Addiko Bank

Addiko Group 1H22 Results: Webcast Transcription

17 August 2022
14:00 CET

Speakers:
Herbert Juranek (CEO)
Edgar Flaggl (CFO)
Tadej Krašovec (CRO)
Constantin Gussich (Investor Relations)

Operator	Good day and welcome to the Addiko Bank Results First Half 2022 Conference Call. Today's conference is being recorded. At this time, I would like to turn the conference over to the management team. Please go ahead.
Herbert Juranek	Good afternoon, ladies and gentlemen! My name is Herbert Juranek. It is a pleasure to welcome you to the presentation of the half year results of Addiko Bank. Unfortunately, I need to excuse Ganesh, our Board Member for Business and IT, for our session today, as he's currently in the hospital. But we hope to have him back fully recovered soon. Now we have prepared the following agenda for you. As usual, I will start with the key highlights of our half year results and instead of Ganesh, I will give you an update on the progress we made in our business development. In the second chapter, Edgar will provide you with more details on our financial performance and Tadej will give you an update on the risk perspective and on our ESG activities. At the end, I will do a quick wrap-up of our Transformation Program and talk about the outlook before we finally move on to Q&A. So, let's start with the highlights. Well, the first positive message is that we reached a net profit in the second quarter of €6.1 million. Therefore, we were able to double the net profit from €6.1 million in the first half of 2021 to €12.6 million in the first half of 2022. Consequently, the earnings per share for the first half year add up to 65 € cents, and our return on tangible equity improved significantly from 1.8% last year to 4.2%. The second positive message is that our Transformation Program continues to show traction both in business development and in cost management. Accordingly, our operating results went up 15% year on year to €32.3 million. This was achieved based on strict cost management, bringing our operating expenses down 4.6% year on year, and even more important, based on strong growth in our focus business. Although we further reduced our non-focus book by more than 10% since year end 2021, we were still able to accomplish more than 4% net banking income increase. This result was very much driven by a year on year 39% growth in new focus business. I will come back on that with more details in a few minutes. The third positive message is that we were able to reach that without changing the risk profile of our target customers and hence without deteriorating the risk profile of our portfolio. The cost of risk in the first half year were at 26 basis points with €8.8 million risk provision. This result was to a certain extent driven by taking a prudent view on the changing macro environment and therefore

increasing the post model adjustment. At the same time, we managed to further reduce our non-performing exposure to €183 million, which is 3.8% of our on-balance loans while we increased our NPE coverage ratio from 72.2% in the first quarter to 76.7% in the second quarter. Tadej will give you more background later.

Based on the new business strategy, which was approved by the Supervisory Board in December last year, we also revised in parallel the asset and liability management and treasury strategy. The final new version got implemented in the second quarter. The two most important changes were: Number one; that the new Management Board decided to abstain from pure trading and to put excess cash, which is not needed to ensure liquidity, into a stable volume of highly rated and highly liquid debt instruments aimed to generate interest income until maturity. And number two, the investment cycles were adapted to the current market circumstances and expectations.

As you can see in the presentation, our funding situation remains very comfortable with a liquidity coverage ratio at 246%. Our capital position got influenced by the ongoing development of bond prices. Therefore, the transitional CET1 ratio stood at the end of June at 20% and the IFRS9 fully-loaded ratio stood at 18.8%. However, I have to add that we saw some recovery, due to bond price changes in the recent weeks and due to the fact that the ECB finally granted the waiver for structural FX positions in August 2022. This waiver will lead to an improvement of the CET1 ratio by approximately 0.5%. Edgar will give you more insights on the capital developments shortly.

Now I would like to move on to the latest developments on the regulatory front, on ESG and on our macro environment. As already announced, we received the results of the Comprehensive Assessment from the ECB at the end of the second quarter and it did not show any capital shortfall. Addiko Group stayed above all relevant thresholds. The AQR led to a theoretical adjustment of the CET1 ratio of only 15 basis points. This is the result of prudent risk management and our continued focus on asset quality.

The relatively conservative approach of Addiko Group's stress testing models resulted in a theoretical larger capital depletion, specifically in the adverse scenario. This is mostly the reflection of Addiko's high level of prudency in our risk management approach embedded in the models for credit risk parameters estimation.

ESG is very important for the financial industry, the regulator and finally for all of us. Although it does not have an impact on the SREP in this year, the Management Board of Addiko has put ESG as a high priority topic on the agenda. 21 initiatives have been defined under the leadership of Tadej as the ESG officer. He will tell you more about it in his part of the presentation.

Let me give you our view on the macro influences on our business. After a long period of time, we have seen interest rates rising during the first half year and we believe this trend will not reverse in the near future. Nevertheless, despite the influences of the skyrocketing inflation, our markets developed quite positively, and we have seen strong business activities. However, we expect the economic growth to slow down in the second half of the year and we cannot exclude negative effects on our business from factors like the energy crisis or respectively from a continued elevated inflation.

