Addiko Bank

Addiko Group 3Q22 Results: Webcast Transcription

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We apologise once again for the bad audio quality experienced on both ends of the call which made listening and answering questions quite challenging.

Speakers:
Herbert Juranek (CEO)
Edgar Flaggl (CFO)
Tadej Krašovec (CRO)
Ganesh Krishnamoorthi (CMO & CIO)
Constantin Gussich (Investor Relations)

Herbert Juranek

Good afternoon, ladies and gentlemen!

I am here with Edgar, Tadej, Ganesh and Constantin.

It is a pleasure for us to welcome you to the presentation of the third quarter results of Addiko Bank.

We have prepared the following agenda for you.

I will start with the key highlights of our third quarter results and give you an overview of the key developments.
Ganesh will update you on the positive progress we made on the business side.

In the second chapter, Edgar will provide you with more details on our financial performance and Tadej will inform you about the risk perspective.

At the end, I will do a quick wrap up and give you an outlook before we finally move on to Q & A.

So, let's start with the highlights.

The third quarter was a very positive one in terms of progress on the business side. This led to a third quarter result after tax of €7 million. As a consequence, the YTD net profit doubled from €9.6 million in 2021 to €19.6 million in 2022 and our earnings per share rose to €1.01.

Our cost of risk amounted to 49 bps and €16.3 million including prudent post model adjustments. Tadej, will share more details on that later on.

Our return on tangible equity at a 14.1% CET1 ratio increased to 4.6% vis-à-vis 2.1% last year.

Our operating results went up by 28% YoY to €55.6 million as a result of our increased operative income generation and the reduction in operating expenses. Furthermore, we were able to improve our Coverage Ratio to 78.8% based on a stable NPE volume of €183 million. Our NPE ratio of on balance loans stands at 3.9%.

We are happy that our brand repositioning activities are showing traction and that our efforts in the Transformation Program are paying off. Altogether, it resulted in a double-digit growth for both focus areas - Consumer and SME business. In addition, it led to a positive momentum in net banking income and our new focus business grew significantly by 30% YoY. At the same time, we intentionally reduced our non-focus business by 24% since year-end 2021 in line with our strategy.

Our funding position remains stable and solid with €4.7bn customer deposits and a Liquidity Coverage Ratio of almost 250%.

Our capital situation is very strong at an IFRS 9 fully loaded CET1 ratio of 21.3%, compared to 18.8 % end of June. This improvement is based on the ECB waiver for structural FX and on the mandatory reclassification of parts of our bond portfolio based on our changed strategy.

More on that on the next page.

According to the definition of our new business strategy last year, we changed our ALM & Treasury Strategy with the aim to mainly invest in long-term high-quality bonds to generate interest income until maturity without interim trading. Hence, we had to review our accounting approach. Confirmed by the expert opinion of our Group Auditor, we came to the conclusion that we must reclassify our treasury portfolio in the EU entities. This accounting change is currently in a clearance process with the Austrian regulator. Edgar will give you more background later.

Let me also share our expectations on the SREP based changes, which shall be effective from 1 January 2023. From today's perspective, we anticipate no noteworthy changes in our Pillar 2 Requirement and a Pillar 2 Guidance of around 3.25%. We will receive the final results before the year end.

I would also like to inform you that after the share buyback programme in April this year, we will prepare a new share buyback programme to be used for all purposes in accordance with the authorisation of the AGM, which we will put forward for renewal in 2023.

Concerning ESG I can tell you that our broad action plan is well on track and our new ESG Policy is in the finalisation phase. We will publish it together with the year-end results.

Let's move on to the business environment:

The elevated inflation driven pressure on costs does become more and more visible and an improvement of the macroeconomic environment is also not predictable for the time being. Consequently, we recalibrated our risk criteria. In addition, we continued repricing activities, although in some of our markets, many direct competitors are still waiting to act on that front. Nevertheless, we are quite positive that we were able to continue our growth path with our focus business despite all of these limitations.

Let's look at the current development more in detail.

Our Transformation Program is paying off also on the business side. Although we intentionally decreased our medium SME business by 16% to reduce concentration risk and improve margins, we did achieve a 10% growth rate in our focus book in Q3.
Without the medium SME loan book - the increase is even 15%.

Our new business generation went up 30% YoY.
The focus book grew by another 3 percentage points in the third quarter to 81% of gross performing loans. This development was driven on the one hand by a strong 10% increase in the Consumer book since year-end and on the other hand by a 27% jump in our Micro & Small SME book.

