EARNINGS CALL
TRANSCRIPTION

Q4 2022

13 February 2023 at 10:00 CET

SPEAKERS:
ANAS ABUZAAKOUK
ENVER SIRUCIC

BAWAG Group

Operator: Good day and thank you for standing by. Welcome to the BAWAG Group Preliminary Full Year 2022 Results Call. [Operator Instructions]

Please be advised that today's conference is being recorded. A transcript thereof will be published on the website.

I would now like to hand the conference over to your speaker today, Anas Abuzaakouk, CEO. Please go ahead.

Anas Abuzaakouk: Thank you, operator. Good morning, everyone. I hope everyone is keeping well. As usual, I'm joined this morning by Enver, our CFO. Let's start with a summary of full year 2022 results on Slide 3. For the full year 2022, and on an adjusted basis, which excludes the City of Linz write-off, we delivered net profit of € 509 million, earnings per share of € 5.81 and a return on tangible common equity of 18.6%.

The underlying operating performance of our business was very strong with pre-provision profits of € 849 million, up 14% versus prior year and a cost income ratio of 35.9%. Total risk costs were € 122 million, of which € 39 million were related to continuing to build up our management overlay provision.

The fourth quarter was strong with a net profit of € 132 million and a return on tangible common equity of 19.6%. Despite accounting for the unwind of the TLTRO hedge resulting in a net negative impact in other income of € 14 million and booking an incremental € 18 million to our management overlay provision.

We delivered on all our 2022 targets with profit before tax over € 675 million, return on tangible common equity greater than 17% and a cost-income ratio under 38%. We also distributed € 592 million of capital in the form of a € 267 million dividend and completed the € 325 million share buyback during 2022, reducing our share capital by 7%, which now stands at 82.5 million shares.

In terms of customer loan growth and capital, average customer loans were down 1% quarter-over-quarter and up 4% versus prior year. We generated 250 basis points of gross capital for the year. We ended the year with a CET1 ratio of 13.5%, net of the 2022 dividend accrual, an excess capital of € 261 million versus our CET1 target of 12.25%. With an additional management overlay provision of € 100 million, equal to almost 1 year of annualized risk costs.

We will be proposing a dividend of € 3.70 per share or € 305 million to the AGM on March 31. We are purposely maintaining dry powder for organic opportunities and potential M&A in the coming quarters while staying conservative given the overall uncertain macroeconomic environment.

If specific opportunities do not materialize, any potential buyback in 2023 will be under 100 basis points of CET1 as we remain prudent and conservative. Above all else, we aim to be good stewards of capital, making sure we are prudent in our capital distribution plans, maintain our fortress balance sheet and be ready to capitalize on unique opportunities to grow our franchise.

With the strong momentum on the back of a record year in 2022, we are setting the following targets for 2023, a profit before tax greater than € 825 million, a return on tangible common equity greater than 20% and a cost-income ratio under 34%. We are also targeting earnings per share of greater than € 7.50 per share and a dividend per share of greater than € 4.10, which excludes any potential buybacks. Therefore, we are accelerating and upgrading our 2025 financial targets, which we set during our Investor Day in 2021 to this year 2023.

Despite our strong record of performance over the past decade with an average return on tangible common equity of approximately 15%, we have underearned over this period defined by negative interest rates. We have an opportunity to deliver more normalized returns in the years ahead. Going forward, we are targeting a return on tangible common equity greater than 20% in a cost-income ratio under 34%. However, we should never confuse the benefits from a normalized interest rate environment with the daily execution of our strategy.

Our focus on managing costs and maintaining a conservative and disciplined risk appetite are more important than ever. The resilience of our franchise lies in our ability to consistently deliver results for our stakeholders across all cycles.

Moving to Slide 4, a recap of our full year results. We delivered a full year adjusted net profit of € 509 million and an EPS of € 5.81 per share, up 6% and 8% versus prior year, with a return on tangible common equity of 18.6%. Overall, strong operating performance across the board with operating income up 8% and operating expenses down 2% versus prior year.

