Addiko Bank

Addiko Group 3Q20 Results: Webcast Transcription

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Speakers:
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Operator	Welcome to the conference call of the management of Addiko Bank AG. Ladies and gentlemen, at our customer's request, this conference will be pre-recorded, recorded, I beg your pardon. As a reminder, all participants will be in a listen-only mode. After the presentation, there will be an opportunity to ask questions. If any conference call participant has difficulties hearing the conference, you can simply press * followed by 0 on your telephone for operator assistance. And now may I hand you over to the Addiko team who will lead you through this conference. Please go ahead.
Csongor Nemeth	Good afternoon, everyone. This is Csongor Nemeth, CEO of Addiko Group. I am joined in today's third quarter presentation by Markus Krause, our CRO/CFO, by Ganesh Krishnamoorthi, our CRBO/CIO, as well as Edgar Flaggl, who is responsible for our investor relations. Without further ado, I kindly ask all to focus on slide 3. And, I will give, on slide 3 and 4, the basic pillars of, in a similar structure as we had in the first half call, the basic pillars, six pillars, the update. Firstly, earnings. Year-to-date result of Addiko is €-6.4 million. This is compared to the €-12.2 million loss we had for the first half, which means that we have had a positive quarter in the third quarter this year with a result of 5.8 million euros. Our provisioning is standing at 1% cost of risk, which is actually, in numerical terms, €37.8 million. This is a ca. €8 million, €8.5 million increase compared to the €29.2 million we had for the first half of the year. Roughly €15 million of these €37 million is related to operational business-related risks and roughly €22/€23 million of it is related to IFRS9 model adjustments and stage 2 developments. The year-to-date operating results of the Group has improved by €14 million ca. to over €42 million, which is a 48% increase compared to the ca. €29 million we had for the first three quarters of 2019. The return on tangible assets is 0.2%, slightly positive, but not yet at the rate where we would like it to be. With regards to asset quality and containment, the NPL volumes and the ratio remain stable at 3.6%. The overall exposure on the moratoria has decreased by 34% from the slightly above €1 billion to €667 million. Markus will later on provide some color with regards to the exact details per country and per segment in the usual format, like we did in the first-half call. And our NPE coverage remains also stable at 73.7%. I am also very pleased to report to you that our funding situation remains still very solid. We still have over €4.7 billion of customer deposits, and our LCR has improved further compared to the slightly above 200% to 210% when I compare it to the first half figures. And also, the capital ratio has strengthened even further. Now we are on a transitional CET1 ratio level at 19.2% and even with IFRS9 fully loaded CET ratio, we are standing at 18.5%.

Now, if I kindly ask you to turn to page 4, the other three pillars or blocks, with regards to the mid-term targets. We are actually very close to completing our budgeting process for 2021, including as well the 5-year or the 10-year target, the mid-term target. The only caveat - and I am not backing down from the statement that management will be ready and will be aiming to provide an update in the fourth quarter 2020 on these to the markets - but I need to make the caveat that with regards to the AGM that we have scheduled, the virtual AGM for the 27th of November, and with regards to both the Chairman and the Vice Chairman of our Supervisory Board stepping down with potentially new candidates being voted in, we would also reserve the right to give adequate time of at least a few weeks or maybe a month for potentially the new candidates to get to know our business and our plans. So hence, it could well be that the public disclosure of the mid-term targets will not actually take place in December, but only in January. We do not want to prolong it much longer. We are working, and we are on our side ready with it. But I hope you will appreciate the fact that we would like the new, potentially new, setup of the Supervisory Board to be fully acquainted with our targets and our mid-term targets, as well as provide adequate challenge to this.
With regards to the revised outlook, middle of the page, 2020, we have left three of the so far disclosed guidances, meaning the net banking income, the operating expenses, as well as the CET1 ratio guidance unchanged. But we have revised with regards to two of the red indicated bullet points on the right-hand side of the page, meaning gross performing loans, where previously we have mentioned that we estimate to have at year end €3.5 billion. We feel, based on the latest developments from the second half of August, September, as well as the preliminary figures for the first two weeks of October, we feel that €3.6 billion will be closer to reality. With regards to the credit loss expenses, where we have given a guidance of having it between 1.1% and 2.2%, now we feel more confident to actually guide that it will be maximum 1.5% when calculated on average net loans and advances to customers.

On slide 5, there are three major messages or main messages I would like to deliver to you. Firstly, we have received the latest updates from the Vienna Institute for International Economic Studies. And we have incorporated the latest forecasts into the top right-hand side of the page. You see that both in terms of, in terms of Slovenia, Croatia and Serbia, that expectations are improving compared to the latest forecast we had and worked with for the first half call. With regards to Bosnia, they have maintained their outlook and their assessment. And with regards to Montenegro, the picture has slightly deteriorated. We have used and we base our assumptions mostly on a number of parameters, mostly on the base case, with certain parameters also taking into account the pessimistic scenarios. That was message number one.

