Addiko Bank

Addiko Group 1H21 Results: Webcast Transcription

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Operator	Dear 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 a listen-only mode. After the presentation, there will be an opportunity to ask questions. If any conference call participant has difficulties hearing the conference, please press star key followed by zero on your telephone for operator assistance. May I now hand you over to the Addiko team, who will lead you through this conference. Please go ahead.
Herbert Juranek	Good afternoon, ladies and gentlemen. My name is Herbert Juranek and I would like to welcome you to the presentation of the half year results of Addiko Group. Before we come to the figures of the current year, let me give you a status update on the recent changes in the management team and its consequences. As you know, with the beginning of June, a new management team was put in charge here at Addiko Group. After two months and 10 days working in this new composition, I can tell you that we cooperate very well together and that I am happy about the progress so far. I, as the CEO, have a clear ambition, and together as a team, we reached an agreement that we will accelerate the development of our Group to further improve shareholder value. Consequently, we started the transformation program. This program consists of three pillars. And the overarching goal is to make Addiko the leading specialist bank for Consumers and SMEs in our region. In order to achieve that, we will further improve our digital offerings to challenge our competitors. Our clear plan is to push growth in our focus business areas, Consumers and SMEs. At the same time, we will prepare our non-focus business, meaning Large Corps, Public Finance and Mortgages for a faster rundown. Although several cost exercises took place in the past, we as a team believe that we will be able to identify further opportunities to reduce complexity and to streamline our operating model. The goal is here to improve the cost base for the subsequent years. The third pillar consists of a special topic from how we can further improve our NPE position to one or more long-term structural opportunities. The term of the program is defined for 18 months, and we want to be focused, we will rank the respective initiatives by impact and by payback to decide on what and when they will be executed. The ultimate goal is here to create value for our customers and our shareholders. We will keep you updated about the progress as a part of our regular disclosures. Now, let's go to the agenda of the results presentation. I will start with an executive summary. Ganesh will continue with an update on business and digital. After that, Edgar will lead you through the key financials. And Tadej will present you an update on the risk

situation. I will then wrap up the presentation with a sharpened outlook and open the Q&A session.

How does our first half year look like?

Well, our net profit improved to €6.1 million, compared with a loss of €12.2 million in the first six months of the previous year. Out of the €6.1 million, €5 million refer to the first quarter and €1.1 million to the second quarter. This result was very much influenced by lower provisioning at 0.3% cost of risk with €10.2 million after the €29.2 million last year. I want to add here that we, as the new management team, took a cautious view on risks, including legal risks. In this result, no release of the IFRS9 post-model overlay is reflected so far.

The operating result increased by 2.1% to €28.1 million. This development is based on a slow recovery in business activities in our region, and it includes the costs for the management changes and bonus accruals for the current year.

The return on tangible equity is at 1.8%. And the earnings per share are at €0.31 in the first half year 2021.

The NPE ratio was reduced from 3.5% to 3.4% year-on-year, although the total NPE amount slightly increased from €230 million in the first quarter to €238 million. This development remains influenced by moratoria. Overall, we saw a positive development on exposures in moratoria during Q2, with the reduction from €165 to €105 million. Tadej will come back to that later on.

The total business portfolio is stable, with 93% of the portfolio without overdues and an NPE coverage ratio at 71.7%.

Our funding situation is very stable at €4.74 billion, customer deposits and a liquidity coverage ratio of more than 200%. Also, our capital ratio is very strong at a transitional CET1 ratio of 19.8%, fully loaded at 18.9%.

Now, let's have a look on the macroeconomic environment. The GDP forecasts that you see here are based on the studies of the Vienna Institute for International Economic Studies. What is depicted here is that the economic recovery will be slower than anticipated. However, the overall economic environment is improving and we already see a pick-up in new business vis-à-vis last year. Our outlook is positive for the second half of this year, of course, with a dependency on the development of vaccinations and lockdowns. The positive message for the near- and mid-term is that our region will continue to grow faster than the Euro area in average. In our view, this is one of the last emerging markets in Europe.

Let's go to the next page, please. This picture shows the development of the shift from non-focus to focus business. This change process slowed down during the pandemic since 2019 and now stands at 69%. It is the clear ambition of the new management to ignite and accelerate this shift again, to move to a more attractive focus business. This is one of the main targets of our transformation program.

Now, I would like to hand over to Ganesh to give you more insights on the figures and our ambitions on the business side.

Ganesh Krishnamoorthi

Many thanks, Herbert. Good afternoon, everyone. I am glad to share some insights around business growth on the next few slides.

