EARNINGS CALL
TRANSCRIPTION

PRELIMINARY FY 2023 RESULTS

01 February 2024 at 10:00 CET

SPEAKERS:
ANAS ABUZAAKOUK
ENVER SIRUCIC

BAWAG Group

Anas Abuzaakouk

Good morning, everyone. I hope everyone is keeping well. I am joined this morning by Enver, our CFO, as well as joined by David O'Leary, our Chief Risk Officer. We have a lot to cover today, so let us jump right into it with a summary of full year 2023 results on slide three.

So for the full year 2023, we delivered a record net profit of €683 million; earnings per share of €8.31; and a return on tangible common equity of 25%. The underlying operating performance of our business was very strong with pre-provisioned profits of €1.40 billion, up 22% versus prior year, and a cost-income ratio of 31.8%.

Total risk costs were €93 million, with a low NPL ratio of 1%. The fourth quarter was strong with a net profit of €177 million, earnings per share of €2.15, and a return on tangible common equity of 25.7%.

We delivered on all of our 2023 targets. We also distributed €480 million of capital in the form of €305 million dividends and completed a €175 million share buyback during the course of 2023, which reduced our shares outstanding by 5% and which now stand at 78.6 million shares.

Anas Abuzaakouk

In terms of customer loan growth and capital, average customer loans were flat quarter-over-quarter and down 7% versus prior year. Average customer funding was up 2% quarter-over-quarter and up 6% versus prior year. We generated 330 basis points of gross capital for the year. We ended the year with a CET1 ratio of 14.7%, net of the dividend accrual, and excess capital of €475 million, equal to approximately 250 basis points. We will be proposing a dividend of €5.00 per share or €393 million to the AGM in April.

In terms of business activity, 2023 was defined by staying patient and disciplined, given the significant movement in rates, high inflation and subdued consumer confidence. We saw an impact on customer lending volumes as high rates and inflation translated into anaemic growth, negatively impacting lending opportunities across both the Retail & SME business, as well as the Corporates, Real Estate & Public Sector business.

However, this dynamic is one that we believe will be temporary in nature. Once markets settle into a new normal of interest rates and inflation subsides, we anticipate a pickup in originations and overall lending levels.

Despite our record performance in 2023, our best years are still ahead. Our strategy has been consistent since 2012, one focused on being patient, disciplined, cutting through the noise and consistent execution. This patient and disciplined approach to commercial lending focused on risk-adjusted returns, not blindly chasing volume growth, and thinking beyond the immediate quarter is not always obvious or understood. However, we are rewarded when unique opportunities present themselves and we have the capital and liquidity to take advantage of such opportunities.

Disciplined capital allocation and M&A in specific is key to our strategy in how we run the bank. We aim to be good stewards of capital, making sure we are prudent in our capital distribution plans, maintain our fortress balance sheet, and being ready to capitalise on unique opportunities.

Underpinning this is our strong profitability, which allows us to accrete significant amounts of capital each year. We then use this capital to invest in our franchise and teams, extend credit to our customers, acquire businesses and distribute to our shareholders.

We closed the year with a significant amount of dry powder that we are now investing in a transformative and highly accretive acquisition of Knab bank in the Netherlands. This deal will expand our DACH/NL footprint, building out our customer franchise and allowing us to significantly grow the business and earnings in the years ahead.

We have been disciplined in our 12 acquisitions over the past decade, and this acquisition is no different. We were fortunate over the past few months in having the team and infrastructure in place to allow us to complete a thorough due diligence. Our experience with M&A transactions, the continuity of our senior leadership team, and the remarkable commitment of our teams and advisors allowed us to pursue this opportunity. Although we cannot dictate the timing of deals, we can ensure we are ready once they present themselves.

On slide four, an overview of the M&A transaction. Knab is a digital bank that was founded in 2012 and has developed a very strong brand and loyal customer base. The bank consists of approximately 400,000 retail and SME customers, who have current accounts, with the majority using Knab current account as their primary banking relationship.