Message number two, with regards to new business volumes starting to pick up. For the first time, we have provided you detailed information with regards to the new business volumes broken down per month this year in terms of consumer and SME. And as you can see, after basically coming to a halt in the month of April for Consumer, we have started to pick up volumes, new disbursement volumes, significantly from that very low level. Still very much below the new disbursements we have had in 2019. This is in the pink colors. In terms of the SME, you see that we have had not that dramatic a drop as in Consumer, but we are still lagging behind the volumes we have had in 2019. Mostly, this is because of the economic and social distancing and lack of activities related to the Covid pandemic. That was the second main message.

The third one is with regards to the unsecured consumer loan market stock. You'll see that basically with regards to the, again, referring to the Vienna Institute for International Economic Studies, we see that in 2021 they are predicting or forecasting a much-improved scenario with regards to the percentage growth. And we trust that with our focus and the digital initiatives which Ganesh will also touch upon later on, we will be able to capture some of that macroeconomic and consumer loan market growth.

On Slide 6, we have provided you information with regards to the focus and the non-focus developments in the third quarter. You see that in the top left-hand side of the chart, both SME and Consumer, so the focus book, has remained stable, with new disbursements actually slightly improving. This is in the middle of the chart, actually in the circled numbers from €136 million quarter-to-date in the second quarter to €172 million in our focus segment with the overall new business reaching €545 million until the end of September. The overall book remaining stable, and also yields remaining stable. With regards to the non-focus development, we have had continuous decrease of the non-focus segment, this quarter by roughly €40 million. This is on the bottom left-hand side of the page from €1.37 billion to €1.336 billion, with no new business in mortgage and public and some very limited short-term financings in large corporate, basically to utilize some of the excess liquidity and funding that we have.

With regards to slide 7, the infamous focus areas for the management board are now basically for the whole organization, the GCC "growth, cost and capital", I would like to provide you - and I have listed the main bullet points on the right-hand side of the slide with regards to the progress during the third quarter:
Number 1, we have revised the risk parameters being closer to the pre-Covid-19 parameters with regards to our focus segment.
We have ensured and will continue to ensure that our portfolio quality is maintaining its resilience.
Number 3 is we have identified certain RWA reduction opportunities, which we could consider in the next twelve months if the case would be that we require it.

With regards to costs, we have spent an awful lot of time and resources, internal resources, to identify cost optimization program with regards to potential that we have listed here being slightly above €15 million. This is compared to the guidance of €175 million or being below €175 million for 2020 until 2022 to be executed. And we have with the help of Ganesh - and this is also something that he will touch upon in a later slide - we have revamped our digital strategy and we have revisited the exact roadmap of loan distribution improvements that we will need to strengthen and execute on.

Last but not least, capital. We continued to strengthen our capital base and we are preparing ourselves for the AGM decision of a conditional approval being supported by the Management Board and the Supervisory Board and to be submitted to the AGM. And we have had a very professional and very fruitful, so far fruitful, introductory meeting that we have had with the Joint Supervisory Team of the ECB. This was at the beginning of this month. And we have been told that the 2020 SREP ratio, which is valid for 2021, will not be done under the ECB and by them. It will actually be conducted still by the FMA because the takeover of Addiko actually took place on the 7th of October officially. And that is something that will still be under the ECB's watchful eye, but completed by the FMA. And we remain very, very hopeful that in all of the discussions and interactions with the ECB during the 2021 SREP cycle, we will manage to establish a much more level playing field with regards to the Pillar 2 Guidance and the Pillar 2 Requirement that Addiko currently is governed by.
And with regards to the last update on this slide, we are continuing to expect the official and formal MREL decision from the SRB. And this is for the first quarter of 2021, is expected to be delivered to the bank.

Now, without any further ado, I would like to hand over to Markus, who will give you an update on the financials and the risk side.

Markus Krause

Thank you very much, Csongor. Starting on slide 9 on the top part with the P&L. I can report that this is showing a very strong year-on-year improvement of the operating result by 48% respective €14 million, and also quarter-on-quarter a slight tick up. The key driver of it is the continuous strong performance on the operating expenses, which improved year-on-year by €17 million due to a tight and disciplined cost management leveraging on end of 2019 taken restructuring measures, lower operating costs, especially also due to the second quarter lockdown situation and also no bonus accruals for the year 2020.
A strong performance, improved compared to the second quarter, also on the net commission income side where we have an increase by 12.5%. This is caused by taking up business activities, compared again to the second quarter, which was heavily impacted by the lockdown. Nevertheless, 2020 year-to-date, net commission income

