

# Addiko Bank

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## Addiko Group 1H24 Results: Webcast Transcription

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**Speakers:**

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Edgar Flagggl (CFO)

Tadej Krašovec (CRO)

Ganesh Krishnamoorthi (CMO & CIO)

Constantin Gussich (Investor Relations)

Herbert Juranek

Good afternoon, ladies and gentlemen. I would like to welcome you to the presentation of the Half Year Results 2024 of Addiko Bank, together with my colleagues, Ganesh, Edgar, Tadej and Constantin. Let me show you the today's agenda.

In the beginning, I will present to you the key highlights of our results and give you the status of the recent events, including its implications on the Outlook for 2024. Ganesh will continue with our achievements on the business side. After that, Edgar will give you more insight on our financial performance, and Tadej will inform you about the progress in the risk area. Finally, I will do a quick wrap-up before we move on to Q&A.

So, let's start with a positive note. We are happy that we were successful in improving our results in the first half of 2024. Our net profit went up by 31% year on year from €19.5 million to €25.5 million. This leads to €1.32 earnings per share in the first half of the year.

The return on average tangible equity went up from 5.4% in the first half of 2023 to 6.6% this year. Our operating result improved by 9% year on year to €54 million, influenced by inflationary impacts on the expense side as well as extraordinary costs related to the current shareholder activities. Without these one-off costs, the operating result would have increased by 15%.

The business development in the Consumer segment was significantly better than planned in the first half of the year, while the SME business growth slowed down influenced by market factors. However, the net interest income increased by 11.5% year on year, despite higher funding costs, and our net commission income grew by 8.4%, based on good sales performance.

Now let's look at the risk side. Our cost of risk remained benign at €15.5 million, or 44 basis points. The NPE volume was again reduced to €137 million, after €146 million at the end of the first quarter. Consequently, our NPE ratio on on-balance loans stays again at 2.8% at the end of June. Our NPE coverage ratio stands at comfortable 80.7%.

The funding situation remained strong, with €5 billion deposits, a loan-to-deposit ratio of 70% and a liquidity coverage ratio of above 350%. And last but not least, our capital position is also very strong with a 20.4% fully loaded CET1 ratio. We would like to inform you that we had already the SREP dialogue with ECB and that there are no changes foreseen for the year 2025, neither for our P2R and nor for our P2G.

Now let's look at the recent developments on the shareholder side. As you are well aware, Agri Europe Cyprus placed a partial takeover offer to acquire additionally up to 17% of Addiko's share capital at a price of €16.24 per share cum dividend. In parallel, Nova Ljubljanska banka submitted a takeover offer to acquire control of the company with an acceptance threshold of at least 75% of the share capital. On 22 July, NLB increased their offer price to €22

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cum dividend. The acceptance period of both offers will end on 16 August at 5:00 PM, Vienna time.

The Management and the Supervisory Board of Addiko took a neutral stance on the partial takeover offer of Agri Europe Cyprus and on the first version of the takeover offer of NLB. However, after reviewing the improved offer of NLB, the Management and the Supervisory Board decided to issue a recommendation for this offer, while highlighting the potential prospect of success given the 75% threshold.

Nevertheless, the Management Board of Addiko decided today to act congruently with the recommendation given to the shareholders concerning our personally held shares. In this context, we consider it decisive how Alta Pay Group will deal with their shares and with their option contracts.

We have received calls from many shareholders wishing for more transparency, especially as Alta has withdrawn their requests to the regulator not to object their acquisition of a qualified holding of at least 10% in Addiko Bank AG. As already disclosed, we have therefore sent a letter to Alta Pay Group to ask for clarification on their stance concerning the offers. In the meantime, Alta Pay Group provided us with an answer letter. Unfortunately, it did not bring more clarification to the question.

Overall, I can state that we as the management are quite occupied with work arising from the situation. Of course, we will do our best to act in the interest of all our shareholders and in line with rules and regulations. The offers require also professional external support, which leads altogether to extraordinary expenses amounting to €2.9 million as of the end of June 2024. These unforeseeable costs also impact the results of the first half of the year. Let's look at our assumptions going forward.

