



Year End 2023

# **FINANCIAL**

# **RESULTS**

## **Earnings Call Transcript**

28<sup>th</sup> February 2024



## **ÖMER TETİK**

**Chief Executive Officer**

Ömer Tetik is the CEO of Banca Transilvania since 2013 and under his leadership BT has become the largest bank in Romania and South-East Europe. He is a member of the Board of Directors of BT Capital Partners and a member of the Representatives' Committee of Fondul Proprietatea. He is a strong supporter of the Romanian capital market development. He has over 20 years of banking experience in Romania, Russia and Turkey.

He started his career at ATA Securities in Turkey (Izmir) and a year later moved to Istanbul to join the treasury team of Finansbank. In 1997 he moved to Russia taking the position of Treasury and Capital Markets Department Coordinator of Finansbank Moscow. He moved to Romania in 2000, when the same bank gave him a new assignment as Deputy Vice President. Ten years later he became Vice President and then CEO of Credit Europe Bank, formerly Finansbank.



## **GEORGE CĂLINESCU**

**Deputy Chief Executive Officer - Chief Financial Officer**

George Călinescu has over 20 years of experience in banking and audit. As a member of the BT's team, since 2013, he is part of one of the youngest executive management teams from the Romanian banking system. In addition to the bank's financial team, he coordinates the data and information management at the level of Banca Transilvania Financial Group. His management style is based on supporting the coordinated team to achieve excellence.

He is a senior member of ACCA, one of the largest organizations of accounting experts worldwide. In 2019, he was named the best Chief Financial Officer in the relation with investors (BVB and AR&IR Gala).



## **LUMINIȚA RUNCAN**

**Deputy Chief Executive Officer - Chief Risk Officer**

Luminița Runcan has been part of the BT team since the beginning of the bank, namely since 1994. With experience in treasury and risk management, she started her career in treasury, and since 2013 she has been a member of the top management team.

She coordinates eight of the most challenging areas of activity in the bank, such as: compliance, risk management, anti-fraud, operational risk management. She is also the President of the Financial Markets Association.



## **AUREL BERNAT**

**Executive Director Financial Institutions & Investor Relations**

Aurel Bernat has over 18 years of experience in banking and asset management. He has been a member of the BT Team since 2005. Starting with 2007 until recently he held different positions within BT Asset Management, until 2017 when he became the CEO of the subsidiary.

As of August 2023, he is the Executive Director Financial Institutions & Investor Relations in Banca Transilvania, coordinating the International Relations and Financial Institutions Department, the ESG & Investor Relations Department and the Macroeconomic Research Department. He is the Chairman of the BT Pensii (Pension fund) Board of Directors.

## **YE 2023: Financial Results**



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## **OPERATOR**

Ladies and gentlemen, thank you for standing by. I am Popi, your Chorus Call operator. Welcome and thank you for joining the Banca Transilvania Conference Call to present and discuss the Year End 2023 Financial Results Conference call. Please note that the conference is being recorded. The presentation will be followed by a question-and-answer session. (Operator Instructions) At this time, I would like to turn the conference over to Mr. Ömer Tetik, CEO; Mr. George Calinescu, Deputy CEO, CFO; Mrs. Luminita Runcan, Deputy CEO, CRO; and Mr. Aurel Bernat, Executive Director, Financial Institutions and Investor Relations.

Mr. Tetik, you may now proceed.



**ÖMER TETIK**

Hello. Thank you very much for joining us ladies and gentlemen, dear friends. We are here to present you our 2023 Preliminary Financial Results. In the first part of our presentation, we will present the 2023 financial results, then we will continue with a brief presentation of our latest M&A transaction and then switch to Q&A, hoping to answer all your questions. The presentation is already uploaded on the Investor Relations section on the website of our bank, but if you need any further information or a follow up later on, please do not hesitate to contact our Investor Relations colleagues as well.

Looking back at 2023, but not only at 2023, over the last couple of years, I will say that we are not just only comfortable but also proud of the results that we have delivered. As you have seen, in the last couple of years, even without acquisitions, we have managed to deliver double digit growth in our lending portfolio. Deposits, our customers' deposits, have been on constant growth trend even when it was the hot topic discussed within European and US markets.

We have a very stable and healthy loan to deposit ratio. Our business growth, volumes growth also induced stable growth in net interest income. We benefited from, I would say, growth of the interest rates, but also stable current account, salary account type of funding that we have. Also,

we are mentioning this each time, except, I guess, 2020, each year we had very strong growth rates in our net fee and commission income. This is coming in the wake of several regulatory limitations or decreases in this segment. But our business growth, number of customers growth, is helping us to deliver better results, which bring us to a situation where our return on equity is very strong and we are delivering this high return on equity with also very high capitalization ratios.

I would like to let Aurel to tell us a bit more about 2023, maybe a bit about 2024. But indeed, as we said, it was a difficult year which we and most of the, I guess, financial sector managed to finish successfully.



**AUREL BERNAT**

Thank you, Ömer, and hello, everybody. I was prepared to start by telling you that 2023 was a challenging year. So somehow that's the message that you are also sending, Ömer. It was a challenging year. On the other hand, it was a good one for us. And if we jump a little bit to the Romanian economy, it seems that even if we had a robust GDP growth during 2023, it was still appreciated by both investors and the market overall because it was higher than the European average.