All of that has been achieved based on our prudent risk approach and newly calibrated underwriting criteria to reflect the current macroeconomic environment.

Now, I would like to hand over to Ganesh to give us more insights on the business development.

Ganesh Krishnamoorthi

Many thanks Herbert. Good afternoon, everyone!

As Herbert mentioned, I am pleased to inform you that our transformation has produced strong business results in the third quarter despite the challenging macroeconomic environment.

On page six I would like to highlight quarterly results in the focus areas Consumer and SME followed by our priorities in Q4. As a specialist in Consumer lending, our strategy is to grow our active customer base with lower ticket size loans in our partnership & digital channels using speed and convenience as a USP. As a result, we were successful in driving substantial 150% growth in new customer acquisition compared to last year - complemented by strong repositioning & marketing campaigns.

Furthermore, our upselling of acquired customers through our branch channels & new business generated by newly signed 200 partners this year has incrementally contributed to a 27% growth in our gross disbursements from €373 million to €475 million compared to last year.

Additionally, we also cross-sold the acquired customers with account packages, insurance & cards to deliver 16% YoY net commission growth. We believe cards sales in numbers which grew 78% YoY - is also a key long-term income driver. Last but not least, with elevated interest rates and inflation, we have gradually increased the fees for services & prices for new loans as first mover in the market.

We will continue to build on these achievements by further improving the paperless and fast lending - with the whenever and wherever experience to make our customer’s life easier.

On the SME front, our key focus is to scale lending to underserved Micro & Small segments through our digital platform with speed as a clear USP. We are working on further automating our end-to-end digital lending platform for micro & small SMEs to enhance it with new functionalities to make our services faster and even more convenient for our SME clients.

Overall, we are seeing more exciting results in our micro and small SME business. Our customer base in the Micro & Small area is up more than 38% YoY and this is accompanied by an approximately 70 basis points YoY increase in newly contracted interest rates in the total SME segment. Based on these remarkable results, we achieved to elevate our new disbursements in these two segments an outstanding growth rate of 64% YoY from €268 million to €439 million.

Unfortunately for Q4, elevated inflation, energy crisis and the geopolitical situation has changed the market conditions and it's fair to expect economic growth to slow down and therefore we need to adapt our business model. We adapt our business model in the following ways:
Number 1, we are introducing variable pricing and also increasing fixed pricing reflecting the market condition; number 2, Tadej's team have tightened our underwriting criteria to be extra prudent; number 3, We are focusing on further improving end-to-end paperless lending capabilities in both the focus areas.

Moving on to page seven, my key messages are:
Firstly, technology has been the key enabler for our business strategy. On the consumer front, from expanding our partnerships or enabling Euro or introducing variable pricing or card developments, and also introducing Buy Now Pay Later with a key partner. Technology has always been our forefront to differentiate us from the competition. The same is true for SME. We have introduced a new mobile app in Croatia followed by enabling variable pricing and risk engine integration to our system and we are working on further optimising our paperless end-to-end lending online.

Secondly, we also focus on reducing our IT run-the-bank costs. We have roughly saved €1 million so far compared to last year. Last but not the least, technology has been a pioneer in driving operational excellence, one of our focus topics going forward.

Moving to page eight. Now let's take a quick look at the progress of our work on the Addiko Ecosystem. I would like to highlight that we are on a good path to deliver our vision to become the best specialist bank in the region and we are convinced that the Addiko Ecosystem is the key to achieve this specialist status.

As you can see on the slide, we have already implemented four of our Ecosystem's top priorities in 2022. Fortunately, they are positively contributing to the excellent result in customer acquisition. Furthermore, we are working on fully digitalizing our SME processes and are expecting to launch end to end digital lending capabilities in our key markets in the second half of the year.

The implementation of all our priorities this year will be an important step to extend our Ecosystem. This will give us also the