We would like to give you an update, how our outlook for 2024 might be affected by the implications caused by the takeover offers. As the costs related to the takeover offers could not be predicted, they were not included in the guidance.

Given the 75% threshold of the NLB offer and the beforehand mentioned unclear situation with a significant amount of Addiko shares locked up in long-dated option contracts, it is uncertain if the NLB offer will be successful, which we reflected in our forecast.

Based on this scenario, we expect that our operational expenditures for the full year 2024 will increase from below €191 million to below €195 million. Consequently, the return on average tangible equity needs to be adjusted as well from circa 6.5% to circa 6%.

As we are currently confronted with a muted demand in our Micro and Small SME business, we see a lower than expected growth in this segment in 2024. Nevertheless, we remain confident to find ways to return towards our projected mid-term loan growth of more

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than 6% compound average growth ratio from 2023 to 2026. Ganesh will come back to that in his part.

As mentioned before, in case of a successful offer by NLB, the related one-off costs could go up to a high single-digit euro million amount, caused by potential additional transaction costs.

Now, let me give you the status of our Acceleration Program. Our Acceleration Program is the key engine to push improvements of the bank. Therefore, I would like to give you more background of the achievements in the first half of the year and the outlook for the remaining part of 2024 for each pillar of the program.

Let's start with business. The initiatives of the program further strengthened our capabilities in the Consumer business, and consequently enabled a 26% increase in disbursements via our partnership network. Over and above, a 31% growth in Consumer lending could be achieved in the first half of 2024 compared to the last year.

We also launched a series of new products in the SME segment, from auto-overdraft to bancassurance, and we will continue with additional innovations to compensate the slowdown of demand in the Micro and Small segment. Moreover, we will take a special focus to further improve our mobile banking applications, and we will start with business in the Romanian market towards the end of the year.

Now, let's come to the positive development in the operational excellence and digital cluster. We successfully launched new digital end-to-end capabilities in Croatia, Slovenia and Serbia. In addition, many processes were optimised using the Kaizen approach to improve customer convenience and to increase efficiency. For instance, our onboarding time could be significantly further reduced. Altogether, these initiatives enabled us to grow our digital business by 9% in the first half of the year.

So accordingly, we will continue with our efforts to enable end-to-end services in all key countries and to finish the automation of our key processes in 2024. The completion of this exercise shall give us the opportunity to increase efficiency and to improve our cost base for 2025.

Initiatives in the third chapter, best-in-class risk management were also quite successful. The new risk reporting platform is fully functional across the group including deep-dive and pattern analytics. This altogether enables us to control and to steer our exposures much more effectively.

Moreover, we optimised our collection processes and managed to keep our non-performing exposure at the historic low of 2.8% reached at year-end 2023. Of course, we will continue the path in the second half of 2024 to strive for excellence, to further improve our risk management platform, to increase efficiency, effectiveness and, most importantly, also portfolio quality.

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So, in summary, we believe that the Acceleration Program will bring us closer to our ambition to be the best specialist bank for Consumers and SMEs in Southeast Europe.

With that, I would like to close here and pass on to Ganesh to tell you more about our achievements and our plans on the business side.

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**Ganesh Krishnamoorthi**

Thank you, Herbert. Good afternoon, everyone.

Moving to page seven, 2024 has been an exceptional year for Consumer lending so far. The market is growing rapidly, and we have outperformed it with 31% year-over-year increase in new business generation. As a result, our Consumer loan book has grown by 12% with an impressive yield of 8%.

On the SME side, demand has been muted due to anticipated rate cuts. Additionally, we adopted a cautious approach in certain markets and industries focusing on quality business with lower ticket size and higher yield premiums. This resulted in a yield of 6% and an 8% loan book growth in Micro and Small segment. We also reduced our Medium business segment by 17% to further reduce concentration risk.

Overall, our focus loan book grew by 8%, or 11% excluding the Medium SME segment, with a total blended yield of 6.7%, up from 6.1% last year. This focus book now represents 88% of our total loan book portfolio.

Please, let's turn to page eight for a detailed outlook. Diving deep into Consumer segment, our strong growth can be attributed to several factors. Number one, excellent market demand. Number two, expanded partnerships. We extended our reach through 556 partnerships across 1,100 locations. Our new partnership business launch in Bosnia and Herzegovina and a new concept in Croatia is expected to drive further growth.

