Transcript

Q4 and Full Year Results 2024

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Speakers:

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Christian Dagrosa, CFO and member of the Management Board

Hubert Spechtenhauser

A warm welcome to everybody on this call on the quarter four and full year results of 2024 for the ProCredit Group. My name is Hubert Spechtenhauser. I'm the chairman of the management board. As always, I'm joined by Christian Dagrosa, our chief financial officer. It's a slightly more extensive presentation today, and thus plan some 40 minutes to cover today's call. As always, the presentation is also available on our website. We will, of course, give sufficient time for any questions you may have.

Let me also provide you with the usual warning to pay particular attention to the cautionary statements regarding forward-looking comments that you will find at the end of the results presentation.

We have the usual structure to today's call. I will take you through the sections covering the highlights of this year, as well as the outlook. Christian will take you through the details of our financial results, credit risk and asset quality indicators, as well as developments in the group balance sheet and capital.

It has been exactly a year since we presented to the capital market our ambitious growth and scaling strategy for the coming years. In a nutshell, this strategy foresees strong top line growth, specifically in some of our smaller banks, focusing lending on lower-volume segments and in deposits on a higher contribution from private individuals. To achieve this, we are aiming to complement our positioning as a leading MSME bank in the region, with an attractive, accessible, and comprehensive offering for private clients.

Our priorities for the financial year 2024, we are to make good headway on our growth path and to move forward important investment projects that will create a sustainable foundation for the scale we are aiming for, by delivering attractive financial returns in the meantime. From the perspective of our strategic priorities, the financial year 2024 has been an overwhelming success. Absolute growth was at historic high levels, both in terms of loans and deposits, and we are fully on track with our strategic investments. At the same time, our financial results were solid and allow us to plan an attractive dividend proposal for the upcoming AGM.

This year was not without challenges, though. In Ukraine, conditions for lending remain obviously difficult. Thus, we continue to be very cautious and do not nearly seize all business opportunities presented to us. Similarly to the financial year 2023, a short-term announced 50% profit tax on banks reduced our return on equity by approximately one percentage point. And in Ecuador, the economy and banking sector, we are faced with substantial challenges in 2024, and our banks contributed more than minus €10 million to the consolidated result. Given the extraordinary circumstances in Ecuador, and the fact that our business there is outside our core region of Eastern and Southeastern Europe, you will find some KPIs in this presentation presented with and without the contribution of Ecuador.

In broad terms, we have been able to deliver on our guidance, despite the headwinds I just mentioned, with the exception of the cost-income ratio, which stood at 68% at year-end, Christian will provide more details, but the increase in this KPI is largely driven by higher costs related to the strong investments in growth catalysts. Especially in terms of hiring, we are ahead of plan, as well as the negative contribution from Ecuador. Without the latter, the ratio stood at the level of 65%. Loan growth was at a strong 12.6%, and even higher in most banks. Half of our banks in Eastern and Southeastern Europe achieved growth rates of more than 15%.

The return on equity of 10.2% was in line with expectations, as we had already narrowed our guidance corridor in quarter three to that value in anticipation of the Ukraine tax and in reaction to the underperformance of Ecuador and the strong progress made on some of our strategic investments. Our CET1 ratio at year-end was at a comfortable level of 13.1%, however, decreased in quarter four, as high inflows of excess liquidity in November and December led to a temporary increase in risk-weighted assets in quarter four.

Our business growth was not only convincing in the top line figures, but also, and even particularly, when looking at its composition. Approximately two-thirds of the €783 million loan growth came from our lower-volume segments, micro and small enterprises with exposures of up to €750,000, as well as private individuals. Our smaller banks in Southeastern and Eastern Europe with loan portfolios of less than €500 million grew by a strong average of 18%. In these entities, we see the highest upside from scaling our business in the medium term. We were also able to add more than 5,000 active business clients to our network, which now encompasses almost 75,000 dynamic, fast-growing, carefully-selected MSMEs, underlining our position as a leading commercial bank in the region.

Most key developments to our retail banking infrastructure are yet not finalised. Nonetheless, even without the effect of these investments, our business results in retail have been nothing short of remarkable. Deposits from private clients grew a strong 18%, contributing more than 50% to the total deposit growth of €1 billion, and loans to private clients grew by more than 200 million, which, on an admittedly small basis of just above 600 million, corresponds to a strong growth rate of almost 35%.

Private client numbers grew by 11.7%. Here, we still see substantial upside in the years to come, as we enhance onboarding processes, improve our offer, and strengthen our positioning. Furthermore, in 2024, loan growth in retail has continued to be somewhat focused on lower margin housing loans, while new deposits from private individuals came, above all, in the form of term deposits.