	opportunity for further expansion and to become an attractive plug and play embedded financial platform for our Consumer related and SME partners. With that, please let me handover to Edgar.
Edgar Flaggl	Thank you, Ganesh, and hi everybody. Now on page 10 to our performance in the first nine months this year. Starting on the left side of the page on the composition of the P&L. Our YTD unaudited net profit amounted to €19.6 million or more than double last year's result for the same period, which includes a quarterly profit of €7 million. The operating result, where the YoY increase was further improved to 28%, provided momentum for the bottom-line increase during the third quarter. This is due to strong business development that continued in the third quarter on the back of the solid first half of 2022 as Herbert and Ganesh pointed out already. Net banking income continued its upward trajectory and is showing an improvement of 4.8% YoY, with NII further inching up despite the average loan book decreasing by €192 million YoY in the transformational bridge year 2022. The positive momentum in NII we started to see in the second quarter also continued in the third quarter and is proof that our strategy to reallocate capital to the focus areas is working. Together with higher NCI this allowed us to compensate lower revenues from the reduction of the non-focus portfolio. During the first nine months of this year, we delivered a roughly 10% growth in the focus loan book offsetting the intentional and accelerated run-down in non-focus as well as low yielding / high ticket medium SME loans. So, in short, we remain on track in the transformation of the loan book. The Other income – comprising the "Net result on financial instruments" and the "Other operating result" continues to be mainly driven by two things: First, lower gains from the sale of financial assets - which is fully in line with our new business and treasury strategy to keep our mainly government bonds until maturity to collect interest income – and second, higher deposit insurance costs. Now down to operating expenses: Our operating costs are down YoY, which also includes €1.8 million costs for the implementation of the Euro in Croatia and frontloaded marketing spend on

campaigns related to our brand repositioning with the introduction of Oskar.

The Other result remains influenced by charges related to active and passive legal claims, including our initial costs for the BIT claim against Slovenia. Together with the quarterly review of the legal provisions related to Croatia this reflects the continued prudent approach on legal risks and recent developments as assessed by our legal team.

Now to credit loss expenses. In short, portfolio dynamics still remained benign. The post-model adjustment booked in the second quarter, to reflect the current volatility, remained unchanged in the third quarter. Tadej will provide an update on the main highlights in a few minutes.

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. As Herbert pointed out earlier, we have positive results from the Transformation Program on the business side, and a strong third quarter. The chart on the upper right-hand side of the page illustrates further improvements during Q3.

In a nutshell: Growth in Net Banking Income and improvement in NIM continued in the third quarter, also supported by a decent tourism season. This improvement is even more visible when looking at yields as the average loan book is lower by roughly €190 million compared to last year as I already pointed out. During the last months, and within the third quarter, we also see first results from repricing of new business, and to some extent repricing of the variable back-book.

Now back to OPEX, which came in at €41.9 million in Q3, while the pure operational run-rate was once again beating our previous guidance of €41.5 million per quarter. While our Transformation Program enabled us to continue reducing our cost income ratio further during the third quarter, the dynamics caused by inflation are already visible, for example in staff costs. The spending on the Euro implementation project in Croatia will peak in the last quarter of this year, and we still expect mid-single-digit euro million one-off costs for this. So, the significantly elevated inflation across all our markets, as pointed out already, will continue to influence the remainder of this year and be more pronounced in our cost base for the next year, reflecting pressure on wages, cost of energy and general supplies.

While the environment remains challenging, we are however confident we can achieve our cost guidance for this year.

Over to page 11, which illustrates our strong capital position. On this page we printed the fully-loaded capital ratio in a zoom-in view and we also added the 2022 market value development of a highly affected Croatian government bond in our portfolio, as an example, which is the grey shaded area between the waterfall stacks. At the end of the third quarter, our CET1 ratio - excluding interim profit - is back to the 2021 level.

During the third quarter, we obtained the opinion of our group auditor that a reclassification of the treasury portfolio in our EU entities is mandatory to reflect our new treasury strategy, with the reclassification being effective from 1 July 2022. As established by IFRS 9, the stopping of the old business model Hold to Collect & Sell and the starting of the new business model Hold to Collect, are both representing an activity significant to the bank's operations.

As Herbert pointed out, this reclassification is currently in the clearance process with the Austrian regulator, which means that theoretically this could still change.

Now to RWAs. As disclosed together with our half-year results, we received the ECB's waiver on structural FX during August. The waiver is now fully embedded in RWAs and allows us to reduce RWAs by more than €90 million, from the roughly €150 million increase related to that topic earlier this year.

That all leads to a fully-loaded CET1 ratio of 21.3% while the transitional CET1 ratio stands at 21.8%. To summarize, a strong capital position with substantial buffers, while these ratios do not include interim profit or accrued dividends. Without the reclassification the CET 1 ratio would have decreased from 21.3% to 19.1% on a fully-loaded basis.

Now briefly on SREP. As disclosed earlier we expected the results of the Comprehensive Assessment Stress Test, so the CAST – which is showing a high capital depletion in the adverse scenario - to have an impact on our P2G.

Therefore our current expectation is that the P2G for the next year will come in at around 3.25%. On P2R we don't expect any noteworthy change, as Herbert pointed out already.

