Addiko Bank

Addiko Group 1Q21 Results: Webcast Transcription

5 May 2021
14:00 CEST

Speakers:
Herbert Juranek (CEO)
Csongor Nemeth (Member of the Board)
Markus Krause (CRO & CFO)
Ganesh Krishnamoorthi (CRBO & CIO)
Edgar Flaggl (Head of IR)

Operator

Ladies and gentlemen, welcome to the conference call 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 listen only mode. After the presentation, there will be an opportunity to ask questions. If any participant has difficulties hearing the conference, please press star key followed by zero on your telephone for operator assistance. May I now head over to the Addiko team who will lead you through this conference. Please go ahead.

Herbert Juranek

Good afternoon, everyone. My name is Herbert Juranek and it is a pleasure for me to welcome you to our earnings call on the first quarter 2021. As most of you know, I joined as new CEO beginning of May, and I'm here today with Csongor, our previous CEO, Markus, our CRO/CFO, Ganesh our CRBO and CIO, as well as Edgar, our Head of Investor Relations. I will now briefly update you on the changes in the management team, and then hand over to the team who will guide you through the rest of the call and the Q&A session afterwards.

I now kindly ask you to turn to page 3. As disclosed earlier, we are in the process of setting up a new management team, which will consist of three management board members. Csongor and Markus will remain on the board until the end of May to ensure a smooth handover. The search of our new CRO is progressing well and I'm personally confident that we will be able to announce the new composition of the team as well as the split of responsibilities in the next couple of weeks, once the respective governing bodies of Addiko have been approved on this. Thank you very much, everybody. I'm looking forward to engaging with you during the upcoming investor meetings and earnings calls. And now, I would like to hand over to Csongor and the team. Talk to you soon.

Csongor Nemeth

Thank you, Herbert. A whole-hearted welcome and good afternoon everyone and welcome to our first quarter 2021 earnings call. The usual slide with regards to the summary, the three boxes, if I can ask you to draw your attention to the earnings and dividend part. So, in the first quarter 2021 Addiko posted a net profit of 5 million euros, we had a cost of risk of 4.1 million euros. And we actually had an operating result of 11.3 million euros, which is actually down 21% year-on-year, but one has to take into account the one-off cost of the management changes, as well as the ramp-up over the pro-rata bonus pool and the accruals for the first quarter, which were not done in 2020 but were actually taking place in 2021. With regards to return on tangible equity we have currently a figure of 3.1%. And we had posted earnings per share of 0.25 euros or 25 euro cents. And I trust that all the shareholders have already received the first tranche of the dividend of 36 euro cents, which were actually paid out yesterday.

With regards to asset quality and containment, the second block on this slide, I am glad to report to you that our non-performing exposures have further reduced standing at 230 million euros at the end of the first quarter, our NPE ratio stood at 3.3%, and if you take into account only the on-balance loans, the NPE ratio improved to 5.7% from 5.9% at year-end 2020.
Another important element I would like to highlight is the exposure in moratoria. At year end 2020 we had 164 million euros, at the end of the first quarter this figure basically remained stable at 165 million euros. But one has to take into account that there was a prolongation or an introduction of a new moratoria in Serbia, which had an impact of roughly 30 million euros on the overall exposure under moratoria in the first quarter 2021.
Something we should be, and we are very proud of, is that overall portfolio behavior remained incredibly stable. Over 93% of our portfolio remains without any overdues, so current with all payment requirements. In terms of the coverage ratio, the provision coverage, we ended the year with 73.6%. This was actually slightly improving to 75.6% at the end of the first quarter.

The third block at the bottom of the slide with regards to funding liquidity and capital. The funding situation remains incredibly solid. We have 4.75 billion euros of customer deposits, and then our LCR still is above the 200% mark at circa 204%. With regards to the capital ratios, and please bear in mind that the dividend payments, not just the first unconditional tranche that was paid yesterday, but also the foreseeable conditional part of the 39.6 million euros which I will highlight a bit later some details on. These dividend figures have already been deducted and the profit for the first quarter has not been incorporated yet into the capital ratios, and Addiko stood with a CET1 ratio of 20% and IFRS 9 fully loaded, still 19.2% at the end of the first quarter. I kindly ask you to turn to page 5 please.

Here a brief update. As you are most probably all aware, we have successfully completed the AGM on the 26th of April. It was a virtual AGM. The shareholder participation has been very, very strong. We had over 77% of the outstanding shares actually being represented and voting at the AGM. All the resolutions whether proposed by the management board or by the supervisory board, have been approved and adopted. And Pieter van Groos has been elected to replace Herbert Juranek, who became the CEO of the bank and he has stepped down from his role as deputy chairman of the supervisory board at the end of the AGM. Pieter van Groos has been elected to replace him in our supervisory board.

Now with regards to the dividends, so the first tranche I have already elaborated on. That was the maximum that was allowed under the current ECB guidance to be paid and that we have completed and executed. With regards to tranche 2, the conditional one, I would like to highlight that it's conditional only upon that neither 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.
So, the AGM has actually authorized the management board of the bank to actually pay out as soon as the ECB guidance is revised or lifted.

