Addiko Bank

Addiko Group 3Q24 Results: Webcast Transcription

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Herbert Juranek

Good afternoon, Ladies and Gentlemen. I would like to welcome you to the presentation of the results of the third quarter 2024 of Addiko Bank together with my colleagues, Ganesh, Edgar, Tadej and Constantin.

Let me show you the today's agenda. In the beginning, I will present to you the highlights of our results and give you an update of the recent events. Ganesh will continue with our achievements on the business side. After that, Edgar will give you more insights on our financial performance and Tadej will inform you about the situation in the risk area.

Finally, I will do a quick wrap-up and show you the current outlook for the remaining year 2024 before we move on to Q&A.

So, let’s start with a positive note. We are glad to announce a 25% year-on-year improvement on our net profit from €30.1 million to €37.7 million in the third quarter 2024. This leads to a €1.95 earnings per share by end of September. The Return on average Tangible Equity went up from 5.5% at the end of the third quarter 2023 to 6.4% this year.

Our operating result improved by 7% year-on-year to €83.5 million, influenced by inflationary impacts on the expense side as well as extraordinary costs related to recent shareholder activities. Without these one-off costs, the operating result would have increased by 11%. The positive business development in the Consumer segment continued during the third quarter of the year while the SME loan growth was muted in this period, driven by market factors.

This is also one of the reasons why we will review our mid-term targets. I will come back to that point later on.

The net interest income increased by 8.5% year-on-year, despite higher funding costs, and our net commission income grew by 6.6% year-on-year based on good sales performance.

Now, let's get to the risk side. The cost of risk ended up at €25 million or 71 basis points. The NPE volume was kept stable at €141 million, with an NPE ratio of on-balance loans at 2.9% at the end of June.

Our NPE coverage ratio stands at a comfortable 80.8%. The funding situation remains strong with €5.1 billion deposits, a loan to deposit ratio of 69% and a liquidity coverage ratio of above 380%.

And, last but not least, our capital position is also very strong with a 21.1% fully-loaded CET1 ratio. Based on the SREP dialogue with the ECB, no changes are foreseen for the year 2025, neither on our P2R nor on our P2G.

Now let's briefly recap the developments on the shareholder side. Just to summarise the main events in the third quarter. The takeover offer of the Nova Ljubljanska banka failed because it did

not reach the minimum acceptance threshold of 75% of Addiko shareholding.

Furthermore, the offer of Agri Europe Cyprus was taken up by 12,853 shares. However, as Agri Europe Cyprus sold 11,000 shares on 28 August, they stayed below the 10% threshold with their shareholding. So, altogether, both offers were not successful.

In this context, we also have to mention Alta Pay Group who acquired 9.63% of Addiko shareholding and entered into a conditional share purchase agreement for an additional 19.69% of Addiko shareholding.

On 13 August the ECB has informed Addiko that the ECB is determined to block the voting rights of the 9.63% of Addiko shares held by Alta Pay Group together with the 9.99% of Addiko shares held by Diplomat Pay.

The reason for suspending the voting rights, according to the ECB, is that the parties are acting in concert in acquiring a qualified holding amounting to a total of 19.62% of Addiko shares in Addiko Bank AG and failed to notify this to the FMA, as required to the Article 20 Point 1 of the Austrian Law on Banking.

Additionally, the ECB has added that in case either of the two parties mentioned or any other party acting in concert with them, acquires further shares in Addiko Bank AG without prior notification under Article 20 Point 1 of the Austrian Law on Banking, the suspension of voting rights by operation of law would also be extended to these shares.

Since then, Alta Pay did not reveal to the Management Board of Addiko their intention about their shareholding and the conditional share purchase agreements going forward. I have to state that we were quite occupied with work arising from the shareholder situation and that we do our best to act in line with rules and regulations, having in mind the interest of all our shareholders.

The currently unpredictable situation concerning ownership structure also led to negative impacts on our business and on the motivation of our key staff, which we have to manage in the best interest of the bank. Altogether, the shareholder activities and takeover offers produced extraordinary expenses amounting to €3 million, which are already reflected in our figures.

Now, let's look at the status of the Acceleration Program. This program is helping us a lot to improve the bank. Let me give you more background of the achievements in the first nine months. I will start with business.

