Addiko Bank

Addiko Group 1H20 Results: Webcast Transcription

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Speakers:
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Operator	Dear ladies and gentlemen, welcome to the earnings call with the management of Addiko Bank AG. At our customers 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 participant has difficulties hearing the conference, lease press * followed by 0 on your telephone for operator assistance. May I now hand you over to the Addiko team who will lead you through this conference. Please go ahead.
Csongor Nemeth	Good afternoon and welcome everyone to Addiko's first half 2020 earnings call. I am Csongor Nemeth, I am the CEO of the Group. I am joined here by Markus Krause, our CRO and CFO, as well as Edgar Flaggl, who is our Head of Investor Relations. The aim of the presentation today is to provide as much transparency as possible with regards to the data set that we have for the first half of 2020. We also aim to give reassurance to all of you on the solid financial and operational standing of Addiko Bank. Thirdly, we also intend to provide guidance with regards to our current expectations to the full year 2020 results. And lastly, we also indicate priorities in our presentation of the activities that we intend to conduct in the next few months. At the end of the presentation, we will be, as always, ready to answer any of your questions you might have. With that, I would like to ask everyone to jump to slide 3. Firstly, allow me to welcome Monika Wildner and Kurt Pribil to our Supervisory Board. At the extraordinary GM that was held on the 10th of July they were elected. So now, the Supervisory Board of Addiko has eight members, two of which are delegated by our Works Council. We also have a completed board set-up. Markus Krause, who is with me on the call, he has assumed the role of CRO/CFO. I have taken over, from the 1st of July, the role of the CEO. And the team has been completed by Ganesh Krishnamoorthi joining us and who is deemed responsible for Retail, IT and Digital. I am sure, and it is only a few weeks experience, but I am sure Ganesh with his energy and new ideas and expertise in the field of retail and digital and IT will help us move Addiko in terms of our core focus areas to a new level. May I now ask to turn to slide 4. The new set-up of the old members and the new member of the Group Management Board is fully committed to accelerated execution of our established strategy. This is also in terms of being loyal to our geography and to our coverage of the focus segments, consumer finance and SME, as well as to the continuous stringent cost management initiatives and introducing digital value-adding propositions to our customer base. We are doing this while we are also keeping a full commitment to prudency in risk management. Sustainable business model, solid

capitalization, maintaining strong funding and liquidity are core to our strategic proposition.

In terms of the key topics that I would like to focus on - this is on slide 5 - that we have as a Group Management Board on top of our agenda, these can be classified into three main areas. First and foremost, growth. We are doing and launching numerous activities across our countries and the subsidiaries to accelerate the execution of our established focus strategy and introduce value-generating digital capabilities to our customers. We have managed to uphold our very robust asset quality with very tight management of risk and risk containment activities. We have also continued to run down our non-focus book, and the disposal, we have considered disposal opportunities, but we decided to actually stop that project simply because we did not see an economically sound business case for that at the current market conditions. That was with regards to growth.

The second one is with regards to costs. We have reduced and will continue to reduce our fixed and variable cost components in a sustainable manner. And we have to do this in order to compensate for some of the revenue gaps that we see as a consequence of the Covid-19 pandemic related social and economic inactivity. We are committed to continue scaling up our migration to digital by harmonizing and automating our internal- as well as customer-facing processes. And we are conducting a review of the rightsizing of the organization and our processes, and this will become more material in the fourth quarter as the initiatives have been set in place over the last few weeks.

The third big bucket is capital. You will see it later on in the slides, and Markus will share also some details later on, that we have managed to maintain a very strong capital position. We have very stable and diversified funding and liquidity, and we are committing to keep these principles as the highest priority. We are ready and we are committing to the communicated dividend policy, pending, of course, the recently introduced Europe wide ban on paying out of dividends. And we continue our proactive dialogue with the regulators on capital requirements, Pillar 2 Requirements and Pillar 2 Guidance namely, as well as MREL.

Now, to provide you the key highlights of the first half 2020 in terms of earnings, asset quality containment and funding and liquidity and capital. This is actually on slide 7. Taking it step by step.

Earnings - the result after tax is €12.2 million net loss for the first half of 2020. The second quarter 2020 result of €3.8 million is actually an improvement compared to the €8.4 million loss we have seen in the first quarter 2020. Our provisioning at 0.8% or 80bps cost of risk is actually €29.2 million. This is predominantly reflecting quarterly IFRS 9 model adjustments - and this is €23 million - and stage 2 developments.

Our operating result - and I think this is a very important and key indicator of the actual performance of the banking group - is up by 14.5% year-on-year and it's €27.6 million.

This is supported by lower OPEX, operational expenses, despite the business impact, the full business impact from Covid-19 in the second quarter this year.
Our return on tangible equity calculated at 14.1% CET ratio is of -1%.

In terms of the second bucket, asset quality containment, on the same page. NPE volumes and ratio remain stable at 3.6% compared to the 3.9% at year-end 2019. This is clearly also affected by the moratoria that is preventing defaults for potentially affected exposures. But I have to highlight that in terms of the total exposure under moratoria in the whole of Addiko Group, only 15% of our portfolio is impacted. And over 90% - and Markus also will have a slide on this with regards to the focus and non-focus segments and the breakdown later on in the presentation - over 90% of our loan portfolio has zero overdues and are being current.