To conclude, the current capitalization continues to provide significant headroom.

And now let me hand over to Tadej for an update on risk metrics.

Tadej Krašovec

Thank you, Edgar. Now to the credit risk part starting on the slide 12.

On the left-hand side of this slide, we can see that the NPE volume remained stable on the previous level of €183m, reflected in an NPE ratio of 2.8%, or 3.9% based on on-balance loans, which is in line with our expectations. For the last quarter of 2022 we have several measures in place to further reduce NPE stock.

Over to the right-hand side of the page, where you see higher inflows of NPEs during the third quarter of 2022, compared to previous quarters. This development was driven by a few clients in the SME and in Large Corporate segments which however do not have a link to macroeconomic worsening, but to regular defaults that are part of normal business operation.

Let me just add here that one defaulted Large Corporate client has already been cured in October.

Looking at the NPE inflows over the year we conclude that they remained at an acceptable level and were well compensated by good cure rates.

Overall, our asset quality remains at a high level and is underpinned by a still stable payment behaviour of customers. For more information I would refer you to slide 39 of this presentation.

If I continue on slide 13. Credit Loss expenses in the first nine months of 2022 were at a level of €16.3 million, resulting in a cost of risk of -0.49% on a net loan basis. In the same period the cost of risk in our Consumer business was at -1.04%, which is in line with our expectations. In the third quarter we saw higher credit loss expenses in SME resulting in -0,34% quarterly cost of risk. This is the result of previously mentioned defaulted clients.

The higher credit losses in the Q3 are following lower than anticipated risk costs in the first half of the year. As I commented during our last earnings call, this better-than-expected development during 1H22, specifically the first quarter, is not a low level that we would consider as being course of normal business. However, looking at the first nine months of the year, credit losses in the SME segment are still lower than what we anticipated.

The non-focus segment remains a source of provision releases with a positive cost of risk of 0.41% during the first nine months.

The post-model adjustment remained unchanged versus the previous quarter and still stands at €13 million, where €9 million are from YE2021 and the additional €4 million were allocated in June this year to reflect our prudent approach in this currently volatile environment.

At the end I would like to refer to the SREP topic and the increase of P2G shared before by Herbert and Edgar. We are reviewing our stress testing models that are used in the ECB stress testing. We want to identify areas where we currently apply elevated conservative assumptions compared to market practices and implement solutions that are better reflecting the quality of our portfolio which we believe could positively affect future stress testing results and thereby also P2G.

With that I conclude. I hand over back to Herbert for the outlook and wrap-up.

Herbert Juranek

Thank you, Tadej.

Let me give you a quick overview of the status of our Transformation Program. It progressed quite well and is approaching its end. We are confident to meet our goals in all three pillars of the program. In the fourth quarter, we will complete the program and in parallel prepare the next steps for 2023.

We will update you on the outcome during our next earnings call in the beginning of March, and now, let's go to the wrap up.
We confirm our Outlook 2022 on the grounds of our upwards revision in August.

Based on the firm opinion of our lawyers, we reiterate our expectation that the law will be turned down by the Constitutional Court. However, we believe that the decision might take longer as expected and happen only in the first half of 2023.

Anyhow, the management is committed to prepare an appropriate dividend policy. Hence, we will start an alignment process with the ECB at the end of this year with the intention to find an agreement going forward.

Concerning macro-economic headwinds, we assume that the current difficult circumstances will stay in 2023. Therefore, we will factor that in in our planning assumptions for the coming year and we will continue to fine-tune our risk models for sustainable business growth going forward. Nevertheless, the board remains very confident that our business model is sustainable and that it offers attractive growth potential, also in the given environment.

I, as the CEO, together with my team will continue to work with full ambition to improve the bank, to create value for our clients and for our shareholders.

With that, I would like to conclude. Our year-end results call is scheduled for the 8 March 2023 and the AGM is planned for the 21 April next year.

Now, back to you operator. We are ready for your questions.