Therefore, we started already at the end of the first quarter a series of measures in order to prepare for the future. The measures range from the changes in the treasury investment strategy to product management changes and risk management modelling and provisioning. We will give you more details in the respective sections of our presentation.

Now let me give you more insight into the business development in the first half year 2022. I am pleased to tell you that we were able to continue the positive development of the first quarter and to keep the growth momentum. As a consequence, new business in focus went up 14% versus previous quarter and 39% versus the previous year. The focus book as a whole grew 9% year on year. It could have been more but we intentionally further reduced low yielding bigger tickets in the medium SME area by 10%.

Please look at the details so you will see that we managed to grow our book for micro and small by 21% in the first half year, which also improved our overall yields of the SME segment.

The consumer book increased by a solid 6% as we put a special emphasis to keep and in certain cases even to increase our margins. In order to continue with this positive development, we introduced Oskar, our new brand ambassador, in May this year. This brand repositioning was very well received by the market and by our customers. We are confident that Oskar will deliver further support to our growth story.

For the sake of clarity, I would like to mention that these growth rates were achieved on the back of a prudent risk management approach.

Now let me give you more background on our business development. We are quite proud of our achievements on the business side in the first half of 2022. Let me start with consumers. We launched a series of growth initiatives in the first half year. I would like to mention the most important ones:

- Number one, PSD2 income verification and automated employer verification replacing traditionally standard salary verification methods to drive down time-to-yes and time-to-cash.
- Number two, adjusting our fast cash loan products to lower ticket sizes and to lower tenure allowing to significantly increase the acquisition of new customers.

- Number three, sales and branch productivity measures, which drove growth with less resources.
- Number four, realignment and refocusing of our card business.
- Number five, further improvements of our digital capabilities and of our processes.
- Number six, more than 120 new signed partnerships.
- Number seven, launch of a Buy Now Pay Later cooperation in Slovenia and Croatia.
- Number eight, we increased our fee generation in our products with better USPs compared to our competition.
- And number nine, and this is most important, our pricing initiatives to enable variable pricing in all markets to increase the level of loans with variable interest rates and to increase margins overall.

These activities complemented by our brand repositioning and digital marketing activities led to a year-on-year improvement in net disbursements of our consumer loans of 34% from €235 million to €340 million in the first half of 2022. We were not only able to increase our disbursements, we were also able to substantially increase the acquisition of new consumer clients with cash loans by more than 200%. On top of that, we were able to boost the amount of digitally generated consumer loans by 38% year on year. We will continue to build on these achievements by further improving the paperless and fast lending experience to make our customer's life easier.

Now let's look at the SME business. We went on with our clear focus on micro and small SMEs. We are working on further automating our end-to-end digital lending platform for micro and small SMEs and enhancing it with new functionalities to make our services faster and more convenient for our customers. Nevertheless, we are convinced that already today we are able to differentiate ourselves from our competitors and to offer a clear USP to our clients in these segments. Based on the changed market conditions, we started a repricing initiative also for SMEs to improve our margins going forward. You can see the effect of our pricing initiatives already in the improved focus yield moving from 5.3% in the first quarter to 5.4% in the second quarter.

We are very happy about the strong results in our micro and small SME business. Our attractive customer base in the micro and small area is up more than 33% year on year and this is accompanied by an approximately 40 basis points year on year increase in newly contracted interest rates. Based on these remarkable results, we achieved to elevate our new disbursements in these two segments at an outstanding growth rate of 84% year on year from €171 million to €314 million, and consequently overcompensated the intentional reduction in the low yielding medium SME disbursements of 29% or €26 million year on year.

So altogether, our gross disbursements grew by 39% year on year, from €498 million to €694 million and the net commission income increased by 17% from €28.6 million to €33.6 million.

Now let's take a quick view to the progress of our work on the Addiko Ecosystem. I would like to highlight that we are on a good path to deliver our vision as the best specialist bank in the region and we are convinced that the Addiko Ecosystem is the key to achieve this specialist status.

As mentioned previously, and as you can see on the slide, we have already implemented four of our Ecosystem's top priorities for 2022. Fortunately, they are positively contributing to the excellent result in customer acquisition. Furthermore, we are working on fully digitalizing our SME processes and launching end to end digital lending capabilities in our key markets in the second half of the year.

The implementation of all our priorities this year will be an important step to extend our Ecosystem. This will give us also the opportunity for further expansion and to become an attractive plug and play embedded financial platform for our retail and SME partners.

With that, I would like to hand over to Edgar for the financial section, Edgar.

Edgar Flaggl

Thank you, Herbert. And hi, everybody! Thanks for joining the call.

Starting on page nine regarding our performance in the first six months this year. On the left side of the page, you see the composition of the P&L. Our unaudited net profit amounted to €12.6 million, which is more than double last year's results for the same period.