Knab has a diverse customer base and is a leading player in the underserved self-employed space. This is a strategic acquisition that expands our footprint into the Dutch retail and SME banking space and will position us for future growth in one of our core markets. This is a strategic fit in terms of product offering, providing a platform for current accounts, which will augment with our Retail & SME product offering across the Group as well as existing Dutch mortgage origination channel.

We believe the combination of the Knab team's experience and expertise, coupled with the operating infrastructure of the Group, will be a dynamic combination. We will work with the leadership team to continue growing the business. We have had a presence in the Netherlands since 2019 and have always found it an attractive market.

Today, we have approximately €4 billion of residential mortgages, of which approximately 90% are government-guaranteed NHG mortgages. Knab has €12 billion of seasoned Dutch mortgages of which 56% of the mortgage portfolio are government-guaranteed NHG mortgages. On the funding side, the bank has approximately €14 billion of funding of which €11.5 billion are comprised of customer deposits and €2.5 billion of covered bonds. The customer deposits makes up current accounts, daily savings and term deposits.

The Knab bank acquisition will be fully funded from our excess capital of €475 million, and consume between 100 and 150 basis points of CET1 capital depending on the scope and execution of capital relief measures and strategic actions taken throughout the year.

Given the nature of the transaction and the quality of the franchise we are buying, the deal will be P&L accretive day one and is projected to contribute €150 million of pre-tax profit by 2026 with EPS accretion of approximately 16%, without factoring in any future potential buybacks. This compares to a 2x to 3x EPS benefit versus pursuing a share buyback based on the capital consumed. The deal was underwritten with a premium to our RoTCE target of greater than 20%. As part of downside loss protection and potential capital relief measures, we have and will continue to utilise synthetic risk transfers or SRTs on various asset portfolios.

The transaction is subject to customary regulatory approvals, and we hope to provide updates through the course of the year. We are extremely excited about this acquisition in welcoming the Knab team into the BAWAG Group.

Okay, moving to slide five. Recap on the full year results. We delivered net profit of €683 million, and EPS of €8.31, up 34% and 43% versus prior year with a return on tangible common equity of 25%. Overall, strong operating performance across the board with operating income up 15% and operating expenses up 2% versus prior year.

Risk costs were €93 million, down 24% versus prior year. Tangible book value per share was €35.35, up 8% versus prior year and up 6% versus prior quarter. This takes into account the full year 2023 dividend accrual.

On slide six, our capital development. At year-end 2023, our CET1 ratio was 14.7%. We generated 330 basis points of gross capital as we continue to generate significant amounts of capital, resulting from our very strong organic earnings generation with €475 million of excess capital after having deducted a dividend accrual of €393 million. The €475 million of excess capital will be used to acquire Knab bank as well as pursuing other strategic opportunities that are at an advanced stage.

Given our significant capital accretion of over 300 basis points per year, we will revisit buybacks as part of our overall capital distributions in 2025.

Moving to slide seven. Our Retail & SME business delivered full-year net profit of €526 million, up 19% versus the prior year and generating a very strong return on tangible common equity of 38% and a cost-income ratio of 30%.

Full year pre-provision profits were $798 million, up 16% compared to the prior year, with operating income up 11% and operating expenses up 1% versus prior year. Risk costs were $86 million, up 6% versus prior year. We continue to see solid credit performance across the business with an NPL ratio of 1.7%.

On slide eight, our Corporates, Real Estate & Public Sector business delivered full year net profit of €169 million, up 16% versus prior year, and generating a strong return on tangible common equity of 23% and a cost-income ratio of 25%. Pre-provision profits were €240 million, down 1% versus prior year. Risk costs were €5 million, down 86% compared to prior year. We continue to see solid credit performance across the business with an NPL ratio of 80 basis points.

With that, I will hand over to David to provide a year-end update on asset quality and our overall risk profile.

David O'Leary

Thanks, Anas. Page ten is a top-down view of total assets, which points to our highly liquid balance sheet built through long-term organisational focus on risk-adjusted returns and downside mitigation, a €55 billion in total assets, €13 billion or 23% is in cash.