On the other hand, as you might see in the slides, considering consumer prices, we had a short increase or a small increase of CPI during the last quarter of 2023. We have a CPI of 7%, which, if we judge it historically, it's somehow at a level in which we see an equilibrium right now. We had this spike also in the European market, so overall it calmed down. In terms of CPI, the market is more stable now. So, from the two perspectives, we remain still confident in terms of 2024 and in terms of future growth.

In February, we had a monetary policy Board meeting at the National Bank of Romania. They maintained the policy interest rate at 7%. We foresee that, in the current environment, in which we are still waiting to see a decrease of the inflation as well as a pickup in the economic growth and in terms of interest rates, we see it as a stable level at

this 7%, right now.

From the lending perspective, even though we had a slower start of 2023, we ended up quite positively in terms of lending. The corporate lending increased in December 10% compared to the same period of last year and it is much stronger than what we saw and what we recognized in the European Union.

On the other hand, the household loans also picked up, better than the downward sloping trend of European Union, giving us by the end of the year an extremely strong loan to deposit ratio of around 67%. When I'm mentioning us, I refer myself to the Romanian landscape. From the deposit perspective, both corporate and households deposit increased double digit. From the corporate deposit side, the good thing is that a significant number of deposits are overnight, so it means that for the banking industry it is access to funding at low cost. On the other hand, as we see, it's positive compared to the European Union's level, which was negative on the corporate side and slightly positive for the households.

Overall non-performing loans ratio remained low. This is something which is, let's say, common for our peer group within our region compared to the Czech Republic, Hungary or Poland. Net assets increased to RON800 billion. Capital adequacy ratios within the Romanian banking sector continues to be well above, higher than the European level as well as in the perspective of return on assets and return on equity. The return on equity is more than 20% at the end of last year.

George, you have the floor. Thanks.



**GEORGE  
CĂLINESCU**

Thank you very much. So, from the business performance point of view, at the bank level, and also at consolidated level, we can say that the bank exceeded its target set in the budget on almost all areas. We have a very nice growth in terms of net interest income throughout 2023, both at bank level, and at consolidated level - the increase being

approximately 18%.

Net fees and commissions income increased at the bank level with almost 11%, exceeding RON1 billion for the first time in the history of the bank, we're at RON1.1 billion at individual level and almost RON1.3 billion at Group level.

On the other hand, with the increase being led by expenses in terms of staff cost and also the ones determined by the investments that we did in our increased capabilities in terms of software. And on the staff side, we can say that this is led both by the staff increases but also by the inflation in terms of salaries.

However, I would like to mention that we - even though increases in expenses were present, we managed to keep a cost to income ratio lower than last year, both at the level of the bank and also at the level of the Group, with the cost to income ratio being around 45%, which is a very good level for a bank of our side.

In terms of the evolution of the net profit result for the end of year, amounting to almost RON2.5 billion at the end of the year 2023, the bank is above the budget and almost 15% over the result of the last year. And at the Group level, this is even higher in terms of percentage evolution versus the previous year with almost RON3 billion in terms of net results for the year 2023.

When we look to the evolution of the balance sheet, we see that here we have again an overperformance compared to the budget both in terms of total assets and in terms of loans evolution, - you've seen a little bit earlier the increase in terms of loans at the level of the Romanian banking system and at the level of the European banking system. And here we can say that we are above our market average in terms of loans evolution.

And you can see in the following pages split on the corporate versus household loans and deposits, and both in terms of households and in terms of corporate loans, we are above our peers. Whereas in terms of deposits from customers, we are at par with the evolution of the Romanian market, with 15% increase during 2023.

In terms of this increase in assets, it happened in a risk-prudent way, cost of risk for the bank in the year 2023 remaining almost flat. There is a slight increase in terms of net cost of risk, to almost 0.6%, a comfortable level. Again, here we are having capital ratios that we present, including the results for 2023. Of course, the final numbers for the year will be decided after the shareholders' presentation, when the shareholders will decide on dividend distribution. But here, if you look at the capital ratios at the end of the year, the bank exceeds 23% both at consolidated and at the individual level in terms of total capital ratios.

If you look at the trends in income structure, as I mentioned before, beside net interest income, net fees and commissions income, we are also having an evolution in terms of net trading income and net gains from financial assets, which is driven by the market evolution overall. If you take these two elements into consideration, in total, you see that we have a positive evolution versus the previous year. And also, the fact that this is supported by a very strong performance in terms of loans to households and loans to companies. You see here the increase and if you take a look at this and compare it to the previous slides, where Aurel presented the evolution on the level of the overall market, you see that we are well above the peers both in terms of loans to households - where the market was around 1%, and also in terms of loans to companies - where the market moved by almost 0.5 percentage point that we have for the bank in 2023.

In terms of deposits, as I mentioned, overall 15% par with the market. This is coming from companies and, as Aurel mentioned, this is a form of funding which is cheaper because it's mostly based on current accounts and overnight deposits. We're very careful in terms of analysis of the stickiness of these deposits. And we - according to our analysis, we can say that Banca Transilvania has a very good track record in terms of core deposits for this current account and overnight deposits.





**ÖMER TETİK**

I will try to give some insight about our business performance during the last year. The ones who participated to our calls at the beginning of the year, you might remember that we were mentioning that the loan growth stalled - and the actual demand was quite low. Although we had been constantly growing our customers numbers, our account numbers, our card numbers, the loan demand has recovered with the decrease of inflation and with some stabilization, with some better foresight on the consumer side, especially on, the last two quarters. So, we see from the numbers available, that we not only increased our retail loan book - our new production was 22% higher than 2022, which brought an increase of 8.7%.

