Addiko Bank

Addiko Group YE20 Results: Webcast Transcription

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Speakers:
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Markus Krause (CRO & CFO)
Ganesh Krishnamoorthi (CRBO & CIO)
Edgar Flaggl (Head of IR)

Operator

Dear ladies and gentlemen, welcome to the conference with 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 the star key followed by zero on your telephone for operator assistance. May I now hand you over to Csongor, the CEO of Addiko, who will lead you through this conference. Please go ahead.

Csongor Nemeth

Good afternoon everyone and welcome to our year-end 2020 earnings call. I hope all of you are doing well. Let me introduce to you the team very quickly who joined with in terms of our today's call. Markus Krause, our CRO/CFO, Ganesh Krishnamoorthi, our CRBO and CIO and Edgar Flaggl, our Head of Investor Relations is in the room with me. Without further ado, I kindly ask you to turn to page 2.

In the 4 key bullet points, the most important highlights of 2020 can be found. On first place, the important message is that Addiko Group has closed the year 2020 with 1.4 million Euro result after tax. Under normal circumstances, this result would not be considered by us, the Group Management Board, as something to write home about. But considering the challenges posed by 2020 in macroeconomics as well as the pandemic related challenges, we consider it a very respectable performance. Our focus book growth came back to path with regards to the third and fourth quarter performance. If I have to indicate the number, it's ca 80% year-on-year development of the 2019 new disbursements in our focus segments.

With regards to OPEX, the second bubble on the slide, we managed the run-rate very, very well, in my view, in terms of the over 5 million Euro that we have taken out, in addition to the Covid-19 related savings. We have also further run-rate savings of circa 9 million Euro, in order to compensate for the bonus pool which for 2020 was not applicable, because Addiko did not pay out any variable salaries for 2020. And also, to compensate for the expected costs related to the AQR process, which will take place under the ECB guidance this year.

The third bubble is a very, very important point. And I'm extremely proud to report on that, that Addiko just a few weeks ago has received the official letter confirming our change to Multiple Point of Entry approach from the pre-existing Single Point of Entry approach. For some of you who were with us when we were disclosing in the IPO prospectus these numbers, the required external MREL eligible funds were at the level of 467 million Euro estimated. And thanks to this change of approach, which was an incredibly heavy lifting from Team Addiko to complete the process in very close cooperation with SRB (the Single Resolution Board), we have reduced the requirement for additional external eligible liabilities or funding to zero. With regards to the shareholders at the bottom of the page, we have a new dividend proposal approved by all the relevant internal bodies of the bank to be proposed for the AGM scheduled for the 26 April 2021 with two parts related to dividend in the resolution to be proposed. Firstly, the unconditional part of ca. 7 million Euro which can be translated to 36 cents per share. This is an unconditional dividend proposal. And the second part, which is a conditional dividend proposal of 39.6 million Euro. This can be translated to 2 Euro and 3 Euro-cents. The conditional part is basically only conditional upon the currently prevailing ECB ban being lifted. We will have a separate slide later on in the presentation for easier reading with regards to the schedule and the timing and the conditions for these two separate dividend proposals. Addiko Management Board and Team Addiko remain committed to the 40 million Euro dividend that we have communicated in our previous earnings calls. And I'm sure you will understand that we have managed to even top that number up with the results of 2020.

I kindly ask you to turn to page 4 please. As customary in our previous earnings calls, we have tried to summarize the key highlights of 2020 in terms of financials in these three categories you see on the slide. First, the earnings. So as mentioned earlier 1.4 million Euro of net profit was achieved in 2020. This is a result or a consequence of a positive fourth quarter of 7.8 million Euro result after tax. You see that in the first half of the year, we had a loss of 12.2 million Euro, we had 5.8 million profits in the third quarter, and have managed to improve that to 7.8 million by 2 million Euro in the fourth quarter. With regards to provisioning, we had a cost of risk we have guided towards below 1.5%, we actually came in at 1.35%, which can be translated to ca. 48.4 million Euro. This is by comparing the 2019, when we had a release of 2.9 million, a 51 million Euro swing. And this is predominantly driven by IFRS model adjustments and Stage 2 developments in the portfolio.
Our operating result improved by close to 20 million, 19.5 million Euro, to 54.7 million Euro. This is 56% improvement year-on-year, which was supported by lower OPEX despite the 2020 impact and challenges on our top line results. Markus will also further elaborate, because we have introduced a new P&L structure going forward, he will have a slide later on to explain the details on that.

With regards to asset quality containment, I'm extremely proud to report that our NPE volumes actually went down by ca 12% year-on-year while our NPE ratio, our NPE provision coverage have all remained stable. Another point that could be of interest to you is that our overall exposure under moratoria, which was at half-year at its peak over 1 billion Euro has decreased down to 164 million Euro at year-end 2020 and still over 90% of our portfolios remain without any overdues being current.

Last but not least on this slide funding, liquidity and capital: our funding situation has proven to be incredibly resilient, we still hold 4.7 billion customer deposits and our LCR has further improved from roughly 201%, in the last call we had, to 209%. Capital ratio in terms of the transitional CET1 has improved to 20.3% and even with IFRS 9 fully-loaded CET1, we have a result of 19.3%. And please bear in mind that the full dividend of 46.6 million Euro is already deducted when we are reporting these figures.