We conservatively position ourselves with excess liquidity supported by stress testing and to ensure ample capacity for opportunities as they may arise. We have €5 billion in investing grade securities in our treasury book, which leaves €36 billion, or 64% of total assets in customer loans.

David O'Leary

The combination of our long-term conservative risk appetite with disciplined underwriting has built a resilient balance sheet. We dynamically manage credit risk. We take no interest rate or FX risk, and maintain no market risk RWAs or trading book. Our total customer book is 72% DACH/NL, 28% US and Western Europe with no exposure to Eastern Europe or Russia. 80% of our lending is secured or public sector reflecting the long-term strategic growth in low-risk asset classes and collateralised lending. In terms of the segments, retail lending comprise of 60% or €22 billion of customer loans. 80% of this is secured, primarily €15 billion of mortgage loans across Austria and Western Europe.

The Corporates, Real Estate & Public sector businesses make up the remaining 39% or €14 billion of customer loans. Within this, corporate lending is $3.5 billion. We have strategically reduced exposure in this business for several years, as we felt market terms and pricing were not commensurate with the underlying risks. The net leverage level of the portfolio is below 4 times today.

Our focus on non-cyclical industries and high cash flow borrowers has proven highly resistant in inflationary and rate impacts. Commercial real estate exposure also has weathered the rate increases to-date, yet sectoral challenges remain. Disciplined underwriting and protective structures have mitigated our downsides as the market adjusted in dramatic rate increases of 2023.

Nonetheless, the office asset class remains challenged, primarily in the US, yet our exposure here is limited and we feel the worst is behind us. At the end of 2023, our risk metrics demonstrate our asset quality and conservative positioning. Our NPL ratio is just under 1%. This is a constant level since 2021, demonstrating the consistency of our asset quality. Stage 2 assets remain low at 6% of customer loans.

We maintain an ECL management overlay of $80 million in excess of our modelled reserves as a buffer against potential lag effects from the dramatic rate shifts on our customers as well as idiosyncratic risks that mirror us.

Moving to page 11. We will touch on our Retail & SME exposure. The majority of the portfolio is comprised of housing loans of €15 billion. 24% are state-guaranteed, and the remainder bears a comfortable average LTV of 60%. While originations have been subdued with the impact of higher rates, we have been consistently cautious regarding risk of value declines on underlying housing stock. Since early 2020, the LTV of our new originations had averaged below 70% to ensure substantial equity buffer for the borrower.

In addition, 90% of our originations here are fixed rate with a focus on borrower credit quality through debt service to income limits. The Consumer & SME segment is split approximately half consumer lending and the remainder leasing, specialty finance and SME, which is primarily collateralised. €3.5 billion of consumer loans focus on prime and near-prime customers. However, this asset class is sensitive to macro developments.

After benefiting from an overly benign loss environment supported by high savings and government support over the past few years, we have seen a return to normalised pre-pandemic delinquency and loss risk. This effect of plateauing in recent vintages for 2024 as customers, consumers adapt to inflation impacts and rate increases. However, it remains dependent upon unemployment rates in our markets.

Given the sensitivity our underwriting here is critical. We ensure significant cushion in debt service capacity which, we tightened across all of our channels in 2020 and remains in place today. We price through the cycle risk levels and focus on customers with high income stability. This limits our market share by such focus but it benefits in stability of the asset class.

For the last years the NPL ratio remains consistent at 1.7%.

On slide 12, an update on our real estate portfolio. The fundamentals that drive cash flow at the asset level remain resilient for residential and industrial logistics categories. The office sector in the US remains challenged, as demand shifts have reduced future rental incomes and therefore values. Our total commercial real estate exposure is down 4% quarter-over-quarter and down 16%

since 2022. Residential and industrial logistics assets composed 65% of total exposure and 74% of US exposure.