Risk costs were € 122 million, up 28% versus prior year as we decided to book € 39 million of additional management overlay provisions. Tangible book value per share was € 32.78, down 6% versus prior year and up 4% versus prior quarter. This considers the full year 2022 dividend accrual of € 305 million.

On Slide 5, our capital development and distribution plans. At year-end 2022, our CET1 ratio was 13.5%, we generated 250 basis points of gross capital as we continue to consistently generate significant amounts of capital despite negative impacts to OCI from both credit spread widening and FX movements.

As of year-end 2022 and after deducting the full year dividend accrual of € 305 million or € 3.70 per share, we have excess capital of € 261 million versus our CET1 target ratio of 12.25%. The acquisition of Peak Bancorp or Idaho First Bank in the United States, which has received shareholder approval, but is still pending regulatory approval, will consume 25 to 30 basis points of CET1 capital.

We are purposely maintaining dry powder for organic opportunities and potential M&A in the coming quarters while staying conservative given the uncertain macro environment, any potential headwinds. If specific opportunities do not materialize, any potential buyback in 2023 will be under 100 basis points of CET1 capital as we remain prudent and conservative.

Moving to Slide 6. Our Retail & SME business delivered full year net profit of € 442 million, up 22% versus the prior year and generating a very strong return on tangible common equity, up 34% and a cost-income ratio of 33%. Average assets for the quarter were € 22.5 billion, up 7% versus prior year and flat versus prior quarter. Average customer deposits were € 27.8 billion, flat versus prior year and versus prior quarter.

Full year pre-provision profits were € 689 million, up 22% compared to the prior year with operating income up 12% and operating expenses down 3% versus prior year, resulting from several operational initiatives and the continued focus on driving synergies across the franchise.

Risk costs were € 81 million, up 34% versus prior year, of which € 8 million was tied to the proactive buildup of our management overlay provision despite solid credit performance and a reduction in our NPL ratio to 1.6%, down 30 basis points versus prior year driven by the proactive sale of the NPL portfolio.

We executed on various operational and strategic initiatives last year and will continue to do so in 2023. We expect continued earnings growth across the Retail & SME franchise in 2023, driven by strong operating performance despite an expectation for subdued loan growth throughout the year.

On Slide 7, our Corporates, Real Estate and Public Sector business delivered full year net profit of € 146 million, down 5% versus prior year, but still generating a solid return on tangible common equity of 17.8% and a cost-income ratio of approximately 23%. Average assets for the quarter were € 15.1 billion, flat versus prior year and down 3% versus prior quarter from proactive portfolio management and deleveraging from customers that are taking a more cautious approach.

Pre-provision profits were € 242 million, flat compared to the prior year. Risk costs were € 36 million, up 25% compared to prior year of which € 33 million was tied to the proactive buildup of our management overlay provision despite solid credit performance and a reduction in our NPL ratio of 10 basis points, landing at 70 basis points for the full year.

We continue to see solid and diversified lending opportunities with a good pipeline of commitments in the first half of 2023. We will continue to maintain our disciplined underwriting, focus on risk-adjusted returns, and avoid blindly chasing volume growth.

Moving to Slide 8. Our cash position, including money held with central banks, was € 13.2 billion at year-end 2022. Of this, TLTRO III funds accounted for € 5.4 billion. We paid down € 1 billion in the fourth quarter, another € 2 billion in January of this year, and we will pay off the remaining € 3.4 billion by June later this year. Excluding TLTRO funds, our LCR at year-end would be 130%, more than ample liquidity buffers.

Our investment book or securities portfolio was € 5 billion at year-end, up 6% versus prior quarter as we saw more opportunities to deploy capital at higher spreads. The investment book is 100% investment grade of which 71% is single A or higher and has a weighted average life under 4 years with solid diversification across both geography and issuers.