The operating result as Herbert pointed out already, where the year over year increase was almost 15%, drove the bottom-line increase. This is due to a very good development in the second quarter and on the back of a solid first quarter this year, which we presented in May.

Net banking income continued to recover, showing an improvement of 4.2% year over year, with NII now also starting to inch up in the transformational bridge year 2022. So, even though our average loan book is down €215 million year over year, which is driven by the intentional and accelerated run-down in non-focus and the low yielding high ticket medium SME loans, NII returned to a growth path.

The NII development specifically in the second quarter is proof that our strategy to reallocate capital to the focus areas is working while the continued strong NCI allowed us to compensate lower income from the steadily decreasing non-focus portfolio.

Our gross performing loan book remains on a growth path, adding €98 million during the first six months this year, thanks to a roughly €200 million increase in our higher yielding focus areas as Herbert pointed out earlier. In short, we remain on track in the transformation of the loan book.

The other income comprising the net result on financial instruments and the other operating result is mainly driven by two topics:
So first, lower gains from the sale of financial assets, which is fully in line with our new treasury strategy to keep our government bonds until maturity to collect interest income.
And second, almost 50% higher deposit insurance costs to €4 million versus €2.7 million in the same period last year.

Now down to OPEX. Our operating costs are down 4.6% year over year, which also includes costs for the implementation of the Euro in Croatia and frontloaded marketing spend on campaigns related to the introduction of our Oskar.

The other result remains influenced by charges related to active and passive legal claims, including our initial costs for the BIT claim against Slovenia. In addition, we have built a reserve of €1.8 million for a potential mass claim regarding Euribor floor clauses in Slovenia, which we already reported in the first quarter. Together with the quarterly review on our legal provisions also related to Croatia, this reflects the continued prudent approach on legal risks.

Now to credit loss expenses. While portfolio dynamics remained benign, we decided to reflect the current volatility in an increase of the post model adjustment or management overlay or however you want to call it during the second quarter. Tadej will provide an update on the highlights in a few minutes.

Briefly over to the right-hand side of the page with the key operational P&L drivers and their development over the last five quarters. As Herbert pointed out already, we have a more pronounced positive results from the Transformation Program on the business and a great second quarter. I think the chart on the upper right-hand side of the page illustrates that quite nicely.

In a nutshell, strong growth in NII as our focus strategy drove the net interest margin to 3% in the second quarter. Once again NCI developed strongly during the second quarter, also supported by a good tourism season. If you compare the net banking income of the second quarter this year and the first half this year with the same period last year, the improvement might not look that much. However, the improvement is even more visible when looking at yields as the average loan book is lower by more than €200 million compared to last year. So far, there has been limited impact from market interest rate changes on the second quarter financials reflected in the net banking income.

Now back to OPEX briefly, pure operational OPEX run-rate once again beat our guidance of €41.5 million per quarter. So, we have €41.7 million in the second quarter. This includes also the Euro implementation costs for the project running in Croatia.

We are confident that we have tackled the right topics during the Transformation Program, which brought our cost income ratio down to below 70% this quarter or the last quarter. However, as discussed in our call last time, we cannot ignore the dynamics caused by inflation for the rest of the year. So that means, the spending on the Euro implementation project in Croatia will inevitably continue to ramp up and peak during the second half. And we still expect mid-single digit euro million one-off costs for this.

The significantly elevated inflation across all our markets increases costs for supplies, services and energy which, for example, is expected to almost triple in the second half this year in our largest market, and specifically on wages across the board. After several large banks in our region made sizeable adjustments to wages, we had to follow with what we see as a balanced approach.

So, all these factors led to an upward revision of our 2022 outlook for pure operational OPEX, which is now expected to come in €2 million higher at lower €167 million. And similar to previous disclosures, these figures exclude the bespoken Euro implementation project costs in Croatia. While this remains adequately challenging, we are confident we can land on this mark. On a positive note, we have also revised our net banking income outlook, as Herbert will explain in his wrap-up.

Now to page 10, which illustrates our capital position that remains standing strong. During the first and second quarter the overall development in terms of capital is mainly related to two topics, as Herbert pointed out already.
First, the changes in OCI, driven by the continued market volatility in sovereign bonds in general, and specifically for the CSEE region. And second, changes in RWAs from the guideline on structural FX during the first quarter, which you see across the banking sector.

Let me once again share an important aspect on the OCI development. More than 50% of the dip you see in OCI during the first half of this year stems from plain vanilla Croatian and Serbian government bonds, so right out within our region. From a credit perspective, we continue to hold a very stable bond portfolio, predominantly issued by governments of our region.

That all leads to a fully loaded CET1 ratio of 18.8% while the transitional CET1 ratio stood at 20%. So down versus year-end 2021 and more or less flat year over year. We still have substantial capital buffers and these ratios that you see on the page do not include interim profit or accrued dividends.

Briefly on SREP, there have been no changes to our previous disclosure.