Still, we have also seen that our market share both in mortgage lending, credit cards, overdrafts, consumer lending, has increased. We are happy to have reached 3.8 million customers and 6 million cards at the end of the year. On the other end, last year, also with the boost of government-led programs and European Union-led recovery and resilience programs, definitely on the SME and corporate banking, we have seen a higher growth as compared to previous years, which is good for the economic development of the country as well, because until 2022, especially, most of the lending growth, most of the banking sector growth was coming from consumption and consumer-related loans. So, we see more and more investments which give us definitely more optimism about Romania as well.

We are the main partner of the Romanian state in government-led SME invest, IMM invest type programs or startup nation type of programs. Also, we see more funds being diverted towards infrastructure projects where we are trying to get also our market share and we expect also - as a guidance, if I may say- this growth to continue also during 2024, not only because of the programs available, but also due to the fact that having elections (not only in Europe but also in Romania), I guess there will be more projects and liquidity and ideas available in the market.

While we are proudly discussing about our business growth, very solid numbers, I would also like to give the floor to Luminița because last year it's been a lot of discussion about capital position, liquidity position with risks assumed.

And as I said, we are not only comfortable but proud of our results and what we have delivered.



**LUMINIȚA RUNCAN**

Thank you, Ömer. This brings us to the risk area where we are proud to stick to the policy of the bank which says that we are going to have a very strong and robust risk policy to be aligned with the business objectives of the bank. Everything that we are going to present to you today is very well complementing the strong financial results already mentioned by my colleagues.

I would start with credit risk management in the bank, where I would like to emphasize the fact that all the figures that we are going to present to you are based on a very robust underwriting policy which is centered on very simple but strong principles such as dispersions, for instance. We have been following this principle for quite a long period of time and we are proud to see the results of this very, very strong principle. We do not have within our portfolio any concentration in terms of business lines, exposure, products or geographical areas. We do not have concentrations in terms of values or economic sectors. And this brings me to the graph related to the cost of risk in the bank.

We are at very comfortable level at the end of 2023, reaching 0.64 basis points at Group level and 0.49% at individual level. Very steady over the past three years. The stock of provisions increased both at the individual level and at consolidated levels. The figures are presented on the graph on the right side of the slide.

If we would compare the stock of provisioning in the bank, you would see that December 2023 versus end of 2021, the provisioning stock increased by 26%, the pace in which the provisioning increased was smaller than the pace in which the loan book of the bank increased in the same period. What is to be mentioned is the fact that stage one increased in this period over 60% at individual level, mirroring and being correlated with the increase in the bank's loan book.

When it comes to the NPL, what is to be mentioned is the fact that at the end of December 2023, the bank reached a level of 1.98% in terms of NPL, which is better than the local market average by more than 0.6%. This is another reflection of the constant prudent approach of the bank that I've already mentioned. Also, I have to add the fact that even in this downward trend of NPL, the provisioning remains constant, giving us and our shareholders the comfort about the way in which we are managing the assets of the bank.

When it comes to PAR 90, the figures are presented on the right side of the slide. The evolution of PAR 90 is mirroring the evolution of NPL. Here we were benefiting of good recoveries and also by market trends in terms of loan book increase. We have observed in 2023 slight increase in terms of PAR 90 ratio, mainly in retail and SME, and this is due to the inflationary pressures that these types of clients have been seeing. But we do not have any significant concern when it comes to this evolution.

When it comes to capital, my colleagues already mentioned the fact that the bank enjoys a very comfortable capital position as it's shown in the graph. We have a very strong and stable capital base, mainly due to the fact that the bank is using for a long period of time the instrument of profit capitalization. Everything that we are presenting to you here is constructed on the presumption that the entire profit of 2023 is taken into account. And this is due to the fact that before the shareholders meeting, we do not have any information about how the shareholders are going to decide upon the appropriation of profit.

This is to be discussed in one month's time at the relevant competence. Therefore, the surplus of capital that we are seeing here, it's very comfortable in comparison to the minimum threshold asked from BT by the regulator. And this leaves the bank a good flexibility in terms of adapting its strategy to potential negative market movements or on the other hand to support the continuous ambition of the bank in terms of growth. What I would like to mention is the fact that in 2023, we have increased our tier 2 capital position as an effect of a subordinated loan that we have attracted from the market in June 2023.

Next slide refers to liquidity. Here we have been presenting to the market very strong liquidity indicators for a very long period of time. You see here the loan to deposit ratio, which stands, as at the end of 2023, at 56.7%. We have a very strong LCR and also a very strong NFSR. This is a proof of the trust that the Romanian depositors have in Banca Transilvania. More than that, what I would like to mention here is the fact that we have a well-balanced management of high liquid assets.

And the last information from this side will be related to MREL. The bank fulfilled its requirements when it comes to MREL indicator. You have been seeing us on the market last year in a couple of occasions. We are proud to show you that we have met our final requirements at the 1st of January 2024, on a total and subordinated basis. And the figures presented here allows you to see how we have done that.



**ÖMER TETİK**

Yes, although we had good internal capital generation with our profitability and a strong capital adequacy ratio even before, due to MREL requirements and new regulations, we somehow managed to open the markets. Last year in April, after Credit Suisse and other events, we were the first bank tapping the markets. Glad to see a large number of investors, institutional investors from different geographies being interested. It was a costly transaction, but also it was our aim that we should start being in the market, being present in the market and start establishing a benchmark for ourselves, a yield curve for ourselves.