Based on our initiatives, we were able to increase the disbursements via our partnerships by 21% year-on-year. Together with the measures set in the other sales channels, we achieved a strong 22% overall growth in Consumer lending in the first nine months compared to last year.

Moreover, we launched a series of new products in the SME segment: auto-overdraft, a credit card relaunch, bancassurance and refinancing products. However, so far, despite all these new offerings, we were not able to overcome the muted demand on the SME market but we will continue working on it.

In the fourth quarter we will launch the Romanian business for friends and family, and we will further improve our mobile banking applications.

Now let's come to the improvements in the Operational Excellence & Digital cluster. We are renewing and optimising our KYC processes to further speed up the onboarding time, get more efficient and improve customer convenience. The exercise is already completed in three banks, and another one is going to follow in the fourth quarter.

In addition, automation and optimisation based on the Kaizen methodology are also ongoing in many other operation areas. Furthermore, we will complete one of our main projects in the fourth quarter, and consequently get end-to-end digital consumer lending processes without manual interventions in three countries.

The completion of this exercise shall give us the opportunity to increase efficiency and to improve our response time with customers significantly.

The initiatives in the third chapter to improve our risk management capabilities also made good progress in the third quarter. Based on our new risk reporting platform, we revised our underwriting manuals to further enhance efficiency. And, moreover, with our latest improvements in our risk management processes, we are reaching a 90% automatic decision level in the Consumer business. Our NPEs are successfully contained at a low NPE ratio of 2.9%, and our ESG actions are executed according to the plan. We will continue with further optimisations of our platform, processes and decision-making engine to strive for excellence with our risk management capabilities.

So, in summary, we believe that the Acceleration Program will bring us closer to the ambition to be the best specialist bank for Consumers and SMEs in Southeast Europe.

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

Ganesh Krishnamoorthi

Thank you, Herbert. Good afternoon, everyone. Moving to page six. This year has been a remarkable year for consumer lending so far. The market is growing rapidly, and we have outperformed it with a 22% year-over-year increase in new business generation. As a result, our Consumer loan book has grown by 11%, with an impressive new business yield of 8%.

On the SME side, demand has been more restrained. We have taken a selective approach in certain markets and industries,

concentrating on high-quality, smaller-ticket business with better yield premiums. This strategic focus has given us a yield of 6% and a 3% loan book growth in the Micro and Small segments. We also scaled back our Medium business segment by 20% intentionally to minimise concentration risks.

Overall, our Focus loan book grew by 5% year-over-year, or 8% when excluding the Medium SME segment, with a total blended yield of 6.7%, up from 6.2% last year. This Focus book now represents 89% of our total loan portfolio.

Please turn to page seven for a detailed outlook. Diving deep into the Consumer segment, our strong growth can be attributed to several key factors.

Number one, excellent market demand.

Number two, expanded partnership with point-of-sale lending. Our reach now includes 562 partnerships across 1,100 locations. Additionally, a new partnership launched in Bosnia and Herzegovina and a planned launch in Croatia are set to boost growth further in the coming quarters.

Number three, improved cross-selling. Enhanced cross-selling efforts have boosted revenue by directing new customers acquired via partnerships to high value consumer loans.

Number four, digital expansion. Launching branchless digital lending in three key markets this year has led to incremental growth, which we will further extend to other markets.

Number five, focus on non-lending products. The product features improvements in cards, bancassurance and accounts & packages have resulted in an increase in 9% year-over-year in net commission income.

Last but not the least, innovative products. Introducing ID-only loans in Bosnia and Herzegovina has driven growth with subsequent upselling.

Overall, we have consistently focused on driving growth by targeting digital-savvy customers in point-of-sale segments with lower tickets high-priced loans and, as a result, we are seeing strong performance in Consumer business with 22% year-over-year.

Now, over to SME, our core business model remains the same, to be the fast unsecured lending provider of low-ticket loans to underserved Micro and Small segments through our digital agents platform. However, we are addressing a few challenges that we are facing.

Number one, the market demand has continued to shrink in these segments in all key countries, at least within our risk appetite.

Number two, competition is dropping prices quickly to bring back demand.

Number three, we are also seeing clients paying back loans earlier due to high fixed prices in last years.

Number four, some of the subsegments within agriculture and other industries are going through downturns in Serbia.