A quick view on the key investments we have undertaken in 2024 provides a sense of the scale of the transformation we are aiming for. Staff numbers grew by 19% year on year, across all entities and all functions, however, with a strong focus on our front office. We are undoubtedly ahead of our strategic, already ambitious, hiring targets, which is an achievement given the tight labour market conditions in our countries. On the other hand, staff has been the most substantial cost driver in 2024. Christian will cover the details.

We added six new, fully-fledged branches to our network from which we now serve clients in fast-growing regions, which previously we attended remotely. Further, we increased the number of our service points by 41, some of them brand new, others modernised, enlarged, or staffed, largely in downtown areas, to increase visibility of our brand and accessibility to our services for our private individual clients.

The efforts in IT are visible by the increased budget, both in terms of expenses to externals, mostly in the form of licenses and other services, as well as the budget of our IT company, Quipu. From both perspectives. We see increases of around 30% to further enhance our digital offering for MSMEs and, above all, to significantly expand our retail infrastructure, from loan origination tools and scoring models, to enhance digital onboarding capacities and improved mobile banking features. Lastly, our marketing budget also increased by around 20%, predominantly to alter the perception of people in our markets that poor credit is purely a bank for businesses.

Moving on to impact, I will not dwell on this side as we define our positive impact much more broadly to all the assets of our business. Our achievements, actions, and targets cannot be summarised in the limited time behalf, but as always we do encourage everyone to read our Impact report, which will be published in quarter two, as well as the extensive disclosures in line with CSRD in our annual report. We are focused on advancing our net zero strategy, for which we aim to achieve a net zero emission portfolio by 2050. The first milestone in this ambitious endeavour will be to assist those SMEs, which account for 28% of the emissions in the group's portfolio, in setting their own science-based targets by 2027, and then I accompany them throughout the transformative journey in the years ahead.

To that end, we began rolling out our CO2 calculator in 2024, which will help quantify emissions on the level of the client. A challenging proposition, in particular in the context of our markets, but necessary, is sound emission targets cannot work without accurate measuring. Beyond that, we feel reaffirmed every day that we are supporting the right businesses throughout our impact-oriented approach, which are often inadequately served by other banks, businesses who innovate, pay taxes, invest in modern technologies, create formal employment, and teach important skills, and thus add to the social, economic, and environmental transformation of our region.

And the outlook for that region remains overall very positive. GDP growth rates are expected to be around 4% in the coming years, this particular upside from tourism and increased near-shoring of production. In Ukraine and in Ecuador, the overall situation remains, of course, challenging. While bringing peace to Ukraine is, of course, desirable, we believe that any efforts to that effect must be linked to credible security guarantees for the country. In Ecuador, a once-in-a-century drought has come to an end in January, and the country is looking to recover from the strong economic disruptions that it caused.

A much deteriorated security situation and tight market liquidity will remain major concerns for the year 2025. ECB rates have come down in the course of the last month, and many local policy rates in Southeastern Europe have seen similar downward movements, leading banking sector profitability to somewhat contract. Contrary, policy rates in Eastern Europe are now starting to increase again due to growing inflationary pressures, specifically in Moldova and Ukraine.

For 2025, we expect our loan portfolio to continue developing dynamically and grow by around 12%, with a similar composition as in 2024, that is predominantly lower volume segments, and particularly strong growth rates in smaller banks. We plan to finalise most of our strategic investments in 2025, which means that we expect the cost-income ratio to remain around the elevated level recorded in 2024, before scaling effects can begin to materialise. We feel comfortable about our strong portfolio quality, both due to the good clients we have, as well as the overall benign market conditions in the banking sectors of our core regions of Southeastern and Eastern Europe, excluding, of course, Ukraine.

Further, the continued high level of management overlays, which amounts to approximately 33% of total provisions, provide a good backstop for any portfolio deterioration. In view of all these developments, we expect a return on equity of around 10% for 2025. With the strong envisioned portfolio growth in mind, we expect our CET1 ratio to remain at a level of around 13%, and obviously stick to our dividend policy of paying out one-third of the consolidated results.

We believe that our significant progress made in 2024 provides for a strong basis to confirm our medium-term outlook. We plan to grow our loan portfolio to a volume of €10 billion, which will allow us to realise important scaling effects and bring the cost-income ratio to a level of approximately 57%. Our return on equity ambition of 13% to 14% does not include any upside potential from broader reconstruction efforts in Ukraine, which would allow us to re-engage and grow boldly in a market which has historically provided very attractive returns.

We see an upside to our return on equity in debt scenario of around 1.5 percentage points. Throughout our ambitious growth path for the upcoming years, we remain committed to our dividend policy. With that, I will now give the word to Christian, who will give you more details on the group results.

Christian Dagrosa

Thank you, Hubert. And good afternoon to everyone also from my side, and welcome to our presentation. Let me be brief on growth, as Hubert already summarised the key points on that matter. Overall, we grew our loan portfolio by a strong 12.6% and, in quarter four, by 3.3%, to a total volume of now above €7 billion.

