Addiko Bank

Addiko Group 1Q20 Results: Webcast Transcription

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Speakers:
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Markus Krause (CRO)
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Operator	Dear ladies and gentlemen, welcome to the conference call of the management of Addiko Bank AG. At our customer's request, this conference will be recorded. As a reminder: All participants will be in a listen-only mode. After the presentation, there will be an opportunity to ask questions. If any conference call participant has difficulties hearing the conference, please press star key followed by a 0 on your telephone for operator assistance. May I now hand you over to the Addiko team who will lead you through the conference. Please go ahead.
Razvan Munteanu	Good afternoon. This is Razvan Munteanu. I am the CEO of Addiko Bank. I welcome all the participants to the earnings call for the Q1 2020. Before we get into details, let me highlight a few important aspects. 1 - These are very difficult and uncertain times impacting our customers, employees, shareholders and all other stakeholders of the bank. There is no history of a voluntary closure of the global economy. This creates uncertainty with regards to how fast the economy will recover and how differences between sectors and markets will play in. It comes on top of the uncertainty about the duration of the pandemic. Steps are taken to ease down lockdowns and restart the economic activity. It is still far from certain that contamination ratios will remain at the current contained levels in our region. 2 - In this unique context, we decided to take significant precautions on the back of a strong operational result in Q1 and be thoroughly prepared to deal with the worst and not sugar-coat the current context. We are now well equipped to weather this crisis. 3 - We are convinced that more than ever, expert consumer and SME lending would be in demand supporting the continuation of our strategy. The crisis gives us the opportunity to accelerate a transformation by reducing costs and pushing digital. 4 - The entire team works hard to ensure that our prior guidance, whether in terms of earnings, dividends or other key parameters will suffer in timing rather than in substance. As usual, I am joined for today's call by Johannes Proksch, CFO, Markus Krause, CRO, and Edgar Flaggl, Head of Investor Relations. Please turn straight to page 4. We closed Q1 2020 with a Euro -8.4 million result. A good operating performance in Q1 allowed us to take a one-off extraordinary risk charge of Euro 13.6 million. It reflects our expectations for a deteriorating macroeconomic environment and all this in accordance with IFRS 9 guidance. The result includes as well a one-time DTA write-off of Euro 4.8 million. We are now in a good position to address the unfolding crisis. As I mentioned, the Q1 result was supported by strong operational results before risk charges of Euro 13.2 million. This is more than 30% year-on-year improvement. It was achieved thanks to four important aspects.

First, better than anticipated consumer lending in Q1 in spite of the consumer protection measures from the end of 2019. Second, strong performance in SME. Third, successful cost containment. Fourth, good risk performance of our operating business. This solid operating result comes in spite of a weak March on net commission income from lockdown- and crisis-related disruption. The capital base of the bank remains strong at 16.9% transitional or 16.3% fully loaded. This includes the big negative effects so far on OCI from the volatility and increased spreads in the fixed income markets. This is where some of our excess liquidity is placed. The market circumstances in this area have improved since the end of Q1.

On risk, the second box on the page. NPE ratios improved to 3.4%, driven by the good performance of the risk team on the non-focus portfolio. The cost of risk associated with the operational performance of our focus portfolios was better than anticipated. This allowed us to preload the considerable reserve I mentioned, related to the anticipated deterioration of the macroeconomic environment.

On digital, on the bottom of the page. This is a time to push digital transformation forward. Social distancing rules lend resonance to digital channels. Q1 provides us with a good starting base. Digital contribution to lending continues to go up and cross 10 %. We also continued our growth in digital customers. We accelerate projects giving customers better digital access to our products. It is also positive to observe moves in local legal and regulatory frameworks facilitating digital interactions. Also, on the SME front, the automated lending activity increased to 37% in Serbia and Slovenia. On this, our expectation is to see the contribution slow down on the short term as we cautiously move more volumes to stricter underwriting until we see better the effects of the crisis on various industries and businesses.

If you please turn now to page 5. On business continuity on the top of the page. Our set-up proved operational resilience to the crisis. We have delivered all our services without any discontinuity. Note that on top of everything, during the lockdown, we have been confronted with a major earthquake in Croatia on March 22nd.
Over 80% of our employees have worked from home since the implementation of lockdowns without any disruption. We have recently started to return to working from office in line with local prescriptions from health care authorities. Branches continued to operate throughout this period. We had a maximum of 20 out of 178 branches closed. On the pages we present you, you still see five branches closed. However, as of this morning, only one was closed and 177 branches are operational. We were fortunate to register only three cases of contamination amongst our 2800 employees. All three are fully recovered by now.