With regards to the guidance going forward, we have already provided at the beginning of February, the mid-term guidance, where we have guided towards an annual dividend payout for circa 60% of net profits. This does not include any potential payout after the completion of the SREP for this year, and potentially having the accessibility of excess capital, which was not included in the five-year plan that we have disclosed in the beginning of February.

Last point on this slide with regards to the environment, I don't think I need to highlight to anyone how challenging the environment remains, we are still calculating and expecting a V-shaped recovery in the second half of 2021. And we are actually waiting for the latest economic forecasts from the Vienna Institute in the coming weeks. And once we implement those into our forecast for the year end, I'm sure in future earnings calls further details will also be shared with you.

With regards to slide 6, I would just like to, it’s the usual slide with the tachometer where we actually indicate what part of our overall gross performing loan book is in the focus segments. By the end of the first quarter 2021 we have reached 66%. We have guided towards, and this you see on the left-hand side of the chart, to the mid-term target of 90%. I remain confident that once the economic situation stabilizes, we will be back to making bigger improvements in terms of percentages than what we have seen in 2020 and in the first quarter 2021 with regards to the focus book gaining its share in the overall gross performing loan book of Addiko.

On the right hand side of the chart, you see that the gross yield per segment, despite of the ample liquidity available in the region, we have actually maintained the yield relatively stable, slightly decreasing in consumer while slightly improving in SME in the first quarter compared to year end 2020.

On slide 7, I would just like to highlight to you on the top left hand side of the slide, the SME and consumer, our focus segments, how the portfolios have developed in the first quarter, versus the first quarter 2020 and year end 2020. You see that in consumer compared to the year end 2020, the portfolio has actually remained stable, lower by 6 million euros, while in SME as well we have maintained a relatively stable part, despite of all the repayments of just over 1 billion and 55 million euros in terms of the end of quarter one 2021. One interesting element is the new business year to date. This is in the bubbles below the, or between, the two bar charts. You see that we had in our focus segments, roughly 800

million, 797 million euros, new disbursements in 2020. And we had 238 million euros, new disbursements in the first quarter 2020.
And we are basically replicating that, and please bear in mind that in the first quarter 2020 Corona actually stopped and we have tightened the underwriting criteria in in the second or third week of March 2020. So that was actually a relatively strong start of the year that we were reporting on back then in the first quarter 2020. Well, we have almost matched that performance in terms of new disbursements in the first quarter of 2021 at 229 million euros of new disbursements.

Last message on the slide before I hand over to Ganesh for the next two slides, is the non-focus portfolio development, you see that basically, we had a decrease compared to year-end 2020 of circa 30 million or 27 million euros to be exact of the large corporate and public finance portfolios. And we had roughly 30 million, 29 million euros to be exact, decrease in our portfolio in mortgages. And this was basically because we had no new business in mortgage and public. We had some short-term new disbursements in large corporate, but this is really short-term loans, trying to make use of the ample liquidity that the group has and to ensure adequate risk reward profile in our portfolio. But in general, according to the repayment schedule and the contracted repayments, the portfolios in the non-focus have continued to shrink. And without further ado, I kindly ask you to follow Ganesh's guidance on the next two slides.

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 that our new business growth in both consumer and SME has recovered well from the lows during the pandemic and have achieved new disbursement levels of 92% of 1Q20 in consumer and 101% in SME despite impacted by partial or full lockdowns in many of our markets during Q1 2021. Our performance shows that our business model is not only resilient but also has adapted to the customer needs during the pandemic.

On page 8, our key strategic business pillars to accelerate incremental profitable growth in our focus areas consumer and SME has remained consistent.

Our first pillar focuses on driving sustainable core business growth through alternative channels with white labeled partnerships, point of sale lending, bank@work and remote advisory channels with higher risk adjusted margins achieved through risk adjusted pricing. We are seeing 29% of new customer loans from consumer are generated in the alternative channel bank@work in Q1 2021.

The second pillar is about expanding our business through innovative digital solutions and providing customers the best in class experience, convenience and speed and doubling our digital business. Our digital contribution of 34% of consumer loans driven by web loan launches in Serbia and Slovenia, and 26%contribution in SME loans in Q1 2021 is a clear testimonial of our progress in digitalization.

The final pillar focuses on increasing operational efficiencies and driving cost reductions through branch transformations, better process digitalization, and faster time to decision and time to cash processes, while remaining prudent with our risk appetite, reflecting the targeted cost of risk evolution.
In Q1 2021, we have also progressed well in ongoing branch transformations involving enhanced customer relations roles of all branch staff to sell loans and transforming ten branches into four hubs. This is supported by resizing of branches and our workforce to increase branch productivity.

We remain convinced that all these strategic pillars will serve our customers in a better way and will continue to transform our business model to drive profitable organic growth in the focus areas for the group.