At the beginning of last year, we set ourselves the goal to increase the share of low-volume segments in our loan portfolio from 42% to at least 50% in the medium term. With this ambitious balance sheet transformation, we seek to reduce concentrations, strengthen margins, and optimise risk-weighted assets, while being in a better position to strictly enforcing our house bank principle. As a top line growth of 12.6% was achieved above all in these segments, we were able to make good headway in this transformation process, showing a 2.5 percentage point increase in the share of low-volume segments year on year. In small, we grew by 11%, in private clients 35%, and in loans to micro enterprises by 56%.

Further, we achieved strong growth rates in our smaller banks, to which we count Albania, Bosnia, Romania, Georgia, and Moldova, on average, 18%. In these banks, as Hubert said, we see particular upside to scale in the medium term. Business client numbers also grew strongly, as highlighted by Hubert, as we intensify our client acquisition activities also on businesses who do not have any immediate financing needs. These clients bring deposits, strengthen our fee business, and form a long pipeline for future loan growth.

Green loans grew by 6.8% to a level of almost €1.4 billion, which corresponds to slightly less than 20% of our loan portfolio. Let me expand on this. For many years, the share of green loans in the loan portfolio was the group's most important non-financial performance indicator. In 2023, the longstanding, medium-term target of having a share of over 20% was achieved and remains today one of the most distinguishing factors of our group in the banking world. Needless to say, green loans will remain a focus area in our business and impact strategy going forward.

At the same time, our updated business strategy envisions greater diversification of our loan portfolio through lending to small and very small businesses, as well as private clients. In this client segments, we see less appetite and less potential for green loans, as it is ultimately larger businesses have the know-how and capacity to advance larger investments in green technologies.

As we're zooming in on our hard commitments to the Paris Agreement, we will gradually focus our reporting more on advancing our Net Zero strategy to which green loans obviously remain an integral part, as they help clients achieve their emission targets. And, of course, we remain committed to restricting our energy project financing activities to providing financial support for renewable energies only. That means no loans for any energy projects related to fossil fuels.

Similarly to loans, we are seeking to transform our deposit structure in the coming years and bring up the share of deposits from private individuals to more than 50%. It is clear that in order to move forward our ambitious scaling agenda, we will depend increasingly more on retail deposits, which represent the biggest source of refinancing in our banking sectors. Here too, we made good headway, only one year into our mid-term strategy, growing the share of private individual deposits by 1.3 percentage points. In both loans and deposits, the top line growth figures of €784 million and €1 billion respectively represent the highest growth rates in our company history.

Let's move to the profit and loss statement. Operating income has grown by around €32 million, or 7.7%, driven above all by net interest income, which is up by around 6% year on year. Hubert already alluded to it, there is headwind from receding policy rates, which above all lead to a negative repricing of our excess liquidity held at central banks, as well as short-term investments. Net fee income increased only slightly, while income from FX transactions grew by a strong 14%.

The cost-income ratio stands at 68.1%, which is above what we had foreseen for this year. On the one hand, policy rates came down faster than expected, and we overperformed on the green tier two bond issued in April 24, both putting pressure on our net margin. On the other hand, we are ahead of our hiring plan, leading to higher personal expenses than planned for the year. And lastly, Ecuador recorded a cost-income ratio of 144%, due to a sharp contraction of net margins, given the tight liquidity in the market. Without Ecuador, the cost-income ratio stood at 65%.

We remain highly focused on realising the balance sheet transformation we presented during our Capital Markets Day, which we expect will bring the cost-income ratio down in the medium term to a level of 57%. At the same time, next to further scaling our business and maintaining strong portfolio quality, cost discipline and margin optimisation are priorities for 2025.

Moving on to net interest income, the quarterly dynamics are currently negative, as net interest income decreased by around 2.6% in quarter four. Positive volume effects from our good loan growth performance are more than offset by negatively pricing in cash and cash equivalent items, as well as a significant growth in deposits. Furthermore, refinancing rates remain somewhat sluggish, as banks in our markets are still willing to pay attractive rates on term deposits. The net interest margin of 3.3% in quarter four is half a percentage point below the level recorded in quarter four 23, highlighting exactly these dynamics.

Quickly on fee income, quarter four net fee income was 6.2% above the same quarter in the previous year, and 3.4% above the previous quarter level of quarter three 24. Year on year, the increase in this position is around 3%. While income from payment services developed very positively, net income from cards decreased due to higher fees charged by the card providers. Moreover, we continue to negotiate important guarantee agreements with members of the IFA community, which drive fee expenses with no corresponding income, but obviously reduce credit risk costs and optimise RWAs.

Moving on to personnel and admin expenses, clearly costs have grown strongly as we frontloaded many investments necessary for our ambitious medium-term growth path. Year on year, personnel costs increased by €26 million, mainly driven by the 19% increase in staff numbers that Hubert alluded to earlier on. IT, marketing and depreciation costs, mainly from the expansion and modernisation of our network, added a combined €14 million to the cost base. In other expenses, we see increases primarily in non-income taxes across our map, as well as other personnel expenses and project costs related to the development of our retail infrastructure.