is with 10.8% lower than 2019, as well as the net interest income with 3.6%, both as a result of the Covid situation. Both NCI and net interest income development are the result of a performing loan book reduction of roughly 200 million on a year-on-year basis, caused by the development of the non-focus portfolio as it has been planned to reduce while the focus portfolio could be kept stable but remained behind the pre-Covid expectations as we were originally planning.
The credit loss expenses in the third quarter were with €8.6 million significantly lower than the second quarter result, which itself was impacted by IFRS 9 model macro parameter changes of around €22 million from the second and the first quarter. The Q3 credit loss expenses are in line or even better than we were expecting. But this is, of course, also positively impacted by the current moratoria, which also kept the non-performing exposure ratio on gross exposure level stable at a low level of 3.6%.
The strong operating results, combined with improved risk costs, resulted in a profit after tax of €5.8 million for the third quarter while year-to-date the loss was reduced to €6.4 million, which was also significantly impacted by impairments on DTA in the first half of 2020.
Coming to the balance sheet, the year-on-year performing loan book decreased by, as I said already, €200 million as an impact of the lower business through the year, which is roughly around 50 to 60% on a year-on-year basis compared to 2019. This requires, during the current preparation of our new five-year business plan and also the related mid-term guidance to consider all potential options and opportunities to scale up the loan book.
This is required to catch up with the original targeted net interest income and net commission income, as we have projected and communicated it during the IPO roadshows especially.
The balance sheet reduction is one item, while on the other hand, on the deposit side, we have continued to work on and to reduce the rates while still we remain with significant excess liquidity. Shareholder equity further increased on a quarter-on-quarter basis by 1.6%, resulting together with stable risk weighted assets in further strengthened CET1 and total capital ratio by 0.2% to 19.2% on an IFRS transitional basis and 0.3% to 18.5% on an IFRS9 full-loaded basis, not including the intended dividend payment for the business year 2019 of €40 million.

Moving to page 10, there is not that much to be added on top of what I was saying on the first slide, only one remark on the net interest income that in the focus segment we increased our interest income by 3.9% year-on-year. The net commission income heavily improved, as I said, by 12.5% while we were suffering due to the crisis on a year-on-year basis with a 10.8% reduction compared to 2019. The OPEX, I will give more details on the following slide, and on the credit loss expenses as well on further slides afterwards.

Moving to slide 11, you see the operating expenses where you see on the staff expenses that we have reduced here also the costs significantly in 2020 compared to 2019. The restructuring measures on the one hand side initiated by the end of 2019. And secondly, the non-approval of bonus for the year 2020.
The administrative expenses have even further, decreased significantly, partly caused by the Covid situation, but also related to IT expenses, we started to reduce the costs.
We have planned to start with further initiatives during the years 2021 and 2022, where we see a potential of around €15 million across all the areas.

Moving to slide 12, I start with the credit risk part, where first the asset quality, I would like to give you the numbers on non-overdue accounts. You see that on the bottom of the page where the red part is shown, where we show on all the segments above 90% regular paying clients, while in the segment from 1 to 90 days past due we see a slight tick up on the consumer side of 30 basis points and a more significant one on the small/medium enterprise side to 7.2%. But that has already been cured during October because this was caused by technical moratoria assignments.

What we also did in the third quarter is we started to review our policy framework, reflecting that the loan book development is according to expectations, that we are going back to the pre-Covid policy rules, mainly considering certain industries where we are being more tighter. But this is the basis also where we see improvements already in September or have seen improvements in September, but even more now, already in October.

On the following slide 13, I just would like to give you an update on the moratoria, where you see that in Slovenia, the moratoria clients can still apply for until the end of November. And that is the period how long the moratoria are valid are still up to 12 months. So also, the stock of that portfolio in Slovenia, you will see on one of the further slides has not changed that significantly. In Croatia, the deadline for applying moratoria expired already by end of September, and there are only running-out moratoria because of the tenure of twelve months of these moratoria. Serbia, by end of September, still a significant moratoria portfolio was here relevant while in October, the complete moratoria expired. In Bosnia Herzegovina, clients also can still apply for moratoria until the end of the year while the base is very low and will also remain very low. In Montenegro, just recently, a new regulation has been launched, which is considering retail clients which lost their job or where a significant salary cut was done. But also here we are not expecting a major impact of additional moratoria.