As Herbert mentioned already, we have received the results of the Comprehensive Assessment which confirmed Addiko's solid asset quality. The stress test and the capital depletion in the adverse scenario came in higher, also driven by the baseline -the Covid year 2020 - as well as our prudency in our models for risk parameter estimation. So, this may have an impact on the final evaluation of the P2G for next year, but that we will know once the SREP is finalized towards the end of this year.

Now moving over to a page that we added, page 11, which puts focus on the more recent, so subsequent but non-adjusting capital developments following the end of June this year. On this page, we printed the fully-loaded capital ratio - so CET1 - in a zoom-in view. We also added the 2022 market value development of a highly affected Croatian government bond in our portfolio as an example, which is the grey shaded area between the waterfall stacks.

Let me bring your attention to the right-hand side of the waterfall chart. What you see here are two positive developments since the end of June 2022.
First, the changes in OCI with a visible recovery in our bond portfolio following the days and weeks after the end of June.
Second, the waiver for structural FX positions.

Let's start with the first element. OCI has started to recover. Now this does not mean that it cannot go in the other direction again, but the current metrics point towards a path of recovery. On a pro-forma basis this would have increased the fully-loaded CET1 ratio by 48 basis points. Now this is based on data from last week. Until yesterday the trend continued to move sideways or even improved slightly.

Second, we received the ECB's waiver on structural FX in August. This waiver allows us to reduce RWAs again by €98 million from the increase of roughly €150 million in RWAs related to that topic as of the first half 2022. So, this RWA reduction is here to stay. And if the waiver had arrived during June, we would have had a 51-basis point higher CET1 ratio fully-loaded.

So, in total this would have resulted in a roughly 1% higher CET1 ratio fully-loaded on a pro-forma basis which would mean, it would stand at 19.8%.

The current classification of our treasury portfolio in the business model hold to collect and sell, and the related fair value measurement does not fully reflect our new treasury strategy. So, if you would assume a measurement at amortized cost for positions where the change in steering is applicable, the negative impact on equity would be reduced by more than 65% as of the end of June, which is not reflected on that page or in any capital ratios. And we are in discussion with our auditor on this one.

Last but not least, the capital ratio of Addiko Bank AG, so the Holding, remains very strong at above 50% CET1.

And now let me hand over to Tadej for an update on risk metrics for the first half of this year.

Tadej Krašovec

Thank you very much, Edgar, and welcome everyone!

I would like to continue on slide 12. I would like to start with the left-hand side chart where you can see that the first half of 2022 ended with another healthy NPE volume decrease by €11 million, leading to a lower NPE ratio of 2.8% or if you compare that only to on-balance loans to 3.8%. We continue our NPE decrease efforts while at the same time we are detecting slightly higher NPE inflows in the consumer segment. This is mainly related to the changed economic environment where rising food and energy prices take a toll on the client's available free income. However, these inflows remained on acceptable level and were compensated by better cure rates.

Before going to the next slide, I would like to give a short comment regarding the changing economic environment and our response to that. Changes in the environment and uncertainties that lie in front of the region are driven by the disruptions in supply chains, increased raw material and energy prices, possible gas supply interruptions, draughts that are hitting food production. This all drives inflation and interest rate environment, and increases uncertainties in risk management as well as in forecasting.

We already took actions in our underwriting and monitoring processes to appropriately take into account increasing living costs and higher risk in order to control the NPE inflow. However, we are taking further investigative steps in credit risk to see which other actions and tools we need to impose to be prepared for potential adverse economic developments.

In that respect, we are using our analytical capabilities that have served us very well in the past and use them to turn our competitive advantage to identify opportunities in the economic downturn while other banks often reduce loan activities in times of uncertainty.

None can currently predict what the magnitude of an economic downturn we might be looking at, but we are entering such a scenario with a solid portfolio quality and several tools in place to help us deal with adverse situation.

If I continue on the next slide, slide 13. Loss expenses, as was mentioned already before, in the first half of 2022, were at a level of €8.8 million, resulting in a cost of risk of 0.2% measured on credit risk exposure or 0.26% on net loan basis, which I deem as a very good result reflecting our constant efforts of prudent business and focus on NPE reduction.

Our focus segments performed better than expected from credit loss expenses point of view. And at the end of the first half of 2022, the cost of risk in our consumer business was at -0.73%, which was 25% lower than the same period last year and SME contributed to a small release of provisions ending at a positive cost of risk of 0.05%.

In the non-focus segments, we performed an extraordinary review of the defaulted portfolio to pre-emptively prepare for a potential economic downturn and allocated additional provisions in a few cases but still ended with release of provisions and a positive cost of risk of 0.17% during the first half of 2022.

Let me just raise the point that objectively low loss expenses in the first half of the year are not a guarantee that the same levels can be observed going forward. As mentioned before, we have also reviewed our post model adjustments or post model overlays which until now amounted to €9 million and booked a top up based on the risks mentioned earlier. Taking into account the current uncertainties, we took a prudent step and added €4 million of post model adjustments. They are booked under credit loss expenses.