These sectors are supported by continuing high demand and lack of supply. Underlying cash flows at the asset level are increasing and the rate impacts are generally being digested. Our US office exposure stands at €459 million, flat with prior quarter. There has been a bifurcation in this asset type. Commoditised, low-amenity offices are most negatively impacted as demand shifts have reduced the outlook for cash flows on these assets. Higher quality A-class offices have been less affected and with more stable occupancy and leasing activity returning.

The risk of distress remains as maturities come due in the coming years, likely in the form of refinancing and recapitalisations over an extended timeframe. Our performing office book in the US has a senior debt yield of around 9.5%, demonstrating stable and sufficient cash flows with a 6.5-year average lease term. The LTV, updated at Q4, remains less than 70% with strong institutional sponsors supporting our equity values. We monitor our risk through regular stress tests to assess the downside of continued distress in this asset class.

Our management overlay of €80 million covers the severe adverse case losses across this portfolio, which was also evidenced in our ECB stress test results in 2023, where a stress greater than 50% value decline was often under 2% losses across the portfolio.

On slide 13, some additional information on the commercial real estate portfolio. The resilience of the portfolio has been based on selectivity of assets value cushion and importantly our structural protections. 100% of loans are senior secured. We have no subordinator financing. The average deal size is €38 million. As through the cycle lenders, it is critical that we are first in the capital stack and have significant equity beneath us. We ensure protective terms in our documents such as performance triggers, cash sweeps and traps and interest reserves.

We avoid single asset risk and structure the majority of our deals as portfolio financing. 81% of our total CRE exposure finances multi-asset portfolios that are cross-collateralised providing significant credit enhancement. Given the granularity of the collateral, the assets are more liquid and allow for easier dispositions for borrowers to bring leverage down across the portfolio. Our guidelines have remained consistent over the long-term targeting less than 60% LTVs for new business to ensure against valuation decline.

On a total portfolio basis, the average LTV has remained in the mid-50s. As values have declined with the rise in rates, it has been countered by the seasoning of the book, concentration in fundamentally strong asset classes, and new business at consistently low LTVs and high debt yields working with strong sponsors. 94% of our book is LTVs below 80%. Office, particularly in the US, has seen values adjust most significantly with an increase in LTVs based on 4Q valuation updates reflecting current markets and underlying cash flows.

The 67% LTV in the US still provides value support for our loans. Exposure to US office remains low at 1% of total customer loans, and 9% of total commercial real estate.

With that, I would just conclude that while the market for commercial real estate remains challenged, we are confident our portfolio will be supported by asset quality and risk mitigation.

Enver Sirucic

Thank you, David. I will continue on slide 15.

Again, a strong quarter with net profit of €177 million and a return on tangible common equity of 25.7%. Full year came in at 25%. Both net interest income and net commission income up 1% in the fourth quarter. Year-over-year, core revenues were up 14% on a quarterly basis and 16% on an annual basis.

Operating expenses up 1% in the quarter and cost-income ratio relatively stable at 32%. Risk cost of €30 million in the quarter reflecting year-end bookings and partly high underlying risk costs, mainly coming from the consumer business. ECL management overlay remained at €80 million.

On slide 16, key developments of our balance sheet. Few things I would highlight here:

Customer deposits were up 4% in Q4, driven by first time consolidation of Idaho First Bank, as well as higher year-end balances from public sector clients, a similar situation we have observed a year ago. Customer loans remained almost flat while our cash position went up 16% to over €13 billion or 23% of the balance sheet, leaving us with a very comfortable liquidity buffer to address potential organic and inorganic market opportunities in the coming quarters.

In terms of capital, we again generated approximately 90 basis points of gross capital from earnings and after accounting for the earmarked year-end dividend of €5 per share, CET1 ratio came in at 14.7%, leaving us with an excess capital position of €475 million.

Next slide, our customer funding, which is made up of customer deposits and AAA-rated mortgage and public sector covered bonds, grew by 6% year-over-year to around €45 billion. Cash position, now at €13 billion. In terms of customer deposits, we have seen no structural changes in the fourth quarter. Repricing continues in line with our expectations. Overall deposit betas are now at around 25% in the quarter, expected to grow to 30% to 35% and peak in the coming quarters.

