Addiko Bank

Addiko Group YE21 Results: Webcast Transcription

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Speakers:
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Constantin Gussich (Investor Relations)

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 listen-only mode. After the presentation, there will be an opportunity to ask questions. If any participant has difficulties hearing the conference, please press * key followed by 0 on your telephone for operator assistance. May I now hand you over to the Addiko management team, who will lead you through this conference. Please go ahead.
Herbert Juranek	Good afternoon, ladies and gentlemen, I would like to welcome you to Addiko's presentation of the results of last year 2021. We have prepared the following agenda for you: I will start with the executive summary and refer to the recent events. Ganesh will present you the status on our business transformation activities. Our CFO, Edgar, will give you the details on our financial performance and on the capital position, followed by Tadej who will show you the risk view. After that, I will present you our mid-term targets and the outlook for 2022. And finally, we go into Q&A. We are quite content with our financial year 2021 as our Transformation Program is showing already visible effects. I will come to the financial key figures in a minute on our next page. But let me start with the bottom-line results. Our net profit for 2021 increased to €13.6 million after €1.5 million in the previous year despite a challenging environment. Since 1 March, our capital requirements are significantly reduced based on the final SREP letter. The Pillar 2 Requirements went down from 4.1% to 3.25% and the P2G went down from 4% to 2%. Also, we might see some adjustments on the P2G depending on the results of the stress test going forward. As said, we see already traction in our Transformation Program. Ganesh will show you later that the targeted change into a smaller, more profitable ticket size started to work well while at the same time we were successful to reduce less profitable non-focus business. Our cost exercise led by the CFO was also very effective. The operating expenses for the full year are at €171.1 million, which is €2.9 million better than the guidance. And Tadej together with his risk team were also very successful with our special topic Non-Performing Exposure reduction. They have managed the NPE volume down by 20%. As the CEO of the Group, I'm quite happy with the progress and I can assure you that we will continue with full ambition to work on all streams in 2022.

Now, let me give you the additional key highlights of the results of 2021.

The net profit after tax for the fourth quarter was at €4 million supported by strong new business generation, which was up 15% compared to the fourth quarter in 2020. Risk provisioning accounts for €13.2 million or 0.4% cost of risk. The operating result went down to €54.9 million, mainly driven by extraordinary effects like restructuring costs and management changes, but also due to regular bonus accruals compared to 2020, as there was no bonus pay-out.

The return on tangible equity at 14.1% CET1 ratio was at 2.5% and the earnings per share amounted to 70 euro cents.

As already mentioned, the NPE ratio was very actively reduced by the team to 2.9% and to 4% based on-balance loans. In addition, the overall exposure in moratoria was reduced to only €2.4 million and the quality of the business portfolio behaviour remained quite stable. Tadej will show you the details of this positive development later. Our NPE coverage stood at 71.9% after 71.2% in the third quarter.

The funding situation remains solid at €4.71 billion customer deposits with a liquidity coverage ratio of 225%.
Our capital ratio is again very strong and improved significantly to 22.2% CET1 ratio and 21.6% fully-loaded.

On this page, you will find the overview of our guidance for 2021. We want to show you that we achieved all mentioned numbers with one exception, namely the gross performing loans number, but the development in this category was intentionally, based on the accelerated run-down of the non-focus portfolio as this made strong sense from the risk-return and also from the capital point of view. Ganesh will come back on that later in his presentation.

Now, let me come to recent crucial events in order to comment upon potential impacts for our bank.

The war in Ukraine caused by the invasion of Russia is a human tragedy, which causes enormous refugee movement, deadly consequences on human lives and a huge economic damage. As you all know, this war has also serious impacts on the financial markets and on the banking system. At the time, when Russia entered Ukraine, we started an internal initiative under the leadership of Tadej to clarify potential consequences on our business at Addiko.
The important messages in that context are:
First, we did cut respective limits to potentially affected banks in time.
Second, our direct exposure to Ukraine, Russia and Belarus is minimal, meaning below €10 thousand.
And third, our indirect loan exposure is in total, around about €13 million. This exposure consists of customer loans, with partial business relationships in these countries. All of these loans are

currently performing, and we don't see any immediate deterioration. Our risk management is further analysing the situation and managing these exposures.

Of course, the overall global impact of the crisis and knock-on effects not only for our region cannot be assessed at this point in time. Unfortunately, it will keep us all busy for the time being.

The second external factor, which keeps us busy, is the unconstitutional Swiss franc law in Slovenia. I don't want to repeat all the topics which I explained in our last extraordinary call, but I want to reiterate that we as the management do everything in our power to avoid the pay-out of the money and to fight this onerous law. On 28 February, Addiko together with eight other affected banks filed an appeal against the Swiss franc Law before the Constitutional Court in Slovenia, combined with a request for suspensive effect.

In addition, Addiko filed a request for arbitration with the ICSID in Washington against the Republic of Slovenia, a so-called BIT claim. After an intense exchange of our views with the local regulator, the Bank of Slovenia, filed an appeal before the Constitutional Court in Slovenia, and also the government of Slovenia issued a five-pages argument in favour of suspending the law. According to all our lawyers, Slovenian and international ones, based on the Slovenian and on the European legislation, one must expect that the court has to decide in our favour. Edgar will give you more background on this in his presentation.