We foresee that more strategic investments will be concluded by the end of 2025. With some cost increases from 24 still having to fully materialise in 2025, we expect staff numbers to no longer increase materially and marketing budgets to level out. But all in all, we expect the cost-income ratio to remain at an elevated level in 25, in particular in the first half year.

Loss allowances have been overall at low levels, as a share of stage three loans further improved from an already strong level at the beginning of the year. Loss allowances in quarter four amounted to a net release of €9.3 million, mainly due to a reduction in stage three provisions in Ukraine. With the provisions built in 2022, stage three exposures in Ukraine have a high coverage of more than 80%. Moreover, we were able to release provisions on Ukrainian central bank balances with the application of international insurances to the ECL calculation.

The annual loan loss provisions amounts to a net release of €5.2 million, which is predominantly driven by the recoveries from written off loans. The stock of management overlays reduced, year on year, by €2.5 million. After reduction in quarter three, the stock increased again in quarter four due to organic growth of the loan portfolio, as well as parameter effects, and now stands at a comfortable level of €59.5 million.

There's not much to say on portfolio quality, other than we recorded a year-on-year decrease in the share of loans in stage three of 0.4 percentage points, 2.3%, which now corresponds to the level recorded before the war in Ukraine. The share of stage two loans continues to be at an elevated level in absolute terms, as some 50% of our

Ukrainian loan portfolio continues to be classified in this stage, given the significant increase in credit risk criteria.

Looking at segment performance, we see strongly performing geographic segments in Southeastern and Eastern Europe, with good loan growth in excess of 10%, ROEs of 15.5% each, and cost-income ratios of around 55%. The contribution of group functions was more negative than last year by an amount of around €17 million, which reflects the investments in the group's IT company, Quipu, as well as the strengthening support functions at the level of poor credit holding. This includes, for example, the establishment of centralised teams for business development across the group.

Ecuador contributed negative to group result by around €10 million. This includes the reported segment results, adjusted by a positive inter-group effect, which is overall neutral on the group level. Moreover, we're actively steering against the difficult situation on the ground in order to significantly reduce the negative result contribution from Ecuador for this year. Without this negative contribution of Ecuador, the group return on equity stands at a good level of 11.2%, and the cost-income ratio at 65%.

In previous quarters, we have not spent a lot of time on Ukraine anymore, as our banking operations have remained stable since the onset of the war, and the bank began contributing positively to group results since quarter one 23. Since the broader impact on loss allowances in 2022, no major risk events materialised. Hubert already explained that in Ukraine we see limited downside as we successfully ringfenced the group in 2022 from any major tail-risk scenarios in this country, and began a successful de-risking, which has seen the share of the Ukrainian loan portfolio in the group loan portfolio drop from 12.8% to 7.3%.

In December 24, we decided to convert the last non-equity exposure of the group towards PCB Ukraine, a €20 million subordinated debt, into equity, using an investment guarantee provided by the federal government of Germany. With that, we have further strengthened pro forma capital buffers against requirements of the bank to more than 12 percentage points, and reduced the total group exposure towards Ukraine at the same time. The bank is now equipped with the staff, liquidity and capital needed to be able to engage immediately and meaningfully in the market once the conditions improve. Further, we count on the support of, and historically strong collaboration with, the IFI community to take an important role in the reconstruction of the country. Thanks to the guarantee from the federal government of Germany, we now really look to selectively grow our business in Ukraine without exposing the group to excessive risk.

My last slide shows the structure of our solid regulatory capital position. As of December 31, our CET1 ratio stands at a comfortable level of

13.1%, well above the regulatory requirements of 9.4%. For 25, we expect these requirements to increase from 9.4% to 9.8%, as announced in our ad hoc announcement earlier in March. In 2024, RWAs increased, mainly in the form of loans to customers, but also a temporary increase in access liquidity specifically in quarter four added to the RWA growth of almost €1 billion.

In some of our markets, excess liquidity is particularly capital intensive, with risk-rate factors up to 150%. Moreover, the annual recalibration of operational risk and increased equity positions in our banks led to an increase in operational and market risk-weighted assets of more than €200 million. Our core capital increased by €48 million with respect to the end of last year, mostly due to the attribution of quarter four 23 and half-year one 24 results, net of one-third of dividend accrual.

The effect from the attribution of two-thirds of the half-year two 24 result will be visible in quarter one this year. The pro forma CET1 ratio, as of December, including two-thirds of these profits, is 13.5%. And this figure already reflects the dividend proposal of 59 cents for the financial year 24, which we will propose to our AGM in June this year.