On the macroeconomic context: For modelling the crisis and the economic recovery, we are following the consensus of a V-shape recovery visible starting Q4 and in 2021. Our scenarios give higher weight to negative and worse assumptions. With this prudent approach, we ensure we can absorb the worst, even as we work to limit the impact of the negative external context.

Concerning mid-term and guidance on the lower boxes on the page. The various moratoria and fiscal measures implemented in the markets where we operate will dictate the restart of economic activity. Such measures - from relaxation of lockdown, opening borders, supporting employment or implementing state guarantee schemes for companies - are rolled out and adapted as we speak. Given their considerable effect on our performance in 2020, we suspend outlook indications for the year until we gain more clarity about the effects of the crisis and speed of recovery. We expect to achieve such increased clarity in August/ September. We also expect that our mid-term targets will be affected rather in timing than in substance. As you know, we postponed our AGM to the fourth quarter, allowing us to have the basis for reviewing our dividend recommendation for 2019 and guidance for 2020. It is important to note that the Euro 40 million we proposed for dividend distribution earlier this year for the 2019 results is still deducted from the capital ratios presented today.

For further insight on our business development, let's turn to page 6. As I mentioned, the operating result of the first quarter was strong: 30% up year-on-year before risk charges. The straightforward business model to specialize on consumer lending and SME banking is reflected by the transformation of our book.
62% now is in the focus segment of consumer and SME - from a starting point of 40% in 2016 and 60% in 2019. The efforts to defend pricing and margins were rewarded by an increase of 15 basis points for new business originating in consumer and 10 basis points in new business originated in SME. This demonstrates that our consistent value proposition, convenience and speed can protect the margin. We expect that, as economic recovery will activate, the need for consumer lending and SME lending will remain very relevant, allowing us to continue building healthy margins through the relevance of our value proposition.

Please turn to page 7. At the end of last year, the most frequent question we got was if we can manage the consumer lending restrictions implemented by regulators in Slovenia, Croatia, Serbia, Montenegro. Q1 results confirm we can, as a specialist we adapt faster to external factors. The restrictions led to a reduction in new volumes compared to the same period in 2019. However, the new originations were stronger than anticipated, and we gained 10 basis points market share on a weighted regional level. Note as well that in consumer lending, March was already down approximately 40% due to lockdowns and drop in consumption. Consumer NCI as well suffered from the lockdown in March in four ways: lower lending and the associated bancassurance business; reduced travel, impacting currency conversion income; one-off commission expense associated to new products; delays in the reactivation of our cards program, which we expect for the third or fourth quarter 2020. On the SME front, the efforts to accelerate in 2019 paid off with a strong Q1 in new disbursements. The overall book is flat due to re-segmentation of customers having grown their business into the non-focus segment of large corporate. Also, NCI performance in SME remained good with an increase of over 5% year-on-year, even as the head winds started in March.

A few points on the digital transformation on page 8. In the context of the current crisis, digital transformation becomes even more relevant. Already prior to the lockdowns, our teams started pushing digital activation of customers through campaigns, temporary price rebates for digital transactions, simplified activation processes. The main digital KPI continued to develop positively in Q1. The number of digital users continues to go up, reaching 213 thousand customers. Digital origination of customers' loans stands at 10.4 % at the end of Q1. This is an improvement on the 9% at the end of 2019. Together with growth in our Bank@Work distribution to 29%, we achieved out-of-branch lending of almost 40%. This way we compensate for closing approximately 10% of our branches at the end of 2019. On the SME front, the ratio of automated lending continued to grow in Serbia and Slovenia, contributing to a strong Q1 and to the improved pricing of the new SME business. Again, in the current context, digital transformation remains in absolute focus with multiple projects which are aimed at further accelerating digital acquisition and digital lending. I would like now to hand over to Johannes, who will take us through the financial part, starting with page 10, and then Markus will cover the risk topic.

Johannes Proksch

Thank you, Razvan. Please let me explain now, on page 10, how Q1 2020 is reflected in our financials released this morning by comparing them to Q1 2019. And please bear in mind that Covid-19 started to impact our revenues from mid-March onwards.
The higher rates on the focus business translated into further increase of our interest income from this portfolio and, as a consequence of further reduced deposit yields, the overall net interest margin increased slightly to 2.99%. Our net commission income, of which 90% are related to our focus business, decreased during Q1 2020. The development of fee income in our focus areas remained rather flat. Due to consumer protection measures introduced in 2019, given the strong link to loan disbursements such as bancassurance and a Covid-19 impacted March. Operating expenses show a drop of 9.9 % to Euro 43.5 million. This is as anticipated a consequence of our successful execution of the cost-restructuring measures introduced in 2019, ongoing cost efficiency programs, but also due to a one-off of 0.9 million in the first quarter 2019 related to the IPO. Overall, we are reporting a post-tax net

loss of Euro 8.4 million. The result after tax is determined by an operating result in Q1 above our expectations and successful cost containment where we have significantly increased risk provisioning mostly associated with the IFRS 9 preloading of the anticipated macroeconomic effects for the current pandemic.