Can I kindly ask to move to page 5, please. The guidance we have introduced for 2020 in the first half earnings call contains these five main categories: net banking income, operating expenses, CET1 ratio, gross performing loans, and credit loss expenses. As you see in the red letters on the right-hand side of the chart, we have managed to forecast very accurately our performance and have actually fulfilled all of the guidance figures we have provided to the markets. Last but not least on this slide, as I mentioned earlier, we will have an AGM on 26 April and Management with the approval also of the Supervisory Board that we have discussions and approval from, we will be providing the new dividend proposal to this AGM.

On slide 6, this is the slide I was referring to with regards to a breakdown and explanation with regards to how the 40 million that was carried forward from 2019 will actually be topped up by 6.6 million Euro from 2020 results and how the total dividend of 46.6 million is expected to be paid out. First tranche, the unconditional one, already on 4 May; with the second tranche, the conditional one, where I have to highlight that this can only take place if neither a recommendation of the ECB would, in the company's view, conflict with a distribution of dividends nor a legally mandatory distribution restriction is effective or applicable. But that would be after the 30 September, would be the intention of the Board to pay out that part of the dividend as well.

On slide 7, you can see on the left-hand side of the slide, how our focus portfolios' share in the total book has improved further from 62% in 2019 to 65% in 2020. This growth continued, despite the current macro-economic environment, why yields as indicated on the right-hand side of the chart have remained stable.

On the next slide, on slide 8, we have also highlighted for you how the stability of the portfolio in our focus segments has remained at the 2,352 million level, with both SME and consumer finance remaining relatively stable. Between the two bar charts in the middle of the chart "new business", you can see what I was referring to that in the fourth quarter new disbursements were actually starting to pick up because we had 797 million new disbursements during 2020 into our focus segments. On the bottom of the chart, the grey bars you see that the Large Corporate, Public and Mortgages portfolio, the non-focus segments as we refer to it, continued to decrease according to our plans and our expectations.

For the next two charts, I would like to hand over to Ganesh, who will give you an update with regards to the growth in our focus areas as well as our digital initiatives.

Ganesh Krishnamoorthi

Thanks, Csongor. Good afternoon, everyone. I'm glad to share some insights around business growth and our digital capabilities. Please let me start by highlighting our new business's growth in both Consumer and SME has recovered well from the lows during the pandemic and have achieved 81% of the new business volume in the fourth quarter 2020 versus 2019. Our performance shows that our business model is not only resilient but also highlights the quality of our organization.

So, moving on to page 9. On the left side of the page, we would like to highlight some key strategic business initiatives to accelerate incremental profitable growth in our focus areas Consumer and SME. To start with, we plan to extend our target customer base with higher income customers in Consumer segment through digital. In SME, we will sharpen our focus on the small and micro businesses with a unique value proposition.

In digital, we continue our accelerated efforts in launching in all countries aimed at the best in class end-to-end digital loan solution or digitally initiated loan originations, where regulatory restrictions, at least for the time being, do not allow us to do end-to-end digital processing. We believe that our efforts would double our digital business within our focus areas, and our performance in Q4 2020 for achieving 24% digital penetration overall is a clear indicator that we are right on track to achieve it.

Additionally, our existing digital loan engine with omni-channel experience will be improved and will act as a growth multiplier in driving white label partnerships, point of sale lending, support amplifying our existing bank@work to 40% penetration and for remote advisory channels by 10% this year. We believe these alternative channels will enable us to generate more cost-effective customer acquisitions and overcompensate our managed decline in our physical footprint. We are also further fine-tuning our risk engine and risk-adjusted pricing to drive incremental growth and provide faster time-to-decision and time-to-cash processes while remaining prudent with our risk appetite. In the context of digitalization trends, also isolated by the global pandemic, we have already last year reduced our physical footprint by 11 and followed by 10 other branches where we converted them into small, so-called, hubs. We will continue this trend this year by further transforming roughly 20 branches into our Express Branch format and hubs. This is together with resizing our workforce will increase our branch productivity and thereby our profitability. Our key focus in this retail channel is to use data driven targeting to effectively target existing customers and convert them to digital with superior customer experience, convenience and speed. However, when customers require high-quality advisory services, we will offer them one with highly automated and simplified processes to increase our share of wallet. We remain convinced that these strategic initiatives will serve our customers in a better way and will continue to transform our business model to drive profitable growth in the focus areas for the Group.

Now moving on to page 10. This page builds upon how our enhanced digital capabilities supported by a strong risk engine and mBanking capabilities have evolved and are already acting as a multiplier for transforming our business model in Consumer and SME. On the top left side of the page, our customers already allow a Virtual Branch experience offering end-to-end digital consumer loan solutions in Croatia. We are planning to further enhance our loan engine with online PSD2 supported income verifications. We have also successfully launched web loan applications in Serbia and Slovenia, which offers omni-channel experience to customers to apply for loans and receive offers and conclude their loan in a branch. We are planning to launch it in all other countries where regulated restrictions are at least for the time being do not allow us to do end-to-end digital processing and require a final signature by customers in a branch. One of the digital highlights last year was offering mobile account opening capabilities in few clicks, which will now also be extended to other markets in our region.
Furthermore, we are working on launching a new consumer point of sale product throughout the region with our new partners this year, which should enable us to generate customer acquisition in a more cost-effective way and provide upselling opportunities based upon data-driven customer profiles and their behavior. Our existing open API banking infrastructure capabilities will enable us to create white-label loan solutions for partners and thereby enable them to offer our loans to their customers starting already this year.

On the SME front, our simple loan and guarantee platform, which has significantly reduced time-to-decision in 2020, will be further enhanced with functionalities such as loan prolongations and advanced payments.