On page 8, please let me start highlighting that our focus segments in both Consumer and SME, on the top left hand side of the page, are showing positive signs of growth and are well on track to deliver more than 5% growth by 2021, as communicated in our 2021 outlook. The positive trends are also reflected in the new business growth in lending, which is up by 33% year-over-year in the first half of 2021. The good news is we are gaining on flow market share on Consumer segment in almost all key markets.

On the non-focus portfolio development, we have accelerated the rundown in all non-focus segments and reduced the portfolio by €270 million year over year. We are further looking into strategies for reducing our Large Corporate portfolios faster than planned. Additionally, no further new businesses were done in all Public and Mortgage portfolios. We believe this will help us to free up resources and further increase our focus in our core segments in Consumer and SME.

Let us move on to page 9, please.

Please refer to the left-hand side. These are our key strategic business pillars to accelerate incremental profitable growth in our focus areas Consumer and SME and they have remained consistent.

I would like you to highlight more our progress in our first half of the year on the right side of the page and showcase how strategic pillars translate into revenue growth and increased efficiency gains.

We are looking at four key revenue growth levers:

Our first growth lever is digital. I am glad to inform you on Consumer, we have completed launching our digital lending platforms in all key markets. And it has resulted in rapid growth of our new business of about 36% quarter on quarter this year, with a contribution of 38% on total sales second quarter. We are convinced that our expanding business through innovation, innovative digital solutions and provide customers best-in-class experience, convenience and speed is the key for our future growth story.

Let's move on to the second lever. Our second lever is more on driving active customer base up. Our key growth initiatives through alternative channels such as Bank@Work and remote advisory are driving double-digit growth in new customer acquisition. And moreover, our investments in data-driven technologies are helping us in better targeting our existing customers through few-clicks lending mobile banking solutions and thereby driving cross-selling up by 30% year over year.

Our third lever is pricing. With higher digital contribution, we believe we have reached a sweet spot in the risk-adjusted margins for driving growth. The launch of risk-based pricing will further balance them going forward in the second half of the year.

The final lever is more driving the fee income up. In the first half of 2021, we have progressed well to drive the increase in our fee income supported by higher sales in lending and, most importantly, complemented by higher penetration of bancassurance. And the recent revival in tourism is really driving our payment fees.

Last but not least, the card sales will be boosted as we migrated to a new card platform.

At the same time, our branch transformation initiative resulted in a reduction of 12 branches over the last year and focuses on increasing operational efficiency through enhancing customer relations roles of all branch staff to sell loans.

On the SME front, firstly, our key focus is to drive high margin and address underserved segments digitally. In this context, we have done a few experiments to offer better services to micro-SMEs through our digital platform and have seen promising results which not only drive growth but also increases our margins in the second half of the year.

Secondly, we are also improving our digital end-to-end platform to provide more automation and faster services to our SMEs.

To wrap it up, we remain convinced that all these strategic growth initiatives 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 of the Group.

Let us move on to page 10. This page builds upon the results of the growth initiatives, which I mentioned on the previous page. On the left side of the page, you can see positive growth quarter on quarter in all key performance indicators such as gross performing loans of around 3%, interest income of around 2%, net fee and commission income of around 13%. And most importantly, an excellent growth in digital of 36%, clearly indicating the testimonial of our digitalization.

On the right side of the page, we are also further increasing our operational efficiency and reducing our cost base. Previously, our Consumer and SME segments had different leaders and only cooperated on selected channels. By combining the two, we have one sales force team and can leverage technologies and synergies to provide a seamless experience on both the Consumer and SME segments.

Let us move on to page 11. On page 11, my key message is: On the consumer front, we have successfully launched customer friendly digital lending platforms for both new and existing customers in all the six entities in both web and mobile channels - all in just a few months. Thanks to our agile framework and digital scalable technology infrastructure, it was made possible within such a short period of time.

Our key focus in the second half of the year is to accelerate our digital marketing to reach more new customer segments and optimise customer journeys funnels to improve our conversion and drive more growth in digital business.

Furthermore, we are working on launching a new 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 up-selling opportunities based upon data-driven customer profiles and their behaviour.

Our existing open API Banking infrastructure capabilities will enable us to create white-labelled loan solutions for our partners and thereby enable them to offer our loans to their customers going forward, starting already this year.

On the SME front, our simple loan and guarantee platform, which has significantly reduced time-to-decision, has already been further enhanced with functionalities such as loan prolongation and multipurpose frames during the first half of 2021. We have plans in the second half of the year to further automate and integrate the credit bureau and risk engines and provide end-to-end digital solutions for Micro SMEs.