With that one, I would like to give you an overview on slide 14 about the moratoria situation in terms of numbers. From that gross exposure base of €6.8 billion, we see, you see on the box below the

share of moratoria in the retail portfolio, which decreased from the first half where it was - of 2020, where it was 17%, down to 13% by the end of the third quarter. In non-retail, it even decreased more significant from 23% by the end of the second quarter down to 14% by the end of the third quarter. That means that the moratoria exposure of roughly €1 billion we were reporting by the end of the second quarter has been reduced now to €667 million by the end of the third quarter, which is roughly 10% of the total loan book.
Major impacted segments are still consumer and SME, and major impacted country is Serbia with roughly 42% by end of September. But as I said, in October all of these moratoria expired already.
This leads me to slide 15 where you see the development quarter on quarter of the moratoria base. So, starting with the third quarter, what I mentioned is €667 million. We expect in the fourth quarter that additional €570 million will expire, of which already €427 million expired in Serbia during October. So, we will be left for the next year with round about €100 million of moratoria. On the right-hand side, you see the share of reduced moratoria in the portfolio, which is around one third in all the different business segments. On a country level, most reduced ones are in Croatia and in Bosnia.

We will continue also to monitor these clients and moratoria very closely. And also will do the alignment with the IFRS 9 coverages, which you see on slide 16, where the ratios remained almost completely stable. You see a slight tick up on the right-hand side, on the bottom. This is performing loans by 10 basis points from 1.8% by the end of the second quarter to 1.9% by the end of the third quarter, which is caused by rating changes and minor migration from stage 1 into stage 2.

On the cost of risk on slide 17. You see in the light blue row on the upper part, the €8.6 million cost of risk, which has been allocated half/half almost to Consumer and SME. So, there were no impacts in terms of any model changes. This resulted in a year-to-date cost of risk on a net loan basis of 1.03% on the total book. And due to the fact that we are expecting now from the expiring moratoria also migrations into non-performing loans already partly in the fourth quarter, but also IFRS 9 model changes once more based on the macro parameters Csongor reported about, we expect that the maximum cost of risk will be on a level of 1.5%.

Coming to the capital on slide 18, you see that the risk-weighted assets remain stable, comparing the second quarter and the third quarter, with €4.1 billion. While the equity base slightly improved due to the €5 million profit we made in the third quarter and OCI changes. That leads to a total capital ratio and CET1 capital ratio on a transitional basis of 19.2%, while on a fully IFRS 9-loaded basis of 18.5%.

These ratios do not contain €40 million dividend, which is intended to be paid out on a conditional basis for the business year 2019, under the condition that the regulations, the ban will be lifted. And secondly, that the minimum capital requirements, as required from the national bank will be met. This high capital ratio still leaves further room for excess capital, especially considering the current SREP Pillar 2 Requirements and Pillar 2 Guidance ratios which are conservative from our point of view. And this is what we also have addressed, as Csongor said, in the first meeting with the ECB, where we would see this as one of our high priority topics to be reviewed.

With that one, I would like to hand over to Ganesh.

Ganesh Krishnamoorthi

Thanks, Markus. Good afternoon, everyone. I am glad to share some insights around growth and digital.

On slide 20, we would like to highlight some key strategic business initiatives to drive incremental profitable growth in our focus areas, Consumer and SME. Please refer to the left chart, which I will expand upon. In the context of digitalization trend, also after the Covid crisis, we continue to optimize our physical distribution network by reducing our branch network from 179 in 2019 to less than a 160 in 2021. We will also continue looking at resizing our branches and workforce to increase branch productivity and profitability. Our key focus in this retail channel is to offer high quality advisory services with redesigned and simplified processes to increase our share of wallet.
I would like you to refer to the second chart, which is in Digital. We will continue our aspirated efforts in launching best-in-class paperless origination with omni-channel experience in all countries. On second point, we also plan to extend our target segment with high income customers in Consumer. In SME we will sharpen our focus on small and micro businesses with a unique value proposition. We believe our efforts, together with strong digital marketing, will double our digital business next year within our focus areas.
Additionally, to the bottom of our chart, our existing digital loan engine will be improved and will act as a growth multiplier in driving B2B2C white label partnerships, point of sales lending and it will support our existing bank@work and remote advisory channels. We believe these alternative channels will enable us to generate most cost-effective customer acquisitions and more than compensate our declining footprint. We remain convinced that these distribution strategies and initiatives will serve our customers in better ways, will continue to transform our business model to drive profitable organic growth in the focus area for the Group.

With that I would be moving to slide 21. This page builds upon the last point on page 20, how our enhanced digital loan solutions, supported by a strong risk engine, act as a business multiplier and an enabler of various new plug and play channels to drive incremental growth, while remaining prudent with our risk appetite. Already today, customers love our unique end-to-end virtual branch experience in Croatia and one click mLoans in mobile banking app in Serbia. We will not only extend these to the other countries, but also launch digitally initiated loan origination by 2021 in all our countries where regulatory restrictions, at least for the time being, do not allow end-to-end digital processing. Furthermore, we are working on launching a new consumer point of sale product throughout our region with new partners next year which would enable us to generate customer acquisition more cost efficient and to provide up-selling opportunities based on customer profile and their behavior. Last but not the least, our existing open API infrastructure capabilities will enable us to create white label loan solutions for partners and thereby enable them to offer our loans to the customers in the next years.