On the next slide, let me for the first time give you some insights regarding a topic with increasing importance, ESG. Since we speak about the topic for the first time, allow me to say a few more words about that.

The ESG topic is quickly getting in focus of our business and our thinking. In 2022, Addiko Bank defined an ESG officer, a position for which I currently have the responsibility, created a special working group and just recently added additional resources for these topics.

We also participated in ECB’s thematic review on climate and environmental risks. In the past months, we have a substantially improved the management of climate and environmental risks but at the same time, I have to say that this is only the start of a journey. Also because methodologies, best practices and knowledge are only now being gradually generated in the banking industry.

We are focusing on estimating what impact climate and environmental changes will have on our business directly and more relevantly, on our clients. We are starting to get more data and information from them to better understand the risks they are exposed to due to climate change. Of course, these additional data requests need to be balanced with our brand promise of quick and simple credit processes.

Furthermore, we have prepared 21 initiatives under the slogan, “it is the little things that count”, which you see on this slide and with which we want to have a positive impact on different aspects of the environment we work in. Currently we are in a phase of further detailing the implementation plan for each of the 21 initiatives, and I will keep you informed on future developments.

I'm looking forward to the future developments in these three areas the E, the S and the G, while also being cost conscious. I'm sure we will be able to improve, handle the risk appropriately and make a positive outside impact, but also see a positive support of our business model in return.

With that I would like to conclude and hand over to Herbert for the outlook and wrap up.

Herbert Juranek

Thank you, Tadej.

Let me summarize the status of the Transformation Program after the first 12 months. Up to now, we were able to achieve the targets we have set ourselves in all three pillars of the program. But we have to recognize that the environment for banking business, not only in our region, has changed significantly over the past months. Consequently, we will adapt to the new circumstances and adjust our business accordingly. This does not mean that our strategy and mid-term targets will be changed, but rather the way how to reach them.

As I said in the beginning of the presentation, we started several initiatives to be ready for the future. We are changing our pricing policies in the countries in order to increase the share of variable interest rates on loans and to further improve our margins. At the same time, we started a set of continuing measures on the asset and liability management and treasury fronts to improve the structure of the bank. For instance, reducing and optimizing the duration of new bond investments against the background of rising interest rates, or to incentivize longer tenures on deposits to convert a-vista to term deposits wherever affordable and wherever possible.

Supplementary to our group-wide measures in ALM, we introduced a series of activities in Serbia to react to the local market circumstances and to ensure a comfortable level of liquidity in our local bank. The range of the new initiatives do include, of course, also risk management. Tadej and his team are adapting our risk models to the new environment to ensure prudent underwriting and a healthy portfolio going forward. On top of that, we will carry on with NPE containment and ESG.

In addition to our new initiatives, we will continue with the other parts of the program, for instance with our evergreen exercise "cost management". Especially as we see intense counterproductive pressure coming up caused by exploding inflation in our countries, we believe that we will be forced to selectively raise remuneration, in particular with our lower paid staff. In addition, we are already confronted with upcoming increases in other cost categories like energy and facility management costs. Edgar and his team will do their best to contain the respective impact as low as possible and to identify countermeasures as much as possible.

We will also continue to further grow our focus business and leverage our value drivers in the second half of 2022. However, given the current environment, Ganesh and his team will spend more time together with our risk team to select the appropriate sub-segments to ensure sustainable growth. In spite of all external factors, we see a lot of opportunities for us in our markets. To support this business expansion, we will further improve our digital capabilities aligned with the needs of our customers. We will continue working on our strategy to achieve our goal to become the best specialist bank for Consumers and SMEs in Southeast Europe.

Now, let's come to the outlook and the wrap-up. Based on our strong business development and in order to reflect the cost updrifts caused by the inflationary pressure, we decided to partly revise our outlook upwards for the remaining year 2022. We will keep our figures for gross performing loans, total capital ratio and the sum of other result and credit loss expenses on financial assets unchanged. Nevertheless, we have to increase the outlook for operating expenses from below €165 million to below €167 million to adjust to the latest developments. Nevertheless, due to our efforts on the business side, we are also able to increase the outlook for the net banking income from previously €236.3 million to above €240 million. For all of that, I want to mention this outlook does not include any potential impacts from the Slovenian Swiss franc law.

Based on the current view, we expect that the higher level of market volatility will continue in the second half of the year. We cannot exclude a recession going forward and consequently take such a scenario also into account. Therefore, we will continue to proactively improve and fine-tune our risk management systems to adapt to eventually changing market circumstances.

In spite of everything, we are positive on our business model and we are positive on the opportunities our market will offer to us. We continue to work with full ambition to improve the bank, to create value for our clients and for our shareholders.