To summarise my growth session:

First, we are clearly focused on revenue-driven growth initiatives in both Consumer and SME. And they are showing good positive signs of growth results in the KPIs.

Second, as a specialist bank, we are taking future bets in embedded financing and are constantly in the process of innovating, simplifying, offering a better service and value to Consumers and SMEs.

Thirdly, digital transformation is more important than ever, especially in times of economic uncertainties, and our accelerated efforts to improve our digital value proposition is already transforming our business. And this is the key to continue providing strong differentiation to other players that are active in our region.

Please let me hand over to Edgar.

Edgar Flaggl

Thank you, Ganesh. Hi to everyone.

Now on page 13, to our financial performance for the first six months at a glance. On the left side of the page, you see the composition of the P&L for the first half of the year 2021. On the right, we printed the key operational P&L drivers for the last five quarters.

Starting on the left side, our first half 2021 net profit amounted to €6.1 million, compared to a net loss of €12.2 million in the same period last year.

The net banking income, which is our key revenue driver, remained relatively stable during the first six months, predominantly thanks to a higher contribution from net fee and commission income, as Ganesh pointed out previously, despite the decrease of our gross performing loans, which is also driven by the pandemic of the last year. This is in line with our previous and current guidance for the year 2021.

The year-to-date other income, comprising the net result of financial instruments and the other operating results, was also better than in 2020 due to lower restructuring one-offs this year.

On a like-for-like basis, our operating costs are down year-over-year. However, the reported operating costs are up 4.2% year-over-year due to three main reasons:

First, the costs for the management changes of € 1.5 million Herbert been pointed out already.

Second, the accrual of regular performance-based bonus pool this year - as a reminder to everyone, last year no such bonuses have been accrued.

And third, a more normalised spending on marketing activities.

Credit loss expenses came in much more benign than expected due to the resilient portfolio quality, as Tadej will elaborate on in detail.

The other result includes an additional provision of €7.1 million, which reflects the new management team's prudent approach on legacy legal risks.

As Herbert mentioned already before, our full-year guidance for this year 2021 is unchanged since the additional legal risk provisions will be fully compensated by lower credit loss expenses.

Now over to the right-hand side of the page, with the key operational P&L drivers and the development over the last five quarters. With the slowly increasing economic recovery and associated pick-up in business activities this year, we started to inch up on both NII and NCI during the second quarter, as Ganesh pointed out already.

The cost/income ratio as well moved in the right direction in the second quarter this year.

Moving briefly to page 14, where we show a more detailed view on the P&L and key balance sheet items as well as the usual KPIs. I will not go into all details on this page but, in a nutshell, the operating result improved by 2.1% year-over-year, driven by a normalisation of the other income position and by an initiated recovery on NII and NCI at relatively stable costs.

The second quarter improved on operational key metrics compared to the first quarter this year. The net interest margin, or NIM, decreased by 10 basis points year-over-year, impacted by a sizeable excess funding position, which is also evidenced by the loan-to-deposit ratio of 74.1%, with roughly half of the Group's funding and liquidity being held in our largest market, Croatia.

So, the tank is full for growth in focus and NIM would naturally increase with the reinvestment of this available funding into growth of the focus loan book.

Now to page 15, which clearly illustrates our strong capital position.

Based on the financial performance, the overall development in terms of capital is predominantly related to changes in RWAs driven by increased focus business and some short-term bond exposures.

The negative OCI development printed on that page, which we saw in the first quarter this year, has been almost fully compensated during the second quarter.

The year-to-date profit, so the €6.1 million, is not yet reflected in all capital ratios. The remainder of the 2020 dividend is already, as it has been previously, deducted.

	There are currently no changes in terms of capital requirements or guidance, meaning the 4.1% Pillar 2 Requirement as well as the 4% Pillar 2 Guidance remain currently accurate. The SREP review is expected to deliver a draft during the fourth quarter of this year as per the standard process. And now over to Tadej for an update on risk management.
Tadej Krašovec	Thank you, Edgar, and good afternoon to everyone. We start with page 16, where we can observe a very robust asset quality with only a small part of the business segments being in delay and a decreasing share of the over 90 days-past-due bucket. We have achieved these levels despite the expiring moratoria. As we will see in the further slides, expired moratoria are performing worse than the other portfolio. As Herbert mentioned already, the NPE ratio on total exposure slightly increased in the second quarter from 3.3% to 3.4%. However, if we are comparing that to the end of the year, we see a decrease from 3.5% to 3.4%. The main reason for this development stems from an exposure reduction in the non-focus area and from very limited nominal NPE inflows. This information needs to be balanced with the fact that some of the clients are still supported by the programs initiated by the local governments. However, this local support is constantly being reduced, and is targeted mostly to specific industries. As part of the transformation program, mentioned also before by Herbert, we are starting further activities to tackle NPEs, with an ambitious target to achieve a material reduction further on. If we move to the next slide, you can see that our exposure in moratoria has significantly decreased in the second quarter and achieved €105 million. In relative terms, the share of total exposure in moratoria fell from 2.4% to 1.5% during the second quarter. And this is mainly driven by Slovenia, where the largest reduction was achieved. And on the other side, an increase was seen in Serbia due to the introduction of moratoria regulation in the first quarter. However, the deadline to apply for this moratorium has expired in April. The chart on the top right shows that this moratoria exposure is evenly spread amongst Consumer, SME and Large Corporate and Public business, while almost 50% of the remaining exposure in moratoria is now in Serbia, which you see on the chart on the right down corner. If we go to the page 18, we can see that the development of exposure in moratoria so far and the estimated reduction towards