Moving to slide number 22. All of this distribution transformation is enabled by our modern IT infrastructure, which is captured on slide 22. Our key technology focus areas are to optimize our system and processes, standardize our experience and scale our capabilities. The good thing is our key IT infrastructure is already up and running with most of the investment needed has already been done in the last years. Which means now it is key to leverage on the existing platform and optimize. So, what it essentially means in the next 12 to 18 months, in the core layer, we will focus on further optimizing our core banking systems across countries in the readily built core layer. And we will continue to descale and optimize our vendors and automate processes to generate an operational expense savings in the amount of €3 million already for the year 2021 and beyond. The innovation layer is more of an open banking layer enabling the core layer to interact with various compliance and risk engines and fintechs and customer-experience platforms. As previously mentioned, within the next month we plan to connect point of sale partners, lending platforms and other revenue generating services of our customers through this layer, with a clear ambition to multiply our business opportunities. Last but not the least, we are also standardizing the experience and analytical layer, which will help us to launch e-banking and loan origination platforms in a more efficient way, with one customer experience across all channels and countries and with one process value change. This one-for-all approach enables us to drive down CAPEX by €6 million already in 2021. In parallel, we will continue to work on enhancing analytical capabilities to calibrate the optimal customer experience and identify revenue potential.

To recap, the lion share of investments in our IT infrastructure is already behind us, and our long-term IT strategy is built up upon the following:

1. Simplification of processes.
2. Harmonization and optimization of existing IT systems and vendors.

3. Standardization of omni-channel experience across countries of operation.
4. Enabling innovative solution with short time to market and growth multipliers.

The goal is to make customers' lives easier with simple products, convenient processes, and thereby provide value, enabled by lean and effective technology.

So, moving to slide 23, we want to show you the key digital transformation in practice in the context of the current global crisis. We are seeing a change in the customer behavior with more and more customers moving towards digital channels. Our teams have already used the last months in pushing digital activation of customers to the campaign. As a consequence, the number of digital users continued to grow by 13% on year end 2019, and now reaching to 233 thousand digital users while digital origination of consumer loans stands at 11% at the end of Q3 2020. On the SME front, automated lending using simple loan digital platform, this has been contributing in Serbia and Slovenia with 12% year to date. To summarize, digital transformation is more important than ever, especially in the times of lockdown and economic uncertainties. And we are amplifying our efforts to improve our digital value proposition. We believe this is key to provide a strong differentiation to other players that are active in our region. And now, I would like to hand over to Csongor.

Csongor Nemeth

Thank you, Ganesh. On slide 24, I would like to just draw your attention to the key next steps that we as a Management Board and myself as CEO have in front of our eyes and our hands full. With regards to growth, we do our best and we do everything possible to return to the growth path in our focus businesses, leveraging the digital capabilities that Ganesh just elaborated on. And we are in the process and we continuously do enhance our risk decision engine while we have still the motto: Sustainability comes first, and asset quality containment is of the highest importance.

With regards to cost, we will continue to implement the earmarked cost reduction programs and we will also streamline our platform and digitalize both internal and external processes further.

And as to the capital, we are committed to as a Management Team to obtain the conditional approval at the AGM on the 27th of November for the 2019 dividend payment. We will do everything possible to achieve a level playing field regarding the SREP ratios of Addiko by the ECB in the next 12 months.
And also, we remain clearly committed and optimistic with regards to obtaining an updated MREL decision by the SRB no later than the end of the first quarter 2021. And that one will be based on what we have communicated to you and the markets already, not on a

	single point of entry, but a multiple point of entry with most likely single point Croatia. Without further ado, I would like to close the presentation and open the floor to questions.
Operator	Thank you very much. And so we begin with our question and answer session. If you are on the conference call and have a question for our speakers, you can press, dial 01 on your telephone keypad now to enter the queue. Once your name has been announced, you can ask a question. If you find that your question is answered before it is your turn to speak, you can simply dial 02 to cancel your question. If you are using speaker equipment today, please remember to lift the handset before making your selection. Additionally, if you are participating via the audio webcast, you can write your questions via the Q & A function of the webcast by pressing the question mark button. Please do stand by as we wait for the first question to come in. And our first question comes in from Simon Nellis of Citi. Please go ahead.
Simon Nellis	Hi, gentlemen, thanks for the call. My first question would be just on the €15 million of efficiency gains that you are targeting, I think, for the next two years. What kind of costs will you have to incur upfront? Are you planning on taking any restructuring charges in the fourth quarter to achieve those gains? And what does that mean for cost growth going forward? I guess what is the underlying cost growth excluding those gains? That would be my first question. I can go one by one or give them all, it is up to you. Shall we go one by one?
Csongor Nemeth	As you wish, hi Simon. We are taking notes, so you can ask all the questions and then we take them in order.
Simon Nellis	Yes, my next one would be just on loan growth. Can you just give us an idea of what you think loan growth might be next year, given that you are seeing kind of improving production? You mentioned the risk weight assets reduction plans, but they seem to be a bit of a contingency. Can you just elaborate on that? And then a question on provisioning. It sounds like you are going to be changing your macro forecasts on the positive side. So, I am surprised that you still have 150 basis points maximum risk cost guidance. Should it be substantially lower if your macro forecasts are actually improving and you have not reflected that yet? That would suggest that you will have an improvement, a reduction of your IFRS overlay to your macro forecasts. And then on top of that underlying cost risk seems to be pretty good. I will leave it there.