With that, moving on to slide 18, core revenues. Positive net interest income trend continued in Q4, up 1% versus Q3 despite the static custom loan development.

The net interest margin is now at 300 basis points for the quarter, also reaching peak territory. In terms of net commission income, up 1% with an overall good and stable performance in the quarter. For 2024, we expect core revenues and net interest income to grow by 1% based on current interest rate forwards. We also expect a flat to positive loan growth development.

Slide 19, operating expenses fall in line with expectations and within our guidance of 2% year-over-year. For the quarter, operating expenses were up 1% and our cost-income ratio remained largely stable now at 32%. Going into 2024, we expect wage inflation in the area of around 8%. That will be partly offset by our ongoing optimisation programmes, mostly through further simplification and standardisation across the Group, leaving us with an expected cost increase of around 3% for 2024.

Let me also address regulatory charges here that technically are not part of our OpEx, but part of our overall expenses. In Q4, we actually had a release because of higher recoveries from prior deposit guarantee scheme cases. And with that, the overall deposit guarantee fund is almost fully funded now, which means that our foreseeable regulatory charges will be significantly lower going forward.

Our expectation for 2024 is around €16 million, and that will be evenly spread across the quarters.

Moving to slide 20, risk costs. Overall, continued strong asset quality with a low NPL ratio of 1%. We booked €30 million of risk costs in the fourth quarter, which was higher than the prior quarters, partly because of year-end bookings and partly because of higher underlying risk costs in the consumer segment. We kept our management overlay at €80 million. And given the overall challenging macro environment, we would expect higher risk costs in 2024 in the context of 25 basis points to 30 basis points.

And on slide 21, our outlook for 2024 and targets. This is based on current interest rate expectations and assuming no M&A in 2024. We are targeting net interest income and core revenue growth in 2024 of 1%, while containing operating expenses to 3% growth, despite significant inflationary headwinds. Foreseeable regulatory charges are expected to go from €40 million in 2023 to around €16 million in 2024.

Based on overall macro environment, the recent underlying trends, and solid asset quality, the risk cost ratio is expected to be between 25 and 30 basis points. On the back of a record year in 2023, we are setting the financial targets for 2024, which is a profit before tax greater than €920 million; return on tangible common equity greater than 20%; and the cost-income ratio under 34%, which is consistent with our prior communicated mid-term targets.

With that, Operator, let us open up the call for questions. Thank you.

Mehmet Sevim (JP Morgan):

Anas, you mentioned in your opening remarks that the excess capital that you have right now will be used for Knab, but also for other strategic acquisitions that are currently at an advanced stage. Would you be able to give us a flavour of what these could be? And I am asking specifically because looking at the trajectory of capital, it seems like while this excess is reserved for Knab, you will still be operating with a good level of excess until the transaction closes and at the same time you are obviously building lots of new organic capital as well. So is it reasonable to assume that you could also consider other larger opportunities which were in the headlines in previous weeks and months? Or should we assume that this is the biggest one and the most relevant one that you would do at this stage?

Anas Abuzaakouk:

Hi, Mehmet. Thanks for your very good question. I would say the year-end excess capital in basis points was 250 basis points approximately. The Knab deal is a range of 100 to 150 basis points, which I mentioned, based on some of the strategic actions, capital relief measures and the like, through the course of the year. That obviously leaves you with some excess capital. We said we will not be doing share buybacks in 2024. And I also mentioned that we are in advanced stages on strategic opportunities. I wish I could provide more detail, but I would say probably just a little colour: The strategic opportunities are in our core continental Europe market, the DACH/NL in heavy Retail & SME focus. But I really cannot go into any more detail other than that. I hope you appreciate that.

Mehmet Sevim:

Can I also ask on the organic loan growth trajectory for this year? How is your appetite now for new loan origination? How is demand looking? And based on your opening comments, again, is it fair to assume that the overall trends will remain muted for now going forward?