Last but not the least, we will extend our mBanking solutions with mLoan in Croatia and Slovenia, which will offer a quick and simple end-to-end cash loan solutions for existing customers via the mobile app and has been proved to be very successful in Serbia.

To summarize, all these proven digital capabilities are already transforming the way we make our customers' lives easier with simple products and convenient processes enabled by lean and effective technology. As a consequence, the number of digital users continues to go up by 18% year-end 2020 versus year-end2019 now reaching to 242 thousand digital users. We believe digital transformation is more important than ever, especially in times of

	lockdown and economic uncertainty. And we, therefore, are accelerating our efforts to improve our digital value proposition. This is key to continue providing strong differentiation to the other players that are active in our region. Please let me hand over to Markus.
Markus Krause	Thank you very much, Ganesh. Good afternoon everyone. We are on slide 12 of the presentation, I would like to introduce you to some of the financial performance figures. First of all, starting with the operating result as we have reported this so far, this is the grey-shaded number 1 on the left-hand side in the upper left part, you see that we were outperforming last year by 55% resulting in finalizing the year 54.7 million operating result. Since this is impacted by items which are from the meaning very similar to the credit loss expenses, we decided, also considering practices used in the banking industry as well as also in FinRep regulatory reporting applied, to carve out certain items like impairment on non-financial assets, legal provisions and modification losses. This was affecting last year with 19.4 million, you see it on the line above and this year with 8.1 million. This will lead us from now on to the adjusted operating result, where we are comparing with 2019 with an improvement of 15.1%, ending up with 62.8 million. This is the result of two major items, on the one hand inside the net banking income, where we were lower than last year with finally 234 million. This is mainly caused by the Covid environment. And secondly, which we used as a mitigation action, the operating expenses were we significantly decreased them by more than 10% down to 169.7 million. The credit loss expenses, as Csongor already mentioned, we finalized at 48.4 million and I will go into that one a bit more in detail on one of the data pages, heavily also impacted by IFRS 9 and the Covid situation. The result after tax finally ended with 1.4 million, which had in the fourth quarter a positive impact due to deferred tax assets, where in Slovenia, we had certain benefits and in certain other more technical items. On the balance sheet side, we have a reduction in the gross performing loans by 270 million, which is the result of performance of the non-focus segments according to plan while due to the Covid environment, we couldn't increase and grow as we were planning for the focus segments. Related to the key ratios, the most important one on the bottom, the capital ratio on an IFRS 9 phased-in with 20.3% and on fully-loaded basis to 19.3% significantly increased compared to the 17.7 respective 17.1 we had by the end of 2019. I will also go into that one a bit more in detail on one of the following slides. I would like to ask you to move to slide 13 where we have a bit of more details on the net interest income side. The result is lower compared to last year by 4.5%, which has mainly two reasons: on

the one hand side the loan book as I mentioned it before, which is lower than we were planning, while for the focus segment, the interest income still even in the difficult environment increased by 2.1%, and I'm referring to the regular interest income, sorry. In addition, we were using the interest expenses with further decreases in the years by roughly 10 basis points to compensate for the lower interest income. Also, the market environment in terms of interest rates is very hard and very difficult for the time being. So, we have here also a slight reduction by eight basis points compared to the year 2019. Net commission income on the right-hand side on the top is also lower by 11 million closely linked again to the Covid situation and the impact on the financing demand and the transaction, while you can see in the third and fourth quarter already, we are coming back to business. So, we achieved already even now numbers which are on the level of 80-85% of the previous year first quarter level, which is very promising that once the crisis is improving, we are getting back on track to our assumptions.

On the operating expenses side on the left bottom side, you see the already mentioned 10.3% improvement which had also positive impact on the cost income ratio by 4% down to 72%. This is a result of not just the Covid related savings, but also some permanent savings, restructurings we have done already during the past year, which are now paying off and also the cancellation of performance boni. Credit loss expenses I mentioned, and I will report on one of the other slides in more detail.

This leads me now to the portfolio asset quality on slide number 14. If you compare the year-end days-past-due structure with the one by the end of the first quarter, you see actually that the portfolio is very similar in this structure, even considering that already in a certain fourth quarter 85% of the moratoria expired already and clients are in post-moratoria status. On a segment level it looks slightly different. On the Consumer side, you see that the 1-90 days-past-due bucket increased compared to the end of last year from 2.5% share up to 3.8%, while in the SME and non-focus, we have a significant improvement even. So this is of course linked to certain internal restructurings as a follow-up of the moratoria but also caused heavily by the customer care initiatives I mentioned already in some of the last calls we had to keep close control and close contact to our clients.

On the following three slides starting with slide 15, I would like to give you some insight on the moratoria situation, Csongor mentioned already, half of the year we had the peak with 1 billion roughly portfolio in moratoria out of the 6.8 billion total gross exposure. This reduced down now to 164, which is 2.4% of the total book. This comes mainly out of the SME and Large Corporate segment and is linked actually to 150 clients, which are coming out of Slovenia and Croatia and also Bosnia.

On the following slide, slide 16, you see the time plan when the final remaining moratoria expires. So, we are expecting by end of Q1 a stock of still 120 million, and by mid of the year of 25 million.

