With that, I would like to conclude the presentation. I would like to thank you for the attention. We are now ready for questions. Operator, back to you.
Operator (Q&A)	Ladies and gentlemen, at this time we will begin the question-and-answer session. Anyone who wishes to ask a question may press star followed by the one on their touchtone telephone. If you wish to remove yourself from the question queue, you may press star followed by two. If you're using speaker equipment today, please lift the handset before making your selections. Anyone who has a question may press star, followed by one at this time. One moment for the first question, please. The first question is from the line of Mladen Dodig with Erste Bank. Your question, please.
Mladen Dodig	Good afternoon, gentlemen. Thank you for the call, and big congratulations on the very nice developments on all business lines, I would say. I have a couple of questions, so I hope I won't be bothering you too much. So, regarding the dividend, which you announced. As I understood, there are no obstacles from the regulator regarding this announcement. Right? And how is this perceived in the future?
Herbert Juranek	Well, thank you for the question, Mladen. Your second part first. For the future, as we said, we continue with our guidance of 60% of net profit. And for the current proposal, we started the dialogue at the end of last year until recently and we discussed it with the regulator. To be honest, the regulator wanted us to pay out a lower part. But we were able to explain to them our view and that we want to stick to our guidance, number one. And number two, we also feel obliged vis-à-vis our shareholders because of this law last year in Slovenia, we made the promise that if the law will go away, that we will stick to our word and pay the dividend for 2021. So, that's also a kind of obligation from our side. And we also explained the regulator that it is necessary for a company like us to keep the trust level vis-à-vis our owners and vis-à-vis the investors. And we believe that the regulator understood that view. Also, in the context of the future situation of the bank, nobody knows when we need other forms of capital, maybe on local level. So, also in this context, trust is very important and that we keep our word of what we've promised.
Mladen Dodig	Thank you very much. And since you mentioned the new additions to the capital requirements, just for clarification, so 2022 end was

	15.75%, including Pillar 2 Guidance and this now becomes almost 18%, right? For 2023?
Edgar Flaggl	Correct. So, if you take Pillar 2 Guidance, 1.25% higher, all in CET1, no changes in the P2R, as we discussed before. And on top of that, when you go until year end, you also need to reflect what's going to come into force on 1 January 2024. And this is the full Systemic Risk Buffer in Austria, 50 basis points, so that goes one on one in the Group capital requirements. And when it comes to the Countercyclical Buffers in Slovenia and Croatia, they filter through partially into the Group capital requirements. We tried to put it on page 15 with all the details, nuts and bolts, also with the table on the right-hand side.
Mladen Dodig	So, it's all calculated, I get some 17.94%.
Edgar Flaggl	Exactly.
Mladen Dodig	And do you expect that this appeal, you made it for the systemic concentration risk, could that be, how should I say, revised from the regulator? Do you think that that might go off at some point in time, or they will remain rigid?
Edgar Flaggl	Look, I think that answer, we will provide you once we know.
Mladen Dodig	Okay. Regarding the variability of arrangements, I noted that, for example, from the last year 54% of gross performing loans were fixed arrangements. And now, if I'm not mistaken, in slide 41 It's 64% for gross performing loans. So, I would say that you are, of course, doing repricing, as you also said. But do you expect that this ratio will continue to go in favour of fixed arrangements or with these new strategies you are making and new services, digital variable pricing? Do you think that that might change, or do you like this 64/29% ratio?
Edgar Flaggl	Ok, thanks, Mladen. This is Edgar speaking. Maybe I should start from the finance perspective, and then Ganesh chimes in from the business perspective.
Mladen Dodig	I see the sensitivity analysis, for example, when do you expect a rate and, in effect, peaks? Sorry for interrupting.

Edgar Flaggl	Ok, no worries. So, I'll start with the first one, then Ganesh chimes in, and then I will answer the second question. So, on the fixed versus variable, our clear view is that we want to put more share in terms of variable loans in. And Ganesh will explain a bit later why. Also on the long-term and mid-term perspective. Now, we have not moved much as such, but also, if you remember our last calls in the half-year and the third quarter financials last year, we just implemented all the technical requirements, so that we can actually offer those loans and finish that during the second half for most countries, and in the fourth quarter for the remaining countries. So, overall, of course, we also repriced new fixed loans, meaning to a higher price, as such, reflecting the interest environment. Maybe, Ganesh, if you want to chime in on the market perspective?
Ganesh Krishnamoorthi	Yes, definitely, Edgar. Thank you. Thank you for the question, Mladen. So, generally, we have a very fixed interest rate market but we are introducing variable given the inflation situation that we are facing overall. We are trying to tell the customers that we can be flexible with the pricing overall. When the rates can go down, it could be actually an advantage for the customers to switch from fixed to variable. But we will report to you quarterly how this strategy will perform in the future.
Mladen Dodig	Thank you very much for this. And last one, I think it was last year. Sorry.
Edgar Flaggl	Just a second, let me just answer the second question you dropped in before. So, what do we expect in terms of rate hikes? That was the question.
Mladen Dodig	Yes. The rate peak and effect on the income line?
Edgar Flaggl	So, what we reflect in our plan and you also see part of this distilled on page 41 in terms of impact or sensitivity on NII and NIM, we have, I would say, a cautious view on the potential impact also on the funding cost side, even though we don't see much of it now. Now, when you look at rate hikes, what we can currently expect is most likely a 50 basis points hike in March and I guess another one of those in May. What I can tell you for sure is we have not planned in an environment where we would be negatively surprised in terms of rate hikes.