Number five, existing clients need additional financing to further grow their businesses which, in turn, increases their exposure and currently we are not financing them. To address this, we are doing the following:

Number one, we launched a turnaround plan with our Serbian team, headed by our new CEO of our Serbian entity.

Number two, we are adjusting prices to retain and win back market share, especially from refinancing competitors' loans.

Number three, we are working on solutions to go after underserved new segments, like single bookers.

Number four, we also focus on offering partially secured and unsecured loans with slightly higher ticket size to existing and selectively new customers. We believe this will help us to maintain our existing customer relationship while balancing demand and risk.

Number five, exploring new partnerships to enable merchants to finance purchases through Addiko.

Lastly, we aim to improve our core competence by reducing time-to-cash and increasing our online presence through simplified user experience. We also plan to grow our customer base with new products such as auto-overdraft and insurance products, enriching our SME ecosystems and revenue streams.

Overall, we believe these additional measures and focus will help us to get back to the growth in our SME business in next quarters and catch up on the largest gap we see in Serbia.

Going forward, in the last quarter of the year, our main focus will be enhancing our engagement with the new mobile applications in both segments. These mobile applications will introduce a new way of engaging customers without the need for a current account in Addiko.

Lastly, we are excited about our upcoming launch of our Consumer proposition in Romania towards the end of this year. This will bring our digital end-to-end engine to a new geographical footprint, thereby giving us access to a larger market and allowing us to scale our business model to further drive growth.

To summarise, we are well positioned to deliver strong, sustainable growth in the future as well as we continue to innovate and solidify our specialist position in Consumer and SME space.

With that, please let me hand over to Edgar.

Edgar Flaggl

Many thanks, Ganesh and hi, everybody. We are on page nine and the composition of our result for the first nine months of 2024. Starting on the left side of the page with net interest income, which continued to remain strong and improved by 8.5% year-over-year, despite deposit funding costs being up almost 52% compared to the previous year, as we had already expected.

Compared to the second quarter, NII improved slightly by 0.4%, already impacted by two ECB rate cuts, putting some pressure on NIM, which stood slightly north of 390 basis points year-to-date. There are several drivers for this development:

First, while we reached 89% of our book in Focus loans, volume growth has been below expectations overall. This was driven by continued muted demand by SMEs, mostly in Serbia, while on the Consumer segment we have continued to see outperformance.

Overall, the resulting loan book growth is just north of 1% year-over-year, with 5% year-over-year growth in Focus, or 4% year to date.

Second, market pricing for new loans by incumbents in our markets, which never kept pace with ECB rate hikes, has quickly started to decline again after the first rate cuts coming in, adding pressure on the top line.

Still, our main revenue driver, the interest income, improved by 15.7% year-over-year, with our focus segments recording an increase of 17.2% year-over-year, and that on the back of continued execution of our strategy to balance growth with premium pricing and the contribution from Treasury and liquidity management.

A few words on interest expenses, which are broadly in line with our expectations. With 130 basis points cost of funds during the third quarter, we already see a slow downward trend versus the previous quarter.

Over to the net commission income, which continued on a good trend, showing an increase of 6.6% year-over-year. The best drivers here were accounts & packages and bancassurance, both with a double-digit year-over-year increase.

However, we see some regulators in our markets curbing fee increases or fees in general, weighing in on the NCI momentum.

Nevertheless, we recorded a further improvement of net banking income, with an increase of 8.1% year-over-year.

Now to the other income, which comprises the net result on financial instruments and the other operating result. The year-over-year development can be called relatively stable and is in line with normal course of business.

Bank levies as well as the newly introduced special banking tax in Slovenia, so €2.1 million year-to-date, are reflected here as well, which is the main negative change year-over-year. This is also the

position where we are expecting some restructuring provisions in Q4.

Next to general administrative expenses, in short OPEX, which increased by 8.5% year-over-year. This increase is influenced by unforeseen, already reported one-off costs related to the takeover offers of €3 million while we managed to contain higher inflationary increases.

Without that, we would have landed at an OPEX increase slightly better than our plan at year-over-year 6.2%. Our resulting cost income ratio stood at 60.8% for the first nine months, and adjusted for the one-off costs at 59.5% year-to-date.

To sum up, the operating result, which is a good measure of our operational earnings power, was up 7% year-over-year, or even 11% when excluding these one-off costs, as Herbert pointed out.