Number three, improved cross-selling. Enhanced cross-selling efforts have boosted our revenue by directing new customers from partnership to high-value Consumer loans.

Number four, effective marketing. Oskar has effectively communicated our brand message emphasising digital capabilities, and this has resulted an impressive 93% brand recall.

Number five, digital expansion. Launching branchless digital lending in three key markets this year has led to incremental growth, which we will further extend to other markets.

Number six, focus on non-lending products. Product feature improvements in cards have resulted in an 18% increase in net commission income.

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Number seven, innovative products. Introducing ID-only loans in Bosnia and Herzegovina has driven growth with subsequent upselling.

Overall, we have consistently focused on driving growth by targeting digital-savvy customers and point-of-sale segments with lower-ticket and high-priced loans. As a result, we are seeing a strong performance in Consumer business with 31% year-over-year growth.

Now, shifting our focus to SMEs, our core business model remains the same. We are the fastest unsecured lending provider of low-ticket loans to underserved Micro and Small segments through our digital agent platform. However, we are encountering a few challenges that we are addressing.

Number one, demand is currently muted, as prices remain high for new Micro clients. Number two, existing clients need additional financing to further grow their businesses, which in turn increases their exposures. To address this, we'll also focus on offering secured loans with a slightly higher ticket size to both existing and new customers with simple collateral requirements.

Our key USP remains the same, it is the same product as well, a faster and more convenient service than our competitors in secured lending for selected customers. We believe this will help us maintain our existing customer relationship and balance demand and risk better.

Furthermore, we aim to improve our core competitiveness by reducing time to cash and increasing our online presence through a simplified user experience. We also plan to grow our customer base with new products such as auto-overdraft and key-man insurance, enriching our SME ecosystems and revenue streams. Overall, we believe these additional measures and focus will help us to grow our SME business in the next quarters.

Going forward, in the second half of the year our main focus will be enhancing our engagement with new mobile applications in both segments. These mobile applications will introduce a new way of engaging customers without the need for a current account in Addiko.

On the innovation side, we have started piloting Copilot and other AI tools to support automation, programming and various other use cases. This quarter, we'll be launching an internal AI chatbot to assist employees in HR functions and customer complaint resolutions. We believe in AI's pivotal role in banking and are exploring and testing various use cases to drive innovation and efficiency.

Lastly, we are excited about our upcoming launch in Romania towards the end of this year. This will bring our digital end-to-end engine to a new geographical footprint, thereby giving us access to

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a larger market and allowing us to scale our business model to further drive growth.

To summarise, we are well positioned to deliver strong, sustainable growth in the future as we continue to innovate and solidify our specialist position in Consumer and SME space.

With that, please let me hand over to Edgar.

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**Edgar Flagg**

Many thanks, Ganesh, and hi everybody.

Starting on page ten and the composition of our result for the first half 2024. I would say quite an eventful quarter overall, while our financial performance further improved. Net interest income continued the positive trend and improved 11.5% year over year, despite deposit funding costs being up 67% compared to the previous year, as expected.

Compared to the first quarter, NII further improved, which is also reflected in the higher NIM, now standing at an all-time high of almost 4% during the second quarter and 395 basis points year to date.

The key drivers are twofold. First, our main revenue driver, the interest income, improved by 20% year over year. This was driven by our focus segments, which, in fact, recorded a 20% year-over-year increase in interest income, and that on the back of continued execution of our strategy while balancing growth with premium pricing and the contribution from treasury and liquidity management. Now, reaching 88% of our book in higher yielding focus loans, compared to 85% a year earlier, also fuelled this development, and we remain on track to exceed 90% this year.

A few words on interest expenses, which are broadly in line with our expectations. With 134 basis points, we are above the 126 basis points we had in the first quarter, which is mainly driven by our decision to keep more liquidity on holding level. In our banking network, the funding costs stopped increasing, and in some countries have already started to slightly go down.

Second, the net commission income, which continued the path of increase and is up 8.4% year over year, and even 9.3% compared to the previous quarter. Ganesh and his team are on it to continue on a growth path in NCI.