As you see in the graphs presented, we managed to benefit from markets improvements in terms of cost of funds in this segment. But also we are glad that this gave us certain discipline and certain, let's say, new ideas and opportunities. For example, the EUR200 million Tier 2 that we have done with IFC and AIIB is within, let's say, the green finance, green mortgages framework that we have established - in November we finalized our Sustainable Finance Framework and we went to the markets again.

So, as you will see in the next slides, we do have a very comfortable position now, also due to the fact that we had been in the market and we established an investor base already in this segment, if needed, for similar or smaller amounts.

Now we would like to share some news from the rating agencies.



**AUREL BERNAT**

Definitely. And I would like to start with a great thank you for all the partners that subscribed in our MREL programs. I will get back to this subject when we discuss about Sustainability and I will address all the things that we have accomplished.

From the ratings perspective, we also have some great news on this side. We are rated both by Moody's and by Fitch. You have all the details in the presentation. In a nutshell, what is important that both agencies recognize our robust capital and solid profitability with ample liquidity. We had the feedback from Moody's that BT has adequately managed risks despite the general news, that we have appetite for growth both organically and also through acquisitions. And you have some references towards the OTP acquisition which most probably will hold up more minutes at the end of our presentation.

On the other hand, you have all the details from Fitch rating agency which reaffirmed its long-term rating of BT at BB+. And it also considers the acquisition of OTP as being neutral for the credit ratings and modestly strengthening our position as a leading domestic lender.

Going towards sustainability I will spend a couple of more minutes on our MREL program because it is closely linked to sustainable finance. During 2023, we published our first sustainable financing framework in November, which was endorsed by a second party opinion. We attracted EUR 500 million, for our first sustainable bond out of which 87% was subscribed by investors with dedicated ESG investing policies.

This is the moment in which I would very much like to thank all our partners, meaning both externals and as well employees of Banca Transilvania, for whom, at least it was the first project of this kind. It was the first issuing year of MREL. And also, to all partners in more than 20 countries which subscribed to our MREL program.

Overall last year we issued EUR1.5 billion. We had during our last issuance more than six times over subscribed book which was extremely relevant. And also thanks to all the IFIs that supported us and - which support, further on, will also be relevant and significant.

For more ratings and scores, you have a list of improved scores from Sustainalytics, from Refinitiv, for instance, we had a score of 81 out of 100 which places us on the 49th place out of more than 1,000 banks worldwide, 3.5 out of 5 from FTSE Russell. Also, we have a maximum score granted by VEKTOR, from ARIR, from the Romanian Investor Relations Association, for the fifth consecutive year. And also during November 2023, we joined the Diversity Charter.

We were part of the community as well. We are committed to support Via Transilvanica which is, by the way, an open invitation for all of you who wish to visit in a non-traditional manner Romania. BT was the main partner of the European Cultural Capital in Timișoara last year. And we launched a program named FIT - Finance for All (Finanțe pe înțelesul tuturor), a financial education program that would be the foundation in, let's say, money management, asset management and so on for the young generation.

From our financing impact over the last year, you see the green loans that we granted to companies during 2023 which amounted to more than RON1 billion, 40% higher than what we had in 2022. Also, the renewable energy projects increased by 200% while special climate projects including water, water efficiency increased four times. Overall production of green loans for 2023 up to 2025 will be targeted at RON3.5 billion.

From the retail perspective, our green portfolio is represented by 15% of mortgages granted last year which qualify as green mortgages, and we are emphasizing this aspect.

Some interesting numbers are those from leasing financing which are granted by BT Leasing. Namely, we can proudly say that one in every two-leasing financing is addressed towards electrical vehicles or hybrid ones. And overall, 30% of the total leasing portfolio is composed of electric/hybrid vehicles.

Another slide, from the sustainability point of view, this is something traditional that we are presenting to you namely are the two specialized divisions, in which we are extremely successful, namely healthcare and agriculture. In healthcare, we have an over 40% market share in health financing with more than 70,000 customers. On the agriculture division, we are the first bank in Romania with a dedicated division, more than 20% market share and 40,000 customers. We believe in this type of engagements because they are both sustainable, but on the other hand, they give us a sustainable base of customers with, let's say, particular needs, that can be well covered by the bank.



**ÖMER TETİK**

So, while we are very proud of our physical network with more than 500 branches throughout the country and we believe that this gives a better chance of financial inclusion and chances of business growth, we are also trying to offer the best-in-class technology, both in our branches, locations, but also during an interaction with our customers. BT Pay, which we launched as an internally developed wallet application, is becoming more and more our online digital banking interaction channel with our retail customers. Already 60% of the cards issued by BT are enrolled in BT Pay. We also have different types of accounts like round-up accounts, savings accounts, exchange rate, foreign exchange transactions, travel insurances, all available through BT Pay. And we have seen almost 30% growth last year in terms of users.

We are also happy to see that more than 100,000 - almost 105,000 teenagers are customers of BT Pay Kiddo. They are our future customers. Hopefully, we are learning from them also, because we are enhancing the capacities of BT Pay based on the observations and feedback we receive from



the customers. This aspect made it one of the most used and highest rated digital banking apps in Romania.