The next item is the other result, which includes costs for legal claims as well as for operational banking risks. As you can see, after the benign first half, we have allocated some additional provisions for new legal claims in Slovenia, while also changing to a more cautious provisioning approach for the remaining cases in Serbia. During the fourth quarter, we will run our usual back-testing once again. In addition, we will have to record a roughly €1.1 million modification loss in Q4 from a renewed and further extended rate cap regulation for loans in Serbia that is coming into force.

Now, credit loss expenses are still relatively benign and also influenced by model-related bookings during Q3. Tadej will provide more insights in a moment.

To conclude, we still have ongoing momentum in the top line despite muted SME growth, and our cost containment together with prudent risk management, enabled us to achieve a net profit of €37.7 million.

This is an improvement of 25% year-over-year and corresponds to a 6.4% annualised Return on average Tangible Equity. And that without adjusting for the mentioned one-off costs. Adjusted for the one-off costs, our net profit would actually be up 35% year-over-year.

Briefly over to page ten, which illustrates our very comfortable and further strengthened capital position. At the end of the first nine months of the year 2024, our capital ratio landed at a strong 21.1% fully-loaded, and all of that in CET1. And that is excluding interim profit and accrued dividends.

The development in RWAs during the third quarter was a reduction related to sovereign bonds of non-Euro EU countries due to a change in CRR that came into force during the third quarter.

Last but not least, as Herbert pointed out already, we expect no changes in P2R and P2G for 2025, which results in the capital stack we have printed on page 45 of this deck.

And with that, let me hand over to Tadej.

Tadej Krašovec

Thank you and good afternoon to everyone. We go to slide 11. In the first three quarters of 2024, our overall portfolio quality remains good. However, as previously elaborated, we also continue to deal with specific credit risk quality topics, where some segments are not developing according to expectations. This I would like to shortly summarise as follows.

In total, the portfolio behaviour is very close to our expectations. However, there are segments in some countries where we operate that are currently behaving worse than our expectations. In Slovenia, we have deviations in the Consumer segment, which are driven by new channels and new subsegment tests that we conducted during the year.

In the SME segment, we observed some impact of the slowdown of the German economy, specifically on individual clients that are closely tied to automotive industry. In Serbia, the Consumer segment illustrates a very good risk development trend after we have tightened our risk criteria approximately a year ago.

On the other hand, in the SME segment, we see some challenges. They are related to a few larger defaults in the agricultural industry and worse than expected behaviour of the Micro segment. These movements are putting some pressure on NPE inflow and loan loss provisions but are currently being compensated by better development in the other segments in Addiko countries.

However, in taking a cautionary stance, the remainder of the year could still be impacted by some unfavourable developments.

To continue with the information on the slide, as you can see on the left-hand side, the level of the NPE portfolio slightly increased as of third quarter. This was also driven by the previously explained factors, however, and still NPE portfolio volume is better than our plans for this period.

Higher NPE volume in conjunction with a lower loan book volume, as mentioned before, results in an NPE ratio of 2.9%, measured on an on-balance loans basis. At the same time, even though we have proactive stance on portfolio sales and write-offs, we have kept the NPE coverage at a comfortable level of almost 81%.

In that respect, we are keeping our prudent approach regarding credit provisions. In the third quarter, €21.6 million exposure entered NPE, as we can see on the right-hand side chart, this is a very similar level as in the previous quarter. As of the end of the first nine months, we have overall recorded a slight net NPE increase of €2.7 million.

Let's now move on to the next slide.

Credit loss expenses in the first nine months of 2024 amounted to €25 million. This, as said already before, resulted in a cost of risk

of 0.71%, a performance better than anticipated but with variations across our countries.

As usual, provisions were released in the Non-Focus segment, resulting in a positive cost of risk of 1.18%, and allocated in the Focus segment with negative cost of risk of approximately 0.9% to 1%.

To conclude, from the risk behaviour and the risk quality perspective, we are solidly on track. We see negative deviation in the SME portfolio in Serbia, as explained before, and in the sub-portfolios within Consumer in Slovenia.

One important focus will continue to be on the agricultural industry and Micro clients in Serbia, where I expect that the introduced risk limitations and individual case management will gradually lead to improved risk profile.