Mladen Dodig	Okay. I think this connects to this, while talking on the Acceleration Program in preparation for market expanse. If I'm not mistaken, Mr Juranek said that these potential numbers are not calculated in your plan, right?
Herbert Juranek	Yes. So, currently, this year is more about finding out and clarifying, and starting a project to see how and what we can do. So, we included the costs into our plan but we didn't include any revenues on that. We would only do that then, our expectation would be that this year, nothing material will happen. Also, if we want to expand, we also would need to clarify it with the regulator. All of these formal things would happen this year and then we would integrate it going further for 2024, when we know how and what to do.
Mladen Dodig	Thank you very much. And a final one. So, in October last year, there was a new local in Serbia that EBRD awarded 40 million credit line to your bank, to your Serbian subsidiary, for SME support. Were there any similar events in other countries, and do you expect more of this, since obviously EBRD lays hopes in you as a SME specialist?
Edgar Flaggl	So, in short, nothing noteworthy. We might top it up in Serbia or not, I mean this is something which we are still discussing. And that's pretty much it.
Mladen Dodig	Ok.
Edgar Flaggl	But we're not shying away from opportunities if they pop up and if they make sense, both strategically and financially, we, of course, are looking at that.
Mladen Dodig	Sure. Thank you very much. That was all from my side. Thank you.
Herbert Juranek	Thanks a lot, Mladen.
Operator	The next question is from the line of Hugo Cruz with KBW. Your question, please.
Hugo Cruz	Hi. Thank you for the time. I want to ask three questions, if I may. Buybacks, I'm not sure if you have already answered this, but can you give us some colour on your discussions with the regulator? So, the potential size of the buyback, timing for approval or any catalysts that you're waiting for to have clarity on the timing? That would be very helpful.

And then the second question is around volumes. I've seen that volumes on the consumer side started to decline at the end of the year. I wonder if – now that's been offset by strong volumes in SMEs - but I wonder how much of the that strong volume in SMEs is clients wanting to lock in funding before rates go up or a reaction to inflation, needing to have higher working capital funds.

So, my question is really how confident are you that you can deliver on your volume growth targets for 2023? And also, what does that mean in terms of the business mix 2023 versus 2022? How different are the margins between consumer and SME? So, therefore, how should we see the margin changing for those two products?

And then my third question is really about the OCI. I understood you said that the impact of OCI, you do expect that to reverse until maturity due to the good quality of the bond portfolio, But what's the maturity of the portfolio? When can we see that reverse exactly. That's it, thank you.

Herbert Juranek

Thank you, Hugo, for the question. Maybe I will start with the buyback. As I said, during my presentation, we started with that after we announced it in our third quarter earnings call. It's now with the regulator and we expect it soon, but we don't know at the end of the day, it's in their hands. And as soon as we know about it, we would disclose it. You want to handle the other question?

Ganesh Krishnamoorthi

Yes, thank you for the question, Hugo, it's Ganesh. On the volume side, you need to understand on the Q4, the first thing we adapted in our business model is we increased the price. And we are actually priced way above the competition, so that's one element we did.

Second, we also, as I mentioned, Tadej and the team have further tightened the risk criteria, underwriting criteria, and that had an impact also on the growth side, and we wanted to do it prudently, as we wanted to. And third, there was also demand issues in Q4 after the whole inflation pressure really kicked in there and Q4 had an impact overall. That is why you're seeing this impact.

However, as I mentioned in the call, we have certain USPs, which will be launched in the first quarter and second quarter, which doesn't exist in the market, which will help us on the growth. But we would still like to keep the price premium and we hope the competition is going to also follow us in this element, and then we will have a more level playing field overall on the demand side.

So, that's our strategy, and I can tell you that we will deliver on the volume growth going forward.

Edgar Flaggl

Alright. This is Edgar speaking, Hugo, on your question regarding the OCI reserves or negative accumulated OCI reserves. So, if you hold this bond until maturity under the assumption that the issuers don't default, which we certainly don't assume based on the high

	credit quality of these predominantly CESEE governments, then you can expect that within the years 2025/ 2026 most of that should be in pull-to-par.
Hugo Cruz	Ok. So, just to be clear, the pull to par effect is gradual, it’s not just at the end of it, right? So, gradual pull to par with maturities in 2025 and 2026?
Edgar Flaggl	Yes, exactly. It's gradual, but those governments that have been affected most, as usual, are emerging market governments, frontier governments, where in times of volatility, there is a larger divestment taking place. Now, this doesn't change anything on the credit quality of these governments, point one. And point two, depending on the maturity of the related bonds behind the big number that you see, as such, most of these are maturing until 2025/ 2026.
Hugo Cruz	Ok. Thank you very much. Very helpful.
Edgar Flaggl	You're welcome.
Herbert Juranek	Thank you, Hugo. Are there further questions?
Operator	There are no further questions on the telephone, so I will hand back to Constantin Gussich.
Constantin Gussich	Thank you, operator. I do not have any questions on the webcast today. Back to you.
Hebert Juranek	So, in this case, I would really like to thank you for your attention. And we will continue our work, and we will see us, hopefully, or you will hear us next time on the AGM. So, thanks a lot for popping by. Thank you.
Ganesh Krishnamoorthi	Thank you very much.
Tadej Krašovec	Thank you.
Edgar Flaggl	Thank you.