Operator (Q&A)	Ladies and gentlemen, at this time we will begin the question-and-answer session. Anyone who wishes to ask a question may press star followed by the one on their telephone. If you wish to remove yourself from the question queue, you may press star followed by two. If you're using speaker equipment today, please leave the handset before making your selections. Anyone who has a question may press star, followed by one at this time. One moment for the first question please. The first question comes from the line of Hugo Cruz with KBW. Please go ahead.
Hugo Cruz	Hi, two questions really. First of all, thanks for the time. The first question is really around your loan growth. You've maintained a very strong loan growth in Consumer, in Micro SMEs. Obviously, this is a difficult macroenvironment with a lot of uncertainty and you're growing very, very strongly. So, first of all, where are you getting the growth from? Is it the pricing is different from the competitors? Is it different types of products? And second, how do you make sure that this growth will not turn into future loses? Can you tell us a little bit about your credit requirements? How do you make sure, basically, you are underwriting good risk here? And then my second question is really around, you mentioned an appropriate dividend policy, and I just wanted to know if you could say a little bit more about that. When do you expect to finalise your dividend policy, and what type of returns are you thinking at the moment that you could target with that policy? That's it, thank you.
Herbert Juranek	Thank you for the question. I have to admit that I barely understood your question, because the sound quality is so bad and I have to apologise to everybody because we also now got some messages back from you, that also on your side the sound quality is bad, so apologies for that. So, I think Edgar understood the question. Maybe you can rephrase what you understood.
Edgar Flaggl	Yes, sure. Hi Hugo, I hope you can hear me. I'm trying to speak a bit louder as well. The first question was about, well it looks like it had some nice juicy growth on the Consumer, Micro & Small SME front, so exactly what we have been planning to do, and how we ensure that in this current environment we remain as prudent as needed on the risk side, so that it doesn't turn into trouble later, right?

	That was question number one, and question number two was around the dividend policy, what's the timeline for revamping or discussing the dividend policy. Hugo, can you just briefly confirm if you agree yes or no that this is a correct summary?
Hugo Cruz	Yes, that's all correct. Yes, thank you.
Edgar Flaggl	Super.
Herbert Juranek	So, maybe I start with the answer on the dividends, and then I will hand over to Ganesh for the business part, together with Tadej. So, the dividend, as you know, we had a discussion before the Swiss Franc law came out, we had a discussion with the regulator, and from our perspective we were already quite close to an agreement how we structure a dividend for 2022. Then the Swiss Franc law came in and we agreed with the regulator that we don't pay out this year as well, since this law is not clarified. Now, going forward, we believe if we look now to our capital situation, and also in the threat of the Swiss Franc law we believe that first of all this law would go away and, number two, even in the case that the law would come, we did a recalculation and the potential threat would not be as we reported in the first place above €100 million, it would be rather now based on our new calculations in the range between €85 million and €90 million. So, the worst-case damage also would be smaller as originally expected. Nevertheless, we believe that this will not come as the law will be turned down. So, that's why we believe also given our business progress and our capital situation that we have safe grounds to pay out the dividend in 2023, and our idea would be that we start the discussion with the regulator on our view, on our strategy and our intent by the end of the year. So, our discussion will start already this year and we will see where we will end up together with the regulator. Now I would hand over to Tadej for answering the other question.
Tadej Krašovec	Yes, regarding risk criteria in uncertain times or in a situation of economic downturn, we are having a several step approach by applying forward looking changes of the risk criteria that are actually based on predictions of economic growth and the underlying scenarios. With that trying to exclude further business with the clients that would have or we estimate would have higher impact, if economy turns in more negative direction that is now our current predictions. We have prepared several step-plan that we could tighten the criteria based on the situation in the economy but not to apply all possible steps or tightenings in the first place. With that, we believe that we can very well manage the prudent approach but

	underwriting the right business in a changing economic environment.
Hugo Cruz	Okay, thank you.
Herbert Juranek	Hugo, did that answer your questions?
Hugo Cruz	No, not from me, thank you.
Herbert Juranek	Thank you.
Operator	The next question comes from the line of Simon Nellis with Citibank. Please go ahead.
Simon Nellis	Hi everyone. Thanks for the opportunity. Just to follow up on that and to clarify. So, on the dividend you're saying that you're hoping that you will be able to pay out something from 2022 earnings. That's basically what I heard.
Herbert Juranek	Sorry, we can't hear you.
Edgar Flaggl	I think I got it. Simon, let me try again to do the sound quality translation. So, your question is, if you're understanding is correct, that we will try to pay out a dividend out of the 2022 earnings, correct?
Simon Nellis	Correct, yes.
Herbert Juranek	Well, as I said beforehand, we have an agreement with the regulator that on the dividend strategy we need to align with them, and we will start this process, as I said, by the year end, but the intention of the management is clearly to pay out a dividend from the earnings of this year.
Simon Nellis	Yes, and it's mainly the Swiss Franc mortgage law in Slovenia that's kind of making it a more …
Herbert Juranek	Yes, so the Swiss Franc mortgage law was the trigger point, when the regulator – they all had a conversation with us, and we agreed with them to stop the discussion of the dividend policy. But we believe now, with our current expectation on the law on the one hand, with the renewed damage on the other hand, and also with the situation of the bank in terms of capital and results. We would like to take up this discussion and maybe we can also – I don't now want to go too deep into discussions - but we could also think about conditionality in terms of dividends, because we need to prepare for the AGM in April this year, and as I said, with the intention of the management would be to pay out a dividend.
Simon Nellis	Understood, and assuming that this Swiss Franc mortgage issue goes away, it sounds like you would think the total capital requirement will increase including P2G to 17%, right. So, what capital ratio