Csongor Nemeth	OK. Thank you. I will take the first one and Markus should jump in with the others. With regards to the €15 million, so it is basically, this is compared to the €175, below slightly of €175 number that we are confident of reaching for 2020. And we also have to take into account that the bonus pool, that it was roughly in the past few years between the €6 and €8 million range has not been accrued for this year. So with regards to the aim of the Board and myself is to make sure that we identify at least 15 - and we have identified at least €15 million - to be executed by the end of, including 2022, with the aim of at least half of which should serve as a room for establishing a bonus pool that in any sustainable organization, and a sales-driven organization, we believe that must be there.
Markus Krause	Simon, I will take the second question on the loan growth. We are, as I said, currently in the budgeting process from which we again derive then also the mid-term guidance. So, we will inform the markets relatively soon. So plan is in December, latest in January, coming with the adjusted mid-term guidance, which will then also contain the loan growth development, and also reflecting then the risk-weighted asset development, according to our fine tuning of our strategy in that sense and how fast we will accelerate this in the different sub-business lines like Consumer, SME and also a reduction of the non-focus. Then you had a question on the provisioning. Why we still then budget or why we give that outlook of 1.5%. The main impact why this is comparable height, so still one third, we have now 1% roughly. And one third, would that mean it is coming in the fourth quarter only? That is caused by the moratoria situation since most moratoria expire now during October. And from individual client assessments also what we see where it might be harder for certain clients, we see then if they will migrate still during this year into non-performing. And on the other hand, the macro parameters is rather a positive effect, as you rightly said. So, we do a prudent approach here with the 1.5% as I said, as a maximum. So, of course, we hope to be better. But that means also then whatever happens now will not come next year and vice versa. So, this is actually a balancing impact for the years 2020 and 2021.
Csongor Nemeth	And I think I forgot to answer your question, Simon, with regards to the fourth quarter, any restructuring costs bookings. That is currently being reviewed. We are committing ourselves and are fully committed to the guidance that we have provided with regards to the financials for year-end 2020. And if required and needed, then the adequate provisioning of such restructuring programs will be done already, or some of it will be done in the fourth quarter.
Simon Nellis	Okay. And just on the lending, I mean, I realize that you are still budgeting for next year. But do you think you would return to growth in your focus segments? And I guess given that the macro is

	looking reasonably okay. Is that your general assumption? I don't need a number. Just whether you think you will actually grow the loan book? Or not.
Csongor Nemeth	I think you might appreciate a number. We are not providing a number. And we do believe that we should return to growth in our focus segments. Yes.
Simon Nellis	Right. And then maybe just one last question for your new member, Ganesh. We have not met. Hi. I would just be interested in knowing... you obviously had a lot of experience at easybank - what do you think having, I guess, recently joined, you think are easy wins in terms of the digital strategy that you can kind of effect reasonably quickly? And how might that impact the financials of the next year or two?
Ganesh Krishnamoorthi	Yes. Thank you, Simon. This is Ganesh. I believe, you know, when I look at the market, it is still a greenfield in the digital space, and I believe we have significant opportunities. As I mentioned we have already the digital infrastructure in place. So, all we need is to make sure that we have the right end-to-end digital origination in all the markets. And that is exactly what we are activating, as I mentioned in our presentation. That would really help us to double the digital growth. And so that is just the first win. And as I mentioned on the IT sessions, obviously on the way how we organize ourselves and the way how we execute on the digital strategy would be a complete difference to what we did before and would save us a CAPEX of €6 million there. And the last but not the least, there is a huge opportunity in harmonizing some of the IT vendors. And that would give us an OPEX savings of €3 million. So, these are just the quick wins, which will help us to accelerate. And to answer the question on the growth side, which you asked before. Also, we really believe that we will go back to the growth on the key segments.
Simon Nellis	Thank you. Thanks very much.
Csongor Nemeth	Thank you, Simon.
Operator	Next on the line, we have Jovan Sikimic of RCB. Please go right ahead.
Jovan Sikimic	Hello guys. Can you hear me?
Csongor Nemeth	Yes, Jovan. Hi.