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

Enver Sirucic: Thank you, Anas. I'll continue on Slide 10. We had a solid fourth quarter, core revenues up 3% versus third quarter with continued growing net interest income up 4% and stable net commission income. Compared to prior year, core revenues were up 9%. Other income was minus € 14 million for the quarter, mainly resulting from the accounting for the unwind of the TLTRO hedge, resulting in a net negative impact.

Operating expenses remained stable at € 118 million, reflecting our ongoing disciplined cost control. Total risk costs were € 36 million, of which half came from an increase in our ECL management overlay, bringing it to € 100 million, which equals a full year of normal risk cost.

On Slide 11, key developments of our balance sheet. Average interest-bearing assets and risk-weighted assets were down in the quarter, 2% and 3%, respectively, mainly from proactive portfolio management and deleveraging from customers that are taking a more cautious approach.

Customer deposits remained relatively stable, while we increased our own issues by more than € 1 billion or 16% through issuing covered bonds and senior preferred notes. CET1 ratio improved by 50 basis points net of dividend accrual while we completed our € 325 million share buyback.

Moving to Slide 12, core revenues. Stronger net interest income, up 4% versus prior quarter despite lower interest-bearing assets, adjusting for the TLTRO benefit in Q3, NII would actually be up 6% quarter-over quarter. Net interest margin improved to 243 basis points, driven by higher interest rates.

Our interest rate sensitivity remains unchanged with approximately € 100 million for every 100 basis points. Given the refixing structure of our assets, it takes around 4 to 5 months to see the full effect of a rate increase reflected in our run rate, which means that the NII improvement will gradually materialize in the coming quarters, and we expect NII run rate to reach the peak around Q2 or Q3 based on the current market rates.

Net commission income was very stable at € 75 million in the quarter, which also seems to be a good run rate in the current market environment. Despite an overall subdued customer loan growth outlook, we have a very positive view on the coming quarters and expect core revenues to grow by more than 12% in 2023, mainly driven by an increase of net interest income to over € 1.2 billion.

Moving to Slide 13, operating expenses. We continue to maintain operating expenses at stable levels despite significant inflationary headwinds. We will also continue to focus on absolute cost-out targets through multiple initiatives including continued process streamlining and ongoing centralization of group functions.

For 2023, we are confident to manage operating expenses at plus 2% year-over-year considering wage inflation effect and consolidation of Idaho First Bank. Taking into account significant improvement of operating leverage, we target a cost-income ratio of under 34%.

Slide 14, risk costs. Overall, stable underlying trends and strong asset quality with a record low NPL ratio of 0.9%. The underlying risk cost run rate stands at € 18 million for the quarter. We added another € 18 million to our ECL management overlay, which now stands at € 100 million and is equal to a full year of normal risk cost which we believe is a very prudent and comfortable buffer for any unexpected developments. For 2023, we expect an underlying risk cost ratio of around 20 to 25 basis points assuming no releases of the management overlay provisions.

And with that, I'll hand back to Anas to go through the outlook and our performance since IPO.

Anas Abuzaakouk: Thanks, Enver. On Slide 16, our outlook for 2023 and targets. As we enter a normalized interest rate environment, we are targeting core revenue growth in 2023 of greater than 12% with a net interest income of over € 1.2 billion, while containing operating expenses to 2% growth despite significant inflationary headwinds. Based on stable underlying trends and solid asset quality, the underlying risk cost ratio is expected to be between 20 and 25 basis points. With the strong momentum on the back of a record year in 2022, we are setting the volume targets for 2023, a profit before tax greater than € 825 million, return on tangible common equity greater than 20% in the cost income ratio under 34%.

We are also targeting earnings per share of greater than € 7.50 and a dividend per share of greater than € 4.10, which excludes any potential buybacks.

On Slide 17, our first 5 years as a public company. Despite the changing sentiment in equity markets, navigating a once in a century pandemic, dealing with significant inflationary headwinds and escalating geopolitical conflict, we have stayed the course of focusing on the fundamentals of running a good business, not chasing the latest fad or short termism and focusing on the things that we can control. We strengthened our franchise by consistently growing earnings, improving our operating performance and being good stewards of capital.