Now, moving on to page 9. This page builds upon how our enhanced digital loan capabilities supported by a strong risk engine and mBanking capabilities have evolved and are already acting as business multipliers transforming our business model in consumer and SME during the first quarter of 2021.

On the top left side of the page, our customers already today allow our end-to-end online solutions of consumer cash loans with the Virtual Branch experience in Croatia. We would further enhance our loan risk engine with online PSD2 supported income verifications.
After a successful launch of web loan application in the first quarter, we can originate digitally initiated loans followed by initial offers for customers in Serbia and Slovenia. We are planning to launch it in all the countries where regulatory restrictions - at least for the time being - do not allow our end-to-end digital processing and require a final physical signature by customers in a branch.
We will extend our mBanking solution in Croatia and Slovenia with mLoans, which is a quick way of lending and simple end-to-end cash loan solutions for existing customers via the app, which has already proven to be successful in Serbia.
Furthermore, we are working on launching a consumer point of sale product throughout our region with new partners this year, which should enable us to generate customer acquisition in a more cost efficient way and to 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 labeled loan solutions for partners and thereby enable them to offer loans to their customers in the next years, starting already this year.

On the SME front, our simple loan & guarantee platform which has significantly reduced time to decision has already been further enhanced with functionality such as loan prolongations and multipurpose frames during first quarter 2021. We have plans to further automate and integrate credit bureau and risk engine and provide a tailored solution to our customers.

To summarize, digital transformation is more important than ever, especially in the times of lockdowns and economic uncertainties. We are therefore activating our efforts to improve our digital value proposition. And 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. This is my last time to present to you the financial and risk update for Addiko Group and I'm very happy to report to you for the third quarter in a row a very strong result, which actually is significantly better than our initial expectations assumed in our business plan for the first quarter 21, considering the crisis we are currently in.

Moving to slide 11, where we see an operating profit, which is reported with 11.3 million for the first quarter 21, which is 3 million lower than in the first quarter 20. But recent results need to be considered under different circumstances. Today, the loan book is 300 million lower than one year ago, caused by the pandemic crisis, where we decided during 2020 to apply a prudent risk management approach to new business, resulting in lower assumed growth in our focus segments while non-focus segments shrank according to plan and even faster.

Net banking income: The result is with 6.4% lower compared to the first quarter 20. While in line with our planning assumptions, where lower interest income base has also been partly mitigated by lower costs for interest expense.

The first quarter 21 operational expenses are in line with internal assumptions as well, actually even better, since additional costs related to recent management changes are already fully covered.

Risk costs compared to the first quarter 20 are significantly lower, since the first quarter 20 was also impacted by an IFRS 9 macro parameter post-model overlay of 13.6 million.

This all results in 5 million profit after tax in the first quarter 21 while maintaining a very strong capital position of 20% on transitional and 19.2% on a fully loaded IFRS 9 basis for CET1 in total capital where intended dividend payments are already fully deducted.

Let's move to slide 12 starting with the net interest income on the top left. While the lower loan book with 300 million compared to the pre-crisis 1Q20 is causing lower interest income, the resulting excess liquidity from reducing the non-focus portfolio which couldn't be invested to that level we were planning into focus during the crisis had to be invested in either lower rated high quality securities, or even kept with national banks on negative rates, causing that the net interest margin went down year on year by 12 basis points, partly already compensated by higher share of overnight compared to term deposits.

Net fee and commission income is still partly impacted by the crisis but also here fully in line with internal expectations, reflecting the gradual ramp-up of financings, where we, close to 97%, repeated the result from the first quarter 21. The transactions are still a little bit lower than we are hoping for, but we are expecting that this is also being ramped up in the following quarters.

The OPEX was already mentioned for a savings on advisory costs, on traveling and marketing, compensated to be in line with expected results.

The credit loss expenses comparing Q1 21 with the first quarter in 20, which itself was impacted by an IFRS 9 one-off on a like-for-like basis is with 4.1 million by 3.3 million higher than the first quarter 20 mainly caused by the consumer segment which I will explain in detail on later slides. Overall, the cost of risk is significantly better than we were planning for the first quarter 21, of course positively influenced by state subsidies, moratoria and internal restructurings.

On slide 13, you see a very robust asset quality. Overall, 93% of the portfolio is without delays on a very stable level, except for consumers where we see a deterioration in the first bucket 1-30 days past due while all other buckets are stable or even improved where, of course, moratoria and internal restructuring helped a lot.

On slide 14, you see a stock of 165 million remaining moratoria, which is 2.4% of the total gross exposure, which is stable compared to the fourth quarter 20 while a number of clients in moratoria increased by circa net 900 compared to the last quarter, caused by newly introduced moratoria in Serbia for consumers. The highest share of moratoria is still with SME and large corporates and in Slovenia.

On slide 15, the moratoria development is provided showing on the right hand side a 30 million increase from the newly introduced moratoria in Serbia, and provides on the left hand side, the expected development for the second and third quarter of the current stock of 165 million moratoria, not considering potential new moratoria, which might be in discussion in Serbia and

Montenegro and partially also in Slovenia. Besides being closely in touch with clients still in moratoria, and in defining right measures post moratoria, we very carefully monitor the development of our portfolio based on the moratoria status.