Hubert Spechtenhauser

Thank you, Christian. Before we take your questions, let me share something that cannot be read so easily in our financial figures and disclosures. I'm talking about the high level of energy, positivity and optimism that can be felt in the discussions and interactions with our colleagues in the ProCredit banks, whom we have exchanged with on the updated business strategy now for over 18 months.

There continues to be excitement about what we are trying to achieve, deep satisfaction with the group's plans to increase ProCredit’s in all markets, and a strong sense of ownership over the ambitious targets. We are thankful to the colleagues for their unwavering commitment. We are also very satisfied with how the capital market has received our updated strategy. Recently, interest in our share has increased substantially, which is visible to outsiders in the increased turnover and which we feel in the amount and quality of questions submitted to our investor relations team.

In the recent recalibration of German stock indices, we met the required turnover and ranked 159th in terms of free float market cap, which would have resulted in SDAX listing of our share if it wasn't for the provisions to safeguard existing listings. We take these developments as a sign of appreciation and recognition for what we are doing and also where we are doing it. We will continue working hard on our strategic initiatives and the further enhanced visibility of our share at capital market, including exploring potential options to gradually further increase free float and liquidity. We are confident that this work can, over time, be rewarded with a listing in the index. With this, let me conclude our presentation for today. We are now looking forward to taking your questions.

Operator	We will now begin the question-and-answer session. Anyone who wishes to ask a question, please press star one on your telephone. If you wish to remove yourself from the question queue, you may press star and two. Anyone with a question may press star and one at this time. The first question is from Milosz Papst with the Edison Group. Please, go ahead.
Milosz Papst	Hi. Thank you for the insightful presentation. I have three questions, if I may. Firstly, as we are hopefully nearing a ceasefire in Ukraine, ideas about your underlying assumptions for the 1.5 percentage points re-upside [?] potential from the reconstruction of Ukraine? So, for instance, can you shed some light on what kind of loan book growth do you assume? And is this positive ROE impact just coming from the greater share of loan book versus the base case? Or do you also envisage an improvement in Ukraine's already strong ROE, for instance, because of an increase in the loan-to-deposit ratio? That would be my first question.
Hubert Spechtenhauser	Well, Mr Papst, thanks for the question. Let me take these questions regarding a potential stabilisation in Ukraine, and how we quantified the 1.5 percentage points upside in our group return on equity. We actually did derive that based on the growth rates and the profitability levels, which we already saw before the war, and in the years before the war, we saw consistently in our bank in Ukraine growth rates in the region of 10% to 15%, and with a return on equity in the region of 20%. So we think this does not reflect excessively a potential reconstruction effort and an inflow of Western support.
Milosz Papst	Okay, great. Thank you, that's helpful. And then my second question will be on your risk-weighted assets density. You reported 66% at the end of the year, but you previously mentioned that the density of loans to micro and small clients, which was the main driver of your loan book growth last year, is lower than for mid-sized businesses, because it includes both the SME and retail factors. Maybe can you shed some light on the underlying factors driving the increase in the risk-weighted assets density?
Christian Dagrosa	Yes, I will take that, Milosz. The CRR that is providing the risk-weighting principles, in our case, it's all a standardised approach, so no internal models. And here, simply, there are two factors that are relevant. One is the SME factor, which applies actually to any kind of entity that can be classified as an SME, but which is lower for exposures of below €2.5 million. This is one. And then there is another retail factor, which will then also further reduce the risk rates to a level of slightly north of 50% if the exposures are below €1 million. So this is the scale, essentially, that retail exposures, and SME exposures in our case, have a range of risk-weights between 50% and up to 85%, more or less. And the smaller the exposure, the closer we are to the 50%.
Milosz Papst	Okay, I understand. So there were no other particular factors behind

the increase in the RWA density to 66% last year?

Christian Dagrosa: Sorry, the increase is indeed a function of many things. One is that we have increased, potentially, also liquidity buffers in Ukraine and Ecuador. Here, we have simply the excess liquidity is weighted at levels of 150%. Then the other reason is the recalibration also of the operational risk, which increased, year on year, for the last time, I think, because the changes in Basel III will kick in 25, and also the higher market risk. All of these contribute to a temporarily higher risk-weighted asset density, which, nonetheless, in the future, we see upside in.

Milosz Papst: Okay, perfect. My last question will be although recent months, the local base rates across your market of operations remain broadly stable, or, as you rightly pointed out, increased, actually, in Ukraine and Moldova, whereas, of course, the euro and US dollar rates contracted, especially the euro rates, so the rate differentials widening. And I wonder if there is any impact on the FX structure of your loans across your market, and in terms of the interest margin?

Christian Dagrosa: We didn't get the first part of your question, but let me try to rephrase that. First of all, let me confirm, indeed, local base rates have moved somewhat in line with the euro rates, whereas in Eastern Europe, one should say also, when ECB rates increased in 23, when Eastern Europe's rates were coming down, specifically, again, also in Moldova and Ukraine and also Georgia. So now it’s a bit of a of a reverse effect in these markets.