When comparing 2017 to 2022 results, we grew absolute core revenues by 32% and reduced operating expenses by over 10%, resulting in absolute pre-provision profit growth of 43%. In 2017, we delivered a return on tangible common equity of 15.6% and a cost income ratio of 47%. 5 years forward, we've improved return on tangible common equity by 3 percentage points to 18.6%, reduced our cost income ratio by 11 percentage points to 36% and reduced our NPL ratio by over 50% from an already starting low point of 1.8% to a record low 90 basis points.

We improved on every operational and financial metric by focusing on the things that we can control being patient and prudent and pursuing sustainable and profitable growth.

On Slide 18, a summary of capital generation and distributions since our IPO. Since 2017, we have generated an average of 220 basis points of gross capital per year despite the volatility of the pandemic years. We take pride in being good stewards of capital and aim to always be disciplined in our capital allocation. We paid € 1 billion in dividends, equal to € 10.96 in cumulative dividends per share. We completed share buybacks worth € 725 million, reducing our total share count by 17.5% to 82.5 million shares.

We executed our buybacks at an average cost of € 41 per share. We will be proposing to the AGM a dividend payment of € 3.70 per share for 2022 equal to € 305 million to be paid on April 6, 2023, subject to shareholder approval. Therefore, this will take total distribution since our IPO in October of 2017 to over € 2 billion. We also completed 7 M&A transactions that were all self-funded and continue to build out our customer franchise.

During the same period, our total shareholder return was over 30%, outperforming the benchmark European bank indices, the SX7P and the SX7E by 38 points and 43 points as of year-end 2022. For 2023, we are targeting an EPS of greater than € 7.50, a DPS of greater than € 4.10 and expect gross capital generation of over 275 basis points.

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

Operator: Thank you. (Operator Instructions) We will now go to our first question. One moment, please. And your first question comes from the line of Hugo Cruz from KBW. Please go ahead. Your line is open.

Hugo Cruz: Hi. Thank you very much. I just wanted to ask about NII and then M&A opportunities. On NII, can you please tell us the big assumptions behind your 2023 guidance around new arrival rate, deposit betas, loan growth? And then, has your sensitivity to further rate changes changed versus Q3 results? And related to these, the current interest rate forwards imply a lower ECB deposit rate in 2024 versus 2023 year-end. Do you think this could mean lower NII for BAWAG in 2024 versus 2023?

And then, on M&A in this regard to capital returns, it sounds like you are assessing a few opportunities. Could you give us just a little bit of color there, what kind of businesses or portfolios you are looking to acquire? And what could be the potential size? Thank you.

Anas Abuzaakouk: Thanks, Hugo. Enver, you want to take the NII and then I'll take the others.

Enver Sirucic: Sure. So, I think there were a couple of things on the NII. So our assumptions are based on the current Euribor forwards, which are around 3.40% at a peak and then going down below 3% and then next year, as you pointed out, will go down, I think, to 2.80% or 2.60%. So, loan growth in '23, I think we said on the call we expect muted loan growth, so we do not expect a significant recovery on that front. So, it's kind of based on stable to slightly increasing asset-base.

On the deposit betas, we don't disclose the exact number, but we said on average, this is going up to 40% on the deposit betas itself.

And just in terms of timing, I think, which is important to understand. So, we are always lagging a bit behind in the current NII. So, what you see reflecting Q4 is pretty much based on Q3 rates. So, what you are going to see in '23 is always a quarter almost behind the current market curve, which then going into the question of '23-'24 helps a bit, because you'd benefit from the tailwind. We don't give exact forecasts for the outer years, but I would look at it in the context of kind of stable, not declining NII in '24. I hope this was helpful.

Anas Abuzaakouk: Thanks, Enver. Hugo, on the M&A front, I'm sure we'll get a number of questions. So, I'll try to be consistent. We are looking at a number of opportunities from small bolt-on acquisitions to potentially larger opportunities. We won't share more details than that, but you've seen our track record. We've done 12 deals since 2015 and we've tried to be kind of consistent in our approach.