Our NPE provision coverage is stable at 73.2% and has remained stable since the beginning of the year. We are confident that we have all the risk mitigation and containment measures in place to assure that the quality of the portfolio will remain as it is currently.

Funding situation, this is the third bucket on this slide. Our funding situation has remained solid, €4.7 billion customer deposits, and our LCR is slightly below 200%. Our capital ratio has strengthened further to a transitional CET1 ratio of 19%. This is IFRS fully loaded CET1 ratio of 18.2%.

Please turn to slide 8. I would like to give you an update as well that we are in the process of reviewing our mid-term targets. And this is an activity that we expect to be completed by the fourth quarter this year.

Second bucket on this slide is the outlook for 2020, where we would like as a Group Management Board and the Group to provide you five key figures where we expect the Group to end up in terms of the year-end financial figures.

Firstly, gross performing loans. We are expecting to be at around €3.5 billion.

Secondly, our net banking income. We expect between 7% and 10% to be below the level of 2019, which was €250 million.

Thirdly, operating expenses. We are committed to deliver a result in the OPEX category that is below €175 million. And that is compared to the year-end 2019 figure of €189.2 million.

In terms of the fourth point. Our credit loss expenses on financial assets - and you have to understand and appreciate that this is, from all of the categories, this is the most difficult one to actually put a finger on, simply because of the moratoria and the potential impact such cancellation of moratoria as expected could have on the portfolio - but we are committing to a range between 1.1% and 2.2% on average net loans and advances to customers.

In terms of our CET1 ratio. We will maintain a position above 19% on a transitional basis with the previously proposed 2019 performance-related and profit-related dividend already being fully deducted. The year-end 2019 - just for the sake of reminder for everyone - was 17.7%.

Lastly, on this slide, the AGM and the dividend guidance. We will hold - whether it will be virtual or in person that is still to be seen - but we will hold our AGM for the business year 2019 in the fourth quarter 2020. Most likely the second half of November. With regards to the dividend guidance, the management is fully committed to the communicated dividend proposal and the timing is dependent on the lifting of the recently introduced regulatory measures that apply to all banks across Europe.

On slide 9. We continue to rely on and use the forecast from the Vienna Institute for International and Economic Studies that we have used over the last 18 months to ensure consistency. We have included both base and pessimistic scenarios that we have received from their side into the presentation today. So, you can also see which are the numbers and the ranges that we are working with. Only time will tell, of course, which one of these ranges will materialize. But indifferently to the outcome, we are committed to focus on the three main boxes that are highlighted at the bottom of the page.

Number one, with regards to customer business. Simply put, we need to accelerate and we will continue to accelerate our digital value proposition.

Number two, with regards to the operating platform, we will continue to streamline our costs.

And number three, with regards to risk management, the main message is we will always remain prudent and true to our principle of prudent risk management.

On the next slide, I would like to share some details with regards to the continued repositioning of our focus areas SME and consumer finance. On the left-hand side of the chart, you see that we continue the increase of the share of our focus segment from the 40% that we had when we set out the strategy in 2016 to actually 63.4%, if I want to include the commas, the 63% that we have achieved by the first half of 2020. The second important message on this slide is that the gross yields per segment have remained stable despite the very challenging macro-economic environment.

On the next slide, I would like to provide you a breakdown with regards to the focus and the non-focus book development.

On the top left-hand side of the chart, we have broken the consumer and SME segments down. And you see that if I would have to describe it with one word in terms of the developments since the end of 2019 until end of first half 2020, the focus segments have remained stable. On the bottom of the chart you see that the non-focus part of our portfolio, mortgages with the lighter grey, and large corporate and public with the darker grey color indicated, have continued the decrease of the portfolio according to the expected and planned contractual repayment schedules. Between 2018 and 2019, the portfolio decreased by 11%. In the first half of this year, we have seen a decrease of roughly 5%-7%, depending on the sub-segment.

One very, very important element that I would like to highlight still on this slide is the bubbles between the two charts. Here we have indicated to you the year-to-date new business or new disbursements in our focus segments. In order to follow I just read out the numbers: In 2018 we had a new disbursement of €1.137 billion. In 2019, €1.263 billion. In the first quarter of 2020, it was €238 million. And that has only increased to €373 million by the end of the first half. We have also included - and this is not a forward-looking statement, more of a calculation on an annualized basis - that we simply, if it would have taken our assumptions where we would end up at year-end with new disbursement, we see that it was slightly below a billion in the first quarter. While that assumption would need to be decreased to €750 million already on the performance in the second quarter that we have realized. Again, a high level of uncertainty with regards to the Covid-19 social and financial impact is there to be considered.

On the next slide, I would like to provide some key messages with regards to our continued digital transformation potential. This is on slide 12.

First main message is that since the beginning of the year, we have improved and increased by 13% the number of mobile banking users across Addiko. We have also improved by 8% the number of digital users that we have. In the bullet points you see that our Bank@Work initiative as well as our digital SME loans and the digital consumer loans have continued the trend of improving since 2019.

I have to also highlight - and with Ganesh being on board - that we are constantly working and we have initiated the work on the fine-tuning and the measurement and the reporting on some of our digital KPIs in order in the future to become more true to our value proposition of being a digital specialist player. We will, of course, keep you up to date in the subsequent earnings calls on some of the new KPIs that will be applied across the organization, including the Group Management Board.