Anas Abuzaakouk:

Yes. So what I said, in 2023, all the different factors in terms of high inflation, subdued consumer confidence, the philosophy in rate increases, all of that weighed in, in terms of overall lending volumes. At least from what we see now and just I think if you look at the forwards and just a couple of other variables in inflation subsiding, we think there will be a pickup in originations in overall lending levels.

I think it is probably conservatively fair to say flat to modestly growing from what we see today. But it won't be what you saw in 2023. I think that was really unique. And quite frankly, we were being patient and disciplined as we always are, because we want to make sure that we are focused on the right risk-adjusted returns. The lending works for both the customer as well as the bank. It has to be a reciprocal relationship. But I would say flat to modestly growing.

Hugo Cruz (KBW):

I have three questions, if I may. First of all, on Knab, the €150 million PBT target. If you could provide a little bit more colour, what are the drivers of that, or what revenues or costs you expect by 2026? Second, on the CRE. Can you tell us how often you update LTVs and how do you do that? So what sources you use or if you haircut public sources? And third, you mentioned RWA optimisation around the Knab deal. Is that all within the Knab perimeter? Is that how you go from the price you pay to the capital impact? And is there any room to also do RWA optimisation outside of the Knab perimeter so also in the Group to bring down the capital consumption?

Anas Abuzaakouk:

Thank you, Hugo. All very good questions. I will take the first one. I will then ask David to cover the commercial real estate and valuations, and then Enver will talk about some of the capital relief optimisation measures.

So Hugo, at this point, obviously, we just signed this morning. We are going to provide more detail through the course of the year from signing to closing and then obviously it is all subject to regulatory approvals and the timeline. But I can tell you it is P&L accretive day one. And I think you should take from the fact that the pre-tax profit contribution of €150 million in 2026, should give you an indication of the viability of the franchise, the profitability. We will get into the different P&L line items in due course, but this is unique in the sense that it is a franchise that has a lot of opportunities from day one and we are excited about those opportunities.

So Enver, why do not you take the capital and then we will go to commercial real estate.

Enver Sirucic:

Sure. Hugo, we gave a range on the capital impact and one aspect of that is potential strategic risk transfer options that we are looking into, that could concern the Knab transaction. But you are absolutely right, it is also outside of it. We have done it in the past also on our existing balance sheet and that is something that we will consider, if it makes sense or not.

David O'Leary:

On the valuations question, so by regulatory regulations requirement we do updated valuations annually. With about half of our book is marked externally within 2023. Given what we had seen with lack of transactions and simply just not comfortability with the cap rate assumptions that external valuers have been using, we took some incremental mark-downs on top of the externals in many cases. Also given the stress in the office market we did an update in Q4 for all current office deals as well.

Gabor Kemeny (Autonomous Research):

Just on the €150 million accretion, I understand you will get into the details a little later, but just conceptually, can you talk a bit about where you see potential for funding synergies, for cost synergies, for revenue synergies? I mean it is a market where you are present. So I presume you should have a number of possible opportunities.

Second one is, I think you talked about two or three times accretion relative to the buybacks from the deal announced. Can you remind us what is exactly the basis to what you are comparing your accretion with?

And then, thirdly, and I think back to the previous question, broadly speaking, what is your view on the German card market from a business perspective?

Anas Abuzaakouk:

Let me start with the last question, and then I will hand it over to Enver to address the questions I think you had specifically on Knab. The German card market, like the Austrian card market, is one that we like, and we think the dynamics are unique. It is more of a niche space. We are very familiar with cards, obviously, in general, but we, as I mentioned, Gabor, are focusing on kind of DACH/NL opportunities in the Retail & SME corridor. And that falls into that category. But maybe I will give it to you, Enver, on the Knab.

Enver Sirucic:

Yes, sure.

Gabor Kemeny:

Sorry, Anas, to interrupt. Why do you actually like it, just broadly speaking?

Anas Abuzaakouk:

Like speaking of cards in general, and personal loans to a certain degree, but more cards, it is a niche market. I cannot speak to specifics, but in Germany it is about €7 billion market. If you think about what we have done in specialty finance and in other areas, we like niche segments, be it factoring, be it leasing, auto leasing, equipment leasing, and it shares a lot of the same characteristics and dynamics. And from a risk profile, it is something that I think we are very diligent on underwriting and the conservatism. I think that from a risk-adjusted return standpoint, we see real opportunities there. But broadly speaking, right, across the DACH region as it pertains to cards.