Let's go to the macro picture of our region. The positive message on this chart is that in 2021 the growth rate exceeded previous forecasts significantly. We expect that this trend will continue. We still believe that our region will do better than the Euro area in average. One aspect in that context was also how people handled Covid-19 and how they limited the impacts on the local economy in 2021. Nevertheless, we believe that inflation will further get a momentum driven to a certain extent also by the conflict in the Ukraine and the respective consequences on energy prices. Despite all potential macro impacts, we stay quite positive on our business model.

Why? That you will hear now from Ganesh.

Ganesh Krishnamoorthi

Many thanks Herbert! Good afternoon, everyone. I'm glad to share some progress around business growth in the next few slides.

On page eight, I would like to highlight some key messages about our focus loan book development. Our focus loan book grew €94 million and delivered 4% year-over-year growth due to the fact the large exposure and the low yielding SME medium businesses was run down consciously in Q4. However, excluding the SME medium business portfolio, the loan book grew 9.5% year-over-year.

The positive trends are also reflected in the new business growth in lending, which is up by 34% year-over-year. The current focus book represents 74% of the gross performing portfolio and our mid-term ambition is to accelerate to around 95%.

On the bottom left side of the page, you can see the effect of reduced lower yields SME medium business portfolio getting compensated by the growth in higher yield micro and small SME businesses.

Moving on to page nine; on the non-focus portfolio development, we took a decision and defined strategies to run down the less profitable and large exposure corporate and public portfolio faster than planned. We are seeing the first effects of the non-focus portfolio reduced by €411 million, which is minus 33% less year-over-year. We believe in the short term it will reduce income generation. However, in the long term this will help us to free up our capital, improve our yield and increase our focus in our core segments in Consumer and SME.

Going on to the next page. 2021 has been a foundational year for growth transformation. On this page, I would like to highlight three key transformational growth initiatives in 2021, followed by an update on revenue levers.

Firstly, we launched best-in-class and digitally initiated loan origination capabilities in all markets. This channel has not only provided our customers a convenient way to apply for loans during the pandemic situation, but also has contributed 36% of our loan origination.

Secondly, our existing digital loan engine has provided a scalable plug & play platform to bring point of sale lending to newly signed 90 partners, and will act as a growth multiplier this year, enabling us to generate more cost-effective customer acquisition, compensating our declining physical footprint.
Furthermore, I'm glad to inform you that we also have signed a buy now pay later FinTech partner, enabling us to tap into the untapped BNPL market.

Thirdly, on the SME front, our experiments to offer better services to underserved micro and small SMEs through our digital platform are seeing good results, and amount to 50% year-over-year growth in new business with high margins. We believe there's a good scalable market opportunity to drive profitable organic growth in the focus area for the future.

Please let's have a look at four key revenue growth levers in 2021 in Consumer compared to 2020, highlighted in the charts.

Our first lever is growing gross disbursements. I'm glad to inform you our several growth initiatives together with strong marketing, sales productivity and digital performance have resulted in 47% year-over-year growth in gross disbursement. And most importantly, we have outperformed the market by three times.

The second lever is about growing our active base. Our key growth initiatives, like driving digital business and launching the fast cash loan with a lower ticket size and lower tenor loans are driving higher than 50% growth in new customer acquisitions.

Thirdly, driving high margins is a key revenue driver. With higher digital contributions we believe that we have reached a sweet spot in risk-adjusted margins for driving growth. The market launch of risk-based pricing in all countries will further enable us to test the price increases going forward this year.

On page 11, I would like to highlight more the vision and the yearly plans to deliver the Addiko Ecosystem. Please refer to the right side of the slide. Our desired state of the future is to provide a solid plug & play financing platform which enables our partners, for example car dealers, electronics sellers, smart merchants or big retail chains, in a modern digital marketplace to provide financing to their consumers and small businesses at every touchpoint, thereby creating a new ecosystem making financing accessible and provide that extra boost whenever and wherever the customer needs financing.

The work we have been doing in 2020 and 2021, as presented before, lays the foundation for this ecosystem by building the digital capabilities and the product stack. As a result, we have a platform as enabler for this transition at an early stage.

This year is a steppingstone on the path to enable Addiko’s Ecosystem as we are developing in three essential areas:

1. Launching the BNPL services in key markets with a FinTech partnership.
2. We will enhance our platform to the best-in-class card offering.
3. We are enrolling new partners in each of our markets having a focus on the lifestyle areas with highest importance for our target customers. In the area of mobility, we prioritize second-hand car dealers; in the area of housing, retailers selling furniture and refurbishment materials; for consumer goods, electronics and IT gadgets.
4. We will amplify our marketing and PR communication why we exist as Addiko by introducing a new brand character and a brand image that clearly communicates Addiko’s brand promise with a modern tone of voice.

We are already seeing a strong start of the year driven by the transformation initiatives, a strong growth in customer base, followed by new business volumes in both segments is a clear indicator of our transformation being worked out.

To summarize, we pursue a purpose-driven transformation with clear vision to grow and extend our platform into a bigger ecosystem as an enlarged space where customers find simple and fast lending solutions to whatever lifestyle needs they have. We believe this is key to continue providing strong differentiation to the other players that are active in our region.