On the next slide, I would like to provide you with some clarity with regards to our operating expenses and some of the next steps that we have ahead of us. Many times, I heard OPEX is the only part and the only KPI of the bank that is only and truly in our own making. Hence, I am incredibly pleased to report to you that we have managed to decrease our OPEX to below €40 million, €39.8 million, for the second quarter 2020. And in the bar chart you see that that decrease was actually true in all sub-categories, staff, administrative, as well as depreciation and amortization.

On the right-hand side of the chart, I would like to highlight few key information for you. In the first quarter earnings call, we reported that we have spent as Addiko €1.6 million on advertising. And as you can see, in the first half that number only increased by €600 thousand to €2.2 million. This is also part of our very stringent cost management not to spend money where we see it does not deliver immediate or short-term returns. Our HR costs have decreased. And I am discussing, going back to the bottom of the chart on the left-hand side, the red bit - that has decreased by half a million euros quarter-on-quarter. But what is more important to note is when we compare the staff costs from the second quarter 2019 of close to €25 million to the current €20.7 million, that's actually a decrease of €4.2 million.

I also have to highlight that for the first half of 2020, the Group Management Board has decided not to accrue for any bonuses for this year.

On the bottom right hand side of the chart, with regards to the further cost reduction measures that are in the pipeline and in the making, I would like to and commit to that the Group Management Board continues with the activities to launch further cost optimization measures. Number 1 is with regards to the review of our org-structure and the rightsizing of it. Number 2 is to review the distribution channels that we use. Number 3 is to descale and rationalize IT costs and expenditures. And last but not least, 4 is to accelerate the decrease of non-focus related costs.

Hopefully, these 13 slides have been useful to you and have given you an overview. And with regards to now more details and deep-dives, I would like to hand over to Markus, who will give an update on financials and risk parameters.

Markus Krause

Thank you, Csongor. Please follow me on slide 15, where I will start with the financial performance first half 2020.

You see that in the first box where the P&L is shown, we ended the first half 2020 with a loss of €12.2 million, which is mainly impacted by two items. DTAs have been written off of €8.7 million due to the Covid situation. And secondly, we were building losses based on IFRS 9 for the performing loan portfolio to reflect the macro changes with an impact of €23 million, which is included in the booked €29.2 million.
If you would deduct these two items from the €12.2 million losses, you would come very close to the result of the first half 2019, which we finished with €20.2 million profit.

The operating result, as Csongor already mentioned, has been improved by roughly 15% compared to the first half 2019. Major driver of this were the operating expenses where we improved by 13% and brought it significantly down. I will go into the details on the next slide. This was used to over-compensate the reduction in the net banking income, which was mainly impacted by the Covid situation in the second quarter, but also in the first quarter, partly.

This leads me to the comparison in the second quarter. There you see that we actually improved by €4.6 million compared to the first quarter, which is mainly caused by the DTA, which was mainly booked in the first quarter. And operating expenses were compensating for reduction in net banking income.
The net banking income reduction compared to the first half 2019 is mainly caused by the loan book development, as you see it in the balance sheet. The performing loans have been reduced by roughly €100 million, which is coming exclusively out of the non-focus segment, which is according to plan.
While on the focus segments, we managed to keep it stable in this difficult Covid situation.

When you compare the deposits, we have with €4.7 billion maintained it on a very good level, which gives you a funding surplus of €1 billion looking at the loans and receivables to customers of €3.7 billion. The shareholder equity is reduced by €20 million compared to the first half of 2019, which is caused by the €12 million losses from the first half and some impacts coming out of fair value to other comprehensive income impact for debt and equity instruments.

Going to the key ratios, you see that the NIM has been kept stable. Same like loan to deposit ratio. On the risk side, you see that the non-performing exposure ratio compared to the first half 2019 was improved by 100bps. Slight increase in the second quarter compared to the first quarter by 20bps, which is in line with plan or even better than planned. The cost of risk are the 80bps which Csongor mentioned already and where I would like to give you later on much more details on.

The cost-income ratio improved significantly due to these measures we have taken to 71%, down from 78%.

The reduction in the loan book on the one hand side has a negative impact on the net banking income, but it has a very significant positive impact on the capital ratios. You see that the CET1 ratio and also the total capital ratio on a transitional basis increased by 1.4% up to 19%. And on a fully loaded IFRS 9 basis, from 17% to 18.2%. Also, here I will shed a bit more light in one of the following slides.

If you turn to the next page on slide 16, you see the main key performance indicators of the P&L.
And I would like to give a bit of more background. The net interest income was reduced by roughly €2.4 million, down to €88.6 million in the first half 2020, which has several details. In the focus segment, we improved the interest income by 5.9% on a year-on-year basis while on a quarter-on-quarter basis in the second quarter we unfortunately lost 1.3% due to the lockdown situation.

We had some impacts in the bond portfolio due to interest rate changes and also the market situation we are currently having. In the non-focus segment, we were exactly in line with plan. And in the interest expenses we improved compared to the first half of 2019 by €2.8 million, which was compensating the negative impact of the interest income, which was €5.2 million.