Georgia and Ukraine, our local currency portfolio is meaningful. In Moldova, the large part of the loan portfolio is in local currency. But we would not take strategic measures and change the composition of our structure of the loan portfolio just because of these market movements. These come and go. The FX structure of our loan portfolio is largely really driven by the demand of our clients, by the type of clients that we cater to. Typically, we would only engage with clients, offer them hard currency loans, if they're adequately hedged. That means they would need to show for income in the same currency in order to qualify for such loans.

Milosz Papst: Okay. So it's more of a function of the profile of the client in terms of the business, rather than their demand for loans in local versus foreign currency, basically?

Christian Dagrosa: Correct.

Milosz Papst: Okay, perfect, thank you.

Christian Dagrosa: Thank you, Milosz.

Operator: The next question is from Marius Fuhrberg with Warburg Research. Please, go ahead.

Marius Fuhrberg: Hi. Thanks for taking my questions. I have a couple of them. The first one on the net interest margin, which we have seen coming down quite continuously in 2024. What is your assumption for the further development of the net interest margin? And what are your measures to make sure that it does not deteriorate further? Basically, what do assume for 2025, rather a stable or slightly increasing trend again?

The second question, did I get you right, Christian, that costs are or should have been peaking in Q4, and that we should expect a rather stable cost position going forward, and that scaling would then happen via a strong topline growth?

With regard to the Ecuadorian business, can you point out your business case going forward for the bank? When should we expect the bank to be break even? And what are your measures to reach this? And you mentioned several times now adjusting for South America, that your figures would have been much better, do you currently consider selling or liquidating the bank?

And the last question, with regards to cost of risk, first of all, the recovery of written-off loans, can you tell us the location of it? Was that mainly from Ukrainian loans or across all regions? And the second question, with regard to risk costs, what would be a base case for risk cost in 2025?

Christian Dagrosa

Thank you, Marius. I will start maybe with the question on the net interest margin. So, in quarter four, we have already several effects that we're adding to the developments. There’s, on the one side, the positive volume effects that have been continuous throughout the year. On the negative side are, above all, lower income from cash and cash equivalents. That's approximately, just in this quarter alone, €3 million less with respect to quarter three, and at the same time, some deposit repricing.

Ecuador, one should also note, contributes negatively to the overall trajectory of the of the net interest income. The reason is, on the one hand, the low banking sector net margins that are. at the level of the bank right now, around 2.6%, 2.7%. If you compare this from two years ago, it was close to 5%. So there is a pricing effect also from Ecuador, but there's also a volume effect, because in Ecuador, given the very tight overall market liquidity, we are keeping high liquidity reserves right now at the bank to be comfortable in this market environment, and this excess liquidity does not yield any interest. So these are the current dynamics from the starting point, now, quarter four, 3.3%.

In Eastern Europe, we saw, as I said, base rates come down in 23, 24, in some markets increasing, again, Moldovan, Ukraine. I would say we remain conservative on deposits, because the repricing of deposits, market rates have gone down but repricing of deposits has been sluggish. Many banks still offer comparatively attractive returns on that.

We would still, in the short term, obviously expect continued repricing from cash and cash equivalents. ECB rates have come down again in quarter one, by 25 basis points. There are question marks whether this will continue. But I think we are nearing the end of the repricing. And in the long run, obviously, all the strategic measures that we have articulated over the last year, there is a scaling aspect there, but there's the goal of consolidating margins.

Here, again, smaller, lower volume segment loans have on average higher rates than in the medium segment, in average up to 1 to 1.5 percentage points. And this is part of the balance sheet transformation that we're aiming to achieve, higher average rates, lower risk rates and, at the same time, also the ability to better implement and control house bank principal.

On the costs, have they peaked in quarter four? Well, quarter four is never really a good reference point, because there are some seasonal effects in quarter four that are across many positions that are difficult to pinpoint. But in quarter four, we have typically higher costs. On the other hand, in 24, we have had obviously several costs that were added, and for 25, they would still need to fully materialise.

So I think on a quarterly level, we will see broad stability year on year. One should still note, indeed, that even if we were not to add any costs in 25, there would still be a slight increase, given that the costs added, let's say, in the second half of 24, they would then also be added to the cost base in, let's say fully materialise then for the full year in 25. So as Hubert said, especially for the first half of the year, we would expect the cost-income ratio to be particularly elevated, and then expect positive dynamics in the second half-year in that regard.

Very quickly, on the fourth question, Hubert will address the question on Ecuador, on the recoveries from written-off loans, there are no meaningful concentrations in the total amount of close to €13 million, actually only 10% came from Ukraine. The largest amount actually came from Kosovo. But we also have larger amounts in Georgia and in Macedonia and in Moldova. These are granular developments. You've seen also, in previous years, that recoveries from written-off loans have been relatively consistent at these levels of €12 million, €13 million, €14 million per year.