On the next slide, you see very interesting the development of the expired moratorium. So, by the end of the year, 922 million expired from these roughly 1 billion. And the distribution, you see now that 88% are still stable, with the days-past-due, 5% even improved and 7% worsened. These are 68 million, which worsened. On the bottom, you see where we looked also to the status by end of November, so one month before December, where the stock was 78 million. And actually, there's a good message that the stock already improved and decreased until December by roughly 10 million. And you also see out of that chart, that there is a roll of the clients from one bucket to the other because the bucket 1-30 was reduced while the other buckets increased, which is the nature of the performance, once a client will not overcome the situation of the crisis and is migrating and rolling into non-performing. How they are migrating and from which buckets you see on the top right side where you have these 922 million exposures. And you see the distribution end of March in the bars: what was in non-overdue by end of March, these were 842 million, 90% roughly, and 6% of those had a worsening in the days-past-due until the end of the year. And so, in the same structure, you can read it for the other one. This is all in line with our expectations, even to be honest, slightly better than we were expecting.

And this is also reflected in our loan loss provisioning and the IFRS 9 methodology which you see on the following slide 18. I reported on a similar slide already last time. You see on the left-hand side top the different stages. The grey part, the 244 million by the end of 2020 is the non-performing exposure portfolio or Stage 3, which is more than 30 million better than by the end of the year 2019.
You'll see a significant increase in Stage 2, where we have now 632 million, which is caused by the IFRS 9 macro situation and the model changes we had to do. And secondly also by restructurings, which caused forbearance and had to be shifted due to the definition into Stage 2 with a higher coverage. The remaining portfolio, the red part, is the Stage 1 portfolio with roughly 4 billion. Overall, that is a change from Stage 1 to Stage 2 from the end of 2019 to the end of 2020 by roughly 8%.
On the right-hand side, you see the coverages we have after the modeling has been finalized and where we did an update already in November last year, where you see on the bottom the performing loan portfolio by year-end 2020 covered with 2.1% which is another increase by roughly 20 basis points compared to the third quarter. You see also in the structure that the clients who are by the end of the year not in moratoria, have a lower coverage with 1.9% compared to those which are still in moratoria, since there is a higher risk that they might default, and there the coverage is 6.2%. You also see what I was referring to with the days-past-due

structure that in the Consumer segment, when you go up to the top, we have the highest coverage of 3.2%.

Moving to the following slide gives you the context to the loan loss provisions we booked in the P&L. You see in the total 48.4 million has been booked, one third out of that is linked to the update of the macro forecast and the credit risk parameters, where we also introduced a statistically derived loss-given-default model for the private individuals, which had a very positive impact. That is explaining also why in the Consumer segment, we had from the model point of view only a cost of risk charge of 17 basis points while for the small medium enterprises, we ended up with 74 basis points and in the non-focus for the Mortgages, it was also applied the LGD model while for the Large Corporates and Public Finance not, we ended up with 44 basis points. If you add then the portfolio driven loan loss provisions, in the Consumer and SME, you have a very similar picture with 150 basis points roughly, while in the non-focus we were even able to release caused also by a shrinking Large Corporate portfolio. Overall, this leads to that in the Consumer segment, we end up the year with 167 basis points cost of risk in the SME 2.25% and in the non-focus of 23 basis points, which is 15 basis points overall better than we gave as an outlook during, I think, the third quarter.

The last page on my side is at page 20, where I would like to give you a short summary on the capital situation where you see that with 4.05 billion we finalized the year on an IFRS phased-in calculation basis, which is more than 500 million less than we had on our books by the end of 2019. Of course, caused by the fact that we were not growing in the focus segment as we were originally planning, heavily impacted by the Covid situation. On the other hand, we had also done a very diligent risk-weighted asset management and optimized further the portfolios also from risk return point of view.

This leads to the capital ratios of 19.3% on a fully-loaded basis and of 20.3% based on an IFRS 9 phased-in considering that the proposed dividend of 46.6 million is already deducted.

This is significantly better, both ratios, compared to the minimum requirement we have, which is 14.6%. And even in adding the Pillar 2 Guidance of 4% with 18.6 we are above those ratios. These ratios, Pillar 2 Requirement and Pillar 2 Guidance will be under review, starting from May when the SREP process starts again, and where we also will have a Comprehensive Assessment by the ECB, where these ratios will be reviewed. With that one I'd like to hand over back to Csongor.

Csongor Nemeth

Thank you, Markus. Thank you, Ganesh. I draw your attention briefly to slide 22. We have published these new Mid-Term targets on 9 February already this year. So, we are actually - don't worry - they are not changing, any of these numbers. This is exactly the same table as we have disclosed at the beginning of February. And, what we would like to reiterate is that in terms of the new Mid-Term targets, after carefully considering the full impact of our current knowledge of the Covid impacts on our business, we reiterate that we stick to these Mid-Term targets, we commit to these Mid-Term targets and the delay is in delivery in terms of timing, but not in terms of substance.

With regards to the outlook 2021 I kindly ask to move to slide 23 where on the top of the slide we have highlighted exactly the five key categories that we have used for the 2020 guidance, meaning: gross performing loans, net banking income, operating expenses our CET1 ratio and the credit loss expenses. And we would like to highlight to you where we see currently the bank will end up with regards to these key financial figures.

The gross performing loans, if I take them one by one, will be ca 3.5 billion, which is a decrease from the current 3.6 billion by roughly 100 million. But this is because of the contraction of the non-focus book and the over 5% expectation on our side of the growth in our focus segment.

With regards to net banking income, our guidance is that we will have a similar figure achieved in 2021 as we had in 2020.