So, hopefully, if one of these things materialize, we will be able to provide more detail. But that's why we're being prudent at the moment in terms of our excess capital. We've been committed to buybacks over the years. We've done € 725 million of buybacks. I think we've been -- we tried our best to be good stewards of capital, but we also see potentially unique opportunities and we're going to see how it develops over the course of 2023.

Hugo Cruz: All right. Thank you.

Anas Abuzaakouk: Thanks.

Operator: Thank you. We will now go to our next question. One moment please. And your next question comes from the line of Gabor Kemeny from Autonomous. Please go ahead. Your line is open.

Gabor Kemeny: Hi. Thank you. Just following up on the share buybacks. When you say you would not do more than a 100 basis points in the absence of M&A, can you elaborate a bit further on this? I guess the starting point is more than 100 basis points of excess capital above your CET1 target, and just looking at your capital generation per year, it looks like that is actually close to 100 basis points on the basis of what you delivered last year, for example. So, I guess my question is, why would you want to end the year at a similar capital buffer and not pay out more potentially if your capital generation you made was similar? That's the first question.

And my second question is also on the share buybacks, is I'd like to understand if the valuation of the shares play into your decision to buy back shares at all. I guess, your shares are trading at around 1.7x tangible book as we speak, used to be at more like 1.3x in the middle of '22.

And my final question is just a technical one on the TLTRO accrual. Did I understand correctly that the quarter-on-quarter impact from lower accrual was around € 5 million, € 6 million? Thank you.

Anas Abuzaakouk: Thanks, Gabor. You want to go and take the TLTRO accrual?

Enver Sirucic: Yeah, sure. So, I think, on the TLTRO accrual, it's € 5 million to € 6 million. So, compared to the NII of € 270 million in Q4, it would like-for-like be at € 254 million, € 255 million in Q3.

Going back to the capital questions, why 100 basis points or up to 100 basis points versus technically, we would have 125 basis points versus our CET1 target right, but if you consider Idaho First Bank, which will consume 25 to 30 basis points, that's why we gave the guidance on 100 basis points, which is simple math, the 125 less the 25 to 30 gets you to the under 100 basis points.

You also asked that, I think, will we end the year end '23, I guess, at the same capital buffers and why we don't do more on buybacks? Just a technical timing, right? So, we will have generated very likely earnings and gross capital generation by year-end. But then, that goes into the next year distribution and capital distribution discussion, not this year.

I think the last one was on the valuation.

Anas Abuzaakouk: Yeah, I know, Gabor, on the valuation, look, we try to be again good stewards of capital. When you're making over a 20% RoTE as we're guiding for 2023 and kind of that's what our normalized return outlook is going forward, you put a, whatever cost of equity in what you believe the company is. We still think that at these levels, it's accretive to buy back your stock and it's going to be a part of our capital framework or a part of our capital tools to buy back stock. That's not what's driving our consideration in terms of how we're treating our excess capital. It's about the opportunities set that we see. That is the single largest factor in terms of why you're not seeing more of a discussion on the buyback today as we just see some interesting opportunities. But if those don't materialize, what we will see during the course of the year, we will look to execute hopefully on a buyback. I hope that's not the case, but we'll see what happens.

Gabor Kemeny: Okay. That's clear, I think. Thank you.

Anas Abuzaakouk: Thanks, Gabor.

Operator: Thank you. We will now go to your next question. And your next question comes from the line of Mehmet Sevim from JPMorgan. Please go ahead. Your line is open.

Mehmet Sevim: Good morning. Thanks very much for the presentation and for taking my question. I have a couple of follow-ups please to the previous questions. Firstly, on the NII guidance for 2023. May I please ask about your guidance particularly in relation to your previous sensitivity of € 200 million uplift for 200 versus for the first 200 basis points of rate hikes, because if you look at what rates are, and I understand you're using the forward curve in this guidance, it seems beyond the first 200 basis points your guidance implies a very, very small benefit. So, is there any color you can provide particularly in relation to your previous sensitivity?