Please let me hand over to Edgar.

Edgar Flaggl

Well thank you, Ganesh and hi everyone!

Now on page 13, to our financial performance in a nutshell. Starting on the left side where we print our usual illustrations on the composition of the P&L for the full year and the fourth quarter 2021.

Our audited net profit amounted to €13.6 million compared to €1.4 million last year. This includes yet another solid fourth quarter profit of €4 million.

Net banking income continued on a good track with NCI as main driver year-over-year to compensate the accelerated reduction in non-focus as well as the sharp reduction in low yielding and higher ticket medium SME loans, which is mainly reflected in NII.

This accelerated reduction in non-focus as well as the sharpening of our focus towards micro and small SMEs within the SME segment, which carry a higher risk-adjusted yield, we already alluded to in our last call. As both, Herbert and Ganesh, pointed out already, the intentional reduction of these medium SME loans during the fourth quarter last year, reduced our gross performing loans to roughly €3.3 billion versus our guidance of roughly €3.35 billion. Now this included a reduction of more than €70 million in this medium SME loan book while, in addition, we managed also to sell a non-focus portfolio in the amount of €23 million in Slovenia, all during the fourth quarter.

The other income comprising the “net result on financial instruments” and the “other operating result” is down versus last year. This is mainly driven by - and I think we explained that in previous calls - by lower realized gains from the sale of our financial assets that are part of the liquidity portfolio. So, we sold less of our highly liquid bonds in order not to further increase the already high cash position and to keep the interest income.

Now, with the current volatility in bond markets, we would continue to expect less gains in this year, also based on fluctuations in market values as a result of the current volatility in the overall market. From a credit perspective, however, we have a very stable bond portfolio predominantly issued by governments of our region.

In addition, we had one-off restructuring provisions of €5.3 million for the full year 2021. This includes a fourth quarter top-up of €2.6 million, which is predominantly related to front-loaded restructuring costs in our largest entity Croatia.

This now completes the restructuring charges in the context of the Transformation Program, but also includes costs for the termination of contracts such as for the executed branch closures that Ganesh alluded to. Maybe just as a comparison, 2020 was also influenced by positive one-offs, such as from a tax refund in the amount of €1.6 million.

On the positive side, we had lower deposit insurance costs in 2021 compared to last year, which is mainly related to Croatia.

Now briefly on deposit insurance costs in Austria. So, not related to 2021 but related to 2022 onwards, we currently expect an additional charge of just shy of €500 thousand per year for three years, which is directly related to the liquidation of Sberbank Europe in Vienna. We are clearly not happy about such extra charge, but unfortunately, we cannot avoid this.

Now down to operating expenses, which have been one of the key priorities of the Transformation Program during the second half of 2021. Our operating costs would be, on a more like-for-like basis, actually at €162.3 million if you take out the following main items.

First as Herbert mentioned already, regular bonus accruals for the entire group, which were not included last year, and second the cost for management changes €1.5 million, which happened in the first half of 2021.

So back to reported OPEX of €171.1 million, we are almost equal to 2020, related to these mentioned factors, as well as a more normalized spending, specifically on marketing activities. Like-for-like costs would actually be down 4% year-over-year.

The other result is predominantly influenced by impairments on non-financial assets, such as investment properties, and the renegotiated IT contract that will, and already does, bring down costs of a main provider going forward. In addition, we had a charge related to a BIT claim and limited top-ups for legal provisions in Croatia and Serbia, reflecting the team's continued and prudent approach on legal risks as well as the dynamics during the fourth quarter.

Now the credit loss expenses which remained benign due to the stable portfolio quality. On this one, Tadej will share an update and provide insights on one of the next slides also on our significant reduction in NPEs during the fourth quarter.

Briefly over to the right-hand side of the page with the key operational P&L drivers and their development over the last five quarters. So, in a nutshell, continuous economic recovery and first visible results from the Transformation Program, business activities have picked up as Ganesh pointed out already. This supported a good development both on NII and NCI during the fourth quarter after a strong and usually strongest third quarter - and this despite less income coming from the non-focus loan books.

Fourth quarter OPEX usually comes in the highest in any given year and came in at a run-rate of €43.6 million following a third quarter of €41.6 million, which was also influenced by positive one-offs in Q3 as discussed in our last earnings call. So, you already see that savings or a part of the savings are a direct result of the Transformation Program.

Going forward, and this is part of our 2022 guidance, we expect a pure operational OPEX run-rate of roughly €41 million, €41.5 million, not taking into account the Euro implementation project costs as a one-off in Croatia.

Now to page 14, which provides some flavour on the potential impact from the Swiss franc law in Slovenia. As Herbert pointed out already, Addiko has pulled all legal countermeasures at our disposal against this onerous law that actually favours just a few people with large pay-outs while creating a damage of €100 million to €110 million for Addiko Slovenia and a lot of additional operational work.

This law does not influence 2021 since this is a subsequent and non-adjusting event, but it kept us quite busy over the last weeks.

As you can see on that page, more than 60% of this potential impact is related to historic loans that are not anymore in the books of Addiko Bank Slovenia. To be precise, as of the year ending 2021 Addiko Bank Slovenia had €42 million in Swiss franc loan exposure to 981 clients.