Hubert Spechtenhauser

Mr Fuhrberg, hello. Then, let me take your question on Ecuador. Ecuador, indeed, we had a very big financial performance in 2024, which was worse than we expected. The loss also increased in quarter four to what we now have, 10.3 million in the full financial year 2024, while we had assumed originally a broadly neutral contribution of the bank in Ecuador to the group results.

As Christian explained already before, this is a combination of adverse developments. As you are fully aware from previous calls, lending rates in Ecuador are kept by the central bank. This, in combination with refinancing rates, which have been driven by higher dollar rates, resulted in a strong margin pressure. And in addition to that, we had a drought last year, which led to a severe energy crisis, which led to long-lasting power cuts. In addition, the country experienced a tight liquidity in the banking sector. Our bank actually very much improved its liquidity situation, but also that comes with a negative impact on earnings. And the country still shows also now a very significantly deteriorated security situation. So what everybody in the country is now working on is to overcome these economic disruptions from the drought and the energy crisis, and that we also try to manage with our bank and our local management in our bank in Ecuador.

What are we doing to actively steer against this difficult situation? We are working with the team on the ground to turn the bank profitable again. We reduced the portfolio slightly by 0.5% last year, and we continue with it, so for the last year already, to focus disbursements on lower-volume segments which do have substantially higher regulatory caps. That should, in our view, over time, lead to a stabilisation of the bank's earning situation, but it does take several quarters to ultimately really translate into the P&L.

For 2025, we do plan to reduce the negative contribution to the group results, in a very good case, close to zero, but that is obviously given the overall situation in the country, so still associated with some downside risks. Given that Ecuador is obviously not part of our focus region, Southeastern Europe, Eastern Europe, we have one purpose, this time for the first time, shown some KPIs with and without the contribution of the South American segment. And you will have seen that Ecuador increased group cost-income ratio by roughly three percentage points, and it lowered the group return on equity by approximately 1%. Therefore, the development of the bank and the impact on the group continues to have full management focus in Ecuador, but also here at the holding level.

Though having said that, we are also convinced that we have all the means to improve the situation, but that it will take still a couple of quarters to really translate into the P&L. What's good in our situation, and we discussed it in different instances over the last years, when we had one or the other country which was in a more difficult situation, that we have a group portfolio approach. We have 12 banks, and we have a high degree of diversification, which does allow for structural work to be done in some of these banks. And therefore, as I said, we are convinced that we can improve the situation and we'll continue to work hard to do so. On the same side, it is clear that our strategic focus, where we have more than 90% of our business, is in Southeastern Europe and in Eastern Europe. Not much more which I could say to this at this moment in time.

Marius Fuhrberg: Perfect, thank you very much. And maybe with regard to the last question, your base case for cost of risk in 25?

Hubert Spechtenhauser: Well, as you have seen, or if you look at our history, we had historically, if you take out the year 2022, which was very much distorted by the situation in Ukraine, and the full-fledged Russian attack on the country, we had historically, for a long period of time, a cost of risk, below 20 basis points. We plan in the medium term for approximately 30 to 35 basis points cost of risk, which is also reflecting or incorporating the fact that we envision an increased contribution of retail and of smaller-volume segments from businesses.

In 2024, we showed a negative cost of risk of minus 88 basis points. And for 2025, we would not assume neither a negative cost of risk, nor would we assume to go in the direction of 30 to 35 basis points, but somewhere in between. We would still assume, given the overall situation, also given the dynamics in our countries of operation, to have a relatively low cost of risk also in 2025.

Marius Fuhrberg — Thanks very much.

Operator — The next question is from Knud Hinkel with Parteo Securities. Please, go ahead. Mr Hinkel, your line is open.

Knud Hinkel — Can you hear me. Can you hear me, now?

Operator — Yes, we can hear you. Yes.

Knud Hinkel — Fantastic. Thank you very much. I was on mute, sorry. I have two questions. First of all, on the situation in Ukraine, you already talked a bit on the potential upside here, could you be a little bit more precise regarding are there already discussions with governmental authorities on the potential role of ProCredit in the future reconstruction of the country? Or are there discussions within the circle of shareholders of ProCredit, because that's and European Bank For Reconstruction, which should also have a say in that? So that would be my first question.

And secondly, you once again reiterated your mid-term targets, so far you have not been more precise when we should expect ProCredit to reach this mid-term targets. Are you ready to give a little bit more colour already now, or is it still too early to call? Thank you very much.

Hubert Spechtenhauser — Well, Mr Hinkel, thank you very much for your questions. Let me start with Ukraine and the role that ProCredit might play in Ukraine in a stabilised situation and in a potential reconstruction situation. You are right in saying that we do have important institutional shareholders and also important refinancing partners in the IFI community. KfW, EBRD are both important shareholders of ours. We have been extensively benefiting over the last decade from cooperation with other IFIs, being it EIB, EIF, but also MIGA, the World Bank affiliate responsible for assurance, for example, providing insurance, again, protecting our central bank balances in Ukraine, for example, EBRD supporting us with guarantee programmes, even right after the beginning of the war in Ukraine.