Now, on page 11 and 12, we provide you our usual breakdown to show a granular picture of the development of our interest income and expense composition and respective yield-related developments. While the increase in our non-focus income was overcompensated by the increase in interest income from our focus portfolio, the decrease in other interest income predominantly related to our bond portfolio and NPL unwinding, led to a slight overall decrease compared to the first quarter 2019. Please refer also to the Appendix for a breakdown of our other interest income composition. The relatively stable development of our focus yield, despite a negative market interest environment, is proving again that we were able to defend our margins in a challenging environment via our proposition of convenience and speed. As mentioned by Razvan earlier, new business yields in consumer have actually increased by 15 basis points during first quarter 2020 and SME by 10 basis points, the latter being supported by the continuous increase of disbursements from our automated digital lending process for small tickets, also driven by lower maturities and better rated clients.

And now on page 12 will illustrate deposit re-pricing having also contributed in the first quarter 2020 to decreased interest expenses on the back of reduced funding yields by roughly 12 basis points, meaning we pay today on average 46 basis points on our funding. On page 13, the net commission income, I would like to highlight that the flat development results from a commission expense increase of Euro 0.7 million in the first quarter 2020, mainly related to the ramp-up expenses for new card products intended to be introduced in the second half of this year. As in previous quarters, 90% of income relates to the consumer area being predominately driven by accounting packages and transactions, while our SME clients increasingly use us for transactions, digitally sold guarantees and for trade finance business. As mentioned earlier, Covid-19 impacted the second half of March, particularly the revenues from bancassurance and the usage of cards by consumers. And in the SME area, domestic transactions and FX. We expect these revenues to recover with consumption and economic activity ramping up.

Let's move now to operating expenses on page 14. As mentioned earlier, the first quarter 2020 has shown operating expenses dropping by 9.9% to 43.5 million. This is mainly due to the successful execution of the restructuring program in 2019, suspended bonus accruals and ongoing cost efficiency programs, but also due to a one-off, as also mentioned earlier, related to our IPO in the first quarter 2019. In addition to that, we are proactively managing slightly increasing IT related costs. We are about to introduce

	further cost measures in the upcoming months, among others related to staff expenses and by continuing to encourage digital distribution origination over physical. Let me now hand over to Markus given the high importance of the risk-related topics before I come back with an update on our capital situation.
Markus Krause	Thank you very much, Johannes. On the following three slides, I would like to provide you with some details of the operation's risk management results as well as first impacts of Covid-19. Page 15's key message is that operational risk Q1 results are significantly better than expected, which was not only again caused by releases of 3.8 million in the non-focus segments, but it is also valid for both focus segments, Consumer loans and SME, which is a result of a very solid and risk return balanced underwriting over last years. For consumer loans, Q1 credit loss expenses of 2.9 million were significantly lower than the amount booked for the same period in 2019, which was 4.5 million, resulting in a credit risk bearing exposure based cost of risk of 19 basis points compared to 31 basis points in the same period in 2019. For SME, a credit risk bearing exposure-based cost of risk ratio of 5 basis points was booked in Q1, which is an increase compared to the same period last year, but significantly better than expected considering the increased maturity of the portfolio. Considering this and we achieved across all business segments a very good operational cost of risk performance on a 0% level, it finally leads us to the main Q1 2020 one-off impact, causing a total credit loss expense of 14.4 million, which is an equivalent of 28 basis points on a credit risk bearing exposure basis. The one-off impact is almost exclusively caused by a significant preload of 13.6 million IFRS 9 post model macroeconomic parameter overlay to anticipate certain Covid-19 related and required refinements of IFRS 9 detailed models. Since the asset quality was further improving during Q1, we have a non-performing exposure ratio decreased by more than 50 basis points down to 3.4% on a gross exposure basis. And in keeping the NPE coverage ratio stable at a 73% level, we are confident that the current stress situation caused by Covid-19 will enable us to back test the results of stress tests which were used to derive the Pillar 2 Guidance of 4% for Addiko. Since Q1 2020, asset quality does not reflect any impact of Covid-19 yet, I would like to provide on the following page more background on related moratoriums and the share in the retail and non-retail portfolios. On page 16, you see the structure of moratoria provided for each country, which is very similar, even the same for retail clients and legal entities. In Serbia, banks are obliged to provide moratorium if the client is not voluntarily stepping back from it, while in Montenegro banks are obliged to provide moratorium based on client's request who doesn't have to state any reason. For Croatia, Slovenia and Bosnia, banks don't have to provide a moratorium if it is not clearly argued by the client how they are impacted by Covid-19. For Bosnia, Serbia and Montenegro,

the duration of the moratorium is in general 90 days, which started mainly in April. Which means that any asset quality impact can only be measured from Q3 2020 onwards. Being preventive, we keep close contact with the clients to understand their personal situation, and to be prepared to decide on post-moratorium measures. And also to ensure that the right IFRS 9 staging will be applied, which will cause the expected main impact on the cost of risk in 2020 in reflecting portfolio migration from stage 1 to stage 2 with higher coverage ratios to be applied according to a stage 2 lifetime expected loss calculation.