Net fee and commission income was mainly impacted by the Covid situation, and especially in the second quarter. Since loans, as Csongor mentioned already, were disbursed on a relatively low level and bancassurance as net fee and commission income component is closely linked to it. And on the credit cards, we also had less than we were originally planning. On the other hand, for account packages, we improved by 11% on a year-on-year basis. Overall, the focus segment is making 90% of the overall net commission income.

Going on the left-hand bottom side to the operating expenses. This is the compensation of the net banking income reduction, where we overcompensated it and two components are the main drivers. Personnel expenses on the one hand side, which improved by 16%. We came down from €50 million by €8 million to €42 million roughly. Main contributors where the restructuring measures taken in the second half of 2019 where we were closing also branches and reduced our stock of FTEs by roughly 250. And no bonus accruals have been built for 2020.

The administrative expenses also went down significantly by 14%. This is a reduction from €36.5 million, down by €5 million. The main contributors are marketing costs due to the situation of the Covid - we use significantly less than plan -, and advisory and legal costs, where we also did not spend that much during these months. And the branch costs have been reduced because we were closing last year 17 branches.

On the right-hand side, on the bottom, you see the credit loss expenses, which I will report on more in detail in some of the following slides.

If you turn to slide 17, I start with the risk management part and the asset quality, which is still very robust. You see the loan book development in the different segments. In the focus segment, the Consumer stayed mainly stable with €1.5 billion, the SME stable with €1.7 billion and the non-focus segment, as I mentioned already, was reduced by roughly €100 million.

The asset quality can be indicated very well in looking into the days past due counters which we provided here in these different bar charts. You see that days past due more than 90 days, which is part of the non-performing exposures, has been maintained mainly stable. In some segments it is slightly lower even. And in one segment, the SME, it is slightly increased, while overall it remained relatively stable.

In the segment non-overdues we remained on a ratio basis for this portfolio very stable. In the segment from 1-90 days, you see a slight increase in the Consumer segment and in the non-focus while the SME went down by 20bps. All in all, this shows a very stable asset quality and confirms the sustainable approach we are applying here for the last years. Of course, also the moratoria have their implications - that there are not that many migrations into non-performing - but since this is only 15% of the portfolio, the remaining 85% shows a very stable and solid asset quality.

Our main task for the following weeks and months will be to start balancing the lending policies where we were very cautious during these last months to avoid a negative selection. Then we are also looking into getting the application potential properly migrated into approval rates which are on the targeted level, which are currently significantly lower than we originally planned.

On the following slide 18, I start with an update on the moratoria. The regulation has not really changed over the last couple of months. I just would like to point your attention on the right column, which is providing the changes. And there is Serbia, the only country currently where the moratoria have been extended by another three months based on the same rule that only clients voluntarily have to step back, otherwise all clients get a moratoria in Serbia. That is why the shares are very high. And I will come to that on one of the following slides. You see certain indications that in certain segments in Montenegro and Bosnia, discussions have been started also to apply additional moratoria. As more moratoria will be introduced on top to what has been done in the second quarter 2020, this will mean that the NPE migration will be rather coming in the year 2021. And I will give you later on also the potential implications on the cost of risk.

If your turn to the next slide, 19, you see the moratoria portfolio how it looks like in detail. Of our total €6.9 billion portfolio, what you see in the circle on the left-hand side, in the earnings call in May for the first quarter, we reported in the retail segment 14% of the portfolio impacted by moratoria and 16% of the non-retail portfolio. Now by the end of the second quarter, the moratoria in that sense are clearly defined. And we see a slight increase in the retail portfolio, up to 17%, and in non-retail with 23%, which is actually lower than we were expecting during the first quarter. This portfolio of moratoria is in total €1 billion. And the €1 billion is distributed over the different segments what you see on the right-hand side on the upper chart. And the main impacted portfolio on a relative basis is the SME segment with 26%.
We talk here about 52 thousand clients impacted. And, of course, the major part of that one is coming from the retail segment, consumer and mortgages, while on a country level, due to that definition, the opt-out in Serbia - Serbia is the main impacted country with 55% on relative exposure basis and 11% from the total stock.

On the following slide, I would like to go a bit deeper how we try to manage these moratoria portfolios. You see the €1 billion on the left-hand side on slide 20, which is split into €600 million in the non-retail segment and €400 million in the retail segment. The expiry dates are distributed over the following quarters. You see that in Q3, 85% of the moratoria are expiring and the remaining 15% is expiring half-half in the fourth quarter 2020 and in 2021. From these 85% which is expiring in the third quarter, we will learn more about the NPE migration in a post-moratorium status. So that is a very crucial quarter for us, also to verify our model assumptions.

How did we do the assessment of the portfolios? We went into detailed customer initiatives where on the retail side we had customer care calls, where we tried to identify the individual situation of the clients.
Out of this €400 million portfolio, we were able to contact roughly 87%. And we reached out of that 75% and defined certain criteria based on employmentship, based on salary and any further information to classify them into highly impacted, medium and low. Highly and medium impacted is 18% of the total portfolio. On the non-retail side, we did tailored assessments based on an individual basis, and not only the moratoria clients. Here, we covered the total portfolio. We made a cash flow-based analysis and looked also

into the supplier chain to make sure that this interconnectedness is well understood and reflected in the risk judge on a qualitative basis.