With regards to operating expenses, we guide towards below 174 million taking into account the ca 3 million Euro related to the comprehensive audit Markus has already mentioned and I also alluded to that we expect to be started before summer, May/June this year. And this is what is called the AQR costs on the group side, as well as a ca. 6 million Euro bonus pool that we plan to ramp up based on the performance of the bank in 2021.

The CET1 ratio, we will maintain above the 18.6%, this is including the Pillar 2 Guidance of 4% which Markus was referring to, with one of the key priorities remaining to gain level playing field with regards to our capital ratios in the SREP process and subsequent to the AQR.

Credit loss expenses on financial assets, we have 1.35%, if you remember from a previous slide, achieved in 2020 and we guide towards a below 1% cost of risk in terms of 2021 performance.

With regards to the dividend policy, we confirm our initial guidance, aiming at an annual dividend pay-out of circa 60% of the net profit subject to applicable ECB regulations on dividends. And it's very important that the potential distribution of any excess capital would follow the annual SREP decision, which is expected to reflect the continuous progress in financial and risk parameters of Addiko Group.

We may also consider to further optimize our capital structure by issuing eligible AT1 or T2 facilities or lines with the timing depending clearly on the overall feasibility and the economic environment and the readiness of capital markets.
With regards to, and this is at the bottom of the slide the management ambition, I would like to reiterate four key points which are on the next slide highlighted in the already used category of the GCC, the Growth, the Cost and the Capital, but these four points are important as a major takeaway.

We continue to do our absolute best to accelerate our growth in our focus loan book, and to make sure that the digital penetration continues to be on path and even exceeding our own expectations. Second, we will continue with our prudent risk approach. We see it in the current crisis that building a sustainable portfolio that has been at the forefront of our priorities over the last five years, together with Markus sitting in all these credit committees and all these decisions, is reaping rewards, and it was the right thing to do in order to ensure sustainable operations of the bank. And the risk-adjusted profitability will be a key anchor and not the pure volume growth.

The third point, further right-sizing and OPEX run-rate reduction. This is also linked to customer behavior also and expectations with digital propositions, we will continue to streamline and continue with the stringent approach that we have applied in 2020 with regards to our spending.

And last but not least, it is a stone in our shoe, but it is definitely something that we have at a very high priority for this year that the capital requirements will come to a level playing field following the AQR and the SREP process as I have outlined.

On the next slide, it's basically giving you the update. We use this slide internally as well, to communicate the famous GCC initiatives and we try to link everything we do to these three categories. Now, there are a lot of additional slides in the appendix which we have provided for the markets and for the analysts. But our plan was to actually take your previous feedback of sticking to below 45-minute presentation. I'm glad to report that it was 40 minutes if I correctly check it, and we would be actually thanking you for your attention, hoping that you have appreciated the results we have disclosed and would be ready to answer any questions you might have on the website or on during the call, and I kindly ask and hand over to Operator. Thank you.

Operator (Q&A)

Thank you. Now we will begin our question and answer session. If you are on the conference call and have a question for our speakers, please dial 01 on your telephone keypad now to enter the queue. Once your name has been announced, you can ask a question. If you

	find your question is answered before it is your turn to speak, you can dial 02 to cancel your question. If you're using speaker equipment today, please lift the headset 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 is the first questioner.
Anna Marshall	Good afternoon, thank you for the presentation. Two questions from me, please. Firstly, on dividends. Thank you for providing such a detailed timeframe in terms of the next steps. But I just was wondering, what is the plan B in case the remaining regulatory restrictions by the ECB into Q4 of the year? Would you roll the unpaid dividend for distribution 2022? Or would you spread it out over several years? Basically, how would this impact your 60% normal dividend pay-out over the coming years? So that was the first question and the second is on your medium-term targets? What are your assumptions regarding the rate environment, please? And could you please [inaudible] key to rate increases? Thank you.
Csongor Nemeth	Thank you, Anna. I take the first part of the question with regards to dividends and, Markus, I saw how eager you were with regards to our Mid-Term targets. So, I will leave the floor to you then. With regards to dividends, we will try and find a solution for the resolution and our legal colleagues and external legal counsel are already helping us with finding the right wording with regards to if the ECB ban is partially lifted then how do we ensure that there is a relevant and applicable resolution. If it is fully lifted then how we tackle it and if it is remaining in place, then how do we make sure that we have all the adequate alternatives covered.
Markus Krause	On the rates, Anna, we have assumed in our five-year plan that we keep them mainly stable. There are slight fluctuations, but it's not material. So, over the full cycle of the plan, we have assumed them relatively stable. Is that answering your question?
Anna Marshall	Thank you. Partially. Could you please also indicate what is the sensitivity to interest rate increases?
Markus Krause	No, we cannot give you more granular details here for the time being. So, the sensitivity, of course internally we are calculating this with several scenarios. But as I said, overall for this base case scenario as we are using it here also for the Mid-Term guidance, we are assuming a stable situation in the interest rate environment.