With that I hand back to Herbert.

Herbert Juranek

Thank you, Tadej. Let's move on to the Outlook. On this page we have depicted the Outlook figures for 2024 as presented in our half-year earnings call. As already mentioned, our Consumer business remained very strong in Q3, and we are confident to continue this development going forward.

On the SME side, we expect that the headwind will persist for some time, hence we will be active in being innovative and improving our product offering to counterbalance this situation and to foster growth. Nonetheless, due to the circumstances, we might be confronted with an impact on our mid-term loan growth target of more than 6% of our gross performing loans. We will look into that and give you an update in our next earnings call.

Coming back to the measures which will be set to ignite the SME business growth, I want to note that they will not change our prudent risk approach. We will keep our currently defined risk appetite as a priority. We see the upcoming macroeconomic environment in our region quite positive, especially compared to the rest of Europe. This should give us a bit of support for our efforts.

Nevertheless, as the interest rate environment is now forecasted to drop below the rates on which we based our assumptions for the mid-term targets on, we need to review them during the fourth quarter.

However, despite all circumstances, we, the Management Board of Addiko, are confident in our business model and in our team. We will do our best to overcome all given challenges and remain focused on leveraging our strengths, exploring new growth opportunities and continuing to deliver value to our shareholders, customers and employees.

	With that, I would like to conclude the presentation. Our year-end presentation is scheduled for 6 March 2025. I would like to thank you for your attention. We are now ready for your questions. Operator, back to you.
Operator (Q&A)	Thank you very much. We will now begin the question and answer session. Anyone who wishes to ask a question may press star one on their touchtone telephone. You will hear a tone to confirm that you've 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 when asking a question. Anyone with a question may press star one at this time. If you participate via the audio webcast, you can write questions via the Q&A function by pressing the question mark button. The first question comes from Mladen Dodig, Erste Bank. Please go ahead.
Mladen Dodig	Good afternoon, gentlemen. Can you hear me?
Herbert Juranek	Yes.
Mladen Dodig	Thanks for the call and congratulations on the results, which I would assume would be much better if the SME is working differently. So, that's where my first question would go. We have seen your strategy going into smaller tickets, so-called Micro SMEs, I don't know, could it have been maybe that you would go for some sort of expansion of this Micro and maybe looking for the bigger tickets. Would that be helpful in kind of restarting growth in this part of the portfolio? Although, of course, the demand is very, very challenging. Or you will stick with your strategy on smaller tickets?
Herbert Juranek	Thank you for the question, Mladen. I would start with a quick answer and would then hand over to Ganesh to give you a broader picture. So, the first answer is we don't change our strategy. So, we will stick to what we have defined. Nevertheless, currently, as we are also doing our plans for 2025 and the following years, we might extend a bit our current business model and enhance it in certain areas in order to get back on the growth track. But with that I would hand over to Ganesh.
Mladen Dodig	Thank you.
Ganesh Krishnamoorthi	Hi, Mladen, this is Ganesh. So, I think you know, first of all, as Herbert pointed out, no change in the strategy. We are also looking at some opportunities also to do some secured lending as well. But

currently, we are actually working on that. But we believe you know, really looking at the market, also adjusting the prices, our competition actually has much lower prices overall. So, we will also be looking at adjusting the prices to win back the market share.

But we would like to really focus on this unsecured lending in Micro segments what we have today, and also leverage partnership channel, like I told you, that we are also looking at merchants to finance some of the lending pieces there. And also fix Serbia. Serbia has been our core concern overall, as I mentioned in the call.

So, I think when we do all these topics here, we will be well back on track. So, I can confirm that.

Mladen Dodig

Thank you very much. You also, Ganesh, mentioned Romania end of this year starting. Does the mid-term targets include effects from this? I cannot remember correctly if the last set of mid-term targets included Romania in some more concrete quantitative level or not, or would the new set of mid-term targets will reflect effects from Romania, you would expect?

Ganesh Krishnamoorthi

Yes. So, Romania is part of the mid-term targets. But we are starting slow and then we will increase as we go, as we see. It's a new market for us but it's reflected. Edgar, do you want to...?

Edgar Flaggl

Sure. So, when you look at the mid-term targets that we published together with our 2023 results in March this year, and you look at the time horizon, you would not see much of Romania in the bottom line, so to speak, or in the ROE. Of course, in the income line, it would trickle through.