For Croatia, the duration of a moratorium is in general six months but can be extended up to 12 months for clients in certain industries. While in Slovenia, 12 months are in general allowed by the regulation. To get clarity about the overall asset quality impact in a very early stage, we keep also here a very close contact with our clients to review their liquidity situation and to define appropriate measures. Our non-retail portfolio consists of a very diversified structure across the industries, where less than 300 million gross exposure is in main impacted industries like tourism and transportation. For the retail portfolio, it is important to mention that we have a significant part of clients, more than 30%, which is employed in less impacted industries, especially in the public sector, which we expect to keep the asset quality under control. Further on, we don't have a significant concentration of customers employed in the most impacted industries like tourism and transportation. We intend to use the continuously increasing level of data points to be able over the next quarter to gradually refine the assumptions of the IFRS 9 model, to avoid, on the one hand, a pro-cyclical approach, but on the other hand, to properly predict the expected cost of risk impact, which we expect to be above the through the cycle average.

Page 17 is providing you with some details related to the share of moratoria taken in retail and non-retail portfolios - based on end of March as booked in the system and end of April 2020 as requested by clients. For our non-retail portfolio, with 2.7 billion gross exposure, moratoria requested by clients are approximately 28% by end of April 2020. Where Serbia and Montenegro, according to the explained structure, are causing the highest shares, while Croatia, Slovenia and Bosnia show a significantly lower share, which gives some comfort considering that these countries are covering more than 75% of the non-retail loan book. Almost two thirds of all requested non-retail moratoria are coming from the industries construction, manufacturing, wholesale and retail trade. Our retail portfolio with 2.3 billion gross exposure is impacted by moratoria requests with approximately 21% by end of April 2020. Where again, Serbia and Montenegro due to this structure, are most impacted, while all other countries again show a relatively low share while covering more than 80% of the retail loans. Following quarters will provide us with more insight into the payment behavior of our clients but will also make it possible to gradually come back to

	business, applying our sustainable risk/return based approach, where some further policy checks based on industrial view are considered. Related to funding, moratoria will not have any material impact on liquidity ratios like LCR according to applied internal liquidity stress tests. With that, I would like to hand over to Johannes to continue with the capital situation.
Johannes Proksch	Thank you, Markus. And now a brief update on the capital position on page 18. We continue to have a very healthy total capital ratio, which in our case is equal to the CET1 of 16.9% on a traditional basis or 16.3% IFRS 9 fully loaded. The reduction of 84 basis points compared to year-end 2019 of 17.7% CET1 is mainly driven by a drop in other comprehensive income by 32.9 million related to the plain vanilla bond portfolio. This has slightly improved since the end of March, as some of you noted. There will be further volatility in this position, but as we do not anticipate any impairments, we will see a pull to par as markets stabilize, and our portfolio duration is between 3 to 4 years. Please bear in mind that our capital ratio as of first quarter 2020 does not include the previously proposed 2019 dividend of 40 million, which means the first quarter 2020 capital ratio would be higher by 90 basis points if such dividend would not be distributed. As mentioned earlier by Razvan, the dividend 2019 proposal will be reviewed ahead of the postponed AGM in the fourth quarter. RWA's remained flat, reflecting ongoing review and implementation of optimization. And with that I hand back to Razvan.
Razvan Munteanu	To wrap up before we go to our Q&A. First, a strong operating result in Q1 facilitated our significant risk charge related to the expectations for macroeconomic deterioration. This allows us to be well prepared to weather this crisis. Second, our model remains very relevant. In Q1, we demonstrated that we can continue our execution in a changing environment. Third, first quarter results demonstrate we can deliver the operational improvement required for our mid-term target. Fourth, we will have a better read on the crisis implications to our guidance after the moratoria in August/September. Fifth, we will accelerate digital transformation and cost programs to reduce the financial effects of the crisis, protecting the capital base and the dividend distribution capability. With this, I hand back to the operator to co-ordinate the Q&A session.
Operator	So, we will now begin our question and answer session. If you are on the conference call and have a question for our speakers, please dial 0 and 1 on your telephone keypad now to enter the queue. Once your name has been announced, you can ask the question. If you find your question is answered before it is your turn to speak, you can dial 0 and 2 to cancel your question. If you are using speaker