the end of the third quarter is expected. So, we expect this moratorium to drop to €47 million while, of course, local governments could still introduce renewals or prolongations, as they have done in the previous quarters. But currently, there is no information or discussion regarding any new or prolonged moratoria in our region.

On the right side, you see the moratoria exposure development as of the end of June versus the first quarter of this year, which I have already mentioned in the previous slide. We see a decrease of moratoria in Slovenia for 72%, followed by Croatia for 57%. And the only noteworthy increase was, as I said before, in Serbia, where an increase of moratoria for €20 million came on top of the €30 million increase in the first quarter of this year.

What is important is that we are constantly in contact with the clients that are still in moratoria. And we are defining the post-moratorium measures and we are carefully monitoring the development of the portfolio that is in moratoria.

If we go to the next slide to see what is the performance of the portfolio in the moratoria and that came out of the moratoria. We can see that out of €859 million of expired moratoria, only €62 million have worsened their position in days-past-due compared to the starting position, which is the first quarter of the previous year.

On the other side, we also see that €39 million of exposure have improved since the first quarter of last year. So, we can see that only €23 million net exposure has worsened in terms of days-past-due. This is reflected in both the overall exposure and the ratio of worsened DPD to the expired gross exposure, which you see on the top right chart, and is currently roughly 7% at the end of the second quarter. I consider that as a positive, encouraging position over the 15 months observation period since the first quarter of 2020. As said before, our focus here remains on continued and tight monitoring of the performance of post-moratoria clients and setting the necessary actions early if needed.

Please go to the next slide, slide 20, which illustrates how the outlined developments impact developments in terms of IFRS9 staging and coverage. Shares in Stage 1 and Stage 2 remained stable, as did the exposure in Stage 3.

On the right-hand side, you see the expected credit loss coverage for performing business exposure. This remains at 2.2%. And at a high level of 10.7% for Stage 2. We can observe a clear difference between clients in moratoria and other clients, so the clients that are not in moratoria, reflecting the higher risk and for covering the expected loss function over the next 12 months. We can see that coverage for the clients that were in moratoria have significantly higher coverage. This expected credit loss coverage is amongst the highest for comparable banks, showing our prudent approach in provisions.

And if you take a look at the last slide on page 21, risk provisioning. The risk cost in the first half of the year was €10.2 million and is reflecting what was described before. It is reflecting the portfolio dynamics and the operational portfolio development that turned out better than we were expecting. On top of that, it already includes the revised forecast reflecting the slower economic recovery that is now expected for 2021. This 0.29% cost of risk on net loans with Consumer and SME naturally generating the provisions while the development in the non-focus produces releases.

So, to sum up, we observe an overall robust asset quality and payment delays are limited. The moratorium volume and share in the overall portfolio is decreasing and we expect further decreases during 2021. As said before, we are foreseeing that we will come to the €47 million of moratoria by the end of the third quarter. The loans that came out of the moratorium haven't had a material effect on our books. And as explained before, they are well covered.

Risk costs, in general, are much better than anticipated and they already include slower than expected forecast in economic recovery this year. And regarding moratoria, we keep a watchful eye on the uncertainties that can appear in that area.

With that, I hand over to Herbert for the wrap-up.

Herbert Juranek

Thank you, Tadej.

The pandemic is not over yet, and we are also dependent on the Covid development during the second half of the year 2021. Nevertheless, we stick to our targets, which are depicted here on this slide:
So, gross performing loans around €3.5 billion with at least 5% growth rate in focus.
Net banking income stable at the last year's level.
Operating expenses below €174 million.
CET1 above 18.6% on a transitional basis.
In addition, we took a prudent approach when looking at our risks and legal risk situation. On the back of this, we sharpened the targets. We now include the other results containing the legal provisions together with the credit loss expenses. And both together should now be less than 1% in 2021.