All this led to a further improvement of net banking income with an increase of 10.8% year over year.

Now to the other income, which comprises the net result on financial instruments and the other operating result. The year-over-year development can be called relatively stable and is in line with normal course of business. Higher bank levies, as well as the newly introduced special banking tax in Slovenia, is reflected here as well, which is the main driver for the change year-over-year.

Next, to general administrative expenses, in short, OPEX, which increased by 11.6% year-over-year. However, this is mainly influenced by unforeseen one-off costs related to the takeover offers of €2.9 million, while we managed to contain higher inflationary increases. Without that, we would have landed at an OPEX slightly better than our plan. As already explained during the first quarter call, these one-off costs influence our guidance for the full year 2024, which Herbert mentioned already.

Our resulting cost-income ratio stood at 62.2% for the first six months and, adjusted for the one-off costs, at 60.4% year to date.

To sum up, the operating result, which is a good measure of our operational earnings power, was up 8.9% year-over-year, or even 14.7% when excluding these one-off costs.

The next item is the other result, which includes costs for legal claims, as well as for operational banking risks, following our prudent approach. As you can see, after the benign first quarter, also nothing out of the ordinary during the second quarter of this year. We are on the path of getting closer to a more normalised run rate here.

Now on credit loss expenses, which, in short, have also remained benign. Tadej will provide more insights in a moment.

Briefly, on the tax line, the second quarter was higher due to 1.1 million of withholding taxes on dividends that we have received from our non-EU entities.

To conclude, a good result on the back of the ongoing momentum in the top line, continued cost containment and prudent risk management. This enabled us to achieve a net profit of 25.5 million, which is up almost 31% year over year and corresponds to a 6.6% annualised return on average tangible equity. Without the mentioned one-off costs, our net profit would have even been up 45.4% year-over-year at a ROTE of 7.3%.

Briefly over to page 11, which illustrates our very comfortable capital position. At the end of the first half of the year 2024, our capital ratio landed at a strong 20.4% fully loaded, and all of that in CET1. And that is excluding interim profit and accrued dividends. As Herbert already mentioned, we expect no changes in P2R and P2G to be valid for the year 2025.

To summarise, our tanks are full, or, in the spirit of sustainability, the batteries are fully charged for continued growth.

And with that, let me hand over to Tadej.

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**Tadej Krašovec**

Thank you, Edgar, and good afternoon, everyone.

In the first half of 2024, our overall portfolio quality remained strong, but we had to deal with a couple of specific credit risk quality deviations I would like to turn to a bit later. As you can see



on the left-hand-side chart, we have successfully decreased NPE portfolio to €137 million in the second quarter, reducing NPE ratio to 2.8% which is slightly better than what we had planned for this period. That means improvement from €146 million of NPEs in the first quarter when, as you might remember, our NPE ratio was slightly above our expectations.

At the same time, even though we have proactive stance on portfolio sales and write-offs, we have kept the NPE coverage at a prominent level of 80.7%. In that respect, we are keeping our prudent approach regarding individual client provisions.

In the second quarter, 21.4 million exposure entered NPE, as we can see in the right-hand-side chart. This is on the level as in the same quarter of the previous year. However, we were more successful in reducing our existing NPEs, resulting in net NPE decrease of €9.7 million.

Now, coming to specific credit risk quality deviations mentioned at the beginning. As already indicated in the call for the first quarter, we have experienced some portfolio worsening in SME in Serbia that initially we didn't expect. Majority of issues arose from two larger, that is, around €2 million tickets from the legacy portfolio. Both are from the agriculture industry, which is particularly under pressure due to broader industry developments. This means we needed to execute also a few restructurings which, however, did not result in NPE inflows.

We are closely following development of individual larger exposed clients and we are monitoring if any further restructurings are needed on top of risk restrictions we have introduced already in 2023 and some that we have added two months ago.

The second topic is higher NPE inflow in Consumer segment in Slovenia as a result of business and risk tests that we are regularly executing. We have also introduced risk limitations, where needed, to curb the inflow, and we are already observing improvements on the back of these actions. Let's now move to the next slide, where I will present loan loss provisions.