	With that, I would conclude the presentation. I would like to thank you for your attention. We are now ready for your questions. Operator, back to you.
Operator (Q&A)	Thank you, sir. If you would like to ask a question, please signal by pressing star one on your telephone keypad. If you're using a speakerphone, please make sure your mute function is turned off to allow your signal to reach our equipment. Again, press star one to ask a question. We will now take our first question from Simon Nellis from Citi. Please go ahead.
Simon Nellis	Hi. Thanks for the opportunity. And well done, it's good to see some momentum in your results. I have two questions. I guess the first is if you could just unpack the 5% quarter on quarter growth in net interest income and what's driving that? I mean, it sounds like it's mix in shift and margin, but if you could just elaborate and maybe also give us a clue on how you expect NII growth to continue kind of into next year. And then the second question would just be on the dividend policy. Do you think the regulator will allow you to kind of pay out the 60% pay-out that you used to kind of commit to? Those are my two questions. Thanks.
Herbert Juranek	Thank you, Simon. I would suggest that I start with the second question and then Edgar would come back on your first question. Look, I think we always said and I want to reiterate that we as a management, we are committed to pay dividends because we believe that our business model would allow it, and we also have sufficient capital to pay out dividends. Nevertheless, as you know, we have the situation with the Swiss franc law and we are also in agreement with the regulator that we don't pay out dividends until this question is clarified. Maybe I follow up immediately before you ask what's the situation with the Swiss francs? I will answer that as well. So, our view is, and that's what we get back from our sources that the constitutional court wants to take a decision quickly - quickly would mean between three and nine months. And in that context, this would result in a time frame until the end of the year. So, we expect the decision from the constitutional court this year. Despite the situation with the constitutional court and how they will react and decide, we believe that the decision will be that they will turn the law down and they would share our view that the law is against the constitution and against the European law. But we also believe that the topic itself might not go away, even if the constitutional court would turn it down. So, what we do in parallel is also to approach the other part also for solving that issue.

	Recently, the Ministry of Finance and the Bank of Slovenia did approach the banking association in Slovenia with their request that both parties should start discussions how to settle the case out of court. Addiko will, in that context, take an active role. We wrote a letter to the banking association where we delivered our view to that. We believe that this needs to be proactively solved. To give you my personal opinion, I believe that the parts which were against the constitution, they should not be part of the solution, they cannot be part of the solution. So that means no retroactivity, no penalty interests for things which are already settled. So I if you take this part out, already 80% of the damage would be gone. And our approach would be to find a solution for the people who really need it, who have social needs in that respect. And if we focus on a solution like that, and at the end of the day this solution also needs to be then final, so this should solve the case over once and forever. Then we would believe that this would fulfil the needs of both sides and would be also something which is, you know, in a complete other dimension to what we have on the table right now. So, and if this case is solved, we would go back to what we said beforehand with our taking up the discussion with the regulator in order to pay out or to get to an agreement how to pay out dividends going forward. I hope this answers your question.
Simon Nellis	Yeah, very clear. Thank you.
Edgar Flaggl	Good, Simon. So back to your first question on what drives the NII in the second quarter also versus the first quarter, point one. And point two, how would this momentum continue? Now, to the first leg of your question. If you go to page 30 in our deck, you basically see the composition of the quarterly interest income. And at first glance, it becomes pretty clear that the main driver of the improvement in terms of interest income comes from the SME part. So, this is predominantly related to the shift in micro and small SMEs that carry much better yields. And you also see that if you look back at the first quarter 2022 new business yields, which are 3.8% versus fourth quarter last year 3.5%. So that is new business from the first quarter, which is in the books in the second quarter. So that's point one. Point two, there is a similar development less pronounced on the consumer side. And the last bit is, since there is more business activities, more new business, there is also slightly more interest-like income, which you would see on the top of the stack in the other interest income that increased a bit. So, on the liability side, there was also a slight adjustment, so less interest expenses in that sense due to optimization of the deposit base and also some welcome outflows in that sense, but this is less in terms of magnitude since anyhow the pricing is quite low already.