On the dividends, we stick to what was approved in the AGM. Given the recent announcement of the ECB, we currently expect to pay up to €39.6 million, which is up to €2.03 per share in Q4 2021, under

	the precondition that neither a recommendation of the ECB would, in our view, conflict with a distribution of the dividends nor a legally mandatory restriction will be introduced. Now, what are our next steps? We will continue to focus and work on the transformation program to improve the bank. Second, we will continue to focus on the SREP process and on the AQR process. The results of both are scheduled for next year. Although we anticipate to get a first draft on SREP results at the end of this year. On that note, I would like to mention that we have a very professional and fact-based dialogue with the ECB. And it is also a key priority for me as the CEO and the entire team to keep it that way. The next earnings call is scheduled for the 3rd of November to present you the third quarter results. So, with this, we would like to conclude the presentation. Thank you for your attention. We are now ready for your questions. Operator, over to you.
Operator (Q&A)	Thank you, ladies and gentlemen, and we will now begin the question and answer session. If you 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 to speak, you can dial 0 and 2 to cancel your question. If you are using speaker equipment today, please lift the handset before making your selection. If you participate in the audio webcast, you can raise questions via the Q&A function of the webcast by pressing the question mark button. One moment please for the first question. We have received the first question. It is from Simon Nellis of Citi, your line is now open. Please go ahead.
Simon Nellis	H, everyone, it is Simon from Citi here. Thanks for the call. I guess my first question would be, as usual, on the dividend. I think it is pretty clear you are intending to pay out the €2.03 per share. Do you see any potential hurdles to getting that dividend pay-out approved, etc.? And then just going forward? I think it is pretty clear as well. You are talking about a 60% pay-out. But can you also discuss what would need to happen to be able to maybe pay out some of the excess capital on top of that, and if issuance of Tier 2 is being considered?

	And then my other question would just be on the amount of ECL overlay that you have that could potentially be written back if things returned to normal, although it is looking less and less likely that that is the case. Thank you.
Herbert Juranek	Okay, thank you for the questions. I would like to start with the first question on the hurdles of the dividend. So, currently we do not see any hurdles, but we are waiting on the final decision of the ECB. And from today's perspective, we anticipate and expect that we will be able to pay out the dividends as I described it beforehand. Edgar, would you like to take the second question.
Edgar Flaggl	Yes, hi, Simon. Thanks for the question. So, on the second one, what would need to happen to talk about excess capital? I think we need to, first of all, focus on the transformation program as Herbert lined out. And we need to conclude the topics regarding the SREP and the comprehensive assessment as such. And on the basis of the outcomes, we can, of course, look at optimising capital structure and then see what to do with the excess. And of course, part of such a discussion would be to look at alternative capital instruments in terms of Tier 2 or additional Tier 1. But that is too early to give you any more guidance on this.
Tadej Krašovec	If I may jump in: Every quarter, we are reviewing whether ECL overlay is still valid under current uncertainties. We see it as appropriate level of overlay and we will, as that, review that every quarter what the actions will be regarding that.
Simon Nellis	Can you disclose what the amount is, though, of the overlay? A rough figure?
Edgar Flaggl	Maybe if I jump in here, hi, Simon, Edgar speaking. So, if you take together 2020 and the first half of this year in terms of macro-overlay, it's roughly €16 million in terms of overlay booked through the P&L.
Simon Nellis	Got it. And then just maybe one last thing for me. The provisions on the Swiss franc legal issues, are there more to come? What is the outlook for this “other results” line? Maybe not just this second half, but also next year. Or have you conservatively provisioned against that legal risk?
Edgar Flaggl	Yeah, thanks for the question, Simon. Well, just to get everyone on the same page. The topic at hand is not a new one. And it has been with us for quite some time already. Now, the changes that triggered this additional legal risk provision can be summarised as follows in a nutshell. So first, we have further enhanced the model to calculate the provision in accordance with IAS 37. And that provision aims to cover both existing lawsuits already filed by individuals and those expected to be filed in the future years. Second, we have reflected the recent developments prudently, as