Credit loss expenses in the first half of 2024 amounted to €15.5 million. This resulted in a cost of risk of 0.44%, a performance better than anticipated. At the same time, we increased the post-model adjustment in accordance with our model from €6.5 million to €9.3 million. As usual, provisions were released in the non-focus segment resulting in a positive cost of risk of 0.20%, and allocated in the focus segments, with a negative cost of risk of approximately 0.32%.

To conclude, from the risk behaviour and the risk quality perspective, we are solidly on track. We see negative deviations in SME portfolio in Serbia, as explained before, and, in smaller level, in Consumer portfolio in Slovenia, where portfolio is already stabilised.

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The important focus will continue to be agriculture industry and Micro clients in Serbia, where I expect that the introduced risk limitations and individual case management will gradually lead us to improvement of the risk profile.

With that, I hand back to Herbert.

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**Herbert Juranek**

Thank you, Tadej. Let's move to the wrap-up. We have depicted the outlook figures for 2024 based on the assumptions presented before. In this context, I would like to highlight that despite the mentioned updates, we still see our dividend per share target feasible given the described scenario. If the underlying assumption would change, we would give you our updated view in our Q3 earnings call.

Fortunately, the forecast remains optimistic concerning the macroeconomic situation in Southeastern Europe. The Vienna Institute of Economic Studies predicts higher growth rates compared with the average of Europe. Consequently, we are convinced that the booming trend of our Consumer business will continue. We will also increase our efforts to support growth in our Micro and Small SME business by new innovations.

Therefore, we are assertive that we will catch up to deliver on the mid-term loan growth of approximately 6% compound average growth ratio until 2026. Nevertheless, we will not give up on our prudent risk approach. We will continue to balancing demand versus risk appetite as a priority over volume growth.

However, not to forget, we have also two takeover offers going on in parallel until 16 August. Whatever the outcome of this will be, we, the management of Addiko, are confident in our business model and in our team. Therefore, we are convinced that we will manage whatever the future will bring. We remain focused on leveraging our strengths, exploring new growth opportunities and continuing to deliver value to our shareholders, customers and employees.

With that, I would like to conclude the presentation. I would like to thank you for your attention. We are now ready for your questions.

Operator, back to you.

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**Operator (Q&A)**

We will now begin the question and answer session. Anyone who wishes to ask a question may press star and one on their touchtone telephone. You will hear a tone to confirm that you have entered the queue. If you wish to remove yourself from the question queue, you may press star and two.

Participants are requested to use only handsets while asking a question. If you participate via the audio webcast, you can write questions via the Q&A function on the webcast by pressing the question mark button. The first question comes from the line of Hugo Cruz, KBW. Please go ahead.

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**Hugo Cruz** Hi, hello. Thank you for the time. Just a couple of questions related to the two bids. First, have you seen any impact on your commercial activity, any slowdown caused by the two bids?

And second, did you receive any feedback from your regulators about the bids, particularly in Bosnia and Serbia? Thank you. And Croatia, obviously.

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**Herbert Juranek** Thank you, Hugo. Maybe on your second question, there was no direct feedback of the regulators in the mentioned countries to us on the takeover bids. What was the other question once again?

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**Hugo Cruz** Sorry. Just to understand if there was any impact in your commercial activity from the bids, potentially clients postponing any decisions because of the bids.

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**Herbert Juranek** No. So on that, there was no direct impact on our customer business that we could see so far. So especially given our customer segments, Consumer and Small SMEs, as we said beforehand. On the Consumer, we saw really good growth, better than expected. On the SME, there were certain effects, where we saw lower growth and lower demand, but this was not due to the takeover bids. This was based on other market factors.

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**Hugo Cruz** Okay. Thank you. Very helpful.

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**Operator** The next question comes from the line of Mladen Dodig, Erste Bank. Please go ahead.

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**Mladen Dodig** Good afternoon, gentlemen. Thank you for the time, for your call. Happy to hear from you again, as I was absent last time. I'm sorry for that. I have a couple of questions. First of all, congratulations on the continued good performance. I was wondering, this €2.9 million costs regarding the shareholders actions or takeovers. I guess some of this could be a secret, but can you provide us with some structure? What's in it?