So it is indeed right if you say we do have a shareholder base, and we do have a strong alignment with IFIs, who share our values, who share our mission, and who share our strategic interests in Ukraine, and who are aligned with us on being intended to play an important role in a reconstruction of the country. It is yet premature to publicly discuss what discussions are there in the background, but obviously all of these institutions, just as we get prepared for such a situation, and if you look at this guarantee provided by the German federal government at the end of 2024, that is a clear sign that Western institutions, in that case the federal government of Germany, do see our institution as ideally suited to play an important role in such a reconstruction scenario.

Christian pointed out before that we do have a bank fully operational in the country, where we actually prepared now for years for such an upside scenario, and where we do have the right people, the right clients, the right mindset, the right capitalisation, the right liquidity, to change gear, once the situation were to allow for it. But as I said before, we are also, at the same time, convinced that for such an upside scenario and for a real, meaningful reconstruction effort, it is important that this ceasefire, as you called it, or the stabilisation or peace, however you call it, needs to be sustainable and needs to be ensured to a certain degree, with all likelihood, also with security guarantees.

But in principle, you are 100% right. We do prepare for such a situation. We are very much confident that the upside, which we quantify at 1.5 percentage points, is conservatively calculated. And we do see, and we have been saying that now for the last three years, in such a scenario, or more broadly speaking, more generally, we do see, from a financial point of view, more upside than downside for our group in our exposure in Ukraine. If that answers your question, I would move on to the mid-term targets.

Knud Hinkel

Yes, Thank you.

Hubert Spechtenhauser

We have been guiding, in the Capital Markets Day last year, in March, medium-term targets of growing our loan book to more than 10 billion, aiming at a return on equity of 13% to 14%, with the upside not including the upside from Ukraine, and the cost-income ratio in the region of 57%. We, on purpose, talked about mid-term. And mid-term, in our understanding, would be somewhere in the region of three to five years. Starting point would be March last year. So if you want to narrow it down, it should be somewhere in the region 2027, 2028, 2029.

Some of the key performance indicators we might reach a little bit earlier, some might take a little bit longer, because they are more structural, but as you will have seen from last year, in particular, if you talk about the growth ambitions, which we have, and if we talk about the structural change in the balance sheet structure, making it more granular on both sides of the balance sheet, on the lending side, and on the deposit side, as well as the higher contribution of the smaller

	banks, on all of these elements we are slightly ahead. So we are very, very confident that, indeed, in the medium term, as big as it is, in the medium term, we are very confident we will meet our targets.
Knud Hinkel	Thanks a lot.
Operator	We have a follow up question from Milosz Papst with the Edison Group. Please, go ahead.
Milosz Papst	Thank you, I have two more questions, if I may. One would be a follow-up on Ecuador. In your annual report, you said that you converted $6 million of subordinated debt into equity in the bank. Would you be able to disclose the remaining outstanding balance of your subordinated debt to the Ecuadorian bank? And maybe also give us an update on the waiver agreements in conjunction with the covenant breaches you've highlighted in the previous quarterly report? And then, the second question would be on fee and commission income from your private clients. You've seen strong growth in deposits from private clients, and I wonder if you expect this to translate into increased transactional activity, which we would see in the fee and commission income, and if there are any particular ways in which you want to encourage that? Thank you.
Christian Dagrosa	Indeed, the remaining subordinated debt is $4 million, more or less. It was a 10 million contract, and six of that has been converted. On the covenants, there's also a statement in the in the annual report that the group has fulfilled all of its covenants as of December 31st 24. In principle, our expectation would be to also continue along these lines. That is also stated. However, of course, the situation both in Ecuador and Ukraine remains dynamic. On the private client side, indeed, we have high ambitions for strong growth in private clients. What we've seen so far is an increase of €22,000, which, as a percentage figure, 11%, looks like a lot, but our ambitions are much higher. But it will take time. We hope to strengthen the necessary infrastructure for these kind of ambitions in this year, and then to get the meaningful volume that we will require. It's rather a medium-term perspective, but indeed, with the client numbers that we are foreseeing, we would then also expect a strengthening in fee income and transactional activity.
Milosz Papst	Okay, great. Thank you.
Operator	Ladies and gentlemen, that was the last question. I would now like to turn the conference back over to Hubert Spechtenhauser for any closing remarks.
Hubert Spechtenhauser	Thank you, all, for your interest and participation on our analyst call. We hope to have given you as much transparency as possible. If you have any additional questions, please do not hesitate to contact Nadine. The next scheduled conference call will take place when we

publish our quarter one 2025 results on May 12th. Thank you once again for your participation.