We are currently waiting for the core system provider in Slovenia to program all the necessary changes and deliver the exact calculations for the affected portfolio. This change alone, by the way, costs us €60 thousand and is expected to be completed by the end of March, beginning of April.

As it stands today and based on a very limited sample of these test calculations, the damage could also be less, but it's still too early to provide more concrete numbers on that. The key message is, however, the damage we disclosed as a worst case, still is a worst case.

Now to page 15, which illustrates our capital position that further improved in the fourth quarter of last year. The overall development in terms of capital is predominantly related to changes in RWAs as you can see in the waterfall chart. The significant reduction in RWAs during the fourth quarter is mainly related to our accelerated reduction in non-focus, also getting out of low yielding higher tickets, so low value-adding medium SME loans, the NPE reduction as well as Bosnia and Herzegovina getting the status of an equivalent third country according to the CRR. All this overcompensated the RWA growth from growing our focus book as Ganesh pointed out earlier.

So that all led to a fully-loaded CET1 ratio of 21.6%, up versus 19.3% last year, while the transitional CET1 ratio increased to 22.2%, up versus 20.3% in 2020. 2021, includes the full year audited profit and no accrued dividends for the year 2021 following the situation of potential losses that could arise in Slovenia, given the recently introduced onerous law as explained already.

Now, briefly on SREP: we have disclosed the new SREP which is valid as of 1 March 2022 and includes a lower P2R of 3.25% as mentioned already by Herbert, and also includes the usual structure in terms of capital composition. So, that means in contrast to the last SREP, the P2R does not need to be held in CET1 in its entirety anymore.

P2G came down to 2%, Herbert mentioned, we still remain cautious of future P2G since, among other factors in the environment, the AQR Comprehensive Assessment Stress Test is based on an already stressed year 2020 which itself would imply a higher capital depletion and could lead to a higher P2G again in the next cycle.

Nevertheless, we appreciate the step in the right direction, and we will continue our work and dialogue with our regulator.

And now over to Tadej for an update on our solid risk metrics for the full year and the fourth quarter 2021.

Tadej Krašovec

Thank you, Edgar!

Let's go on to page 16. I'm happy to report that credit portfolio remained strong throughout 2021; portfolio structure from days past due perspective remained unchanged and actually even improved by the end of the year.

On top of our focus of keeping portfolio stable and conducting sustainable business, we put our efforts in a successful NPE decrease which we see on this page. A decrease of €50 million resulted in NPE share of 4% or slightly below according to EBA definition.

Lower NPE share was achieved even though in December we recognized AQR feedback we received from ECB. That feedback led to higher NPE formation, which you can see in the right part of the slide as a higher NPE formation in SME segment. More than half of that increase that you see on this chart was due to the prudent recognition of AQR feedback. Still NPE formation on the yearly basis stayed below our expectations for year 2021.

On the next page, we show a development of the moratoria in Addiko Group. As predicted in the previous calls, moratoria have run out, and no new measures were introduced in the countries where we are present. Share of moratoria in the portfolio is at a negligible level of 0.03%, that is €2.4 million. From the quality perspective, we can confirm what we saw already in the previous quarters. And at this, the portfolio that was in moratoria has a higher percentage of exposure that worsened compared to the portfolio that was not in moratoria.

6% of expired moratoria exposure, that is €47 million, have worsened measured with days past due compared to the first quarter of 2020. However, at the same time, €36 million of exposure that were in moratorium improved, leaving us with €11 million of net worsened portfolio with expired moratoria.

Based on that I would conclude that obligatory moratoria that were implemented in the region had a very small impact on our credit risk performance.

All positive credit risk developments resulted in a low cost of risk that we can see on the next page, please. We concluded the year with credit loss expenses of €13.2 million. Loss expenses were supported by ECL model releases that were based on positive macroeconomic scenarios. These releases were partially compensated by increased post-model overlay to reflect prudent approach in the face of volatilities.

At the end, I can conclude that from the credit risk perspective, we finished the year 2021 strong and better than anticipated.

Going on, we are expecting further economic growth. However, risk and volatility that was before arising from the Covid uncertainty was substituted by tragic events in Ukraine. Therefore, constant portfolio monitoring, improvements of credit risk approach and potential mitigation measures remain our daily focus.

With that, I would hand over to Herbert for the outlook and mid-terms targets.

Herbert Juranek

Thank you, Tadej!

The Management Board in his new composition has been working together for a bit more than nine months. From August last year to December, we conducted an extensive planning exercise together with the local management teams of the countries and in alignment with our Supervisory Board. This was done in parallel to our restructuring measures of our Transformation Program.

Now, based on our new mid-term plan and on our accelerated focus book strategy, we redefined the mid-term targets of Addiko Group. Let me highlight them briefly:

- First of all, we want to transform our loan book faster and we want to reach circa 95% in focus business.
- We increased the Net Interest Margin target from 3.7% to 3.8%.
- We introduced a new double-digit target named focus loan book growth of 10% compound average growth rate.
- The Cost of Risk, we would see at roughly 1.4% through the cycle.
- The loan to deposit ratio we leave unchanged at smaller than 100%.
- Cost reduction will continue to be a high priority target and our mid-term ambition for the Cost-Income Ratio will stay at 50%.
- The Return on Tangible Equity shall be increased and double-digit in the mid-term.
- We left the management ambition for the Total Capital Ratio unchanged although the current capital requirements are lower with 15.75%.
- And, we left the dividend pay-out ratio unchanged although due to the current situation with the pending Swiss franc law in Slovenia, we are not in the position to pay out. If things will change in this context, we will update our targets.