On slide 16, you see that out of total 6.9 billion gross exposure the portfolio of clients in post-moratoria status, consists of 852 million end of the first quarter 21 of which 88% kept a stable days past due status, considering the migration period from the end of the first quarter 20 to the end of the first quarter 21 for 12 months. 5% improved and 7% worsened its days past due status, which is 56 million in absolute amount. Comparing this on the right hand side with the post-moratoria stock end of November 20, which was 935 million, and the ratio of 8.3% of clients worsened their days past due status over eight months from the end of March 20 to the end of November 20.
The ratio we have currently of 6.6% end of the first quarter is a 12-month migration period can be considered as very positive and promising. Comparing further the post-moratoria sub-portfolio with a non-moratoria portfolio, which is shown on the right hand side on the bottom, where the ratio of clients which worsened their days past due over the last 12 months is on a significant lower level with 2.6%. It is obvious that the focus has to be continuously on the performance of clients and post moratoria status, which became our daily bread and butter.

On slide 17, it becomes even more detailed in looking into the business segment, what are the root causes of certain developments. The slide shows for the total portfolio, for the consumer segment, for the SME segment and for the non-focus segments separately for each of their sub-portfolios, which are the clients in moratoria, the clients in post-moratoria and the clients without moratoria: first, their distribution into IFRS 9 stages and secondly, their delinquency development over the last 12 months.

Considering first the total portfolio which is the first row in the chart. Out of the portfolio of clients in moratoria the share of clients in Stage 2 under IFRS 9 is 40%. And out of all clients in post-moratoria the share of clients in Stage 2 under IFRS 9 is 23% and significantly higher comparing this with the non-moratoria clients where the share of IFRS clients in Stage 2 is at 9%. Only for the post-moratoria sub-portfolio the ratio of clients which worsened their days past due over the last 12 months, is with 7% by 2% higher than the ratio of clients which improved their days past due status. For all other sub-portfolios, like moratoria and non-moratoria, the ratios of worsened versus improved days past due is very balanced.

This is slightly different for the consumer segment where we have a similar distribution over the IFRS 9 stages like for the total portfolio, why the ratios of clients which worsened their days past due status over past 12 months is significantly higher than those

which improve their days past due status for post-moratoria clients: we have 13% worsened versus 4% improved, and for moratoria clients, we have 10% worsened versus 6% improved.
For the SME clients a significantly higher share of Stage 2 clients under IFRS 9 with 55% is observed for the moratoria sub-portfolio, but also for the post-moratoria clients with 24% which also explains that moratoria and internal restructurings in the SME segment helps to keep the days past due migration on a very low level, indicating on the other end also that certain impacts from the crisis are potentially still outstanding. Nevertheless, all the developments are so far, much better than expected being approved that measures taken are very effective to maintain the asset quality on a high level.

Slide 18 confirms the developments already outlined where Stage 3, the non-performing exposure clients, improved further down by 14 million to 230 million with a coverage of 76% and even 120% considering the collaterals. The IFRS9 Stage 2 portfolio slightly improved, even considering that regulators introduced for the consumer segment a very conservative approach which is to be reflected in early warning systems linked to Stage 2 migrations. On the right hand side, you see the performing loan expected credit loss coverages, which remained stable with 2.1% with a level of 10.9% for Stage 2 clients, and even higher coverages for clients in moratoria, covering expected loss assumptions over the next 12 months respective lifetime.

Slide 19 provides the Q1 21 risk costs of 4.1 million, which on a like-for-like comparison to the first quarter 20 is 3.3 million higher, as I explained impacted by a one-off, which is mainly coming from the consumer segment while SME and non-focus segments even performed similar or better, considering that further provisions have been released. Although the cost of risk with 12 basis points on net loans is significantly better in the first quarter 21 than expected, it still doesn't allow for the time being to conclude that the pandemic crisis impact will be much lower than the guidance for the full year we already provided, because the dynamics of the post-moratoria behavior will be fully visible only in the second half of 21 and even might last partly into 2022, considering also, on the other hand that the recovery of the economy might be slightly delayed, caused by new lockdowns, moratoria, etc.

I would like to finalize the risk and finance update with slide 20, showing a very strong capital position of 19.2% on a fully loaded and 20% on a transitional IFRS9 basis for CET1 as well as for the total capital. This is a very stable risk weighted asset development. Within these ratios, intended dividend payments are already fully deducted.

And with that I would like to hand over to Csongor.

Csongor Nemeth

Thank you, Markus. As a wrap up before we go to the questions, we just wanted to highlight three important boxes again, on slide 22.