	equipment today, please lift the handset before making your selection. If you participate via the audio webcast you can write questions via the Q&A function of the webcast by pressing the question mark button. One moment, please, for the first question.
Anna Marshall	… presentation. Firstly, on asset quality. Could you please elaborate on your expected trajectory of cost of risk throughout the year? I think you've mentioned that you plan to refine your IFRS 9 assumptions. Did that happen already in Q2 or further down the road? And also, I appreciate these are still very early days, but any more precise indication of the full-year 2020 cost of risk apart from what was mentioned, the things that it's going to be about to the through the cycle level. And so that's my first group of questions. And my second is on the new production. Could you please indicate the most recent statistics for new production in consumer and SME segments for Q2? What do you see so far? And also, how do you see demand versus your own underwriting standards change in terms of the drivers for Addiko.
Razvan Munteanu	OK, thank you very much, Anna. I will ask Markus to answer the risk package of questions, and I will address then the new origination question.
Markus Krause	First of all, Anna, what I would like to report and what I mentioned in the first quarter, actually, we have not seen any implication of the Covid-19. Which also doesn't give us any guidance how that might develop. The moratoriums, as I also mentioned, will last mainly until the end of the second quarter and in some countries, as I also outlined, Slovenia and Croatia, it might take even longer. So that we see also asset quality wise here actually the first direction in the third quarter. Of course, we have built up certain scenarios internally, which simulate different assumptions of the behavior. So, the V-shape is one of these assumptions we are looking at. But also, we have different sub-scenarios here we are looking at. And the variance between the different scenarios is relatively large, because we don't have that building base currently which allows us to say: the highest probability lies on that scenario. So that's why we are currently not disclosing any of these details because we would like to see the first directions, where it is moving, to get more clarity which of these sub-scenarios will be the most probable one. And once we have that identified, we can, of course, give a certain guidance also to the market to be credible also in using available information.
Razvan Munteanu	Thank you, Marcus. If I take over on the new production topic. In April, the main effects affecting lending activity were lockdowns, so people were locked in their homes; lower demand because of lack of consumption; and lack of communication for the obvious

	context of the crisis. We did not push campaigns and that obviously affected the results. Not surprisingly, we operated in a range of 5-10% of our usual baseline. Also, we have been busy implementing moratoria prescriptions. In the first part of May so far, we have seen a faster than anticipated recovery, even though we do not communicate yet. We started our first communication activity in Slovenia a few days ago. We see now the first weeks in May running at approximately 25% of our baseline. Our thinking process so far is that towards the end of the year we will reach somewhere in the range of 80% of baseline lending activity. Does this answer your questions, Anna?
Anna Marshall	Yes. That's very helpful. Thank you.
Simon Nellis	Hi, thanks for the call, gentlemen. Maybe I could just push you a little bit on the cost of risk guidance. Most banks which have provided cautionary provisioning kind of give a spear on whether they think, you know, that they've done a conservative job and their provisions will come down in future quarters or whether they think it's going to stay at a similar level. Can you kind of give us an indication of what happens for future quarterly risk costs to be either higher or lower or stable. That would be my first question, to get a better sense of what this cost number we should put in.
Razvan Munteanu	Thank you. Thank you, Simon, I'll pass on again to Markus.
Markus Krause	You might remember the discussions we had during the IPO, where I always were stating that in our mid-term guidance, we are having considered cost of risk ratio of 120 basis points, which is slightly below a through the cycle. What we're expecting now, which is one of the scenarios we are looking at, that we are ending up slightly above this through the cycle. So it will not be, because we have a very good asset quality, what you see also, comparing the first quarter now this year, 2020, to the first quarter 2019, you see that we were performing significantly better, which is not caused by any one-offs. This is caused by the real, actual portfolio performance. So, for that reason, these 120 basis points on the credit risk bearing base, which is an equivalent of 160 basis points on a net loan basis, is the guidance we gave during the IPO, while you have to add here something which gives you a direction. But as I said, the credibility comes first when you have some proof points, some more data points. That's why I'm also very concerned reading proposals here and there, predictions here and there. We will see many corrections in the market, in the next following quarters, I'm quite confident. So that's why, let's get the first data points and then we can make more guidance for the markets.