On the following slide, 21, you see the other approach, which is the IFRS 9, where the macro parameters have been incorporated into the model. And this qualitative approach, what I was describing on the slide before, was used to verify this. On the left-hand side of that page, you see our portfolio distribution across the different stages. Stage 3 in the first half of 2020 has an amount of €244 million non-performing exposures. This is €30 million better than by the end of 2019 and is on a similar or same level like by the end of the first quarter 2020. Which confirms once more the stability of the portfolio and that the inflows into non-performing have been managed very well, especially considering that 85% of the portfolio is not under moratoria.

Looking into the other performing loan stages, stage 1 and stage 2. This is explaining what has happened based on the implications from the IFRS 9 macro model changes. On the bottom, you see the bubbles in the distribution of the stages. There is a 2% change from the first quarter to the second quarter from stage 1 into stage 2. This is caused by the increased PDs, the probability of defaults, which are the outcome of the macro parameter changes.

The second impact which we have from that modelling is the coverage ratios in stage 1, which increased. You see it on the right-hand side in the lower part where the stage 1 is shown, where this increased from 50bps to 70bps, while the stage 2 coverage has remained mainly stable. Combining these two impacts, so the portfolio shift of 2% from stage 1 into stage 2 and the higher coverage ratios in stage 1, this leads to a total increase of 50bps from 1.3% to 1.8% in the performing loan portfolio to anticipate potential losses over the following months and quarters and years under lifetime in stage 2.

If you move to the following slide, slide 22, I would like to explain the P&L impact, which I reported in the beginning of the credit loss expenses of €14.8 million, which we had in the second quarter. This is a composition of two items. In the business segments, we booked €30.7 million losses and allocations of provisions while we released on the corporate center €15.9 million. These €15.9 million contained - and this is shown also in the table below - in the first quarter 2020 booked €14.7 million, of which €13.7 million is linked to that IFRS 9 post-model overlay booking to reflect the macro changes on a higher level. This is shown in the pink cell in the first row. If you follow the arrow, you see that this has now been in the second quarter done on a more granular level as part of the modelling and incorporated in the model on a client level, where we booked €23 million coming from this IFRS 9 impact. Meaning that the business segments impact of the €30.7 million what we have in the second quarter is major impacted by the model impact, the €23 million, and with €7.7 million by operational risk costs and migrations. This is better, the €7.7 million, than we were actually expecting in our plan.

Looking what that means in terms of cost of risk ratio, you see on the bottom that on total level, on a credit risk bearing base, we booked year-to-date first half 57bps cost of risk and on a net loan basis, 77bps. If you deduct the model impact, which is on a credit risk bearing base 45bps and on a net loan basis, 60bps, that gives you the operational impact of the cost of risk, which is 12bps on the credit risk bearing basis and 17bps on a net loan basis, which is significantly better than we were planning, partly, of course, impacted by the moratoria, but always taking into consideration that this is only 15% of the total portfolio.

During the second half of 2020, we will continue reviewing these IFRS 9 model assumptions in considering additional update of the macro parameters and also reviewing the actual performance of the post-moratorium behaviors which will start during the third quarter. This is leading also to our guidance that we are providing here a range of 1.1% to 2.2% on a net loan basis. Since this post-moratoria impact is still very hard to predict and needs to be observed very closely in the third and fourth quarter, while on the other hand additional introduction of moratoria like we see it now in Serbia, rather tends to that we are rather going into the lower half of that range in case more and more moratoria would be introduced.

Coming to slide 23, this provides the information on the capital situation, which is closely linked to the situation describing before also the locks. Here you see a very positive development comparing the year-end 2019, where on a fully loaded basis, we had 17.1% - it is the red bar on the left-hand side -, which went down to 16.3% in the first quarter due to mainly changes in bonds with OCI impact, and the losses we were booking also in the first quarter with roughly €8 million we booked there. While in the second quarter, the bond implications were reverted partly by roughly half, so a positive impact on the capital ratio of 44bps, and the losses relative to the first quarter were lower so that the impact here were 8bps in the waterfall.

The DTA had its impact of 8bps. And, of course, what I mentioned, the positive impact on the capital caused by the €100 million reduction in the loan book is a positive impact by 50bps on the capital ratio.

There is another significant component of 93bps as a positive one, which is caused by regulation. There is some favorable introduction of some risk rate for sovereigns, which is temporary until 2022, which is the majority of these 93bps, and an SME-supporting factor which is of permanent use.