	Herbert pointed out before. And third, this, of course, also affects and therefore requires an update of the expectations on dynamics in future years. So, to be clear, currently we do not see this addition as a natural run-rate going forward after a comprehensive review of this topic. But this is based on the information that we know so far. And this topic is covered in terms of being monitored very clearly. So, I hope that answers your question.
Simon Nellis	Yes, thank you. That's all from me.
Operator	Thank you. The next question is from Jovan from Raiffeisen. Your line is now open. Please go ahead.
Jovan Sikimic	Yes, hi to everyone. Many thanks for the presentation. I have just two or three questions. Cost of risk. I mean, if you look at the segments, it was pretty high with a sharp increase in consumer lending. I mean, I calculated like annualised quarterly cost of risk of more than 200 basis points. So, what is the reason here? And this is now the new run-rate on that? If you can maybe elaborate on that. And if it shows that actually profitability of consumer lending has been decreasing because the yield level has been unchanged, right? And the second question also with regards to the Swiss franc loans in Croatia. I think we talked on that a couple of quarters ago. But can you remind me, how do you see this issue? Do you set aside something only for existing book or also to the converted book? Because I think the vast majority of loans has been converted in 2015-16. Yes?
Edgar Flaggl	Well, hi Jonny. Thanks for the question. This is Edgar. Maybe I start with the Swiss topic since we just talked about it. So, we are not just considering the existing exposure that we still have on our books. I think that is the straight answer.
Jovan Sikimic	Yes, okay, okay, fine, but actually run-rate going forward, it is harder to predict, right? So, how often are you going to revise your model? Because now all of us who are looking on Poland, for example, at the moment, it is kind of from quarter to quarter quite a dynamic development. Do we have any calculation or any numbers about incoming court cases or whatsoever in that respect?
Edgar Flaggl	Well, as you rightfully said, Jonny, this is a very volatile topic. And there is not a lot of facts on the table in terms of real decision outcome so far. So, what we said before or what we did is a prudent approach, starting with a provisioning approach that includes what we have on the table and what we expect to have in the coming years. So, this already includes a forward-looking component as such. And this approach, by the way, has been aligned also with the auditor. Now, of course, we need to monitor that, to answer your question very clearly, on a quarterly basis. But also, as mentioned

	before, we currently do not see this kind of magnitude in terms of provisioning as a natural run-rate. So, new management took a prudent view on the topic. That is the outcome.
Jovan Sikimic	Okay, fair enough. Thank you.
Tadej Krašovec	Cost of risk coverage for the consumer business - I still have to answer. We are seeing decreased cost of risk in the second quarter 2021 compared to the one year before, and still low NPL inflow in Consumer. So, Consumer is not behaving differently. What did change is macro overlay or the model changes that we implemented in the second quarter that drove up Stage 2 portfolio. But otherwise we do not see higher NPL inflow or difficulties in that respect.
Jovan Sikimic	So, it was a part of, let us say second quarter provisioning was a kind of one-off.
Tadej Krašovec	One-off, I would not say one-off. I would say model driven. A model driven increase due to higher migration from Stage 1 to Stage 2. And Stage 2 has a higher level of provision coverage.
Jovan Sikimic	Okay, thanks. And if I may just add one question on fees. I mean, fees were pretty strong, so it is fine. It is also parallel to sector performance. What is the reason, why have you not upgraded forward-looking guidance on 2021? I mean, fee line is going up, I think, close to 10% year-over-year. So, was it still not enough for you to update the guidance on net banking income?
Ganesh Krishnamoorthi	Yes, thanks for this question. I mean, as you see, the pandemic has not fully eased out. So, we are looking at the options as we progress overall for also sharpening the guidance there.
Jovan Sikimic	Okay. Thank you.
Operator	Thank you. So we are going to the next question, it is from Hugo Cruz, KBW. Please go ahead, the line is now open.
Hugo Cruz	Hi, thank you for the time. A few questions from me. Just a more general question. You know, your new management team has been in place for a while. Should we expect a material change to the mid-term targets in the near future? And if that happens, would you expect those targets to require new restructuring charges? Second question, I see on slide 7 that there's been a change of growth focus from Consumer to SME. Is this more of a short-term or long-term change? And if long-term, do you expect it to impact your guidance for the cost of risk over the medium term? And then, going back to those questions on dividend. You know, when do you expect to hear from the regulators about how much you can pay, do you really have to wait for the AQR process to be finalised to get that guidance? Thank you.