	I hope that answers your question on the first leg. The second leg, I would say well, as Herbert pointed out, we are working on keeping the momentum going forward. And for the outlook 2022, you'll see this reflected in the upward revised net banking income.
Simon Nellis	So, on the increase, it seems like it's sort of mix generated. But also, could you say that the new pricing environment is a bit better than it used to be with your yields rising? Or is that just an effective mix or the competitive environment improving?
Edgar Flaggl	Sorry, Simon, we have some background noise I think. So, I think if your question was related to market interest rates: As I said before, in the second quarter you don't see much of that because it needs time to trickle through for the variable part of the portfolio. We also have a page, I think it's page 33 or something that shows you the composition of the portfolio in terms of both loans and deposits, variable versus fixed. So, on the variable part, it takes time to trickle through. And the second quarter, you will not have seen much. In the second half, of course, if you look back to the July increase of the rate by the ECB, this of course will also have a partial positive effect on the variable part of the portfolio. But as I said before, this also take time to trickle through based on the underlying maturity of the interest rate adjustments.
Simon Nellis	Okay. Thank you. Sorry about the fire alarm in the background. Thanks.
Edgar Flaggl	A fire alarm. Okay. Hope all is well.
Operator	We will now take our next question from Mladen Dodig from Erste Bank. Please go ahead.
Mladen Dodig	Yes, well, can you hear me?
Edgar Flaggl	Yes.
Mladen Dodig	Maybe it's better with a headset. So first of all, congratulations on the results and as Simon mentioned, the momentum keep on going. I also would like to wish for swift recovery to Ganesh. And my first question would be the whole explanation about the OCI effects. So basically, nothing basically changes towards November, so the reported capital ratios would be on a fully loaded level from some 100 basis points higher. Am I understood correctly?
Edgar Flaggl	So, if we would have the possibility to fully reflect our new treasury strategy in terms of change of business model for the classification of the bond portfolio, then you would have more than 65% of that negative OCI recovered, so to speak, as it's printed on Slide 11, I believe. Now, what would that mean in terms of capital ratio? It would mean that on top of the 18.8% that you see fully loaded, you

	would need to add 1.6% fully loaded. And then you would also be able to add the 51 basis points for the ECB waiver that came in at the beginning of August. So, it would bring you well above 20% fully loaded. So, it's not clear now if we will be able to do that. We have a very firm view on that. But at the end of the day, we are in discussion with the auditor on the next steps forward. Mladen, are you still here?
Operator	He appears to have stepped away. There are no further questions over the telephone.
Constantin Gussich	Thank you, operator. In the meantime, I have received three questions from Hugo Cruz from KBW. I will read them out one by one. So, number one, can you please provide guidance for legal provisions (Croatia, Slovenia) for the rest of the year?
Edgar Flaggl	Well, thanks Hugo for reaching out on the questions. I start with an answer to that one. So just to get everyone on the same page, the topic is not a new one, right, and it has been with us for quite some time. Our approach to legal provisions related to Swiss franc/FX in Croatia can be summarized as follows. First, we reflect recent developments. And second, we update the expectations on dynamics in the future based on what we know today. And as communicated previously, we will continue to do that and refine our assumptions following that model on a quarterly basis. So, looking at the last quarters in that sense, this came in at roughly 2 to 3 million, depending on the developments in the quarters, also in terms of verdicts. Now we are confidently provisioned but of course, we have to review and backtest each quarter on that. Other topics such as defence costs against the Swiss franc law in Slovenia, which is also booked under the other result, or provisions for potential Euribor floor mass claim in Slovenia, which we booked and explained in the first quarter this year, so €1.8 million, can of course have an influence on such, if you want to call it, run-rate.
Constantin Gussich	Question number two, what are the next steps/catalysts with regard to the Slovenian FX issue?
Edgar Flaggl	I think Herbert answered that already.
Constantin Gussich	The last question, should we expect any change to the bank's capital management policies after the recent Comprehensive Assessment by the ECB?
Edgar Flaggl	I think Herbert answered that to a large extent already. Maybe just to add two more points to that. So, what is the Comprehensive Assessment? There are two main elements. First of all, there is the AQR which shows that Addiko has

	a very solid asset quality with a very low theoretical adjustment of only 15 basis points. So, this element is what could drive P2R, and we have no indication that this would negatively influence P2R. Second, the CAST, so the Comprehensive Assessment Stress Tests, which may have an impact on P2G as already outlined earlier.
Constantin Gussich	Okay. Thank you very much. Operator, I do not have any other questions in the Q&A. Back to you.
Operator	Thank you, sir. We now have a follow up question from Mladen Dodig from Erste Bank. Please go ahead.
Mladen Dodig	Yes, sorry, gentlemen. I got disconnected somehow. Okay. I wanted to ask you about the yields, the lower new business yields in consumer segment. Would you expect them to stabilize at this level of 6.5% or they will increase?
Edgar Flaggl	Hi Mladen, this is Edgar. Thanks for the question. Very good one. So we are, of course, pushing to increase those not only due to interest environment changing, but also since, you know, this is at the core of our strategy. Now, the new business yields in the first and second quarter that you see here, and maybe just to mention second quarter actually improved over the first quarter, they are also influenced still by promotional and marketing activities related to related to Oskar or the introduction of Oskar.
Mladen Dodig	Okay, good. So that will be also kind of a follow-up question regarding, as you mentioned, the increase of the base rate in July from ECB. Do you want maybe to keep some mortgages longer than initially wanted to run down or you continue with this reduction of non-focus as I would say as planned?
Herbert Juranek	Yeah. I would separate here when we talk about non-focus. So we have on the one hand, you know, our non-focus portfolio consists of various components. So basically three, you have large corporates, you have public finance, and you have the mortgage portfolio. So, the mortgage portfolio for us is something we would not run down faster or get rid of. Maybe because first of all, we have we have decent rates and the portfolio is priced on variable interest rates. And for that reason, there are no plans to get rid of it. On the other hand, we don't do any new business because new business we will not get any of these rates again as it is an old portfolio. But for the other part, large corporates and public finance, we accelerated the run-down and we will continue with this strategy, especially in order to free up risk weighted assets and to reduce low yielding business. So that's the strategy which we will follow.
Mladen Dodig	If I remember correctly, actually, I'm looking at it, the last update on rate sensitivity was some €6.6 million addition to the net interest income for the parallel 100 basis points move. And the structural portfolio was 54% fixed rate and some 39% variable. This is data