	Even if we would deduct these positive impacts of 93bps from the 18.2%, we would still end up with more than 17.3% on a fully loaded basis - this is total capital ratio and CET1 - which is compared to the end of 2019 an improvement of 20bps. Considering our minimum capital requirements of 14.6%, this gives a buffer on top of that of 2.7%. Considering that we are here under stress now, the capital conservation buffer, which is included in the 14.6%, which is 2.5% itself, can be consumed as well. If you now add up these 2.7%, which is above the minimum of 14.6%, and use the 2.5% capital conservation buffer, this adds up to 5.2%. This is a loss absorption amount equivalent of more than €200 million. So, we have a very high buffer here. And this is also questioning the Pillar 2 Guidance discussion we were reporting on in the last quarters, where we got a 4% Pillar 2 Guidance during the last SREP process, which we don't see as correctly applied, because we have these significant loss absorption amounts still being already in the crisis. With that one, I would like to hand over to Csongor to wrap up.
Csongor Nemeth	Thank you, Markus. So as our closing remarks, I would like to highlight once again the Growth, Costs, Capital - or in short GCC - in terms of our focus areas. Firstly, with regards to growth. We are committed to accelerate the execution of our strategy and specifically focusing on value-adding digital capabilities. Also upholding the robust asset quality that Markus has described in detail. And we will continue to run down our non-focus as planned. With regards to the costs. Reduce fixed and variable costs and all the initiatives I have highlighted earlier are of the highest priority. We will scale up the migration to digital of our customer base and our internal processes. And we will right-size - we will continue to right-size - our organization to the current market trends. With regards to the third - abbreviated letter C - with regards to capital. As you have seen, we have a very strong capital position and we are committed to maintain it. We also commit to the already communicated dividend policy and we will continue our proactive dialogue with regulators. I thank you very much for bearing with us on these 24 slides, and we are open to answer any of your questions.
Edgar Flaggl	Operator, please open the floor for questions.
Operator	Thank you. Ladies and gentlemen, 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 a name has been announced,

	you can ask your 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 send in questions via the Q&A function of the webcast by pressing the "?" button. One moment, please, for the first question. And the first question is from Anna Marshall of Goldman Sachs, your line is now open. Please go ahead.
Anna Marshall	Good afternoon. Thank you for the detailed presentation. Two questions from me, please. Firstly, on dividends. Could you please elaborate on how do you see the procedure from here to how your AGM and end year financials for Q4 if the dividend from 2019 earnings is not possible to be paid this year. And so, the timing then shifts into 2021. But does the fact that or does the perception that, say, 2020 earnings may actually with be a negative sign, does that play a role in the discussions with the regulators, or that 2019 dividend is firmly attached to 2019 earnings so to say? So that was my first topic. And my second topic for question is on costs. Could you please elaborate on which of savings achieved and to be achieved in 2020 are sustainable versus the share that is temporary such as lack of bonus accrual, less marketing and so on? And generally, how do you see the trajectory of costs from 2021 onwards, there is a lot of moving parts here in terms of savings versus temporary factors falling out. Thank you.
Csongor Nemeth	Thank you for the questions, Anna. I will take the dividend one, but Markus, also feel free to jump in. With regards to the dividend, yes, your understanding is absolutely correct. So, in terms of how exactly the wording would have to be formulated for the AGM, that highly depends on the regulatory ban that has been recently introduced. But, yes, most likely from our current position that it would have to be done at the AGM taking place in 2021 for the business year 2020, also including the dividend decision for the profit of 2019, year 2019. The regulation, obviously this is fresh, so it was three weeks ago, so we are also adopting with regards to our internal decisions and assessments. And we will keep a close eye and we will always fulfil all regulatory requirements as we have done in the past. But the main message is, as you see, that dividend is there, and the management board is committed to pay it depending on the legal possibility to actually do so. That's to number 1. With regards to number 2, cost savings, I can only reiterate the management is fully committed to a €175 million being a target for this year. With regards to the five year and mid-term guidance, including also the plan for 2021, this will be completed in the fourth quarter. But not to miss your question in terms of the 2019-related bonus pool, the figure was between €7 - €8 million and that was

	something that we have considered for this year. The relevant pro-rata part was not accrued in the first half of the year. I hope that gives you some sort of guidance with regards to the cost and which is one-off and which is actual reduction.
Anna Marshall	OK. Thank you.
Csongor Nemeth	Thank you.
Operator	And the next question is from Simon Nellis, Citibank. Your line is now open. Please go ahead, Sir.
Simon Nellis	Thanks for the call. I guess my question would be on just the revenue outlook for the second half. I mean, from your guidance, it looks like you are looking for revenues to actually be a bit weaker in the second half versus the first half. If I am not getting my maths mistaken. Can you just run through why that's the case? Where are you seeing pressure? I assume it is on margins. And on the fee income, I guess you would be hoping that fees will revive now that activity is hopefully picking up. If you could elaborate a bit. And then my second question would be, can you also just give us a bit of a guide or indication of what is happening with tax? Because you are paying quite a bit of tax even though you are making losses. Can you update us on what is happening there? That is all from me. Thanks.
Csongor Nemeth	Good afternoon, Simon, and thanks for the questions, I kindly ask Markus to take both of them.
Markus Krause	Thanks, Simon, for the question. I think the revenue outlook is closely linked to what Csongor mentioned in terms of loan book development. So, we are expecting potentially to go down to €3.5 billion due to the Covid situation. So, disbursements related to the loan book in the focus segment cannot be ramped up with the same speed as we are targeting for. So, we rather kept it stable as we were reporting. And that is the main driver, which is also giving the guidance on the net banking income, these 7% to 10% range. Taxes. Deferred tax assets are driving the tax result. So, we have reviewed the Covid situation also in terms of how we can make use of it. Certain DTA in most of the countries have been expired this year. So, they are timely limited. There is only Slovenia and Austria where this is unlimited. While in Austria we don't have these profits - as you know, we are having no operational business - while in Slovenia we were reviewing this as well. And the other countries which are expiring now, we have written off considering the