Firstly, that we reiterate the 2021 outlook that we have been both Markus and myself referring to that we disclosed beginning of February. Let me just repeat it for the sake of the record: gross performing loans at circa 3.5 billion at year end 2021 with ca. 5 or over 5% growth intended in our focus segments, net banking income remaining stable at this ca 235 million euros that we had in 2020. Our operating expenses will be below 174 million. And please bear in mind when you compare apples to apples that this includes a ca. 9 million cost that we expect for the bonus pool of the variable salary to be paid for 2021 for the staff works here with Addiko, as well as the AQR costs that are expected once the actual process hopefully in the coming weeks, is initiated by the ECB. With regards to CET1 ratio, the fourth arrow in the first block, we remain committed to stay above the 18.6% on a transitional basis. And with regards to the credit loss expenses, I think Markus has once again provided ample details why we believe that we will be below the 1% on net average loans and advances to customers for the year 2021.

Now with regards to the next steps and, these four bullet points have of course been aligned with Herbert as well, that the task number one is to complete the new setup of the management team. He alluded towards that he will keep the markets up to date with regards to developments. The second one is setting up programs and actions to accelerate the transformation of the banking group, which both Markus and I will be eagerly observing as shareholders of the group. Of course, executing and successfully executing and closing the AQR process, once it has been officially initiated, remains a very high priority, and has to remain a high priority for the management board and the supervisory board in order to ensure the much sought after level playing field with regards to Addiko’s capital ratios. And obviously, with regards to strengthening the digital propositions that were also highlighted in today's presentation for growth, as well as further optimizations of the costs.

The half year results call is scheduled for the 11th of August, exactly at 2pm. And before I hand over and we go to questions, may I just thank four different stakeholders for their support over the last two years since we have been a public listed entity. First, thank you and this goes to all the analysts who have covered and continue to cover Addiko. So, thank you, and I made this point on purpose before your questions, hopefully having an influence on the toughness of your questions. But I would like to thank Anna, Simon, Mladen, Hugo, Jovan and David for doing such a professional job and continuing to challenge us as a board and highlighting where we should be focusing on with our efforts.

The second group is clearly to the investors who remained through thick and thin through a very challenging 2020, have remained trustful in Addiko and in our story, and have supported the efforts of not just the management board, but everyone at Team Addiko.

The third one goes to specifically the unsung heroes Edgar and Consti, who have once again, proved that all the night shifts, trying to put together the best in class presentation for a central European banking group, focus group, has been not in vain. And it's highly, highly appreciated because without you guys, we would not have been able to disclose to the level of professionalism that hopefully, we have achieved.

And last but not least, everyone at Team Addiko. So, these results we are presenting the three of us. But it's 2,643 people who have been through the challenges of home offices, all the pandemic macroeconomic toughness and problems have proven once again, that they believe in the story and they work very hard to produce the results that we are very proud to present to you. I thank you very much for your attention, and of course we remain available for questions.

Operator (Q&A)

Thank you, and we will now begin the question and answer session. If you are on the conference call and have a question for our speakers, please dial 0 and 1 on your telephone keypad now to enter the queue. Once your name has been announced, you can ask a question. If you find your question is answered before it is your turn speak, you can dial 0 and 2 to cancel your question. If you're using speaker equipment today, please lift the handset before making your selection. If you participate in 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. And we've received the first question, it is from Anna Marshall of Goldman Sachs. Your line is now open. Please go ahead.

Anna Marshall

Good afternoon. Thank you for the presentation and for the kind comments. Two questions from me please.
Firstly, on asset quality. So, given what you mentioned, with regards to moratoria potentially being extended, the seen dynamics far, when would you expect kind of the ratio basically to increase and when would you see the peak? Could it come only in 2022?
And then the second question is on core income and specifically on NII, in terms of the drivers over the trajectory in the remaining quarters of the year is there anything else on top of such drivers as, say, loan volumes, picking up even more, yield trends, macro recovery. For example, do you have any scope for you to optimize the interest expense further? Or is there anything else basically. Thank you.

Markus Krause	So, Anna, I would start with the first question related to the asset quality. This is a very good question and it's not so easy to answer. The reason is, there are many, many factors which are impacting the behavior of the portfolio. On the one hand side, these moratoria, state subsidies, whatever we see here are very helpful to at least overcome the situation and help a certain part of the portfolio. And as long as they are supported from that side, we are on the safe side that there are no migrations, and they prevent also migrating. We pick then after theses official moratoria are expiring internal approaches for those kinds only where we believe in they need a bit of more time than what the moratoria provided, to make sure that we are really having the best-balanced approach. We are not supporting clients where we see already there is no chance. So that's where it is also regulatory required, that is the unlikeliness to pay, where we are moving them very quick into the non-performing. So that's why I believe in it now it starts in the second quarter. You have seen the remaining moratoria and it depends, this is the second factor, will there be new moratoria introduced, yes or no. We hear certain rumors from here and there, from Slovenia was the last one what we heard. So, it depends a lot on if there will come further. This is more a delaying process, it helps to a certain extent, but also delaying certain impacts. But what we see also, and that's then the internal assessment, what we are doing and the way how we are approaching those clients overall being in very close contact with them, especially on the corporate side, but also on the consumer side, while on the consumer side, you cannot so individually manage it like on the corporate side, that's why also the impact is already more visible on the consumer side. So, coming back to your question with the peak, as I said, the full impact will be visible in the second half of 2021 while we will see I believe already certain more indications now in the month of May/June. That's what I believe in, but really to assess it 100% is the second half of the year, which also under the assumption that the V-shape will hold. Now, that's the next one where the macro assumptions we will get very soon. And first indications tell me or tell us that the GDP growth what was expected originally in late months of last year will not be to that same level it will be a little bit lower, which then comes and to answer this also how we model this into our into our IFRS 9 into two components. So as I explained it also last time, there is an operational cost impact due to the migrations I was explaining before, but you have also a release impact coming out of the changes from the macro in the performing loan portfolio. And when this level of macro-economic improvement is not on the same level like it was predicted by the end of last year, this positive impact will not be at the same magnitude. So, it will be a little bit less. On the other end, the operational impacted cost of risk is performing better and will be lower. So, my guess is and my hope is that we are ending up better than currently even the guidance is, but for the time being it will be too brave to correct this guidance. We still need to get bit more data points from the second quarter and then maybe even the third quarter. I hope that answers your question.