Simon Nellis	Okay, so you are basically saying that 160 basis points on net loans is kind of a what you think is a normalized level or in that sort of range you kind of think?
Markus Krause	As I said, the 160 was below the through the cycle. And I'm expecting it above the through the cycle. We are in a crisis, so if you would expect now that this is on a through the cycle, I think I wouldn't give you any credible answer. So, you have to add something here which gives a direction.
Simon Nellis	Something more than a 160 basis points on net loans. OK. That's helpful, thanks. Can you just explain a bit more on the deferred tax charge? And should we expect further reversals?
Razvan Munteanu	Thank you, Simon, and I'll pass on to Johannes to give you some color on that.
Johannes Proksch	Maybe also a reminder to the background of the deferred tax assets. When we explained it, you know that we have basically only two countries where they are not expiring, the tax loss carried forward. This is Slovenia and Austria. But important only Slovenia. In other countries they are expiring basically this and next year. So, the 4.8 is a preloading, which means that we have therefore conservatively covered and reflected this year's performance. If in subsequent years - for which we have no visibility at the moment - still lower earnings are coming through, and which is I would say most probable for 2021, you would only see a very minor impact, which we would obviously recognize as soon as we become aware of it. But, as I said, very minor. In Slovenia, we can take this basically for longer, and we always use very conservative assumptions in capitalizing these tax loss carry forwards. I hope that answers your question.
Simon Nellis	So, I guess you're saying that future impact, you think you're pretty much done for this year, maybe next year another smaller, minimal impact.
Johannes Proksch	More as soon as we become aware, because you know that we update our plans towards the end of the year. So, it's basically, accounting-wise you need to do it as soon as you become aware. But we are, as you said, done for this year, pretty much done for this year.
Simon Nellis	And my other question would be on the recoveries you made in the legacy loan book. They're pretty substantial, 3.8 million on a net

	basis. How much more recoveries do you think are possible or do you think in this environment the actual recovery process has stalled a bit?
Razvan Munteanu	Thanks, Simon. I'll pass it on to Markus again.
Markus Krause	Yes, right. We have seen releases in the non-focus segment, that's in all three areas, so mortgages, large corporates and also in public finance, as you see it in the Appendix on page 33 of the presentation. Some of these releases is also caused by liquidating portfolios. So, it's not only coming everything out of the non-performing exposure. It's also due to the fact that we are reducing this and performing loan coverages of loan loss provision stock goes down. That's one element. And of course, we had some single cases in the SME. There you just need to look at the non-performing exposure stock, which in mortgages is 85 million at the end of March. And which is in large corporates 17 million. And in public 2. So there is not so much left anymore. But the main impact, what we considered in our planning assumptions, is that we are liquidating these portfolios gradually, and that is also causing certain releases. While the asset quality is very good, the coverage ratios are very good in these segments, you could argue on the large corporates the 55% is not high, but we know these tickets by heart. We know what we have as collaterals behind, so there we feel very comfortable also with the coverage level
Simon Nellis	So, I guess the message is: Despite the environment, you might still see some recoveries.
Markus Krause	We are continuing with liquidating the portfolios. So, moratorium is holding this now a little bit back. So, it's slowing down the whole process a little bit. While on the other hand, we are continuing our course, our strategy and for that reason we will see a certain impact, while a bigger ticket impact we are not expecting to be honest.
Simon Nellis	OK. Thanks very much. That's all from me for now.
Hugo Cruz	Couple of questions. Going back to the cost of risk. I know it's hard to talk about the future, but can you tell us ...
Razvan Munteanu	Pardon? We lost the line. Can you repeat the question, we lost the line for a few seconds?

Hugo Cruz	OK, so it's two questions. One on cost of risk. So, I understand it's very hard to talk about the future, but if you could explain a bit the provisioning you took in Q1. If it is focused on, based on a particular macro scenario, or particular portfolios, you know, any color there would be very helpful. And second, if you could give guidance on the costs for this year. You say that your costs should continue to come down. But if you could be a few more numbers, that would be very helpful. Thank you.
Razvan Munteanu	Thank you, Hugo. I'd like Markus to take the risk- and then Johannes will cover the cost part.
Markus Krause	So, this one-off hit we have taken with 13.6 million is an IFRS 9 macro-related overlay of the current model. So, the current model currently doesn't reflect the new macro outlook. For that reason, but we are working on incorporating this into our model and refine our model to reflect that properly. This is also market practice. Many banks are doing this very similar because we were forced also already as a subsequent event to consider it in Q1. For that reason, we were using the current macro assumptions we just did, the ones which were relevant last year but changing the weight of the different scenarios you have to consider under IFRS 9. So, there's always an optimistic, a base, a pessimistic and adverse. And we were changing these assumptions here significantly to also come with a balanced approach. On the one side not to overshoot, to be pro-cyclical, and on the other hand, also to be not too aggressive or too conservative also here in the sense, or let's say aggressive in the sense of - it's much too low. We have not taken the full year impact of such a simulation, especially to avoid the pro-cyclicality. We rather would like to use then the ongoing data points we will receive, quarter on quarter, to refine that IFRS 9 model. As I said, first, we are embedding these parameters now into the model. Secondly, we will get data points of defaults, which we will also be then gradually from the third quarter considered and included in terms of default rates into the model. That means also we will redo the model on a quarterly basis, and especially by the end of the year. In the last quarter: We will take the most important information which is the Q3 portfolio behavior post moratorium.
Johannes Proksch	On the costs, basically, as I mentioned, there will be staff-related reductions. And they are predominately in areas where we can basically reflect also the current work from home and so on. So, reducing unused holidays is, for example, one which can contribute certain elements. Sales incentives in Q2. These you haven't seen in Q1 because we still had a very good quarter, will reduce, but we will also - and we always highlighted this - repeat basically what we have done last year on a different scale, and we are very selective and aware of not harming our revenue capabilities. But as I mentioned earlier, branches versus digital is basically here the key