On the other hand, at the end of last year, we have launched BT GO, an app for our corporate clients – starting with small SME customers. In the future it will be kind of a BT Pay equivalent for corporate banking segment. There are already more than RON 1 billion payments in the application. But one of the strongest parts of the application is that we also help our customers, especially small businesses, to issue their invoices online, considering the desire and also ambition of the government to increase the digitalization of the economy and to decrease the cash in circulation. This is - when it was brought by the new fiscal legislation, the obligation to issue invoices for all companies. Most of the small businesses, micro businesses, were not ready for that. So, our application automatically helps those business on this matter and we are developing it. This is, as it was BT Pay five, six years ago at the very beginning, it's baby steps, but growing exponentially. And we believe that it will be also another success on the digital growth journey for our bank.

We are also a pioneer in instant payments in Romania and it increases our business volumes. It attracts more customers to us because we are the first and most widely available bank to do so. And also it helps us with the operational efficiency that we are searching for.

Coming to our financial group, I would just remind that our one of the latest acquisitions, Idea::Bank Romania, was recently rebranded as Salt Bank. Salt in Romanian means jump, leap and we are targeting to offer a leap, jump in their experiences of interaction with the bank that they have. It will be a competitor to BT and we are targeting to launch their first application, digital banking app, towards the end of March or beginning of April.

Other than that, BT Asset Management, BT Leasing, BT Mic, (BT Microfinanțare), BT Capital Partners are already the market leaders in their segments, either the largest financial entity in that segment or one of, let's say, one of the ones on the podium. We see also good opportunities of growth and we are investing a lot in BT Pensii. Victoriabank, on the other hand it's self financing, self-managed



profitable institution, small asset that we manage with the local management there together with EBRD. But when we look at the, I'd say, 2024 numbers. We have seen also some questions. We will start answering them immediately.

We are committed to offering similar growth numbers. I was recently listening to a podcast by a prominent investor and he was saying that there are some companies under promising over delivering. Sometimes I have this feeling that we are much more prudent than the market's opportunities. But on the other hand, with all the challenges geographically, geopolitically and macroeconomically around us, I think it's good to be prudent. We believe that we are trying to be more realistic. On the other hand, this year, in 2024, we are committed to delivering similar numbers -- similar growth in our numbers that we have delivered so far.

I will switch to OTP acquisition and then in Q&A also we have seen already a couple of questions related to that. OTP Romania owned by OTP Group Hungary, is the 10th largest bank in Romania with almost RON21 billion assets. It's a profitable bank operationally, with 400,000 customers. It has nationwide presence and also it is very strong in Central Romania and in Bucharest where we are looking forward to increase our market share.

Their profitability was lower than our bottom line because of the funding cost - because of their high loan to deposit ratio. So, when we just look at that with a good retail and I mean diversified and strong healthy retail and SME banking portfolio, 400,000 customers, it's a very good acquisition, very good placement for our excess liquidity, excess capital. And it will help us to create a lot of synergies.

Most of the details about the synergies will be presented after the closing. We try to refrain from mentioning anything certain before the closing, not to put ourselves in a difficult situation in front of the Competition Council, of the National Bank of Romania or other authorities.

But among, let's say, all the target discussions or options, this was the best one that we could ever get. We have acquired not only OTP bank, but also OTP Asset Management and OTP Leasing. OTP Leasing had been one

of the highest growing leasing companies. And OTP Asset Management, their fund management, asset management is something that we like. And we have seen also that this time we are not acquiring only businesses, also our customers and very competent people. We like the idea that it's a small, but high growing bank. They have the hunger and the dynamism that we are always looking for. That's why we will also have access to a very good base of personnel, new colleagues there.

But as I said, the main interest was their healthy and large loan book which we can finance by ourselves. And then, also their geographical distribution which gives us upper hand in some of the geographies that we want to grow.

There is a pro forma of numbers that are presented here in the presentation. We will discuss, most people will ask in the Q&A, but we think that besides the bargaining gain and let's say short term synergies, the main thing is that in the medium term and long term, there will be a lot of cost and revenue synergies that we will generate. It's a very good and accretive transaction for our Group.

Timeline is a bit more different than what we have experienced so far. Usually, we had been signing SPAs in the autumn of a year and then merging the bank fully operationally and legally until the end of next year. So, considering the fact that we signed the transaction on the 9th of February and we are now in the process of obtaining the regulatory approvals and there are a couple of more transactions in the market, as you know, so it will make authorities much more attentive on all the details.

We think that in case we will manage to get – obtain - the regulatory approvals in the second quarter of this year, latest during next year first quarter, we should be finalizing our merger, as I said, both operationally and legally. We will not run another banking entity, but also we are comfortable that our team, our internal resources, but also the partners that we work with, we have gained enough experience. This is a table that when we look at, we also understand what we have done and what we have managed in the last couple of years. Since 2015, starting with Volksbank, continuing with Bancpost to Idea::Bank, to Victoriabank, BCR Chişinau, OTP bank, we have strong experience in banking acquisitions

and integrations.

We have acquired Capital Partners, Țiriac Leasing, Certinvest Pensii which became BT Pensii, Idea::Bank with Idea::Leasing. So, in the segments of interest, we are becoming market leaders not only in banking, but also our people are well trained and experienced to make quick and efficient integrations.

I wouldn't go to details of the financial numbers. That's you are as good as we do. You can read and can interpret.

We have the questions here in front of us. We will try to answer as many of them as possible. If anything is missed or we are not clear enough, please do not hesitate contacting our Investor Relations, as I mentioned.