Csongor Nemeth	Now with regards to the interest income and interest expense. If I kindly ask you to turn your attention to page 31 or slide 31 in the presentation, it's in the appendix or the additional materials where you see the gross yields per quarter for the two focus segments as well as the non-focus segments on the right hand side of the of the chart. In terms of the consumer segment, maybe Ganesh can also then add a word, we have actually introduced some approach with regards to the risk-based pricing approach. So, we are confident that the drop in the pricing in the yields of the consumer in the new business dropping from 7.3% to 6.8% is actually justified because we are underwriting better quality customers. With regards to the SME, you see that there was actually a good improvement from 2.9% to 3.3% in terms of the yield of the new business, and that is basically because the new platform, and it's basically digitalizing the process as much as possible, makes it less price sensitive. So, we remain confident once the growth is coming back to the markets, we have the capabilities to actually make up for some of the ground lost in terms of NII compared to the first quarter 2020. That's with regards to the NII, with regards to the interest expenses I am careful with that one because the last three or four calls we said that we believe it is bottoming out with regards to how much further gain that can be in terms of having less interest expenses. Now, with these 4.9 million euros that we had in the first quarter 2020 I do believe this is roughly the bottom. The main reason for that is because the share of avista deposit in the overall deposit volume has to be maintained at an adequate level as well, to ensure the sustainability of the funding base going forward. These deposits have proven to be incredibly sticky over the last years. But at the same time, having an adequate share of term deposits is something that we also continue to focus on. I hope we have answered your questions Anna.
Anna Marshall	Yes, thank you so much.
Operator	Thank you. Now we go to the next question and it is from Jovan Sikimic, Raiffeisen Bank. Your line is now open, please go ahead.
Jovan Sikimic	Hi, Markus and Csongor, thanks for the call and for all the previous calls. So, I wish you all the best for your future. I would have two/three questions. If I may. First of all, on risk costs. In the first quarter, the consumer segment brought a bit higher cost of risk I mean it is above the average of last year. So, I suppose it has to do with this worsened overdues that I think Markus explained before but just maybe if you can explain it once again, and how would you see, let's say going forward? Second of all, there was at least according to presentation, the consumer loans have lower spreads in the first quarter. But in SME it was higher. So, does it have to do with the change of disclosure? Or what's behind? And the last one is on fees. I mean, if you compare with other peers, I mean, Addiko

	has been a kind of a bit lagging behind. Of course, you cannot rely on securities asset management segments. What's your strategy going forward? I mean, are you going to, do plan to I don't know change the fee tables in order to compensate for NII or what's the strategy at least in the mid-term, thanks a lot and all the best once again.
Markus Krause	Thank you very much also for the wishes. And thanks for your questions. I am starting with the asset quality related the risk cost related one in the consumer segment. We have it also on slide 19 in the attachment right, where you have the consumer business. The reasoning of this, you're right, it's related to the bucket 1-30 days, because that has an impact on our behavior scoring, which is normal and natural everywhere. And this is causing also, migrations from Stage 1 into Stage 3, we don't see that much migration to the non-performing exposures, which is a very good signal. So, our early collection is still working very nicely. So that's why we hope even that was this increase, even this one is better than we were actually expecting, that the power we have there in the collections is continuing that we overall over the following quarters that we can confirm this performance and which will help us then also maybe to beat the year even more or that we are beating the guidance for the full year. But as I said for the time being we would like to understand a bit more for the next two to three months and maybe within also the third quarter how these migrations are continuing and if we can keep on performing with the same quality as we have done so far.
Ganesh Krishnamoorthi	Okay, so if I can just answer the second question. Thank you very much for the question. On the consumer side, as also Csongor pointed out we have launched risk based pricing in multiple markets, we are attracting better quality customers, therefore also has an impact on the yield overall, but I believe it's the right balance to have a sustainable business growth going forward. On the fees, basically, we are looking at various strategies to actually first of all accelerate our primary packages and also mixed packages overall on the current accounts. So that's just going to increase our NCI. But also, we are focused on looking at also transactional basis where the fees can be increased. And wherever it's applicable to be increased we are looking at all the options we have.
Jovan Sikimic	Ok appreciate, thanks a lot.
Operator	Thank you. The next question is from David Lojkasek, Wood & Company, your line is now open, please go ahead.
David Lojkasek	Thank you very much. Thank you for your presentation and for the kind words as well. My question is regarding deposits, I would like to ask because I see on slide 33, I see the direct deposit, where the cost of funding decreased quite substantially. And my question is,