Now, we are reviewing the targets, as I said before. On the one hand, it's on the loan growth side where we are behind, to be very clear, this year, specifically SME and there specifically Serbia. But we also have a different rate curve, as we had all expected last year. So, we need to reflect this and once we are there, we will have a discussion on mid-term targets, as Herbert pointed out.

Mladen Dodig

Thank you. When you mention Serbia, so there is this upcoming law on limiting the interest rates in Consumer lending, in mortgages okay, that's a different thing for you but what do you expect from there? Would you agree that, I don't know, in the environment of declining rates this upper limit doesn't mean too much? Or will it limit the, let's say, earning power for you?

Edgar Flaggl

Look, Mladen, if you remember, last year during October the rate cap on certain mortgage loans was put in place for 15 months.

Mladen Dodig	Yes.
Edgar Flaggl	4.08%, if I remember correctly.
Mladen Dodig	Yes.
Edgar Flaggl	Now, fortunately, we have a very small mortgage book and we are not increasing it. We are actually reducing mortgage book as we run over time. So, our modification loss last year on this one was €1.3 million/€1.4 million.
Mladen Dodig	No, I'm aware of that on mortgages. But this new legislation that looks to limit interest rates, which is still just in public discussion, was finished.
Edgar Flaggl	Yes, I was alluding to that.
Mladen Dodig	Okay. Sorry.
Edgar Flaggl	No worries. So, now we have an extension of this rate cap universe, on the timeline and, in addition to that, on other loan products. So, on the Consumer loan, we don't expect that we feel it too much but, as I also said before, we will have to book another modification loss in the fourth quarter this time, expecting that actually this is finally coming through, which is also related to the mortgage rate cap that has been extended. Now, as I said before, we have a very small mortgage book but for the industry it would be quite a significant impact, I would expect. There is also discussions about other fee-related topics which, of course, we need to review and factor into our new targets.
Mladen Dodig	Thank you. And a final question from my side. Your CET1 ratio is strong, as expected. You spoke a couple of times or the questions were directed regarding the potential issuances of Tier-2 instruments. Where are you standing at this right now?
Edgar Flaggl	If you look at our ROE or our RoaTE and if you look at the costs for such instruments, and that also from a growth perspective, we are not considering that we would need additional capital. The only question would be, of course, capital optimisation in that sense. So, economically, currently this does not make a lot of sense, which means a short answer to your question is, this topic is in the drawer but further down in the drawer.

Mladen Dodig	Okay. Thank you very much for the time and answers. All the best.
Herbert Juranek	Thank you, Mladen.
Edgar Flaggl	Thank you, Mladen.
Operator	The next question comes from Ben Maher, KBW. Please go ahead.
Ben Maher	Hi. Thank you for taking my questions. I've got a couple. Just on the rates outlook, what assumptions are you using for the ECB rate next year? That would be helpful. And how do you see NII evolving in the fourth quarter if you don't get a pick-up in loan growth and you've got those rate cuts feeding further into the book? How do you see that evolving? And just a final one. You mentioned regulators curbing fee business in some geographies. Can you just explain what exactly you mean by that? Thank you.
Edgar Flaggl	Sure. I'll give you a few examples on the second leg of the question. So, when you look at fee business, and, Ganesh, feel free to chime in, you have certain geographies where simply specific fees that have been standard in the industries are cut. Be it ATM-related fees, for example, in Croatia, or fee increases to actually reflect the higher operational costs, be it from indexed IT costs, etc., or also wages are made much more complicated in terms of having to request from the regulator based on a lot of documentation to increase the fees. This is across several jurisdictions. There is also rumours here and there that some additional VAT might be introduced on card business, which we have seen in Bosnia last year which is quite unique in Europe, if my memory is correct. So, all these factors need to be taken into account. There could be more to come but these are the topics that we are aware of already, that we know of. Then, when it comes to the rate environment, I'm happy for IR to reach out to you what our current view is because you need to look at it from the perspective of several years. But in a nutshell, we are roughly 100 basis points below the previous rate outlook. And, as we also all know, this can change on a weekly basis, depending on what's happening in the world. What's happening with inflation which has been coming down quicker than many expected. We have seen more rate cuts than many of us expected