And if I may also on the costs, what are the assumptions underlying the 2% cost growth target, which is obviously very impressive still and which I'm sure is still on the conservative side? So, are you able to talk about the individual components there and how you see trends this year?

And finally, if I may, on the buyback again. Your guidance of up to 100 basis points, I think, brings the total pay-out to just 100% of last year's adjusted earnings if we take into account the 60% dividends as well. So, does this decision have anything to do with the level of pay-out relative to earnings going forward, particularly taking into account the difficulties of getting the approval last year? Because it was, and how you're thinking about? Therefore, can we think that the strategy is shifting towards a more regular or ordinary buyback with total pay-out below 100% going forward? Thanks so much.

Anas Abuzaakouk: Thanks, Mehmet. I'm going to turn it over to Enver.

Enver Sirucic: Well, I'll start with the last one. You're absolutely right, Mehmet. So, in the past, we've had situation of building up significant amounts of excess capital, which was due to different reasons. I think, in the future, we would like actually to be more regular, have a regular cycle on distributions, including dividends and buybacks, which most of the cases should end up below 100% of earnings, which should also help with the overall process.

On the NII guidance and the sensitivity, nothing has really changed. So, if I just go back a bit, right? So if I look at the world, kind of before the rates started going up, so we had an average NII for the quarter even not considering the TLTRO and everything, around € 240 million used to be our run rate. Currently, we reported € 270 million, okay? So that's € 30 million up or € 120 million up for the year. And that if you go at the Euribor in Q3, that was pretty much where we have seen the first kind of 100 basis points uplift.

If I look at the forward rates, there is another compared to that level 200 basis points, right, that will go from 100 to kind of 300 level. And if you look at our guidance, we are guiding for another pretty much € 200 million uplift on the NII. So, it's been very consistent. It is 100 basis points, delivers € 100 million of NII. So, nothing has really changed here.

And I think on the cost components, the underlying assumptions, I think, the biggest two drivers is wage inflation and also taking into account the consolidation of Idaho First Bank. So, net net we would have been probably stable; stable without Idaho First Bank on the underlying. The wage inflation is going to be in our forecast between 7% to 8% as the underlying inflation, that we considered.

Mehmet Sevim: That's super helpful. Thanks so much, Enver.

Enver Sirucic: Sure.

Anas Abuzaakouk: Thanks, Mehmet.

Operator: Thank you. We will now go to our next question. And your next question comes from the line of Mate Nemes from UBS. Please go ahead. Your line is open.

Mate Nemes: Yes. Good morning and thank you for the presentation. I have two questions, please. The first one is on loan growth and expected volume growth in 2023. I hear your comments regarding perhaps some slower growth in this year. I'm just wondering, do you explicitly expect the situation on the retail side the outstanding loans decline from current levels, i.e., fairly subdued origination in consumer loans and maybe some fairly tight underwriting in housing loans? That's the first question.

And the second one is just going back to potential M&A. I understand you can't really go into the details, but just conceptually wondering if the fact that we are in a higher interest rate regime now perhaps changed a little your desired profiles for the businesses that you're looking at. And also, I'm just wondering whether in this environment you're still looking to perhaps get to run mid-teens or high-teens of RoTE's when deploying capital into M&A? Or has that also gone up and should be more or less in line with the 20% that you're targeting? Thank you.

Anas Abuzaakouk: Thanks, Mate.

Enver Sirucic: Yeah. So, I think on the loan growth, Mate, what we have seen is, yes, it's tight underwriting, especially with retail on the consumer side, but that should be broadly stable because the impact from rates is limited. On the housing loans, that's where we have seen a decline just customer loan demand has dropped significantly in the second half of '22. We expect a bit of a recovery, but it will take some time. That's why we are quite cautious on the loan growth in '23.

I guess, some potential M&A.