	targets, longer term, assuming that's the regulatory requirement, do you think you need to hold?
Herbert Juranek	Maybe I start and would hand over to the CFO. We are currently in the planning process for the budget for 2023. This shall be approved by the Supervisory Board in December this year. Connected with that is also a rework of the multi-year planning, and maybe I hand over to Edgar because he is leading this process on our side.
Edgar Flaggl	Sure, thanks Herbert, and hi Simon. Look, as Herbert said we are right in the progress of running the numbers in a bottom-up process and bolting everything together. The target capitalisation we would need to look at from two perspectives. One is, what's the long-term capital target in that sense, and then of course, how is it influenced from the recent addition on the P2G. This obviously needs to go in sync with what Tadej pointed out before, because if you look at the benchmarking, so to speak, in the countries, for example, Slovenia, Croatia, Serbia, where EBA stress test data is available for other local banks you will see there is quite a bit of a difference in terms of prudency, and we are on the highest prudency levels, so this comes back to what Tadej pointed out before. Now, this doesn't change anything in 2023, but we still need to look at this topic and connect the dots here.
Simon Nellis	Okay, but I guess what kind of buffer do you think you would need to have above your regulatory requirement? Where would you be comfortable, or would you rather not say at this point?
Edgar Flaggl	Well, that's also part where we have an internal methodology that is done on the back of the consolidated budget and calculated. So, we currently don't see a big deviation to our former buffers that we have applied, but take this not as a final statement, because we are not done yet with the process. But of course, requirements plus P2G plus a management buffer, this is the name of the game.
Simon Nellis	Okay, and my other question would just be on the net interest income, which was quite nicely up quarter on quarter. It sounds like most of that was coming from loan growth and loan shift, I guess, not rates. What part was driven by rates, and going forward, can you share a sensitivity of NII to rate moves that we've been seeing.
Edgar Flaggl	Sure Simon, thanks for the question. This is me again. So, if you look at the NII improvement, and as I pointed out before, we see a first positive impact which is not that much reflected in the quarterly NII, as such, from us pricing higher on the new business that we ramp up and of course, also first results from the repricing of the variable back book. I would see the second topic as having a more pronounced impact in the third quarter, but both are relatively small impacts. We should see better impact in the fourth quarter.
Simon Nellis	Generally, the sensitivity of NII to rate hikes, your rate hikes that we've seen, can you give us a rough estimate?

Edgar Flaggl	Well, we disclosed the last time the sensitivity with the half-year results. We didn't include it this time in the deck, so eventually we said, from a half-year perspective over a 12-month horizon, if we conservatively look also on the liability side, we had, I believe, 11 or 12 basis points on that 100% parallel shift in NIM.
Simon Nellis	Okay, thank you, that's all from me.
Edgar Flaggl	Sure.
Operator	The next question comes from the line of Mladen Dodig from Erste Bank. Please go ahead.
Mladen Dodig	Yes, hello. I hope you hear me. I had really big troubles following the call because the line is going very, very bad on my side. I don't know what might be the reasons, so I hope I will also manage to catch up with the answers.
Edgar Flaggl	Mladen, sorry for interrupting. I think, well, we don't hear anything, but maybe someone else does, but you were so kind and sent us in writing the question over the webcast. So shall we answer them?
Mladen Dodig	Yes, I remembered that you want to have analyst live in the calls, so I'm here, but the questions are there, so yes.
Edgar Flaggl	Ok. We will do that.
Herbert Juranek	Okay, we'll go through them. So, your first question was what will happen when the Transformation Program will be finished. How do we continue on that? Do we adopt a successor programme? We are currently in the process of discussing that and if you look to our mid-term targets, you can see, despite the fact that we did very good progress over the last one year and a quarter, we still have some gaps to close in order to get to our targets. So, certainly, we will come up with something new and we are currently in the preparation of this program, and we will design the elements, and our plan is to present it then in the beginning of 2023, when we have our first earnings call. So, that's our clear intention here.
Mladen Dodig	Thank you.
Herbert Juranek	Then the question is, yields are still declining so when and if you expect this trend to reverse, I would like to give this question to Ganesh. Ganesh, please.
Ganesh Krishnamoorthi	Hi there. Thanks for the question. The Consumer yield is decreasing slightly because of the spill-over effects of the repositioning campaign. What I can assure you the trend will reverse in Q4, as mentioned in the call. First of all, we are introducing variable pricing in the market, which will help us to increase our margins