	word. And basically, you have seen it last year and you have seen in the first quarter the impact which that resulted into.
Hugo Cruz	OK. Thank you.
Operator	At the moment, there are no further questions via the telephone line.
Edgar Flaggl	Thank you, operator. We have a few questions that came in via the webcast. First from Florian Nowotny, DDM Group. Three questions. One, could you please provide some more detail where the tax expense came from? Two, how is the split in the OCI losses between FX and the bond portfolio? Three, could you provide some color on the structure of the bond portfolio, i.e. issuers, maturities, currencies.
Razvan Munteanu	Thank you very much for the questions. Johannes will you please take these topics.
Johannes Proksch	The first one, tax expense. I think that this was covered. This was an earlier question. OCI, think it's in the earnings release. You know, the quite explicit. Basically, you can see the reduction in capital by roughly 50, just above 50 million. Around 32 of these are coming from bonds, and the number is in there. But I think something just below 10 FX and then obviously the quarter's loss of 8.4. Third question, structure of the bond portfolio. So, we obviously, we always highlighted this as a, you know, a very conservative asset allocation, already during the IPO. Not much has changed. Quite the opposite. 85% investment grade, including Croatia, which in the meantime, obviously, became investment grade. EU governments, financials, average duration between 3 and 4 years. These are basically the highlights of this bond portfolio.
Edgar Flaggl	All right, the next question we have in the webcast is from Mr. Pattera. Four questions. Five questions, apologies. 1 - Is the sale of NPEs currently ongoing? 2 - Are higher discounts needed and/or has the sold volume decreased? 3 - What percentage of NPE do you expect to sell? 4 - What is planned for NPEs that cannot be sold? 5 - Do you expect devaluations of collateral? And if so, to what extent?
Razvan Munteanu	Thank you for the question, I would like Markus to cover these points.

Markus Krause	So, I gave already the comment on the non-focus segments, where the non-performing exposures are mainly in the mortgage segment. We were doing certain one-off portfolio sales in the past, which we currently do not consider because that's exactly what you're asking here for. There is an implication on the current pricing you get in the market. That's very clear. So, we are rather continuing working them currently down ourselves. That's related to mortgages. On these 17 million left for the large corporates, as I said, individual tickets, we manage them ourselves. We find the sweet spot where needed, and I'm not concerned at all about here. Related to the focus segments Consumer and SME. Our consumer segment, we have a forward flow agreement here in three of our countries. Currently in Croatia the forward flow agreement is on hold exactly because of the situation our partner here is, stopped this. So, we are currently managing that portfolio internally. But we are very confident that once we are entering next year, we can agree on a new forward flow agreement with them to make sure that our strategy also works according to having clarity once a client exceeds 180 days to give it to the experts while getting a fixed price. The pricing discussion might be a topic at that stage, right. On the small and medium enterprises: here again, we are not forced to do any sales. We do it case by case. We are reviewing them and then we are finding the right restructuring approaches or the sweet spots in the market where we see an opportunity. The collaterals as such is the same here. Of course, the situation is impacting that a little bit, but it's currently, we are anyways going into these portfolios on a case by case level. We are evaluating this also, but we are not, because this is our key focus when we are doing lending, the collaterals are only the secondary source. So, we focus on cash flows and not on collaterals as our main part of doing recoveries and collection.
Edgar Flaggl	One new question on the webcast: Any potential updates from the regulator regarding capital requirements? Also, anything on Tier 2 issuance and the situation on the current markets. The question is from Mladen Dodig at Erste.
Razvan Munteanu	Thank you for the question, I would share with you the fact that we are closely interacting with the regulator, but explicitly on crisis management circumstances, at this stage we do not have any news on this particular topic. And also, the Tier 2 is not a matter of focus right now.
Johannes Proksch	And maybe just to add, we were always very clear - and this hasn't changed - we basically updated you on the discussions with the regulator during our year-end call, and the Tier 2 topic will only materialize in the last quarter together with the AGM, and therefore we will await the developments until then.