	where do you think your overall cost of funding can go over this year and potentially going forward as well? And what would be your outlook for NIM in terms of, or seeing this, what would be your outlook for NIM for this year? Thank you very much.
Csongor Nemeth	Okay, may I take the questions? Thanks David its Csongor. You rightly pointed out on slide 33 on the right hand side, you see that basically the largest decrease in terms of cost of funding came from the Austrian and German direct deposits, where we have monitored the situation and have continuously reduced it, basically month by month or every second month, the rates while observing whether there are any unexpected outflows because we cut the rates further, there we have closed the first quarter at an average of 37 bps in terms of the funding costs. My expectation is with the ample liquidity that is available in the German and Austrian markets, there could be further reduction of a few basis points, but nothing dramatic, I would foresee. Point 1. Point 2 with regards to the network, and then the deposits, that's where the share between the avista and the term deposit balance comes into the equation, my expectation is that this ca. 30 basis points is something that we will also see in the quarters going forward. I do not expect a radical decrease neither an increase in this regard, maybe a few basis points, but nothing else. With regards to the NIM. We provide the guidance for five years, but we do not provide year-end NIM figures in terms of the short-term guidance. And I hope for your understanding.
David Lojkasek	Understood, understood, thank you very much. And also, I mean good luck to you and Markus, in your future endeavors as well.
Csongor Nemeth	Much appreciated, thank you.
Operator	The next question is from Mladen Dodig of Erste Group, your line is now open, please go ahead.
Mladen Dodig	Good afternoon, gentlemen. Thank you once again for the call and for the performance. And thank you for the kind words towards analysts and I wish you two of course, Csongor and Markus, all the best in the future roles you might assume. And my questions got answered actually. But I just wanted maybe to confirm also to myself, would it be fair to assume that for example, on the fee and commission side, because we have seen a lot of mortgage lending demand across the region, so with Addiko being only decreasing that also would that be also part of the missing result that could have been if you will be still pursuing mortgage lending right?

Csongor Nemeth	Mladen, in my view that is difficult. Hi, Mladen, thanks for the kind words on your side as well. I think that's a theoretical exercise, what would be if we would do mortgages? I think most of the fees that are missing, and we've seen that it is related to missing transactions and new volumes in terms of the guarantees being far less in demand than they have been in pre COVID crisis in terms of the SME with regards to bancassurance business and the new loan volumes that drive the bancassurance fees that we have generated in the past. That is also something that is missing. The new board, I have no information on them trying to introduce or revise a new strategy for the banking group and Herbert I think made it very clear in all his statements, that it's about acceleration of the unsecured consumer, and unsecured working capital SME financing that will remain in the focus of Addiko. With regards to fees related to mortgages that's not something that we have contemplated.
Mladen Dodig	OK, thank you very much and once again all the best.
Operator	Thank you. At the moment there are no further questions. So as a reminder to ask a question you would have to press 0 and 1. And we've received another question of Simon Nellis of Citi. Your line is now open, please go ahead.
Simon Nellis	Hi, gentlemen, I couldn't leave without asking a question, hope you're all well. My question would just be on the dividend policy going forward. I think you said that you're planning the payout 60% of earnings is that an ongoing payout, a kind of dividend policy. And I think at that level you will still have potentially significant excess capital, particularly if your P2G was lowered? Can you just maybe elaborate on how you're thinking about the dividend policy? That'd be my first question.
Csongor Nemeth	Thanks, Simon, if I may. So basically, the guidance we have provided with regards to, that's related to 60% of profits. And with regards to the excess capital, we have not included any figure with regards to, because we don't know the outcome of the SREP and the AQR and this figure could, and I think your analysis is absolutely right, if one assumes a level playing field, in terms of the P2G of 4% being lowered and even the P2R of 4.1% that we have received back in October 2019 from the Austrian financial authority, and will be reviewed by the ECB this year, once they have completed their SREP and AQR processes, then the group could be with excess capital, which then as a shareholder, I will trust the management board at that time will decide to do the honorable thing and return value to the shareholders.