## QUESTIONS & ANSWERS



**ÖMER TETİK**

I have a question here, if I may continue, from Hai from Concorde asking about the risk environment in 2024. How do we see it.



**AUREL BERNAT**

We have some support, technical support, in order to read the questions, if you wish.



**ÖMER TETİK**

We will go ahead like this, following this question. So, reverting to the question, lending activity: we are assuming we'll continue strongly, especially on the corporate banking and SME sectors. In retail, we are expecting similar numbers to last year. But, on the other end, as I said also during the presentation, my colleagues also mentioned, it's an elections year so there will be a lot of support programs, there will be a lot of infrastructure investments. So, it will be a strong year in terms of lending most probably. Hopefully, we will have the capacity not only the banking sector, but as the country, to execute most of these opportunities.

**OPERATOR**

The second question comes from Miguel Dias with Wood & Co. And I will read the questions in groups: "In terms of rate cuts in 2024, how many cuts do you currently expect and by when?"



**ÖMER TETİK**

We were discussing this aspect, last time, in our teleconference. National Bank of Romania didn't act with their policy as fast as Western European or Central European Banks (ECB), or Fed. The belief is that they will be also following the policy approach, because as their last monetary policy report indicated, there is expected GDP growth, very much supported by consumption. So, they don't want this to impact severely, negatively inflation numbers, not to create a vicious cycle. That's why, although we think that Romania will see some rate cuts (reference rate cuts) this year, we don't expect it to be very frequent and too sizable. Last time, when we were discussing this topic, for end of September results, there were expectations of Fed or ECB rate cuts to happen even before year end or at the beginning of the next year. We see that this is not happening, that's why we refrain from making assumptions. But definitely, when we made the budget and we gave this guidance, we are expecting around 50 basis points cut this year.

## OPERATOR

The next question is from Anton Berg with Coeli: “Thanks for the great results. Well done. Can we expect any provision reveals in 2024?”



**LUMINIȚA RUNCAN**

As regards to provisions, we do not expect increases in the provisions of the bank. Maybe we are going to see some sort of reversal depending, of course, on the market evolution, but the impact of either action is not going to be significant.



**ÖMER TETİK**

We were increasing our provision coverage and we are each time repeating that. Considering that we are a retail and SME bank, it is normal to have cost of risk closer to 100 basis points. But thankfully, due to good management, diversified portfolio and good customer behavior, we didn't experience this. It helps. In Romania we don't have unemployment. Unemployment is technically zero. So, people being paid, they also paid their dues to the banks. But we don't expect revenues, incomes significantly from provision reversals. We will grow our business and we will create hopefully new health risks which we have to cover also with our provisions. And we don't have big tickets to be recovered.

## OPERATOR

The next question from Miguel Dias with Wood & Co. And I quote: “Costs came a bit hot. Was it just due to inflation or as well headcount increase? What is the headcount at the year-end please? And a second question. Non-loan loss provision. Why did you book such a big amount and what does it relate to? Legal provision perhaps due to OTP acquisition, meaning you are inheriting their legal issues or perhaps the Volksbank case?”



**ÖMER TETİK**

I will let George to develop further, but as he mentioned, indeed our OpEx growth came especially on the bank side from investments that we pursued, but also 5% increase in the headcount. I mean our headcount increased 5%, not as much as our OpEx increase, but there had been pressure definitely on the wages side. We have closed the year with at around 10,000 colleagues. I don't have the exact number, but around 10,000 employees. We are considering that, instead of being focused on one single indicator, we are focused on many of them including the growth numbers of expenses, including per employee efficiency, how much our business grew, how much our headcount grew. But also, we are looking at our cost income ratio which is still, I would say, healthy.

And the non-loan loss provisions actually with the last question that you asked, you answered your own question I would say, Miguel. It is related to the Volksbank case, nothing related with OTP acquisition. I mean the price of the transaction, if we will close it and we will book it, it will include this kind of provisions itself. It will not be - we will not provision it before the merger under BT's books.



**GEORGE  
CĂLINESCU**

I can go a little bit into more detail. So, we indeed have around 10,000 colleagues. We're 9,500 active employees at the end of the year. And to develop it a little more on the Volksbank case, we have provisioned partially the interest and penalties related to the Volksbank case. Again, following up on a prudent approach that the bank has been showing in the last years, even though we have good chances to still turn it around in the next legal phase, let's say, - events that will happen on this case because this is not finished. We have decided to provide partially that amount and in the financials we will put a lot of disclosure around this, as usually.



**ÖMER TETİK**

Yes, this as well, I guess, as is the question of Robert from PKO Bank and Securities is asking the same thing. So, it is related with the Volksbank case that is still going on. We can go on to the next questions.

**OPERATOR**

Continuing with Miguel Dias: “CoR came in a bit higher than the lower end of the guided range 50 bps. Why was that? Are you starting to see some signs of asset quality distress? What is the NPL, EBA definition figure as of 31st December? And could you please provide some guidance on outlook for 2024?”



**LUMINIȚA RUNCAN**

So, answering to Miguel question, we will provide you the NPL, EBA definition figure via email, so you'll have it on your desk immediately after the conference. And when it comes to the cost of risk, I've already answered the question in my presentation. So, we have seen some signs of deterioration in terms of NPL on retail and SME, but so far we do not see them impactful. Thank you.



**ÖMER TETİK**

And actually our NPL, as per EBA definition, at the end of the year is below 2%. It's 198 basis points if that was the question.