Now, let's come to the 2022 guidance. Given the current circumstances, a prediction is not easy. Nevertheless, we would like to give you our guidance for this year:

- Our gross performing loans should be around €3.3 billion based on a double-digit growth in our focus business.
- Our Net Banking Income shall stay stable despite an accelerated run-down in our non-focus portfolio.
- We want to decrease our Operating Expenses further to €165 million excluding the extraordinary effect of the Euro project in Croatia.
- The Total Capital Ratio will stay above 18.6% on a transitional basis.
- The sum of other result and credit expenses on financial assets should be around 1% on average net loans and advances to customers.

	This guidance, of course, does not include any knock-on effects in the Ukraine conflict nor any major impacts of the onerous Swiss franc law. Naturally, we see a macroeconomic risk going forward. On this note, we see inflation gaining momentum. This development is now accelerated by the effects on the energy prices triggered by the war in the Ukraine. But this does not only concern our region, it's a global phenomenon. It is currently difficult to predict all consequences and the development of the Russian conflict. However, and this is important, we remain particularly optimistic on our business model, and on our strategy because we are convinced that our business approach has a great future, and we are confident that we're able to outperform our competitors. Having said that, I want to conclude our presentation. Thank you for your interest. We're now ready for your questions.
Constantin Gussich	Okay, Operator, do we have any questions on the telephone line?
Operator (Q&A)	Dear ladies and gentlemen, if you want to ask a question, please press 0 and 1. If you want to cancel your question, please press 0 and 2. If you're using speaker equipment today, please lift the handset before making your selection. We have a first question. It's from Simon Nellis of Citi. The line is now open.
Simon Nellis	Hi gentlemen, thanks for the call. I guess my question would be on the Swiss franc law, when do you think you'll get clarity on whether you have to take the hit or not? When would you distribute dividend out of last year's profit if the Supreme Court does rule against the legislation? Or I guess suspension is likely first and then it'll be a pretty long legal battle. So, I guess what's your distribution thinking given the Swiss franc law, if you can elaborate. Thank you.
Herbert Juranek	Okay. Maybe I start and then I would hand over to Edgar who is heading the task force on the law on our side. We got some positive news yesterday, to a certain extent, positive. As you might know, and we explained that in our extraordinary call, we took a series of measures, whatever is possible on our side, in order to address this topic on various levels. We had intensive talks with the local regulator. So, we had a management conversation with the Vice Governor there and we explained our situation also in writing. And we asked the local regulator also to join us in the exercise to file a claim vis-a-vis the Constitutional Court. And we learned yesterday, according to our information, that the Bank of Slovenia joined our exercise, and also filed an injunction to this law. And at the same time yesterday, a statement was made by the government also supporting our request for suspension of the law. Now, at the end

	of the day, the important question is how will the Constitutional Court react? And here we see two streams. One is the request of the injunction to the law. And the other part is the more long-term final solution and ruling upon the law. So, what we know is that tomorrow there will be a meeting of the Constitutional Court. We don't know the agenda, we don't know what concretely will happen tomorrow, but at least what we know is that they will come together on the topic of the law. Our expectation is that, given the judgment of all our lawyers, the local lawyers, the Slovenian lawyers, the international lawyers, everybody is of the opinion that if the court would vote according to the law, they need to approve our injunction. So that's our expectation and this should hopefully happen over the next weeks. On the final ruling, we don't know, we don't have any concrete view. I mean, we are getting very diverse feedback and also the prognosis of our lawyers are very diverse, so it could also last longer. We hope for the best but we prepare for the worst. So that's what we are doing in that context. Does that answer your question?
Simon Nellis	Yes, but I guess just in terms of the dividend strategy, thank you for that update.
Edgar Flaggl	Sure, look, I mean, we closed the financials, part of closing the financials is a way forward in terms of appropriation of profits. Now, this is also the usual topic for the AGM. Given the situation and also a dialogue with our regulator, we went for a profit carried forward. Now, we will, of course, still have some time to go until we see how and if this law materializes. And if it materializes, in what shape, is still very unclear. So that also influences the way if and how and when you can provision what for that. However, the capital is still here. So, the capital is here, we are not planning to allocate the capital elsewhere. But for the time being, and I hope we know more in the first quarter financial disclosure, there is no dividend 2021, as indicated in our disclosure.
Simon Nellis	Okay. And then my other question would just be on other income and other result, I think, I guess excluding the Swiss franc law implications, which would I guess, go through other results. What's the outlook for these two line items? The next, well, I guess 2022 and then going forward, because it's kind of unclear to me, what is the right run-rate for these two items that continue to drag on earnings.
Edgar Flaggl	So maybe just briefly to avoid any misunderstandings here. Thanks, Simon for the question. The other result does not include anything regarding the Slovenian Swiss franc law. So, this is a new topic that came as a surprise, to be honest, to I think all affected banks in