Anas Abuzaakouk: Yeah. Just to add on to that, what Enver mentioned, Mate. If you look at our targets for '23, we're just being cautious and if you assume when we say subdued loan growth, just assume it's static year-over-year from where we're at, we still deliver the results, our targets absent obviously of things that are out of our control, but I think, we're trying to be prudent. You do see an impact on the overall market and we're more cautious. Obviously, the start of the year, I think, is more positive than most people anticipated, and we'll see how things develop, but we're just trying to be cautious in terms of our overall look. Plus we don't give volume targets, we've never done that in the past, and we'll see how the market develops.

As for M&A, absolutely, the return targets are thresholds. We follow the return thresholds for the whole bank, right, or franchise, which is over 20%. So, the dynamics have changed. Does the interest rate environment fundamentally change how we look at our opportunity set? Not really. I mean, we tried to, I think, hammer home this point a few times this morning. Despite a normalized rate environment, the things that have made us successful over the past decade in the past five years since becoming public is really focusing on kind of operational rigor and having a disciplined risk appetite looking at risk adjusted returns, and we will take that same approach when we underwrite potential M&A, when we look at balance sheets and kind of the credit risk that we're looking at. So, that's not going to change, and it doesn't really change our valuation, because the things that we look at are typically underperforming, right? That's something that hopefully will see if these opportunities materialize, but those principles are pretty consistent regardless of the rate environment.

Mate Nemes: Thank you.

Anas Abuzaakouk: Thanks, Mate.

Operator: Thank you. We will now go to our next question. Your next question comes from the line of Johannes Thormann from HSBC. Please go ahead. Your line is open.

Johannes Thormann: Good morning, everybody. Just first of all, a follow-up question on your NII guidance. What are the underlying assumptions for your 40% deposit beta? Any shift in your deposit structure? And probably what is the current structure of sight and interest-bearing deposits? That's my first one.

Secondly, if we look at the muted fee income outlook, what is driving this, rather the payments or the securities business or both? Could you probably add more details on that, please? And last but not least, what kind of Austrian wage agreement is baked in your 2% cost increase? Thank you.

Enver Sirucic: Yeah, I'll take it.

Anas Abuzaakouk: Thanks, Johannes.

Enver Sirucic: So, on the cost-out, which was the last one: So, on the agreement, it's not done yet. So, there are still negotiations going on, but we have two agreements that are relevant for us, and the one has been finalized already. I think it's 7.5% earlier this year and that's pretty much the same assumption that we take on the other one. So, we have a servicing collective bargaining agreement and a banking collective bargaining agreement, and we both see around 7% to 8%, that's baked into our plus 2% cost guidance for the year. Okay.

On the NCI, it's really on the advisory side. So, payments after the pandemic have recovered significantly and it's been quite stable. So, it really depends if the uncertainty goes down or further goes down and we see more appetite on the customer side to invest again. And right now, customers are quite cautious and a bit on the sidelines. So, the main driver behind is really the market uncertainty in the advisory part.

And structure of the deposits - it's very consistent with the overall market. The overall market in Austria is, I would say, 80% to 90% sight deposits. That's where we are as well. So, we are completely in line with that. We see a bit of a shift probably over time to term deposits, but nothing significant yet. It will depend probably on the terminal interest rate, so it's kind of nice kind of corridor to be between that 2.5% and 3% terminal rate, because it's not too high, it's not too low. So we don't think that the overall structure will change significantly at least in the next couple of quarters.

Johannes Thormann: Thank you.

Anas Abuzaakouk: Okay.

Operator: Thank you. (Operator Instructions) We will now go to your next question. And your next question comes from the line of Simon Nellis from Citi. Please go ahead. Your line is open.

Simon Nellis: Hi, Enver. Hi, Anas. Thanks for the opportunity. A few technical questions remaining from me. Firstly, on risk weight density, I saw that it came down a bit in the quarter. Can you just unpack that and tell us where you think risk weight density will be going forward? I also saw that tax rate was a bit higher in fourth quarter versus earlier quarters. Is that going to continue?