	from year-end 2021. So, I guess it's similar in the first half, no big differences?
Edgar Flaggl	Hi Mladen, this is Edgar speaking. You're right. There is two differences. So we included, I believe it's on page 33, we included an update of this page in our deck, which we are having on this call. Now, what is the difference? The first difference is that it's now on the basis of half year 2022, and it's always looking 12 months forward. Right? So that's point number one. And whatever happens until half year, so excluding the July hike, but whatever happened there is already in the new baseline. The other thing that you see here as well is in terms of SME, for example, the reduction in medium, so low yielding high ticket medium SME which very often is variable, also led to a shift in terms of a bit more fixed that you see now in SME. But as Hebert pointed out before, we have a very clear path and initiative set up to move more and more towards variable interest rates. Of course, this is, as you know sitting in those markets depending from market to market, and it's very often different for consumer and non-consumer. But this is where we're aiming to go. Now from that, the number is in terms of Delta NII or Delta NIM didn't change much as you see on the top left of the page. And just a word of caution, this is still quite a conservative assumption because we also included in this calculation - well there could as well be increases in deposit costs. So, I have seen a lot of disclosures, not everything looks at the liability side as well. We have included our view on the liability side in terms of elasticity.
Mladen Dodig	Understood. Thanks. Maybe it's not so significant, but the central bank in Serbia in the introduction of 12 months' moratoria on adjusting the fees and commission prices - does it affect your plans in any bigger way or not?
Edgar Flaggl	Thanks for bringing this up. This is one example that sometimes governments, when they want to help the population, need to take it away somewhere else. So, this is a topic that affects the entire banking sector in Serbia. Now, this is I believe it's a 30% reduction of the fees or 30% of the fee increase need to be taken out. So, in this year, this for us means roughly €180 thousand less NCI in this year. On a 12-month horizon, this is like €550 ish thousand. So, does it impact us? Yes. Do we need to look for other pockets to compensate that? Yes. Does it break the case? No.
Mladen Dodig	Okay. Okay. And the Serbian Central Bank also introduced this relief for the OCI. And considering the fact that the significant portion of your bonds are Serbian government, I guess that helps also in mitigating the effect on capital, right?
Edgar Flaggl	Well, good point as well. But that only affects the local entities/local GAAP figures.

Mladen Dodig	So yes, it's important only for the local. Okay.
Edgar Flaggl	So it's only in the Serbian local GAAP single entity view. This is where this can be applied.
Mladen Dodig	Understood. Understood. And maybe just for the end, sorry for delay, so the Swiss franc in Slovenia, I followed all what Mr. Juranek said, so basically this could mean, considering that the topic will continue to be actual maybe for Addiko to lower the potential impact from 100 to 110 maybe to those €36 million impact, which is related to the still ongoing arrangements in Swiss franc. Would that be close to something that would be actual at some point of time?
Herbert Juranek	No. You're talking about the end effect. We don't know what the end effect will be at the end of the day because, I mean, we are now trying to come up with a solution. And we start talks in order to get a solution, not only for us, but I think more or less for the market but this is also dependent on the other market participants. This is dependent on the Swiss Franc Association, the Ministry of Finance and the Bank of Slovenia. So a lot of people are talking in that context. I just want to make clear when I made my statement that for us, we completely exclude things which are illegal. And if you exclude these illegal things, 80% of the effect is already gone. So you talk about a remaining part of 20%. And then in the 20%, then the question is, where do you set the threshold, because if you exclude big loans for people who can afford it or for people who intentionally took a Swiss loan because they knew very much about what they are doing and they wanted to have this interest effect, et cetera. So if you take them out as well and you just focus on social cases, then you are just at a very much lower base in terms of percentage and the overall impact. So that's the point I want to make. And I think if we are talking about an area like that, we would be ready to find a solution. And I think it is also in the interest of the other market participants, because it doesn't affect only us. I think in Slovenia, it's 10 banks or 11 banks who are affected by this.
Mladen Dodig	Okay. Thank you. Thank you very much. And thank you for the call.
Herbert Juranek	Thank you, Mladen. Thank you. If there are no further questions, I would like to thank all the participants for attending the call. And we will now go back and continue working on that the second half year is as good as the first half year. Thank you very much.
Operator	This concludes today's call. Thank you for your participation. You may now disconnect.