Edgar Flaggl	Good, a few more questions on the webcast from Jovan Sikimic at RCB, who seems to have trouble on the voice line. Five questions to start with. How do you see DTA adjustments that led to higher tax charge going forward into 2020? I believe this has been answered already. 2 - Can we expect some reversals from bonds and revaluation in the coming quarters? 3 - The amount of one-offs on the fee line. And what is the outlook for 2020 on fees? 4 - how long can high IT costs be compensated in other or by other areas? 5 - Outlook for a consumer loan growth in the region.
Johannes Proksch	So, the first one, DTA, was answered. The second one as well, I would assume. And yes, there was a reversal until mid-May. I can even be precise, of roughly 4 million from the 32. But I also was clear that there is a volatility in the market and therefore it's very hard to predict what the year will still bring us. But we are confident that this is a prudent asset allocation. No impairments expected, therefore pull to par at some point in time. Hopefully when the situation stabilizes. Then the amount of one-offs in the fee line. Of course, as I mentioned before, we have this big project in basically migrating to an outsourced card provider and that has brought some one-offs in the first quarter. To some extent this will continue. But I think the main topic here is, as I mentioned earlier, that's obviously very strongly linked to the origination of consumer loans. Bancassurance is obviously impacted and will recover as consumption increases and therefore consumer lending throughout the year. Razvan was giving some indication what we expect, so the fee income will obviously only recover throughout the year. IT - as the fourth question, we are carefully managing IT. That doesn't mean that we are not spending on IT, but I think everybody understands that this is a topic where you need to very carefully also negotiate with the providers to not overspend and spend carefully. So, we basically continue, and as we gave as a guidance, to look for net decreasing costs over the years and not an increase in costs. So, the compensation of increased IT spending will come out of other areas for the years to come. And I think Razvan already provided us an answer on an outlook on consumer loan growth in the region.
Razvan Munteanu	Yes, we are anticipating that towards the end of the year we'll see probably 80% of our base line production. However, keep in mind, these are anticipations which are not based on indications from the market. Also, as Markus explained, this crisis is very unique in its way of unfolding. So, this is our working scenario rather than a prediction.
Edgar Flaggl	Thank you, Razvan. Two more questions from Jovan at RCB. 1 - How do you explain the significant decrease of the consumer loan cost of risk from 130 basis points in 2019 to roughly 80 basis points in the

	first quarter 2020? 2 - Do you provide also industry breakdowns, e.g. tourism, trade, transportation?
Markus Krause	The first question related to the cost of risk. I mentioned already that these are purely operational driven, the improvement comparing the first quarter 2020 to 2019. Of course, we had also in the starting point certain legacy portfolio, also in the consumer, this is now mainly out, and certain impacts we had still ... [connection broke]
Operator	We cannot hear you at the moment. Ladies and gentlemen, we need to pass at this moment. Ladies and gentlemen, we will continue.
Razvan Munteanu	We apologize, we lost the line. We are going back to Markus.
Markus Krause	The last question was, the first one, related to the cost of risk improvement first quarter 2020 to first quarter 2019 from 130 to 80 basis points. And I outlined once more that these are both operationally driven numbers, so no one-offs in there. And that the Q1 2019 still had some legacy consumer loans which were not underwritten by our policy here. So, this gives also a proof that the asset quality is very good, which will help us also now in this crisis to overcome this most probably a bit better. And the second question is related to industries, if we are also going more in detail there. Of course, during the whole situation now, we are splitting the portfolios into industries. We start from the corporate side, looking to the industries and define also criteria how we are reviewing the companies, first of all. And secondly, for new business, define the criteria according to industries. And also on the retail, private individuals, we are looking at the employment status, where the clients are. So, we are keeping very close contact with the client. First of all, to review their employment status also and to find out - because it could have been changed since they got the loan - and we are checking if they are employed in industries which are more impacted or less. And considering this also in our assumptions for doing restructurings once moratoriums expire, and also for new business lending, as also Razvan pointed out that our policies will consider now certain more checks, which we then will fine-tune all the time to come back also in terms of speed to that level as we had it before the crisis started.
Razvan Munteanu	The industry breakdown of our portfolio is available on page 34 in this deck if you want to refer to it.

Edgar Flaggl	There is no more question on the webcast. Operator back to you.
Operator	There are no further questions via the telephone line as well. So, we can conclude at this point.
Razvan Munteanu	Ladies and gentlemen, then on this basis, I thank you for the participation and wish you an excellent continuation of this week. Thank you very much.
Operator	Ladies and gentlemen, thank you for your attendance. This call has been concluded. You may disconnect.