Anna Marshall	Ok. Thank you.
Operator	The next question is by Simon Nellis from the Citibank.
Simon Nellis	Hi gentlemen, thank you for the presentation. My first question would be on capital again. Can you just inform us when you expect the next SREP decision? The kind of color on how your relationship with your new regulator is and how you think that might affect the SREP decision making and the P2G and additionally on capital, I see that the IFRS transitional effects, I think your fully-loaded capital goes down to 19.3. Do you think the regulator will be looking more at the fully-loaded number rather than the transitional number when thinking about dividends? And for what time period will that 50 million IFRS 9 transitional benefit phase-out? That would be my first question on capital, then I might have another on operations.
Markus Krause	Okay, I start with the capital situation. We were pointing to the SREP process and the situation with the new regulator ECB being part of the discussion. As you know, the pragmatic SREP approach was put in place during 2020. Numbers due to that are unchanged. So, the 4.1 Pillar 2 Requirement and the 4% Pillar 2 Guidance. Of course, as Csongor also said, this is one of the, if not the key item for 2021, besides going back really to business, managing the crisis carefully that we are getting here a level playing field approach. That's why with all the burden on the workload related to being a significant institution, we are favoring here, this being under the Comprehensive Assessment. And this will result in, I believe, in a fair and level playing field approach, which will then be also linked to the SREP process. And we hope that from the timing perspective, the regulators will be able to nail it down already in autumn this year. It depends a lot on the starting point, but some indications we have that it starts in May already. And that we have most of the results available in late autumn, which is then usually the timing, where you receive the draft letter from the regulators based on which you can then also consider this in your planning assumptions for the next budgeting cycle. Related to the IFRS 9, the transitional part, 50 million, right, it has been even slightly increased now during the crisis situation where some benefits have been given for staging changes, which you could consider. I think, according to my understanding, it's still running out by the year 2024 or something like this, I'm not 100% certain. This is a three to four years period still, currently we have considered 70% of the original part, which is still left. And this goes gradually down year-on-year. But we have reflected this in our five-year plan accordingly. So, whatever we are disclosing here as the Mid-Term guidance is closely aligned also with the development of this phase-out.

Csongor Nemeth	And with regards to the point B of the question, the new regime under ECB since 7 October. I think the discussions have been incredibly constructive, very professional and very intensive with regards to all the topics as you can imagine with regards to these ECB guidelines the ECB issued with regards to dividend and the calculation and how it was done. Obviously, if you ask for a relationship, how it works is worth listening to both parties. On our side, we very much appreciate the professional relationship that, we think, we have established with the ECB. And I'm sure if you would ask them, they would confirm, but I wouldn't want to speak on their behalf.
Simon Nellis	Super. That's very helpful. Yeah and then going into the operations a bit. Can you elaborate on this reduction of the non-focus book? Do you think it will continue at the same pace as it did last year, it was a bit accelerated versus previous years? That expected to continue?
Csongor Nemeth	Correct. Sorry, I did not want to interrupt. Please, Simon continue.
Simon Nellis	Around 15% decline, likely. And just on the focus parts, you're saying you're targeting over 5% growth? You're done even more than 10%, I think, in previous years. I mean, I guess there's still lingering effects of the pandemic. I mean, is this kind of like a 6 or 7% growth rate if you're looking at or could it be well in excess of that if there's a big recovery. What's your feeling?
Csongor Nemeth	Overall, in the focus segments we are guiding towards above 5% growth, that can depend, of course, per country, per sub-segment in terms of Consumer or SME, and we have not disclosed that level of granularity, but it's above 5% growth that we are planning, and we have the track-record of producing well above this 5% growth pre-Covid situation and, you're absolutely right, the ambition level is not lacking. We are just linking our ambitions with reality with regards to countries being still in partial or full lockdown in the first/second quarter and the uncertainties related to that. But we commit to above 5% growth rate in our focus book. With regards to the non-focus, if I remember your question, the first part of your question correctly, yes, it was higher rate of decrease this year than the year before. And for the very simple reason that some of the short term facilities that we did not have to and were not asked to prolong, we didn't in the Large Corporate segment, and the expectation is that it will continue at a similar rate going forward. We carefully consider the risk reward matrix in the Large Corporate even for this short-term financing. We are aware of the

	pandemic situation, and we don't want to cause any issues for any of the customers by requiring an early repayment. But when they are confident, and they want to repay, and their margins are at that rate, where we are questioning whether to keep that RWA locked up or not, then it can accelerate a bit faster. But basically, my expectation is, the trend will be similar in 2021 as in 2020.
Simon Nellis	Super. And then, give us an outlook for this other operating result, which you're now showing below the line. Are there any one-offs or other impacts, regulatory or otherwise, that could impact that? Or what was that supposed to be roughly one year going forward?
Markus Krause	We don't assume here any specific one-offs. So, we have our focus segment where, as the world is saying focus is on, so then the non-focus we want to bring down. We have a clear plan and structure here. So net banking income and operating expenses are clearly outlined. We have an ambition in both. But we are confident that we are managing these numbers over the year. Of course, there's always the dependency, as we already pointed out, on the on the development of the Covid situation, we have assumed the V-shape, you see that in the appendix of the material. If there is a significant material change to that assumption, of course, that would have implications, but for the time being, we are in line with our assumptions. And for that reason, we don't change anything for the time being.
Simon Nellis	Good. And then just one last question from me, maybe it is a somewhat strange question. But if you were approached for a takeover by a third party, when would you have to disclose that you've been approached by somebody looking to acquire you? Are there any particular threshold requirements?
Csongor Nemeth	First of all, we are not aware of any such approaches, point 1. Point 2 is that there is a very clear process in Austria with regards to the disclosures, when in such case, in what legal controls and checks would have to say and what the Management Board would be required to disclose. We continue on our standalone and beloved Addiko story. And if such and rather than when, if such approach would come, I think we would be required to provide all the international standards, fairness opinions and so on and so forth, which we would be disclosing to the markets as required.
Simon Nellis	Thanks, that’s all from me. Thanks a lot.
Operator	The next question is by Jovan Sikimic from Raiffeisen. Your line is open now Mr. Sikimic.