Herbert Juranek	Okay, thank you. Maybe I start with question number one. As I have presented, we stick to our mid-term targets. We sharpened it a little bit. And now we have started the transformation program. And going forward, as we progress with the program and also in line with our budgeting process, which will start in September for 2022, we will build our view on the mid-term targets. And I mean, the clear ambition I have as a CEO is: I want to improve it. We want to create more value for the shareholders with our work, and that is the clear ambition. If we change it, we change it upwards. And that is what we intend to do. But we will see going forward on the basis of the transformation as it will progress. And with that, who is doing the second question? Edgar?
Edgar Flaggl	Hi, Hugo. On the restructuring charges, of course, when you look at structural changes and on the cost line, then then you also look at potential restructuring charges. So, we currently do not see an impact that cannot be balanced out of that. So, in terms of full-year guidance for the year 2021, we currently believe there is room.
Ganesh Krishnamoorthi	So, thanks for the question on Consumer to SME shift of focus. I believe, you know, as I mentioned in the whole of my presentation on the growth situation, we are actually strongly focusing on both Consumer and SME equally. If you noted down all the four growth levers what I presented are actually on the consumer driven, which is basically digital, price, fees and driving the active customer base up, are all key revenue drivers for driving Consumers. So, what I can say is that both segments are equally important.
Hugo Cruz	And then there was the question on the dividend, are you waiting for the results of the AQR to be sure that you can pay the dividend?
Herbert Juranek	No, no, no, no, no, no. That is not our intention. As I said beforehand, there was an AGM decision on the dividend pay-out. And what we currently anticipate and expect is that this will be put in place from the ECB. And if there are no unforeseen hurdles put up by the regulator, our clear intention is to pay it out in the fourth quarter of this year.
Hugo Cruz	Thank you.
Operator	Thank you. The next question is from Mladen Dodig of Erste Group, please go ahead. The line is now open.
Mladen Dodig	Thank you. Good afternoon, gentlemen. Thank you for the call. So, my colleagues pretty much asked all the important questions, so please apologise for my bits and pieces from all of them. So just briefly, back to the legal provisions, I am reading on slide 51, the latest update is some Slovenian law submitted to the parliament. I guess you do not have any much detail, but what do you expect there considering the fact that the largest exposure of your Swiss franc portfolio is actually in Slovenia? Do we have any further details?

Edgar Flaggl	Well, hi, Mladen, this is Edgar. I think, Tadej came from Slovenia, he might chime in as well on the answer. So, you know, there is always something going on with regard to could there be a draft law, yes or no? The last knowledge that we have is that actually the law was rejected by the respective committees in Slovenia. So now, does that mean it is never going to come back? No. But at least for the time being, we do not see any increased risk here.
Mladen Dodig	Okay, thanks. It is good to know that it was rejected. So maybe one question on the dynamics of this transition program. So, I guess from the current 68.7% in favour of focus portfolio, do you expect that you can exceed 70% by the end of this year? For gross performing focus loans?
Edgar Flaggl	That is a good question, Mladen, thanks a lot. Of course, we are looking at many scenarios internally, but this is, you know, this is not part of our guidance for the year 2021. So please understand. We will, of course, continue to update everyone on a quarterly basis. And, you know, once we believe it is time to add another disclosure, we will do so.
Mladen Dodig	Because to me, it sounds that, you know, let us say with this new transition program and your ambitions, it might be, that the so-called mid-term period might be shorter or you might arrive quicker. I guess that is the target. Thank you for this. And also maybe one final question. So, we have seen recent results from the stress tests performed by ECB. And we have seen the new methodology on Pillar 2 Guidance and those buckets that are related to the capital depletion from the stress test elements. So, I am sure that you will not, how shall I say, acknowledge the exact procedure, how the test and values it is performed. But is there any chance that you might have done some calculating and maybe you might get a sense in which bucket regarding the Pillar 2 Guidance might be the adequate one?
Edgar Flaggl	Thanks, Mladen, very good question. I saw that disclosure. I think it was actually done by the SSM, with an Excel and PowerPoint. So, you are referring to the PowerPoint or the PDF, you are referring to pages 23 and 24, I guess. So, in that sense - of course, we do not have a crystal ball to know where we end up. What we know is that we need to be always up to speed in terms of calculation methodology. And this is also part of the comprehensive assessment. And we are preparing for that. Now, do we know in which bucket we will end up? No. But if you look at the banks that have been covered - and the attached Excel is actually quite interesting - you see that banks in our region that, of course, are not a specialist bank as such, are in the second, and I think that there were one or the other were also in the third bucket. And none in the fourth bucket. So, does that mean we won't be in the fourth bucket? I don't know. We will see. But it is for sure a very interesting document, which also actually shows that the maximum Pillar 2