Jovan Sikimic	Thank you very much. Thanks. Thank you for the call. I have two, three questions. First of all: Were there any non-recurring elements in fee commission in the third quarter? Then, exactly, I mean, given the fact that you now have a clearer view on 2021 macro outlook, which has been upgraded as far as I realize, can you also provide your indication maybe on the cost of risk for next year? And the last one, if you can just tell us a little bit who is taking new loans, particularly in your focus segment, in, let's take Croatia, Serbia, Slovenia as the main markets. and how is the competition doing in that segment let's say this week, this month? Thank you.
Markus Krause	Starting with the net commission income, Markus speaking, there are no non-recurring elements. So, everything is regular business. So, the improvement was actually just caused by that the business came back after the by lockdown heavily impacted second quarter. The second question is on the cost of risk and the macros - macros I think I tried to explain - cost of risk will be part of the mid-term guidance for next year. So, you will anyways learn that very soon.
Csongor Nemeth	Correct. And the last one is competition. I think, with regards to the Consumer and SME, it is not the competition that we were worried about in the third quarter, it is basically trying to ensure that we maintain our prudent risk approach by selecting those customers where we believe the support of new financing should be given. I hope we have answered your question.
Jovan Sikimic	Yes, yes, more or less. Just to have a bit of kind of color what, what, how is the situation. So, you are heading back with these new loans, let's say, the majority of them are new clients, right? Or not? For SMEs and Consumer.
Csongor Nemeth	There is a mix. There is new lending to existing customers as well as new-to-Addiko customers.
Jovan Sikimic	Okay. And maybe the last one also on the cost of risk. I mean, what is your view? What is the normalized cost to risk for SME and consumer loans, without any Covid, just normalized over the cycle?
Csongor Nemeth	So, let's imagine a world without Covid.
Markus Krause	I think one of the first guidances we gave you is exactly what is 1.5% was on a net loan basis, the original mid-term guidance before the Covid situation started. This is actually also what - I think we would be better now, a little bit - it is very hard to say, actually, what is now the contribution of the moratoria 100%. You cannot make that

	100% judge on an individual case. Is that now just because of 100% a Covid situation or not? You know, there can be also the regular impairments. So, I would say, this year it would be a little bit lower than the 1.5%. But in general, the mid-term guidance we have given there is a quite reliable one, as a normalized.
Jovan Sikimic	It is across the bank, right, across all portfolios?
Markus Krause	That is across the bank, of course, yes, yes. All portfolios. Focus, non-focus, everything together.
Jovan Sikimic	And for focus segment you don't give any kind of indication or guidance or whatever? What’s your view on let's say normalized cost of risk?
Markus Krause	You know, the focus segment takes the biggest share of this cost of risk. Around 80 - 85% is roughly the share of the cost of risk coming out of the focus segment. So roughly, take this as a guidance. If you weight them with exposure, you can come up to a certain number.
Jovan Sikimic	Okay. Thank you. Thank you, guys.
Csongor Nemeth	Thanks, Jovan.
Operator	The next on the line is Mladen Dodig of Erste Group. Please go right ahead.
Mladen Dodig	Good afternoon, gentlemen. Thank you for the call. And I think I may congratulate you on the results and also to Vienna Institute for taking a more reasonable forecast, if you allow me. Just to confirm that I understood correctly. So, for cost reduction of €15 million for the next two years. This is on, compared to this amount that is expected in 2020, €175 million, right?
Csongor Nemeth	Yes. But before I answer that question once again, I would like to just say that we appreciate your opening remarks of the performance and also we are fully happy to receive that update from the Vienna Institute. Of course, I have to make the caveat that with every single forecast that one has, with the situation it can change up and down. And we are living and dealing with, in an agile environment with all the facts and figures. But whatever is thrown at us, we seem to be dealing with it to the best of our ability. And