Jovan Sikimic	Thanks for the call. I just have two, three questions. First, is regarding the asset quality. I mean, you told us what are the reasons for higher Stage 2, but can you maybe provide some information on segmental or regional split of Stage 2 loans just to understand why the lower coverage there? And also, in the same context, do we have a kind of base-case scenario, how much of Stage 2 loans might move to Stage 3 during coming 2021 or maybe 2022? It's interesting, because your expectations for this cost is less than 1%, seems a bit of optimistic, although you're turning your Mid-Term guidance is 1.5. So, either maybe you see some recovery from non-focus area or the reasons behind. And second question would be on tax gains in the fourth quarter. I think there was some DTA adjustments happened and what could we expect in 2021 from this perspective. And the last question, I mean, if you can maybe give us a bit of flavor, how is the business developing so far in 2021? Because, I mean, there is a pick-up on new loans in the fourth quarter. But it seems that, overall during 2020, we lost a bit of markets share on most markets or in best case, they were flat. So how do you plan to achieve your 8 to 10 market share targets going forward? If there are still targets? I'm not sure about this.
Markus Krause	I would start, Markus speaking, with the asset quality. If you allow, I would answer this question from a different angle. I was expecting that question why the cost of risk is to be planned with less than 1% and lower than in 2020 for that comparison, because we have two different dynamics in the year 2021 assuming also the V-shape which is underlying the whole business plan. On the one hand side, you will have the migrations from Stage 2, and also still partly from Stage 1 into Stage 3 during 2021. And you see our increased bucket in Stage 2. So, there will something happen, that's clear. On the other hand, the quality also in the Stage 2 on average is better than before the crisis, because you need to help certain clients with restructuring, and they just need to overcome the timing. It's a timing topic for that reason, the average probability of default is also significantly lower than before the crisis. But, what is also important to know beside this roll into non-performing what we have budgeted for, there is a countereffect since assuming the V-shape the macro parameters will improve also during 2021. So, the market is picking up and that has to be again embedded into the IFRS 9 model. So, you will have a release component of course, on the performing loan portfolio, coming back to better forecasts, which are then also reducing the coverage levels in the performing portfolio back, once the separation between the good and the bad has been executed by the end of the V-shape. And these two dynamics will give the composition and will lead to that number with the guidance of less than 1% cost of risk on a net loan basis.

	The tax topic, we have nothing specific considered here for the following year. Of course, valuations will be done, DTA checks will be done as a regular process on a quarterly/half-year basis. And if it turns out that the market environment would completely change now to what we have foreseen then of course, we would see something but that is currently not considered and not planned. So, especially effects, like we had during this year, where the DTA was also impacted in the first quarter negatively while slightly positive in the fourth quarter is not foreseen in our budget assumptions.
Ganesh Krishnamoorthi	Can I go to the next question?
Csongor Nemeth	Yes, absolutely. Ganesh, please.
Ganesh Krishnamoorthi	Yeah, I think you know from a business growth point of view, we have actually just informed you on the Q4, we were in 81% growth compared to year-over-year. And also 2021 we started very positively in a similar range. We have to also note that Q1 in 2021, we do realize also the lockdowns in some of the countries we continue with that. So, but still a very, very positive start here. From a market share point of view, 8 to 10% is still our target and we are going for it.
Markus Krause	Maybe one item to add on the cost of risk Mid-Term target compared also to the 2021 outlook. This will be on a level of roughly 1.45% which we gave as a Mid-Term guidance since the share of the focus portfolio will be much higher. So, it will be around 90%, which we also shared in the Mid-Term guidance, compared to currently 65%.
Jovan Sikimic	Ok, it’s clear. Thanks a lot.
Csongor Nemeth	Thank you, Jovan.
Operator	Ok, the next question is by Hugo Cruz from KBW.
Hugo Cruz	Hi, thank you. I have two questions. One on MREL: do you expect requirements to you know, I see they are now zero, but do you expect them to eventually go up or to put in another way, you mentioned that you could issue AT1 and T2 - Is that more about potentially releasing more expensive equity that could be distributed to shareholders? Or is it about potentially covering any future increases in MREL requirements, or any kind of funding optimization. And second, on the ECB’s AQR. When is it expected

	to complete? Is there any risk that your second tranche of the dividend is dependent on the results of that AQR? Thank you.
Csongor Nemeth	I take the first part. Markus, for you, will you share the second part. So MREL requirements, the AT1 and the T2 that I referred to that is not in the current plan for 2021 but the Board would consider it depending on market conditions, has nothing to do with the MREL requirements. The MREL requirements are basically we have the Multiple Point of Entry with Single Point Croatia. That is something where we have to issue, and, this is, all the internal approvals are already in place, we were only waiting for the final official decision of the SRB, which we have received very recently, which we will now turn some of the existing hybrid lines that the Holding has to Croatia, into an AT1 and a T2 facility to ensure that Croatia meets already now, as soon as the lines are registered, they are approved already. And also, the approval from the National Bank is required for that, the local National Bank, as soon as they are registered, we meet all the MREL requirements with that decision and that application. That's point one. The point two, and we are not expecting higher MREL requirements going forward. It's obviously a regular review process of the interconnectedness and all the other elements of the MREL process by the SRB, but we are not expecting any increases on that. And the AT1 and the T2 that I was alluding to, is clearly to optimize, potentially, the capital structure of the Group, hence, giving us the opportunity to decide what makes most sense for the banking group to decide with excess capital.
Markus Krause	Related to your second question, on the AQR Comprehensive Assessment, and the SREP process. The SREP process is the regular, normal one this year as it has been the years before 2020. So, it starts in end of April and will last usually until beginning/end of autumn, where then you get an indication while I believe, and we don't know yet exactly, since the AQR and Comprehensive Assessment will run in parallel, they need to align actually the results. And it depends a lot now with what pace they will run these AQR results that they can still consider this in the late autumn, where we usually get the draft letter, which is then relevant from spring on following year where you get then the formal letter, which is then to be applied immediately. We don't have the details yet exactly about the timing when the AQR will be finished. It depends a lot also how the process itself will develop.
Csongor Nemeth	Correct.
Hugo Cruz	Ok, thank you.