Enver Sirucic:

Gabor, I cannot really share a lot of details. And we, as Anas said, we will provide more details in due course. But conceptually, on the P&L drivers on Knab, it is going to be the same business, so we would try to enhance with additional products and also to see if we can do something between two product factories and customer bases, but that is not in the numbers. That is potential upside that we have. It is all based on the current business model and it is all based on the expectations also of the interest rate curves in the future. So that is all in the numbers.

From a Group perspective, we will try obviously to provide support from a banking perspective in terms of central functions and that is the main underwriting thesis on that. Any more detail, we will share in the future.

Anas Abuzaakouk:

Just to add, for the €150 million, that is excluding any of the augmentation of Retail & SME products. We have a full suite of retail products and that was not factored into the figures. And that is why I think the growth opportunities are amazing, given what we already have on display in terms of the suite of products as well as the opportunities in the Netherlands and really the diverse and loyal customer base that the Knab team has. But that is not part of the underwriting.

When I mentioned the returns, I mentioned pre-tax, that is all potential upside, but obviously something that we are going to be focusing on. Thanks, Gabor.

Enver Sirucic:

I think, there was a question on the EPS accretion, I think you asked versus the buyback. Yes, so we gave a range of the capital impact, which is the 100 to 150 basis points, and we tried to make a like-for-like comparison. In a way, if we spend that 100 to 150 basis points in share buybacks at a certain price that we assumed, which is close to the market price today, then it just gives you that simple math of 2 to 3 times, right? And the range comes because there is a range on the capital impact. So, it is really like-for-like comparison between the two options.

Jovan Sikimic (Raiffeisen Bank International):

I would just have maybe to ask you to clarify whether Dexia leasing portfolio is included in the new guidance for 2024? And if you can remind us what is the capital impact from this takeover.

Enver Sirucic:

Yes, Jovan, it is included in the outlook. So no further M&A is included in the guidance for 2024. I think it is closing actually today. It is €750 million of public sector assets. The capital impact is really de minimus because these are low risk-weight assets.

Jovan Sikimic:

Okay. And maybe in the context of the Knab takeover, if you may compare, let us say, mortgage development in BAWAG in Austria and the development of mortgages in Knab in the last couple of quarters, or throughout 2023, if possible?

Anas Abuzaakouk:

I can tell you, Jovan, the mortgage development, at least from what we have seen in the Dutch market since 2019, because that is when we really started originating, has been a positive development. We have €4 billion of Dutch mortgages, approximately 90% of that is government-guaranteed, what they call the NHG mortgages. The Knab portfolio is quite seasoned.

LTV is under 60% on the portfolio, which is something obviously we like. And equally, I think important is 55% or almost 60% is NHG mortgages in that portfolio. And the way we underwrote this is at a certain spread level consistent with our conservatism on spreads and mortgages that we are originating today. So we think it is a really good compliment to what we have.

And yes, I think you were saying that the Austrian mortgages, like that was part of the subdued lending volume in 2023 because quite frankly, consumers were cautious given the rising rate environment and the volatility in rates. And I think that we will see more of a normalisation in the years.

Jovan Sikimic:

You would expect a bit of normalisation in Austrian mortgage market, right?

Anas Abuzaakouk:

Yes.

Jovan Sikimic:

But slow. Okay.

Anas Abuzaakouk:

Yes, it is going to be slower. Look at the volumes last year, right? They were down almost 50% across the market. And then a couple of the fact, Jovan, that we are very disciplined on risk-adjusted returns and we would have thought there would be more discipline in pricing, but we will see how things develop.

Jovan Sikimic:

Okay. And last one maybe on also Knab based on, I think, some press comments about purchase price and the equity base of Knab, at least I think the numbers are available for the first half of 2023. So we can speak about 0.6 price to book value. Is it?