	respecting the market conditions. And number two, we're also increasing our fixed pricing also reflecting the conditions. I have to say, I haven't seen so far competition reacting to the conditions, however we want to be here very focused and increase our margins there.
Herbert Juranek	Your third question on dividends I think we elaborated on dividends already, and we would continue with the answers unless you have any other question. And then your last question is: Institutions are revising regional growth again so maybe if you could give us current state of overlay provisions and their potential development. I would like to give this question to Tadej.
Tadej Krašovec	Thank you for the question. I don't have yet specific answer to that, but as I mentioned before, the current levels of overlay provisions or post-model adjustments are €13 million. Due to the current environment, volatility and uncertainty, it is very unlikely that we would release that part. But as we are now in the process of finalising the year I would say and in preparing for the next year, we are also investigating if something additional would be needed in this overlay provisions, but nothing specific for the time being.
Mladen Dodig	Okay, thank you very much for the time, for the answers, and once again congratulations on the successful quarter, and yes, that's all from my side.
Herbert Juranek	Thank you.
Operator	We have a follow up question from the line of Simon Nellis with Citibank. Mr Nellis, your line is open.
Simon Nellis	Yes, hi. The question is about risk weight optimisation. So, your risk weight density fell over the quarter. I'm just wondering if there are other things you could do to further optimise, and I guess longer term, going out, as you increase exposure to Consumer and SME, do you still expect the risk weight density to increase, and to what level longer term?
Edgar Flaggl	Yes, sure, thanks for the question Simon, good question. So, if you look at our risk weight density across the segments, you would find out pretty quickly that our mortgage book has a risk weight of north of 60%, and that our large corporate book is actually close to 100% risk weight. While the focus portfolio, so unsecured consumer lending, SMEs is roughly around 75ish percent. So, overall, one risk weight of asset limitation is actually running our rundown of the non-focus as well. Of course, once you move forward the midterm target, meaning circa 95% in focus book, without having the releases, or risk weighted assets reduction from the non-focus anymore, because it's mostly gone, you will have an increase in density, but this is not something we're guiding for

	specifically in the mid-term, but there is no significant component of change to what has been previously disclosed.
Simon Nellis	Okay, so you think the 61% will last until, I don't know, next year?
Edgar Flaggl	That's probably fair assumption, but with one addition. You know about the ECB waiver on structural FX, right, which reduced our RWA by roughly 90 million from the initial increase of 150. And this is related to Kuna and Serbian dinar, so Croatian Kuna and Serbian dinar. With Croatia joining the EURO from 1st January 2023, there is another reduction related to that in RWA because of structural FX alone, and beside that we are actually running an ongoing RWA optimisation, I don't want to call it program, because it's a part of normal business, where every little helps, so to speak, and bits and pieces are optimised as they are found in this process. So, in a nutshell, I don't see a large scale RWA optimisation potential to be honest, on top of what we are doing anyhow.
Simon Nellis	Okay, and then just on the tax rates, can you give a little guidance on where that's going, going forward?
Edgar Flaggl	Our previous guidance on the normalised tax rate of 21% is, I would say, is mathematically still a valid one, I know that in the last year, when we had quite significant restructuring provisions, for example, and also so far this year, we are at an elevated tax rate in that sense. And I think the reason is very simple, because the taxation happens on the profit before tax, and positive profit before tax is happening in our entities. While in the Holding we don't have a positive profit after tax, so if you look at before you attach the holding, it's actually lower than 21%. Once you attach the holding it's currently higher, but on that midterm, we would still stick with the 21%.
Simon Nellis	Okay, very clear, thank you.
Operator	We have another follow up from Mr. Dodig from Erste Bank. Please go ahead.
Mladen Dodig	Yes, I apologise if you've already talked about it. I'm really having troubles following. You said that the reclassification within the new treasury strategy happened, if I remember correctly, for positions in the EU. Will there be more positive effects when this reclassification comes also, for example, for the Serbian portfolio of bonds?
Edgar Flaggl	Thank, I understood bits and pieces of the sound, so it's about reclassification. Maybe I'll try to answer, more holistically from the starting point, and then let me know if you want to deep dive in one or the other angle. So, we as a new management, we came