And then on the dividend pay-out, you paid out, I think, 59% of adjusted earnings. I guess, that's higher than your dividend policy. Are you planning any change in dividend policy? I didn't see anything flagged.

And then last, can you just unpack the consumer asset quality? I think, in the past, you said you're a bit worried about that, but it doesn't sound like you're as worried anymore, given the risk cost guidance. That's it. Thanks.

Anas Abuzaakouk: Thanks Simon. Enver…

Enver Sirucic: Okay. Yeah. So, I'll start with the -- thanks, Simon. So, on the RWA density, this is more technical, because we have seen more deleveraging on the corporate side with higher RWA density. That's why the overall mix changed. That's the only reason. There's nothing more to it.
On the tax rate, so we had a bit lower tax rate in the first half. So, on average, I think it's around 25% for the year. So, the bit lower tax rate of the first half is not compensated, but a bit higher, but it's around less than 1 percentage point. But on average, 25% is a good assumption on that.

Dividend policy, no, we don't adjust the dividend policy. So, it's 55%, which we decided like we did also in some of the prior years, just to increase it, which you can read as a bit of an add-on dividend.

And in terms of credit risk, yes, I mean, the underlying trend looks very robust. We are very cautious. We don't know what's going to happen right now. We don't see any deterioration of the portfolio, even to the opposite. As we have shown, it's a record low NPL ratio and actually the underlying credit risk costs have been quite low for the quarter. So, we are quite positive about '23.

Anas Abuzaakouk: We're trending delinquency rates below pre-pandemic levels. So, if you take that and you take the adjusted underwriting over the past few years, and I think we've been -- we've mentioned this a few times, we feel like we're in a pretty good spot. I would just to caution, right, I think everybody started the year, people feel really good. We're just kind of taking the long view to see how things play out during the course of '23, but we feelgood about the overall asset quality, and I think we have more than enough buffers if things do materialize to the negative. And that was why we put € 100 million of management overlay, right? That's purely a management decision because of the uncertain outlook so, which was more, I guess, uncertain in the fourth quarter than what we're seeing today, but I still think it's still got legs. Thanks, Simon.

Simon Nellis: Understood. Thank you.

Operator: Thank you. We will now go to our next question. And we have a follow-up question from Hugo Cruz from KBW. Please go ahead. Your line is open.

Hugo Cruz: Hi. Thanks again for the time.

Anas Abuzaakouk: You're back, Hugo.

Hugo Cruz: Yes. I wanted to ask little a bit more about deposits. I've heard about the betas and structure. I was wondering if it would have been (Technical Difficulty) dynamics both pricing and volumes for the segments in Austria branches and online outside of Austria, that will be great. Thank you.

Enver Sirucic: It's really hard to understand you, Hugo, the line was really bad. Could you maybe repeat the question, please?

Hugo Cruz: Yeah, sorry. I just wanted to know if you could give a bit more color on competitive dynamics for your deposit around pricing and volumes. And if you could talk a little bit about the different segments, the branches and online ex Austria, that would be very helpful. Thank you.

Enver Sirucic: Yeah. We don't really see a lot of kind of pricing dynamics right now in Austria, which is main source of our deposits. And majority is through the branches, and we don't really have a lot of pure online deposits may be from the easybank franchise, lets' say. Do we expect it's going to change probably? So, we expect in our forecasts in '23 and '24 that there will be a higher pass-through on the deposit side. Overall, the market has been very stable. So, if you look throughout '22, in terms of pricing but also total volume, it hasn't really changed. So, not a lot of dynamics, but we expect changes in the next two years.

Hugo Cruz: Thank you very much.

Operator: Thank you. I will now hand now hand the call back to CEO, Anas Abuzaakouk. Please go ahead.

Anas Abuzaakouk: Well, thank you, everybody. Appreciate you guys joining the call this morning. We look forward to catching up with you during our first quarter results. Take care. Have a nice day.

Operator: Thank you. This concludes today's conference call. Thank you for participating. You may now disconnect.