	Guidance is 4.5%. So, with our current 4%, we are quite, quite at the edge of the maximum currently.
Mladen Dodig	Yes, exactly, because I think whatever buckets you came in and I think maybe selecting from two, three and four, I would say you are rather closer to three. So maybe I guess this is also related to one of my colleagues' question on the potential payment of the excess capital. But also, as I understood first, you will do everything regarding the transition process and then might revisit the question in the future. So, I would say, let's say for another 18 months, we, let's say there is a low probability we could expect some excess payments. Am I right?
Edgar Flaggl	Well, I think it is too early to provide you with a concrete answer on that. So, the transformation program that Hebert pointed out is not just based on three pillars, it has an ambition to get impact and payback in terms of value generation within 18 months. And there is a stepwise approach. And for each of those pillars, there is initiatives that will be handled on the basis of this prioritisation. So I think, since we are anyhow disclosing on a quarterly basis, we will disclose once there is new information to disclose. But, Herbert, please chime in.
Herbert Juranek	No, but I think Edgar very well summarised it. And from the tendency, I think I made clear what our ambition is and what our goal is and the direction we want to take. And when it comes to capital requirements, we also believe that, with a continuous healthy relationship and, you know, talking and working together with the regulator, we will do our best in order to convince them that our capital requirements need to be revisited and reduced, because we believe that the requirements are not appropriate for what we have in our portfolio. And we will do our best in order to reduce the capital requirements and free up capital.
Mladen Dodig	Okay, thank you very much. Thank you for your time and all the best.
Herbert Juranek	Thank you. Thank you very much.
Operator	Thank you. There are no further questions via the telephone line, so I hand back to the team.
Constantin Gussich	Thank you, operator. We have a couple of questions on the webcast. I will read them out one by one. There is one from Dalibor Botkuljak. The bank has low return on equity and worse results versus results of banks in the region. So please explain when we can expect an improvement of the financial performance. Thank you, Dalibor.
Edgar Flaggl	Hi, Dalibor, and thanks a lot for the question. So, we need to separate two different drivers in terms of the P&L and the return, well, three different topics. So first, our operational result is

	inching up. And we are coming out of the global crisis, we all have seen last year, strong. And business activities are picking up. So that is one topic. The second topic is, of course, with the transformation program, we want to boost that going forward and we want to tackle the cost base, which both will help on the operational return. And that by following a prudent risk approach to keep risk provisions and the asset quality in check. Now, with our very strong capital position and the significant amount of equity, of course, that also influences the return as such. If you look purely at Q2 or the first six months, which includes Q2 as such, you also have to take into account the additional provision on legacy legal risks that we elaborated on before. That we do not see as a run-rate.
Constantin Gussich	The next question is from Ingrid Krawarik from the Börsianer. Hi, could you shed more light on other results and leading risks? Are the €7.1 million of €9 million concerning Swiss francs? Which countries are involved? Do we expect any more of these kinds of risk (Swiss francs) in the future?
Edgar Flaggl	Hi, Ingrid. Thanks for the question. I believe we have thoroughly answered that already since you posted the question.
Constantin Gussich	Here is another one from Shaheen of Frontaura Capital. Could you please clarify what the bank's legal expenses are for?
Edgar Flaggl	Hi Shaheen, I think that’s also the same topic. So, if you feel the question has not been answered, please drop us another note via the webcast.
Constantin Gussich	Then I received a couple of questions from Wolfgang Matejka of Matejka and Partner Asset Management. Five, to be exact. I will read them out and we will answer them. Please elaborate a bit on the legal risks within the other results.
Edgar Flaggl	I think that has been answered.
Constantin Gussich	What has been the costs of the management changes?
Edgar Flaggl	The answer is €1.5 million.
Constantin Gussich	Did you see the SREP test factors of the ECB and did you reflect on these measurements mirroring on Addiko Bank?
Edgar Flaggl	Well, thank you Wolfgang, that is a very good question. I think we covered that already together with Mladen.
Constantin Gussich	Is RBI a competitor in your exposed countries, including the Serbia acquisition of RBI, and to what extent?
Ganesh Krishnamoorthi	Yes, absolutely.

Constantin Gussich	The SREP process of the ECB towards year-end 21. What if this process runs into a reduction of Pillar 2 Requirements for Addiko? Do you see a chance for an additional dividend? And if within year-end 2021 the ECB responded, at what time?
Edgar Flaggl	Thanks, Wolfgang, for the question as well. I think we covered that topic as well. So, one thing after the other. So, step by step transformation program, growth, and for any excess capital, if any, we will then decide as a management what is best for the company and the shareholders.
Constantin Gussich	Okay, operator I have no more questions in the webcast.
Operator	And there are no questions via telephone lines.
Herbert Juranek	So, in that case, I would like to thank for your attention. And we look forward to the next earnings call, which will happen in three months' time. So, all the best, take care and talk to you soon.
Operator	Ladies and gentlemen, thank you for your attendance, this call has been concluded. You may disconnect.