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**Edgar Flagg** Sure. Hi, Mladen. This is Edgar speaking, and great to have you back this time on the call. Look, in terms of structure, as we have disclosed, we have a financial advisor that actually has advised us for several years in case situations like this would pop up. Then we also have disclosed that we got a fairness opinion issued on the NLB offer. And as customary in such processes, there is a lot of hours running through the desks of lawyers. And on top of that, in Austria by law you need an independent expert that needs to write a report and watch the whole process, etc., which in our case is PwC.

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So, if you take this all together, you get to the €2.9 million, including tax, of course. I will say the higher amount is related to the financial advisor and the fairness opinion, and then followed by our lawyers, Wolf Theiss, which is not a secret, this has been disclosed, and then PwC.

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**Mladen Dodig**

Okay. Thank you very much. Second question. Very nice Q-on-Q growth from fees and commissions. But is it sustainable, we will see more of it ahead?

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**Ganesh Krishnamoorthi**

Hi, this is Ganesh.

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**Mladen Dodig**

Hi.

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**Ganesh Krishnamoorthi**

Yes, absolutely. I think it's sustainable growth. We see a lot of support from the cards on the fee business going forward. And we also launched, as we mentioned, the SME new products, which are specifically driving fee growth. So, we will see the growth continuing, going in the next quarters.

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**Edgar Flagg**

Yes. But maybe just to add here to Ganesh, what Ganesh means is growth on a nominal basis, so if you get to a higher base. So don't expect 9% every quarter.

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**Mladen Dodig**

Of course.

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**Edgar Flagg**

That's just what I wanted to say.

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**Mladen Dodig**

Of course. And my third question is linked to the SME since we have seen the slowdown in growth in this part of the portfolio. And yes, it was explained, what measures have been undertaken to return on the path. But can you give us some more? Or maybe, just simply, do you expect that this will revive a bit, when, if the ECB cuts or the interest rates continue to go down, as is observed on some markets?

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**Ganesh Krishnamoorthi**

Yes. So, I think the first thing we expect when the ECB cuts will come, we also expect the growth of SMEs to go higher. So, this is an anticipation. So, we hope the whole interest environment changes, and which will drive the growth, number one.

Number two, we are also launching, as I mentioned before, a secured lending product for our existing customers and also new customers and have a specific USP there. And that will help us to also further grow the loan volumes there. And then we are tackling

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some particular countries and industries. We are looking at a turnaround there as well. So yes, we are focused there. We believe we can turn it around, but we will see.

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**Mladen Dodig**

Thank you very much. And final questions. If I saw correctly, you have increased the post-model provisions in this quarter while, on the other hand, pretty much most of the countries are recording challenging but improving, how should I say, outlooks. So could you explain a little bit more on this move, in particular, in the post-model provisions?

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**Tadej Krašovec**

Yes, absolutely. Tadej speaking here. Increase was from €6.5 million to €9.3 million. This was actually driven by additional PMA that we implemented, or part of that - half of that approximately - in Slovenia for the portfolios for which ECB required higher provision level. Since the models, since these are portfolios that are not in our portfolio for a long time, they wanted additional conservatism in this part.

The second, the other part of the increase of PMA is actually purely mathematical following the methodology that we used for the PMA calculation end of last year. And by applying this methodology that takes into account wiiw projections, PMA showed a bit a higher need. We will review these PMA levels when we update our internal IFRS 9 models in the third or the beginning of the fourth quarter.

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**Mladen Dodig**

Okay. Once again, thank you very much and all the best.

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**Ganesh Krishnamoorthi**

Thank you.

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**Edgar Flagg**

Thank you.

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**Hebert Juranek**

Thank you very much, Mladen.

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**Operator**

Ladies and gentlemen, that was the last question. I would now like to turn the conference back over to Constantin.

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**Constantin Gussich**

Thank you, operator. I do not have any questions on the webcast this time. Let me hand back to Herbert for closing remarks.

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**Hebert Juranek**

Thank you very much. I will do it shortly. Thank you for your attention. It was good to have you. And we see us again in the earnings call for Q3 in due course. Thank you very much.

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