	Slovenia. So, what is included in the other result? It includes impairments on assets, it includes an impairment on an IT contract and all this IT contract that was replaced with a new one that actually brought costs down by 20 plus % going forward. It includes the already discussed, you know, Swiss franc real individual lawsuits from Croatia. It also includes loan processing fees from individual lawsuits from Serbia. So all these topics, I think we discussed quite a few times. Now, what does it mean for guidance going forward? If you look at which pages again, at our outlook 2022. Just give me a second, page number 21. We combined it once again, with the credit loss expenses, and here we say, you know, circa 1% on net average assets for credit loss expenses and other result together. On the other income, if you want to go to that, there's two main components in there. Or a couple of components. We also have a page in the appendix, including all the deposit insurance, resolution fund costs and things like that. We have in 2020 quite a bit of restructuring costs in there, as I mentioned before, the restructuring costs in the context of the Transformation Program, they're done with the year 2021 including some front-loading from the Croatian entity. Now, of course, the other costs that you would see in the appendix, you know the resolution fund, deposit insurance they would remain. The other element in the other income if you want to summarize it is the net result on financial instruments here, as mentioned before, we expect less gains because in volatile times like this it doesn't make much sense to sell good coupon bonds with a good credit perspective from our region.
Simon Nellis	Okay, and then maybe just last on the lending spreads environment and it seems that your consumer yields are still under some pressure, you're seeing some increase in large corporate; can you just comment a bit about the lending spread, the margin outlook, competitive environment?
Edgar Flaggl	Sure, maybe I start with some you know, finance stuff and then I hand over to Ganesh on the real business drivers so to speak. So, if you look at Consumer, there is a couple of elements. So, Ganesh will go into business topics, but you would also see that there is many more of the disbursed loans is actually for customers with a payroll account, they have lower risk, they also have a bit of a better pricing. So this is something which is important also from a risk perspective, also gives us more data. And it has a digital component as well, as Ganesh will explain. On the corporate and the increasing yield, if you look, it's not a daily average calculation, it's a simple average calculation. So, if, you know, take out part of the loan book at year end, but still had 11 months of interest, the yield would go up. So, that's one

	element. The other element is, of course, that we front-load in terms of accelerated run-down of the non-focus specifically very low yielding loans. Now, Ganesh
Ganesh Krishnamoorthi	Yes, just to add what Edgar mentioned. On the consumer side, as I mentioned, we are launching risk-based pricing in the market. And what it helps us here is to focus on more risky customers with risk ratings with a higher price and more better customers will get a better price overall. But overall, we would like to increase our margins on the consumer side overall with the risky ratings overall. So that is that is one aspect. And second, also, if you remember, we were discussing about how we want to accelerate the strategy in consumer through partnerships, as well as driving our digital business overall. Partnership specifically as we are bringing financing at point of sale, it helps us to charge, you know, higher margins. And that is exactly why we are aiming due to the convenience what we are providing as USP, it will help us to increase our yields. So these are two drivers in the consumer side. And as Edgar pointed out, on the SME side, we are looking at going down in the less profitable low yield medium businesses and compensate that with higher yielding micro businesses. We are basically doubling our micro businesses, therefore, you can see also the margins would grow going forward.
Simon Nellis	Ok. Helpful. Thank you.
Operator	Before we start with the next question, here's a little reminder. If you want to ask a question, please press 0 and 1 on the telephone keypad now to enter the queue. If you participate via the audio webcast, you can write a question via the Q&A function of the webcast by pressing the question mark button. The next question is by Mladen Dodig, Erste Group. The line is now open for you.
Mladen Dodig	Thank you. Good afternoon, gentlemen. Thank you for the call. And congratulations on the successful year considering all the environment, right. I will ask you one question regarding just as you were talking about this medium SMEs and the reduction in those tickets. I mean, are those the same clients coming back in some way with the smaller tickets or this is a kind of an interruption of cooperations with them?
Ganesh Krishnamoorthi	We actually are kind of running down those relationship with the larger exposure with the low yield business overall. There are some few businesses we do continue but only with a different setting with

	a much lower exposure, but also more higher margins. With these settings if the partner is fine, we will continue, if not, we have already run down that in Q4. But as you can see, Q4 we have already cleaned up this portfolio going forward.
Mladen Dodig	Okay, thank you very much. One question regarding the, of course, Slovenian Swiss loans. So, elections in Slovenia are scheduled parliamentary for 24 April. Do you have some local flavour on speculations, anything that Constitutional Court might be silent until the election and then which should probably bring you to situation that you will probably have to make provisions for these reimbursements or your local lawyers might expect that any reaction from the Constitutional Court might happen much earlier, maybe even on this tomorrow meeting.
Herbert Juranek	Maybe I start and then Edgar chimes in on numbers and his view. We had a lot of conversations, you can believe me, over the past weeks on that topic with many different people, on many different levels, and what we learned is that, you know, we don't know how the Constitutional Court will react. We believe that he will act according to the law, and the law is not executable. So, we believe that he will approve our claim. However, what we also see is that the whole thing has also component, which is based on the election, that's for sure, when it came to the parliament, this was certainly a driver for this law, a very populistic approach on that. And also driven by almost all parties, I have to say. I mean the official language was against the law. And if I look what the members of Parliament did, everybody voted for the law except eight people. So, there was a vast majority for it. So of course, there is a connection. And if you understand a country like Slovenia, you know everybody knows everybody, and there are long term relationships between people. And we are in this environment, and we are dealing with it. So, the honest answer to your question is, we will see, in the coming two weeks, how they will react. As I said before, and they have tomorrow the first meeting on that topic and based on all the feedback from the Bank of Slovenia, the official feedback of the Government, we really believe that they will approve our injunction. And then, you know, then the question is how they deal with the overall question. But we would expect that there are indications that we will get soon a feedback. So that's our hope. Edgar?
Edgar Flaggl	So, I think not much to add from my side. Usually, we heard that in historic cases the Constitutional Court ruled within 15 to 30 days. But this is not a rule, it's more like a market practice so far. So, do we know if that happens in this case, as well? No. If we don't hear anything until you know, the first half of April, it's surely going to be a bit more difficult situation. But until then, I think we keep on pushing and along the lines that Herbert mentioned before.