And we don't - we don't see any increase in that. Also, we also know on our skin that the local regulator and international regulators are very closely following this indicator. More details Miguel, we will try to supply through the Investor Relations team. Let's go to another question.



**OPERATOR**

A final question from Miguel is: "Could you provide some insight on the deposit spike in Q4 2023? Why it happened? Is it outflows from smaller banks to BT? I can imagine why it happened but would like to hear your take on this. Thank you."



**ÖMER TETİK**

There is a positive seasonality cyclical movement. At the end of each year, we see our deposits, especially due to the holidays period, shopping and credit card payments, us having the widest POS acquiring network as well. And we are the main bank of SMEs, the highest salary card paying bank in the country. So, this with the highest number of salary accounts. We always see, at the end of the year, an increase in the deposits which somehow start to decrease, not aggressively, but a part of it, at the beginning of the next year due to tax payments or different other payments. This is, because of our business growth, this year the growth had been even faster. So, we are just happy for it because it impacts not only 2023, but also 2024. It brings in lower cost of funding and higher net fee and commission income for us. Thank you.

**OPERATOR**

The next question is from Robert Brzoza. And I quote, "Could you provide some additional color on your dividend policy outlook to - especially in light of the OTP- Romania acquisition? Thank you."



**ÖMER TETİK**

I don't remember by whom, but there were a couple of questions on this topic. Namely, if OTP is a cash transaction, yes, we don't need to tap the markets. We don't need to borrow or ask capital from shareholders for the acquisition of OTP, first of all. Second, OTP itself is a regulated bank, a regulated group. So, they had been also maintaining high capital ratios in Romania and at the Group level, including



also respecting the MREL requirements.

So, there will be some temporary impact, but it will not change our business plan or game plan too much. We will be proposing the new structure of cash and share dividends soon to our Board of Directors, which should be approved by shareholders. But I don't want to necessarily mention a number. On the other hand, if you look at our guidance and some of the numbers that we presented, you can understand. So we think also in the wake of what's happening all around Europe with the banks' buybacks and cash dividends, we understand the expectations. And, I'll say, within our - business growth plans, we will try to comply with the expectations, but I don't want to tell a number. But we will - at least what I can confirm, we will not propose stopping dividend payments or giving up on the dividend payments this year.

#### **OPERATOR**

The next question is a follow-up question - from Simon Nellis with Citibank. And I quote, "Can you please indicate the targeted cost synergies and any revenue synergies from the acquisition of OTP- Romania?"



**ÖMER TETİK**

At this point in time, we don't think that we could enter into the details. Again, looking at the transaction price versus their reported financial data, you can get some idea about the bargaining gain. You can, I'll say extra liquidity, excessive liquidity versus their loan book gives a good idea about also revenue synergies.

As I said they have 100 branches over 1,700 employees in the bank. We also need to grow. So part of their network will be maintained, there will be also colleagues at their head office that we consider suitable for our needs, but details about the synergies and the transaction structure and how we see the next integration and post integration period, we will be able to provide you only after the closing

of the transaction, once the assets belong to us, because otherwise we'll be discussing about the bank of some other shareholders. Exactly, we are discussing about competition now.

**OPERATOR**

The next question is from Daniela Mândru Petrovici with Swiss Capital. And I quote, "Could the acquisition of OTP and the resultant had increase in capital requirements potentially restrict the bank's ability to contribute cash dividends in the future?"



**ÖMER TETİK**

Thank you, Daniela. It's always pleasure also reading your analysis, not only about us. But the answer is very short. No, I mean, it doesn't restrict our ability to pay cash dividends.

**OPERATOR**

Your next question is from Cristian Petre with NN Pensii. And I quote, "Hi, bargaining gain from OTP will be taxed. Can you detail a little bit on loan growth for 2024 and on fees and commissions?"



**GEORGE  
CĂLINESCU**

So, from the point of view of taxation, I think it's clear that starting with the year after we acquired Volksbank, bargaining gain is not taxable. That's actually one of our arguments, in the ongoing legal case, that actually the spirit of the law was not clear and they clarified it in 2016. So, no bargaining gain is taxable starting with 2016. Therefore, for OTP, this will not be taxable.

You remember that on Bancpost, the bargaining gain was

quite small. We didn't have an issue with anybody from the tax authorities from that point of view. And then, when we move on to expectations for 2024, we do expect to have double-digit growth in terms of net fees and commission income. Our business is growing, our number of clients is growing. Our channels and the way we work with our clients and the products that we put on the table for them to use, payment channels are increasing, so we do expect a double-digit growth. And also, on the loans side, we expect a growth maybe not that high as it was for the year 2023, but we expect to grow in line with the market in Romania during this year as well.

**OPERATOR**

The next question is from James Bannan with Coeli. And I quote, "Why is the forecast CAR so high, 27%?"



**GEORGE  
CĂLINESCU**

James, I think we mentioned both myself and my colleague Luminița in the presentation. 27%, it's a number. It's before we have the shareholders meeting where we decide on the distribution of cash dividends, if there will be any. So that number will be subject to discussion in the shareholders meeting and after that we'll know the final number for the year 2023. Yes, and we've put in pro forma the entire profits for the year 2023, in this computation.

**OPERATOR**

We have a follow up question from Daniela Mândru Petrovici with Swiss Capital. And I quote, "Given that the annual weighted average rate for MREL eligible bonds and subordinate debt issued in 2023 is approximately 8.6%, what strategies do you intend to implement to lessen the effect on the net interest margin?"