Anas Abuzaakouk:

Yeah, I think 0.55 to 0.6 is a bit of a moving target, but yes, I think that is okay.

Tobias Lukesch (Kepler Cheuvreux):

Maybe touching on two points. One, again, this €150 million pre-tax next year, and secondly, potentially on the loan growth or the dynamic niche markets you see for 2024. Again, firstly, on the €150 million. I understand that a lot of details will come. Would just be very interesting, like how you would see the step up potentially from a 2025 to 2026, assuming that the business is fully consolidated basically from the 1st January 2025?

And secondly, on the loan growth. I mean, you mentioned that you like potential niche, that you do see a revival basically of the mortgage loan lending. My question is here, are there particular pockets where you are retreating from or have retreated from recently and where do you see the opportunity lying basically to write business, especially in H1, so product and maybe geography-wise and then potentially in H2?

Anas Abuzaakouk:

Hi, Tobias. This is Anas. I would say, there is a step function. If you just took your assumption of starting of 2025, there is a step function between 2025 to 2026. There is an element of integrating the business, but we will provide more clarity on that. But really the business as it is, is a very strong franchise. And I think we are going to be able to augment with some of the operational support from our end, in particular tech ops and the like.

Enver Sirucic:

Tobias, I was not sure if I got it right, just to clarify. The €150 million we said in 2026. I think you said –

Tobias Lukesch:

I was just wondering, like if I get in zero, in 2025 or a kind of €100 million in 2025 already, right? And what the magnitude of the step up.

Anas Abuzaakouk:

Yes, we will provide more detail. I understood your question.

I think Enver was just clarifying the 2026 piece. I said it's P&L accretive day one, but we will provide more guidance on that. But P&L accretive day one, there is a step-up function in €150 million, is what we are projecting the contribution is in 2026. Now what was the second question?

Enver Sirucic:

Loan growth opportunity.

Anas Abuzaakouk:

Loan growth opportunity.

Enver Sirucic:

Yes, I mean it is more of the same, Tobias. So we would actually like to do retail, SME, consumer, mortgages. We have seen challenges in certain markets. One of the reasons why we also decided to sell our Bausparkasse in Germany. But overall, we would like to stay in the same kind of zip code on Retail & SME. And we think there is going to be a bit of a recovery in 2024.

Simon Nellis (Citibank):

I just noticed that your US commercial real estate exposure increased slightly over the quarter. Just wondering if you could walk us through that there? But I did see that the US office exposure is down, which I think is good. And then my other question would just be about rate sensitivity, and if you could walk us through your plus 1% NII growth outlook for this year and maybe longer term where you think NII goes as rates come down?

Anas Abuzaakouk:

Thanks Simon. David, do you want to start?

David O'Leary:

Yes, so in the US growth on commercial real estate is driven by residential, and so we have seen opportunities within single family homes with warehouse lending and that is primarily the driver so low LTVs, coordinated our senior warehouse lending for single family mortgages.

Anas Abuzaakouk:

Enver?

Enver Sirucic:

Yes, on analysis, it says that, so basically the 1% guidance is raised on the current rate forwards for 2024. If you extrapolate, a simple way to think about it is the net interest margin average was 290 basis points in 2023, and we expect almost the same 290 basis points to be in 2024. So it is really a function then of the loan growth.

Simon Nellis:

And longer term, I mean as rates come down, what is your sensitivity? I think it has changed a bit, right?

Enver Sirucic:

It has changed a bit. So we initially said on the way up, 100 bps translates into €100 million. That is a lower number. It will depend obviously on the timing and how quickly the rate cuts happen. But I think we will provide more once we get a bit clearer picture of what the ECB is doing.

Anas Abuzaakouk:

Thank you, everyone, for joining. Today was a little longer, but obviously we had a lot to cover. It has been a very busy start of the year, as well as a very busy fourth quarter. I think our first quarter will also hopefully have quite a bit to review. So thank you guys for being patient, and look forward to talking to you soon. Take care and have a great day.