	the answer to your question is: Yes, it is compared to the €175 million.
Mladen Dodig	Okay. Thank you. And regarding the guidance of maximum 1.5% from the risk costs. So that should be with the renewed guidance of €3.6 billion for the gross performing debt should translate in a risk cost of, say, €50 to €50-something million. Am I right?
Markus Krause	Very good calculation.
Csongor Nemeth	We like the calculation.
Mladen Dodig	No, but I just wanted to be sure that I am taking the proper numbers into the view. And yes, if you might say just something on the yield side. So, in the presentation, the consumer yield side is slightly better. But just if you can maybe give us some more color on that one also.
Csongor Nemeth	This is actually in the presentation we provided on slide 34 on the right-hand side. The usual quarterly update that we have had in the previous quarters as well. And you can see that in terms of new business, in Consumer, it has improved compared to last year's 7.4% to 7.5% and basically has remained stable for SME.
Mladen Dodig	And onwards, how do you see the developments?
Csongor Nemeth	With regards to our continued focus on smaller tickets in SME, and basically the small-small businesses, we hope to achieve better margins. Maybe at lower volumes overall because of the smaller ticket sizes, but better margins. And with regards to Consumer, Ganesh, if you want to add anything?
Ganesh Krishnamoorthi	Yes, on Consumer, we would like to keep it as constant as much as we can. We are really going after, as I mentioned, also a more higher income customer base. So, we will have a risk-based value proposition overall in the market. But ideally like to keep it constant.
Mladen Dodig	Okay, Thank you. That's all from my side. Thank you once again.
Csongor Nemeth	Many thanks, Mladen.

Operator	Thank you very much. At this point, there are no further questions from the conference call, and so I will return the floor to the Addiko team for potentially questions from the webcast.
Csongor Nemeth	We have received - because Anna Marshall from Goldman couldn't join us today in the call. But she has sent us the questions, which I would like to propose that I read out the question or Markus should read out the question, which we have split amongst us. So, her first question was a clarification regarding the 2019 dividend payout. Does the statement of ours in the presentation constitute the actual proposal for the AGM unchanged versus the original proposed €40 million, or is it yet to be formalized? Would there be any other conditions attached apart from the removal of regulatory restrictions? Here, the answer would be: No, we are sticking to our original guidance for 2019 profit-related dividends of €40 million. The actual conditions that can be, is the ban being lifted or the recommendation/ban being lifted by the ECB, as well as Addiko fulfilling all of its capital requirements for year end 2020 as well, which we are very confident we will do.
Markus Krause	Second question is from her related to the asset quality: What are the drivers behind the narrow cost of risk outlook for 2020? Are these improved macro projections or anything else? Are there implications for the potential dynamics for the cost of risk next year? And what are assumptions regarding the second wave impacts and/or moratoria extensions are factored in? I think many of these questions came already. Just to summarize very briefly, there are these two components on one hand side, post-moratorium migrations to be expected still in the fourth quarter. On the other hand, the improved macro parameters from the Vienna Institute compared to what we implemented by mid of the year have a compensating impact. And with the mid-term guidance and the update of our five-year plan, we will of course then consider the development until the last minute. What will happen in 2020 and what is the implication on year 2021. And the second wave impact is actually exactly something which will be reflected then also in next year, which we will communicate then in the mid-term guidance, the updated one. Third question on the core revenues in 2020. She likes to have a clarification regarding the higher gross loan expectations. But an unchanged net banking income guidance. Please, are there

	differences in lending mix versus the previous guidance or more pronounced spread pressures? Here, the situation is that this hundred million higher loan book compared to the previous mid-term guidance still leaves the range of 7-10% we were saying of net banking income lower than previous year. So, it is within that that range. We improved the disbursements also, as it has been mentioned also by Ganesh and Csongor, which we are seeing now in the fourth quarter, also due to the adjustment of our policies. That is actually all in that 7-10%. It will have rather more positive impact than on the following year, 2021. Then the last question from Anna is on the costs. How is the €15 million cost savings going to be spread to 2021 and 2022? Are there any further related charges to be booked this year? Simon was asking already a similar question. For that reason, I think there is no need to repeat it once more. These were the questions. So, if there are any further questions, please let us know.
Edgar Flaggl	Well, operator, we have no questions on the webcast, so we would hand back over to you. If there is any further question.
Operator	Yes, Sir. We do have one question again from Mr. Simon Nellis once again from Citi. Please go ahead.
Simon Nellis	Oh, hi. Yeah, just one other follow up question. I see that the funding costs have come down nicely, pretty steadily. Do you expect further reduction going forward, or have you kind of reached the limit in terms of funding costs decline? Thanks.
Csongor Nemeth	There might be still but very, very small adjustments downwards. This is what we are expecting, but unfortunately or fortunately, nothing major.
Simon Nellis	Right. OK. That's all for me. Thanks.
Csongor Nemeth	Thank you, Simon.
Operator	And now, currently, no further questions in the conference call portion.

Csongor Nemeth	Well, then from our side, I would just like to say a big thank you for taking interest in our third quarter earnings. I think we have laid out a very strong third quarter and have given you guidance with regards to everything that we have on our agenda for the next months and hopefully years. And I just wish you all to stay well and stay positive. Thank you very much.
Operator	Ladies and gentlemen, thank you very much for your attendance. This call has been concluded and you may now disconnect.