**ÖMER TETİK**

Definitely our household liquidity position is comprised of several things including zero interest bearing current accounts, savings accounts, but also this expensive MREL bonds. We have increased our lending. We are also looking for opportunities of lending partially in foreign currency, although we don't have much appetite there. Also, our latest, let's say, transactions that we did in the market with our bond issuances had been at lower level. So, from now on, we will be forcing or decreasing the cost of borrowing there, while maintaining a high growth of assets, including acquisitions where we can place our funds and partially benefit from different hedging and forward instruments that we can use also in terms of local liquidity.

There are a lot of repeating questions. For the sake of time, I will try to gather a couple of questions. Anything that we don't answer, please excuse us and we will come back if we miss anything, but I think we don't need to go over the same questions. I see that there is a comment about the OTPs synergies, respectively when they kick in. There will - OTP itself- will exist hopefully after closing only for a period of six months to nine months, so it will be mainly impact in BT's books, but we think that the impact will be seen mainly next year.

This year part of the bargaining gain definitely will be also, I'll say, diminished by the cost items of integration that we will incur. Therefore, we think that the positive impact will be seen once we have the legal and operational merger of both banks. Cristian Petre from NN Pensii is asking about the banking tax. 2%, did we give any guidance?



**GEORGE  
CĂLINESCU**

We didn't until now.  
We can estimate. I mean, our estimation for the year 2024 is around RON200 million impact.



**ÖMER TETİK**

RON200 million. So, it is less than or at around EUR40 million impacted for this year.



**GEORGE  
CĂLINESCU**

But again, this is an important point that we want to take, because maybe you'll see it in the first quarter. There is a big debate with the auditors, with the Big Four companies, where to put this tax. And the current opinion is that it shouldn't stay in income tax at this point in time. So, it may hit the operating expenses line in terms of other taxes. So, fortunately, this treatment will be agreed for - by the auditors for all the banks in Romania. However, it may affect the way you look at different banks from the region from that point of view because other banks don't have tax on turnover.



**ÖMER TETİK**

There are a couple of questions as regard to government bonds, how we book and the change in equity numbers. There is a question from Simon related to how our equity increased more than the operations numbers. Actually, it is kind of related, because as we were mentioning each time and this had been our policy strategy. Our fixed income instruments are kept as available for sale. They are marked-to-market on a daily basis. So, the negative or positive impacts we can see under equity immediately. So, our story was never similar to what was happening in different banks in the US or Europe where they were keeping them as held-to-maturity, but not doing market-to-market. That's why, I would say, better interest environment in the last quarter decreased the negative impact of the portfolio, which helped us to increase our equity.

So, this is the main item and I would say, in our financial reporting, you can see very clearly what is this impact, the definition of it and how our auditors are also seeing it. And we think that it was safer, more prudent, and it helped us to

increase our credibility during tough times last year when we went to the markets for MREL instruments the fact that we are having this, I'll say, available for sale policy.

And there is another question, if we will see a gross profit of EUR100 million or not from OTP transaction? I don't want to comment on the bargaining gain, as we call it. As I said, you will see it after the closing, we will go to our shareholders for the approval of the merger. More details will be provided there. After each acquisition, we, the buyers, need to make an analysis of the real net asset value, that will be, kind of a purchase price analysis which will be done by a third party as well, this evaluation.

Yes, there is a bargaining gain but I don't want to mention now the number. But this is not a commodity that we sell or we buy. We are going there mostly for the customers and for the long term relation, because when we look back also to the long list that we showed to you with Volksbank, with Bancpost, with Idea::Bank and so on, we have seen that over 80% of the customers remain with us and they even increased the number of products and services that they were getting from the previous bank. Now they have more products and services from BT. So, this is our aim, to create medium- and long-term value.

There are questions in the pool about cost of risk, net interest margin, cost-income ratio. Some answers, partially, we have put them in the presentation. For the rest, our GSM with the budget proposal, it's, I'll say, under construction, mostly finished, but we are still doing the final detailing on that. So, in terms of basic guidance, I will say that in terms of business growth and in terms of revenue growth, we are targeting a similar path compared to 2023 in most of the numbers. We don't expect a jump in cost of risk. We don't expect a jump in NPLs. Because as I said, in Romania now, the problem is not job creation or unemployment. It's not comparable to previous crisis in 2008, 2009 or even earlier.

Romanian economy is functioning, growing. Businesses are recruiting, they are paying salaries. Inflation is stabilized. And also, although it's not nice to live in an inflationary environment, we have been recently going out of inflation environment. So, we are kind of well trained in terms of Romanian population and Romanian companies to adapt

ourselves, which you have seen in the GDP numbers, in the macroeconomic numbers and also in the total numbers of the financial sector.

As I said, if we skipped any questions, please excuse us and please allow us to revert back to you. We will try to provide detailed answers, but all the questions, as far as I see are mostly repetitive ones, similar to the ones that we already answered. On the other hand, soon, as I said, you will see also our budget proposal for 2024. And in general, starting with our customers, investors, and staff, I can assure you that we will not disappoint anyone, as always, this year.

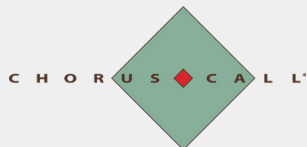
Thank you very much for listening to us.

## **YE 2023: Financial Results**

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