	situation. It might be that during the review and considering the second half, how this will really develop, that we might reconsider this a little bit. But this is the package of our mid-term planning. So, we go into our budgeting process now and the remaining stock what we currently have are €6 million DTA.
Simon Nellis	OK, so the tax, you are unlikely to see material DTA write-downs in the second half. Is that the message?
Markus Krause	No. Exactly. Because it is mainly down.
Simon Nellis	And then going into next year on a more normalized basis, what kind of tax rates should we plan for? For the group, roughly?
Markus Krause	So, the normalized one is 21%.
Simon Nellis	So, no change there. OK. Thank you very much.
Csongor Nemeth	Thank you, Simon.
Operator	And the next question is from Hugo Cruz, KBW. Your line is now open, please go ahead.
Hugo Cruz	Thank you. Just want to understand a bit more a bit more after the discussions with the regulators you have had earlier on, clearly the P2G does not change. You are still not, you are still a bit low on the capital. Do you expect the P2G to change on the discussions you have had so far? Or will you, for example, aim to deleverage faster to be able to have a better knowledge to pay your dividend? Thank you, that is all from me.
Csongor Nemeth	Yes, thank you, I kindly ask Markus again.
Markus Krause	Thank you for your question. On the Pillar 2 Guidance. Of course, we are in very close exchange here with regulators on that topic, as we were reporting also last time. We continued on that path. There is also, if you have followed the announcements from the ECB and EBA, there is some recommendation also from the regulators side, ECB, to the national competent authorities, this year only in exceptional cases to change Pillar 2 Requirements and Pillar 2 Guidance. But we are addressing it very clearly that we are in a very, very specific situation. And we would like to accelerate that

	process because, as I was reporting also in terms of these numbers, what we see under stress now, this is, as I was saying this in the beginning, now having first actual numbers, which is not completed in the sense of the period and horizon where we would see the full losses. But even if we run uncertain scenarios here, we will never use that loss absorption amount what I was describing we still have, even without breaching here these minimum requirements. So, the Pillar 2 Guidance definition of 4% is completely out of range and we are working very hard on that one. But of course, it depends a lot on what the regulators will do this year. The focus is on their side much more on the Covid situation than anything else. But the attention is, of course, very high on our side.
Hugo Cruz	Just a follow-up. Do you have any plans to issue any AT 1 or Tier 2 as well that could facilitate, create a bit more of a buffer on the P2G?
Csongor Nemeth	Markus, please.
Markus Krause	When you look at our capital ratio, currently, this is the one thing we could switch it. But currently the market situation is also not that favorable. That is all clear. And secondly, it would currently just hurt us on the P&L side. So, we have parked it for the time being and we will take it up once it makes really sense.
Hugo Cruz	OK. Thank you.
Csongor Nemeth	Thank you.
Operator	And there are currently no further questions from the conference call.
Edgar Flaggl	All right. Thank you very much. We have a few questions or actually one question in the webcast from Chiara Salghini at Stone Forest Capital. What do you expect in terms of RoE for 2020 and in the mid-term?
Csongor Nemeth	I would like to take the answer. Hi, Chiara, many thanks for your question. We do not provide short-term RoE targets. And with regards to the mid-term targets, so not 2020 year-end, and with regards to the mid-term targets, as I have mentioned, we are conducting a review of our five-year business plan, and the mid-term targets will be based on the outcome of that activity and we hope to be completed with that in time for the mid-fourth quarter, so for the AGM, actually.

	I cannot ask her whether she is satisfied with the answer or not, but hopefully she will write another question if she is not. Any other questions on the webcast, Edgar?
Edgar Flaggl	There is no further question on the webcast. Moderator, do we have questions from the analysts still?
Operator	We do have a follow-up question from Anna Marshall, Goldman Sachs. Your line is now open again.
Anna Marshall	Thank you. Just a question on asset quality. For moratoria you have mentioned that the share of portfolio that is under moratoria currently is 15%. Could you please indicate what proportion of that portfolio was not eligible for moratoria in the first place due to kind of falling through the gaps so to say? And also, out of the low- or no-impact retail customers that you assigned - because there is quite a high percentage of them - do you have any kind of indication from having discussions with them, is this kind of a forward looking take up on their part or opportunistic? And by forward looking I mean that they are, say, under a furlough scheme and expect to potentially lose their job going forward, or opportunistic means purely kind of precautionary. Thank you.
Csongor Nemeth	I kindly ask Markus, please.
Markus Krause	Anna, related to your question of the moratoria itself. The second was related to retail. The situation on the retail side is that in these customer care calls what we did, and we don't do this only once. So, we are trying to, especially now in Serbia this is extended, we will take it up again. We also remind the clients properly. And the situation as we see it from the salary development, which is one of the key items, as well as the employmentship, is giving us sufficient qualitative verification of the coverages what you have seen in the model changes. You have seen also on that slide - I didn't mention it, but it's shown there - that for the moratoria clients, the coverage ratios are twice as high than on the non-moratoria portfolio. So, we have 3% on the moratoria and 1.5% on the non-moratoria coverage ratios in the performing loan portfolio, which is also a very good confirmation that the qualitative assessment and also the quantitative one fits quite nicely. So we have there, I would not say a cushioning, but we have there a proper approach in reflecting the potential higher risk we are seeing in the moratoria portfolio due to the fact that in some countries it is three months, in some it's six months, we have even a twelve-month period in some countries. As longer it is the harder it is to predict. That is all clear. But overall, I think the