	at the beginning of the year. So, currently we are expecting roughly a 100 basis points difference. And our expectations what we used for the mid-term targets, they are actually printed in the 2023 earnings call deck. Constantin will drop you a note on which page.
Ben Maher	Okay, thank you very much.
Edgar Flaggl	You're welcome.
Herbert Juranek	Thank you.
Operator	Gentlemen, there are no more questions on the phone.
Constantin Gussich	Thank you, operator. Wolfgang Matejka from Matejka and Partner Asset Management sent a couple of questions. I will read them out and ask the Management Board to answer them. Do you still stick to your percentage payout ratio of 60%?
Herbert Juranek	I will take this question. The answer is no. As we announced earlier this year, we aligned with the view of the regulator and we informed you in a previous earnings call that we will change our payout ratio to around 50%. So, that's our current estimation on the payout ratio going forward.
Constantin Gussich	The next question: in mind of a sharp increase of the share price and the heavy increase in turnover, did you see any changes in your shareholder structure?
Herbert Juranek	Edgar, do you want to or shall I?
Edgar Flaggl	Yes, sure. Hi, Wolfgang, thanks for joining the call. No, look, the only thing we see in terms of changes of the shareholder structure is what the world sees as well, because this is based on the major holding notifications that we obtain, and then, of course, publish in line with the Austrian Stock Exchange Act. So, you would see the latest and greatest information that we have also on our website in the IR tab.
Constantin Gussich	And the last question, is the ongoing change in the interest curve, short down, long end slowly moving up again, a burden or a gain for you?

Edgar Flaggl	Hi, Wolfgang, this is Edgar again. So, I think, as explained before, the reduction in the rate environment has, as always, positive and negative parts. I'm starting with the negative one. Of course, specifically then if incumbent banks are taking this as an opportunity to reduce pricing on loans, it becomes much more difficult to keep the premium at levels that we like in terms of loan pricing. So, there is a negative impact in terms of interest rates that you can achieve. That's on the one hand. The second one is a bit of a potential knock-on impact that fixed rate customers with loans that were underwritten last year or two years ago might tend to refinance at a cheaper rate elsewhere. So, this needs to be tackled in order to reduce early repayments. And, when it comes to income from national bank deposits in the EU entities, so in our case Austria, Croatia and Slovenia, this kind of autopilot income is, of course, reduced if the deposit facility rate goes down with each rate cut. On a positive note, of course, there is less pressure in terms of further increases on the deposit side. If you look at the ceteris paribus perspective from a structure, I mean current A-vista / on-demand versus term deposits, so net-net we would expect that a lower deposit facility rate or a lower rate overall would have a negative impact. Ganesh, do you want to add something?
Ganesh Krishnamoorthi	Yes. Just on a positive note, I would add what Edgar mentioned, Wolfgang, is that also we would be looking at, today the markets are shrinking in SME, also anticipating the cuts, we would also think that that market relaxes a bit and starts growing back. Obviously, with the different interest rates, this is also a growth opportunity, both from refinancing, from the competition cases as well as also for us on the new business side, I'm sure SMEs would love to come back to the lending side. So, there's both, a positive and negative side, overall.
Constantin Gussich	And a follow-up question: did it change your funding costs?
Edgar Flaggl	Hi Wolfgang, Edgar speaking again. I guess with it you mean the rate changes. So, yes, we actually like all the banks I would say have seen significant increase in funding costs coming from the rates. Of course, there is always a time delay and the beta is relatively far away from one, except for online deposits that we have at the holding, because these are more price-sensitive, there you have a beta of 0.8/0.85. But with rates going down, meaning rate cuts coming in, also the market pricing in terms of deposits is going down. And we have seen in the fourth quarter, and I think I mentioned that also in the last

	quarter, that this is our expectation, that cost of funding has already started to slightly decrease. At the same time, we have set ourselves up to a more stable structure in terms of A-vista versus term deposits. And this is also one thing we are, of course, reviewing on a regular basis, also for the long-term perspective, what the right mix for us is, considering all the relevant elements.
Constantin Gussich	Thank you. This was the last question. Back to Herbert for closing remarks.
Herbert Juranek	Thank you very much. Thank you for the attention and for your participation in our call. Our next earnings call is on 6 March in 2025. And we wish you a good afternoon. Thank you very much.