	together in June last year. We immediately worked on what do we need to reshape in the business strategy. The business strategy, which was approved in December last year, is of course in sync with the business plan that was approved in December last year. Now, on the back of that, this already included quite a significant change when it comes to how we deal with treasury going forward. If you look at our previous numbers in those years, you know 2019 also 2020, you would see that there were quite substantial financial gains from selling bonds in specific quarters, which for us is not our business model. Yes, that was maybe years ago the case, but for us it's not our business model. Our business model is growth in the focus book and generating interest income and NCI and therefore we went through this exercise to actually align with our auditors, to reflect the new strategy also in accounting, because in our view, this was a change that needed to be done. And on the basis of the opinion of our auditor, KPMG, the reclassification date, the correct reclassification date following the decisions on the strategic plan, and also on the detailed new strategy, in terms of treasury investment, the first of July was the adequate date for reclassification.
Herbert Juranek	Does that answer your question, Mladen?
Mladen Dodig	Yes, okay, thank you.
Herbert Juranek	I see a question coming in from Stephan Klasmann on the dividend. The question is concerning the future dividends, if there are certain pay-outs ratio we are aiming at. Look, currently we have stated we don't pay out dividends, and we want to start the discussion, as I said beforehand with the regulator again. Before that, our dividend goal was 60% pay-out ratio, and look, we now entered discussion with the regulator. I don't want to come up now with specific numbers, but what I can tell you is that 60%, I think, is something which is clearly doable from our perspective, and if I look to our current equity basis, and the amount of excess equity we have, I think we also have potential for more, in theory. But we will let you know when we have closed the discussion with the regulator, that we have achieved an agreement, so then we will announce it.

Operator	We have another question from telephone, which is a follow up from Mr Cruz, KBW. Please go ahead.
Hugo Cruz	Hi, thank you again. So, you mentioned that when Croatia joins the Euro, your RWA will go down further. Can you give some estimate for the potential impact? Thank you.
Edgar Flaggl	Hugo, can you repeat that please? That even I did not understand.
Hugo Cruz	Yes, the potential impact on RWA since Croatia joined the Euro. You said the RWA should be going down.
Herbert Juranek	Edgar, you want to chime in on this question?
Edgar Flaggl	Okay, maybe I start from the financial perspective. We have, year to date, 1.8 million booked as costs for the implementation of the Euro project, and 1.1 million alone, out of this 1.8 was booked in the third quarter. And if you remember, that's what we guided for, that these costs will peak in the second half. Now, we also guided that the total charge, so one-off costs for this topic is going to be in the mid-single digit euro million amount, so you can, from that perspective, calculate what the range is that might be booked in the fourth quarter this year. Now, going forward, and this is also not new, but just to remind everyone, we of course will have some impact of, for example, FX DCC income that we will not have any more from Croatia, because there is no Croatian Kuna, it's the Euro. But this is already reflected in our midterm guidance that we previously announced earlier this year.
Hugo Cruz	Yes, but just to follow up. I understood that you said on the call today, that there will be a decrease in risk weighted assets after Croatia joins the Euro.
Edgar Flaggl	The risk weighted assets, okay. I don't want to guide you for any amount, but it's going to be a low double-digit amount in terms of risk weighted assets, decrease, out of Croatia joining the Euro, and you would see that, not in the credit risk RWAs, but in the market risk RWAs.
Hugo Cruz	You said a double digit million Euro amount?
Edgar Flaggl	It would be a low double-digit Euro million amount in RWA reduction out of that.
Hugo Cruz	Clear, thank you.
Operator	There are no further questions from the telephone. I'll now hand the floor to Constantin Gussich to read questions from the webcast. Constantin, the floor is yours.

Constantin Gussich	Hi, thank you operator. We do not have any questions on the webcast anymore. Back to you.
Operator	And you may want to have some closing remarks on your end.
Herbert Juranek	Maybe my last comment. Thank you for joining the web call, in the name of the management team of Addiko. We hope that you appreciate the results of the third quarter. We will do our best in order to continue our growth rate and our momentum, and we are confident that we can close the year by continuing our progress. With that, I would like to conclude. Wish you all the best, and hope that you will be online in our first earnings call next year. Thank you very much.