	coverages that we have there are quite reliable. But as I said also the real back test will follow now, starting with the third quarter and then we will adjust, if needed, the model during the fourth quarter. And the first one, sorry, I forgot, what was the first one? Can you please repeat the first one? Sorry, Anna –I got it.
Anna Marshall	What share was not eligible for moratoria in the first place?
Markus Krause	Yes. This is a question which is very hard to answer because we did it case by case. So, except Serbia, where this opt-out approach is, where rather the client would have to step back themselves, in all the other countries it is done in the branches, where they looked into the clients individually, where they assessed the situation. And, of course, we have our own data, but I don't know it now by heart. But of course, we also pushed several clients back, which were using this momentum of getting a, let's say, time off not paying any instalments, where there was no indication. We were always testing what also the root cause is. Is the root cause really Covid-driven, yes or no? If not, of course, we have rejected those. And the eligibility actually is really caused, has to be caused by Covid. And for that reason, we checked also: Was there a salary reduction in that period of time? So, they came with payment slips and also the employer situation was checked according based on confirmation. That's how we did it.
Anna Marshall	OK. Thank you.
Operator	And the next question is from Mladen Dodig, Erste Group. The line is now open. Please go ahead.
Mladen Dodig	Yes, thank you. Thank you, gentlemen, for this call, for your explanations. I would just kindly ask you to just revert a little bit to the regulators' request on the capital ratio. So, can you just remind me and probably somebody else, are there any key dates or whether you have some expectations on revisions or how it will be, how the regulator might be stringent on the total capital ratio if it's not met or something like this?
Csongor Nemeth	It might come as a great surprise, but I kindly ask Markus to take that one.
Markus Krause	Thanks for your question. I give you a bit of more background from the past also. There is a regular yearly process, the SREP process. In that SREP process, usually in spring, it is usually April, May, you

get a questionnaire from the regulator where you have to provide the latest status from the last year-end. It was this year a bit different due to the Covid situation. So, we had time, or they were requesting rather the data based on June 2020, that they can take already into consideration the first two quarters of the Covid situation. They would like to see how much the banks are impacted by the moratoria.

Then there is a process that they are reviewing this on their side and make their assessment according to EBA guidelines, which are clearly describing the regulators what to look at, the governance you apply, the asset quality, liquidity. So, all these items they review and then they come with the draft, usually in autumn, late autumn, which they provide to the banks for providing feedback.

In last year's SREP process, so the formal letter, which is documenting then what you have to apply, you receive that actually in Spring the following year. So, this Spring in 2020, we received the assessment which was based on 2018 data and which was done during 2019. And there we received a Pillar 2 Requirement of 4.1%. And for the first time there was introduced a Pillar 2 Guidance of 4%. The Pillar 2 Guidance is for stress testing purposes while the Pillar 2 Requirement is for judging the bank in what is not reflected under Pillar 1. And these are more the ICAAP-based items like additional information on asset quality, how you govern, how you do the internal audit. So many, many items they look into and derive out of that what charge on top to the 8% minimum under Pillar 1 you receive as a bank.

We are objecting actually both because we see that this bank has developed significantly over the last years. We really changed everything and turned around every stone here. While this has not been really reflected significantly in the Pillar 2 Requirements and on the Pillar 2 Guidance - this is for stress testing - here we are criticizing heavily the way how it has been calculated since our actual situation of losses has not been considered properly. Certain projections were used which we consider not adequate. Secondly, the probability of defaults which have been applied are completely out of range compared to when we are seeing us also comparing with the benchmark.

It’s also different when you look into how ECB banks under ECB supervision are treated and how currently here the financial market authority, Austrian National Bank is the Pillar 2 Guidance averages for ECB supervised banks is significantly lower than what you see what we received. We are one of the, or we are the only, I would say, less significant institution currently in Austria which is operating in that region where we are in, while not under ECB supervision. So there might be some change because Croatia joined the SSM. And Slovenia is the second country being in the SSM, and Austria. So with three countries being in the SSM, we qualify from

	the formality criteria to being under ECB supervision. So, there might be a change coming.
Mladen Dodig	Yes. Thank you. That is exactly what I thought, but there may be some kind of different move by the regulators regarding the complete situation, which is definitely unprecedented. So, they might consider as you said one point of finding a more accelerated way. But thank you very much for this detailed explanation. And just maybe one question, considering the fact that Bank of Slovenia has extended the dividend moratoria to April 2021. Does that affect your Slovenian subsidiary in moving dividends back to Austria or in any other ways? No?
Markus Krause	It depends on if they would extend it another time. But usually we are closing the year during March, April. And that means that this is expiring end of April. As long as they would do profits and they would, or the profit from the year 2019 could be reconsidered. Same like we do for the group here on a holding level.
Mladen Dodig	OK. Thank you very much. Thank you, gentlemen.
Csongor Nemeth	Thank you, Mladen
Edgar Flaggl	Operator, any more questions?
Operator	No further questions on the conference call.
Edgar Flaggl	There is no further question on the webcast. With that I hand over to Csongor for closing remarks
Csongor Nemeth	Thank you. Thank you very much for taking your time. And thank you for all your questions, for listening to us. I wish everyone to stay healthy, stay positive. And thanks for your attention and your questions. Bye.
Operator	Ladies and gentlemen, thank you for your attendance. This call has been concluded. You may disconnect.