Operator	The last question is by Mladen Dodig from Erste Group. Your line is open now, sir.
Mladen Dodig	Yes, thank you, gentlemen for the presentation and congratulations on this result. My question, I mean, all of things have been answered pretty much. Maybe just a question on your personal assessment, what happens after September 30? Where do you lean more? Do you think that ECB might go bravely and lift the blanket ban? Or you would expect some sort of another round of limitations for the following payments? Just your personal assessment. If you don't want to tell, it doesn't matter.
Csongor Nemeth	No, hi Mladen. First of all, thanks very much for your kind words. We are puzzled why not. But Addiko's share of voice or weight in terms of our lobbying power at the ECB is not at the same level as some of the largest banks. We do not quite know exactly why, but this is the case it is. We just know that we are in the choir of financial institutions where we have voiced our desire to actually return shareholder value, especially taking into account the capital ratios that we have indicated and the 46.6 being deducted already and still achieving 20.3% CET1 on a transitional level. I think if ECB would have had significant doubts about our dividend payment capability, they would have voiced their concern already with the first tranche. That was not the case, that was a very constructive and very good dialogue that Markus and myself and the team have conducted with the Joint Supervisory Team. With regards to the expectations, personal expectations, I do trust and believe that reason will prevail. Obviously with regards to the crisis situation, it is difficult to predict. But my expectation is, if today where we are sitting would be September 30, my expectation would be the ban would be lifted. Obviously, a lot of things can happen in the next six months, and the ECB have all the wiseness and all the information to make the wise decisions for the banking sector of Europe.
Mladen Dodig	Ok, thank you very much.
Markus Krause	We have one more question from the webcast. From Rob at Toscafund. On MREL, what will be the eventual total MREL requirements? Following decision has been taken by the SRB on the Holding as it was before the Single Point of Entry, which is now not anymore, this is the part of the main decision, we have no MREL requirement. MREL requirement just means now that we have to fulfill the SREP requirement which is unchanged with minimum requirement of 14.6% which includes the Pillar 2 Requirement of 4.1%, and then the Pillar 2 Guidance is a separate one which comes on top with 4% but has nothing to do with MREL, because we are

	considered as insolvency entity in the Holding, and this was the hard work to prove that this connection between us in the Holding and the entity in Croatia which receives an MREL requirement on the local side. So, where you have to add to the SREP ratio also the recapitalization which adds up then to a quite significant amount, which is 26% before the capital conservation and systemic buffer in Croatia. And this is a formal requirement. They, for sure, will also disclose in Croatia with their local financial statements.
Csongor Nemeth	Correct. There's one question which I don't think we might have answered but Hugo asked the question with regards to expectation of the AQR finishing before the SREP cycle and the AQR. We remain confident that, as you have seen, even with the current level of SREP that we have, we are significantly above the required capital ratios, the dividends being already deducted. So, we remain confident if we maintain these ratios, they should not play a big part with regards to the second, conditional part of the dividend which we intend to get an approval for at the AGM. Sorry if I missed your question. I hope I have clarified it now.
Operator	Ok. There is another question by Jovan Sikimic in the queue. I will give him the floor now.
Jovan Sikimic	I just have one additional question on Croatia. So, there was a couple of weeks ago I think, press articles saying that banks reached agreement with the state on the Swiss Franc arbitrage. And I think you were mentioned not to be a part of this agreement. Can you maybe give us a bit more information about what's going on behind this?
Csongor Nemeth	The Croatian Swiss loans? Yes. The process with regards to the Washington arbitration court is ongoing. Basically, as far as I know, currently as we speak, and the last few weeks have been witness statements from both sides. Decision with regards to when it and how it's almost impossible for us to estimate whether it will be later on this year or early next year. I really wouldn't want to speculate, but the process is ongoing. And that's something that we are eagerly awaiting a decision on.
Jovan Sikimic	Okay, so you have not agreed or signed any kind of agreements with the state to stop this?
Csongor Nemeth	No, we didn't.
Jovan Sikimic	Ok, thank you.

Operator	No further questions.
Csongor Nemeth	Neither on the webcast? Edgar, can you check, please?
Edgar Flaggl	There are also no questions on the webcast.
Csongor Nemeth	Ladies and gentlemen, I would like to thank you all for your interest in Addiko. And, thank you for listening to our year-end earnings call. Of course, we will be available for further clarifications or questions as they come up. And I wish you all to stay well, and I'm looking forward to reporting on our first quarter progress on May 5 at two o'clock. Thank you very much.
Operator	Ladies and gentlemen, thank you for your attendance. This call has been concluded. You may disconnect.