Mladen Dodig	So, until the first half of April, you will still, how should I say, not make any provisions regarding this?
Herbert Juranek	If it comes to the provisioning question, I think here we have a clear opinion. Maybe Edgar you quote on that?
Edgar Flaggl	Sure. So, I think, look, on the provisioning side, it's very simple. You need to have a probability that it's more likely than not that the outflow happens. And then you need to have an estimate of the amount. Now, many lawyers tell us that the Constitutional Court cannot just kill one or the other clause in the law because then the whole thing falls apart. And until the Constitutional Court doesn't make a statement to that, it will simply be wrong according to IFRS IAS 37, to actually do a provision. Now, the closer we come to actually having to send out offer letters to those customers, to some very lucky customers getting very large pay-outs, the more difficult the whole situation is going to get where you need to say well, okay, what parts of the law can I assess in terms of probability. But we're not there yet. So currently, I would expect more like April than March but the situation is fluid. It depends very much on what we learn in the next weeks as well.
Mladen Dodig	Okay, then thank you very much. And I see your slide 40 with interest rate sensitivity. So, I guess if I look at the markets basically only Serbia right now with the central banks still keeps put, it would be the biggest move for your net interest income. Am I right?
Edgar Flaggl	Purely on the interest income Serbia would, of course, you know, provide a good contribution. Don't forget also that the interest expense on our excess cash changes in that sense. So, if you look at NII, it's not just the loan book. There's not much coming from Croatia because in Croatia we don't pay - so it's zero on cash at National Bank. Otherwise, the number would be better of course. So that needs to be taken into account.
Mladen Dodig	Ok, good. Thank you. Thank you very much.
Edgar Flaggl	Thank you, Mladen. I hope you liked the page.
Operator	There are no further questions for the moment. And so I hand back to you.
Constantin Gussich	Thank you, operator! I read a couple of questions from Hugo Cruz of KBW. I will not read those which have already been answered, which is on the other result and the Slovenian CHF issue which has been answered in full details and go directly to the outlook 2022. You're increasing the loan growth in focus from 4% in 2021 to above 10% in 2022. Can you please explain the moving parts from going from 4% to 10%?

Ganesh Krishnamoorthi	Yes, as I mentioned before, on the SME side, we will be actually increasing our micro business quite significantly, as we already see in our experiments what we did in 2021 really paid off. And we have very good plans to get this opportunity done. On the second topic, on the consumer side, we are expanding rapidly, you could see already in 2022, you know, year-to-date results which I presented in the slide 11. Due to our digital positioning and partnership opportunities, and also on different products that we are introducing, basically we will actually increase our loan book value there as well. So, with this combination, we are pretty confident that we will get there.
Edgar Flaggl	And maybe, this is Edgar, just to add. If you take out medium SMEs, we already had a growth of 9.5% last year. And as I mentioned before, we did quite a reduction in the fourth quarter of low value-adding higher ticket medium SMEs in that sense.
Constantin Gussich	The next question. Can you remind us of what the Euro project in Croatia is about?
Edgar Flaggl	Maybe I take that question. Since Croatia is joining the Euro, according to the latest available time plan, next year, there is quite a bit of work that needs to be done in every bank in Croatia to prepare for the Euro. So, you know, be it costs on the IT system, be it costs for staff, changing documents, changing ATMs, having the double calculation for quite some time. So, it's a very intensive project. It's a mid-single digit OPEX cost that we see in this year. Clearly a one off, you only implement the Euro once. But this comes on top, of course, in terms of operational burden to the growth story. But we're still confident.
Constantin Gussich	The next question, what is the amount of OPEX in euro million that you can flex quickly in case you're missing on the other targets?
Edgar Flaggl	Well, one thing that can be flexed if the targets are missed, is obviously the bonus. So, I think we will get there when we see how the quarters evolve.
Constantin Gussich	And the last question from Hugo, are you already seeing an impact on client behaviour due to the war in Ukraine?
Ganesh Krishnamoorthi	So far, we haven't seen much impact.
Herbert Juranek	The answer is no.
Edgar Flaggl	It's too early.
Constantin Gussich	Good. Then I'll move on to the questions in the Q&A tool. There are a couple from Wolfgang Matejka of Matejka & Partner Asset Management.