Simon Nellis	Okay, so basically the message is 60% kind of ongoing payout ratio. And then once the regulatory issues become clear maybe payouts from excess capital. Okay.
Csongor Nemeth	That would be a right understanding, in my view.
Simon Nellis	And then just on slide 49, I see there's still kind of ongoing Swiss Franc litigation, potential problems, maybe not litigation but legal laws in Slovenia. Can you quantify what the potential impact of this Slovenian draft legislation would be?
Csongor Nemeth	No, in terms of the legislation is basically in such a draft form, we have not been able to quantify it. You see that the development of the overall Swiss franc portfolio is down to 103 million, this is on slide 49 you were, Simon, rightly referring to, 103 million euros of which only 22 million euros is basically Swiss Franc related NPEs. In Slovenia this sort of draft legislation has been talked about for a number of years and cases and kind of, in my view, common sense always prevailed. For our understanding right now, the draft is still at a very early stage and it's very unclear in terms of calculating any potential impact.
Simon Nellis	Okay, that's clear. Yeah, all the best to both of you going forward.
Operator	We now received a follow-up question of David from Wood, your line is now open.
David Lojkasek	Thank you. I'm sorry, this is my last question. But on slide 31, I noticed that in consumer the yields of new business loans decreased some 50 basis points, while in SMEs it increased some 40 basis points if I see well. Could you probably talk about that a little bit and tell us what was behind that? Thank you.
Ganesh Krishnamoorthi	Hi, thanks for your question. So, basically, on the consumer segment side, we as I mentioned also before, we are launching, we are activating digital channels, where also we have launched a risk-based pricing. So, we are attracting a better customer segment to have a more sustainable and also risk prudent portfolio inside. So that is a strategic update what we have going forward, and we believe it’s more sustainable as we do. Yeah and that's basically why you see that yield difference there.
David Lojkasek	Okay understood, thank you.

Operator	Thank you. As there are no further questions, I would like to hand back to you.
Edgar Flaggl	Thanks Operator. We have a question on the webcast from Thibault Nardin at Wellington. "Hi, team congrats on a great job last year and year to date. Quick question 20% of the balance sheet is now in cash and other 20% in securities, deposits are still growing, so excess liquidity will only grow. In light of the changes in yield curves globally are there any opportunities to redeploy that excess liquidity at better yields? What is the current yield on your cash balance? Thanks, and hope to see you soon."
Csongor Nemeth	Well I try and answer Thibault's question, Markus jump in please if I leave anything out. Thanks for the kind words Thibault, as a large shareholder your compliments are much appreciated. With regards to the questions themselves. So, the yield on cash is somewhere between zero and minus 10 bps, depending on of course, the country specifics. With regards to the overall yield on financial assets it's basically bonds and cash included is somewhere in between zero and 50 basis points is the answer to what are the yields. Are there opportunities to redeploy that excess liquidity at better yields? Well, the market comes back and we can go back to double digit growth in terms of our focus segments, I think that the best use of the excess liquidity. By the way, we have introduced where the local legislation allows also charging fees for certain deposits, above a certain amount and to not our great surprise, but we have not seen any deterioration in terms of the values or in terms of the volumes, it was more remaining stable as customers are basically keeping the money and do not seem to mind even paying fees for it. I hope we have answered your question Thibault, and I knowing you in person, I think you would ask a follow up question if we didn't.
Edgar Flaggl	Good. We have another question from Brad Lindenbaum. "What are the plans to lower costs? Does Addiko plan to change its headquarter or branch footprint?"
Csongor Nemeth	I think that's a question that would be best answered at the next earnings call if it's asked, rather than us speculating on that. Unless Ganesh, you would like to add something.
Ganesh Krishnamoorthi	Nah, I think you know, later going forward we will come back to this the next earnings call.
Edgar Flaggl	All right, operator, there's no more question in the webcast.

Operator	And we haven't received any further questions by the telephone line.
Csongor Nemeth	Then, if there are no further questions, we're just waiting for 20 seconds if anyone else wants to still ask. If not, then I think we have said all the nice words to each other that at least on our side, we wanted to. Thank very much for your attention today, much appreciated.
Edgar Flaggl	Oh, sorry there is one more question. One more question from Brad: "Are there plans to divest the mortgage portfolio?"
Csongor Nemeth	We have looked at that pre-Corona in terms of accelerating the exit of the mortgage portfolio. At that time, even at that time, it was challenging to get adequate return with regards to compensating the loss of income that we had. And the question was what to do with the excess liquidity and the decrease in the RWAs that we would immediately realize by exiting such portfolio. At that time, it just didn't make sense. So, we actually looked at it very thoroughly, and then we stopped the initiative. In Corona not many people were knocking on our door with regards to their interest in buying mortgage portfolios or those who were, I think were definitely not considering a win-win situation that would have been worthwhile also for Addiko to consider. So hence, as the situation normalizes and the growth in the focus segments picks up, that is a very straightforward way of creating, if needed, capital RWA and liquidity to finance the growth in the focus.
Edgar Flaggl	No more question.
Csongor Nemeth	I hope we have answered Brad's question. So if it's no more questions, then thanks very much. Stay well, stay healthy. And thank you for your trust in Addiko and your attention today. Bye.
Operator	Ladies and gentlemen, thank you for your attendance. This call has been concluded. You may disconnect.