	The first one: Do you see some of your competitors struggling actually in relation to Russia/Ukraine so that you can expect some positive market share developments?
Herbert Juranek	Well, I mean, more than struggling. I mean, we have with SBER, we had a competitor which, you know, was directly competing in our customer segment. As you all know the story about SBER and also that the competitor banks in the local markets went to, in most of the countries, to banks in quite a rush and all these banks have either a relationship with the state or are owned partly by the state. We see here a market opportunity for us. And we are preparing - not only preparing – we are already working on taking these customers over. We prepared special packages for it. And what we see is clearly an opportunity for us to gain market share and to gain new clients. Ganesh?
Ganesh Krishnamoorthi	Yes, I mean, regardless of this, we will definitely see positive market share developments. As Herbert pointed out also, we are growing around 10% on the gross performing loans compared to the market which is growing 2%. So, but we also saw in the initial first week there was a lot of inflow on the deposits and the accounts coming to us overall. Now, we are hoping that also it has an impact on the lending side too.
Herbert Juranek	I mean, clearly, our ambition in that context is also to show you a bit more in the coming events. So, we will have a presentation on the AGM. We will have a presentation with the first quarter results. And you will get more on that story.
Constantin Gussich	Good. The next question, do you expect a changed treatment by the ECB due to the actual war in Ukraine in combination with the already imposed sanctions of the EU?
Edgar Flaggl	Thanks Wolfgang. This is Edgar. Well, I would expect the ECB to be more cautious, not necessarily towards Addiko alone but towards the general banking sector. We don't have much of a direct exposure or actually nearly nothing. So in that sense, we are more on the safe side. Of course, in terms of general economic developments, it's still too early to say and how the ECB reacts for the total sector on this, we cannot judge at the moment.
Constantin Gussich	Good, the next question is on the CHF law, I think related to the timeframe and the activities, everything has been explained. The second part of the question: can you please elaborate a bit on the worst-case calculation in relation to the still imprecise formulation of this law?
Edgar Flaggl	Thanks. This is Edgar again. Yes, it's very imprecise and to a large extent unworkable. I think, you know, all the banks also have

	addressed this in their claim in front of the Constitution Court. We also heard similar feedback from local regulator in this sense. Now what does it mean worst-case calculation? We, of course, have loan data, we don't in all cases have the connection to the clients anymore that left more than 10 years ago. But based on this loan data we addressed our view in terms of really coming to a worst-case that a compensation, for example, would not reduce the principal. So higher principal means, you know, higher basis also for penalty fee, interest calculation, and so on and so forth. And we included full charge for penalty fees of 8.5%. I think these are the main components.
Herbert Juranek	So, the 8.5% penalty fees, they sum up in total to €35 million. So, you see a big chunk of it is just, you know, free lunch because given the interest environment adding an interest of 8.5%. You know, I don't comment on that.
Constantin Gussich	So, the other question is on the mid-term targets, what timeframe do you mean by mid-term related to your targets?
Edgar Flaggl	Thanks, Wolfgang. The mid-term targets were derived out of a five years' business plan.
Constantin Gussich	Here's the last one from Wolfgang. If the Slovenian CHF law decision would be cleared, maybe in late April or early May, too late for the actual shareholder meeting, could you expect an extraordinary shareholder meeting being imposed to decide on possible dividend payments in 2022?
Herbert Juranek	Look, as we said beforehand, we don't know what will happen and when it will happen. I think the short answer is, we will not rule it out that we will do something like that. But we need to wait until we get the feedback and the final ruling. And we also need to know what are the final consequences for the bank. So, I think this is important for us and this will be also important for the regulator to know what is the end impact and having a clarification on that.
Constantin Gussich	I have one last question on the webcast from Csongor Nemeth. Considering the strong capital and liquidity position of the Group, was Addiko's management happy or sad for not being involved in SRB's and other local regulators' decision regarding the recent takeover of the relevant Sberbank Europe subsidiaries? And why? Thanks.
Herbert Juranek	Thank you, Csongor. To answer your question, when the SRB took the decision that Sberbank is likely to fail, this led to several consequences, namely that all the local subsidiaries were cut off and then handed over, in a very short process. In two countries to two banks where the states has an ownership, at very favourable prices, in Slovenia and in Croatia. I think the only country where it was handed over to the bank who already was involved in the selling

	process to buy SBER was in Serbia, there it went to AIK Bank. And in the only country where we were asked if we are interested, was Bosnia, in Banja Luka. And our response was that we are interested or we were interested, but we learnt on the next day, that it was already handed over to the local Nova Banka. And the other part of Bosnia, it went to ASA Banka. So overall, we didn't have any possibility to take over parts of the business or businesses, but it's not a question of happy or sad, because from our perspective, our opinion is that we anyway have the possibility to acquire the customers. We are convinced that we have a great offering, and we are convinced that we are attractive for the customers of Sberbank. And what we will do is, we will fight in the market in order to get as many as possible customers from Sberbank, and we see a good probability to be successful here.
Constantin Gussich	Okay. I have no more questions on the webcast nor on the telephone line.
Herbert Juranek	So, if this is the case, I would like to thank all of you for the participation. It was great to have you in our call. I wish you a good afternoon, thank you very much.