Addiko Bank

# Addiko Group 1H19 Results: Webcast Transcription

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**Speakers:**
Razvan Munteanu (CEO)
Johannes Proksch (CFO)
Edgar Flaggl (Head of IR)

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| **Operator** | Dear ladies and gentlemen, welcome to the first half 2019 results call of Addiko Bank AG. At our customer's request, this conference will be recorded. As a reminder, all participants will be in a listen-only mode. After the presentation, there will be the opportunity to ask questions. If any participant has difficulties during the conference, please press * followed by 0 on your telephone for operator assistance. May I now hand you over to the Addiko team, who will lead you through this conference? Please go ahead. |
| **Edgar Flaggl** | Thank you, Operator, and welcome to everyone. This first half 2019 conference call will be hosted by our CEO, Razvan Munteanu, and our CFO, Johannes Proksch. They will guide you through the highlights of the results and open the floor for questions thereafter via the Operator, or online via the webcast Q&A function. Razvan. |
| **Razvan Munteanu** | Good afternoon, and welcome. It is a pleasure to host the first investors' call of Addiko Bank after our successful listing on the Vienna Stock Exchange one month ago. Once again, I am joined on this call by Johannes Proksch, the Group CFO, and Edgar Flaggl, our Head of Investors' Relations. During the call, we will share the latest developments; Johannes will provide the financial results for the first six months of '19 and the quarterly developments of our key metrics. For those of you we did not have the opportunity to meet during our Road Show prior to the listing, I will also provide a very short summary of Addiko's business model and strategic approach. At the end, we will open the floor for questions from the audience.<br><br>So let's get started, and I ask you to flip to Page 4 of your presentations. The most important highlight from the first half of 2019 is obviously the successful listing of Addiko Bank. It confirms the market's support to continue our strategy of specializing on consumer lending, payments and SME banking. The free float stands at approximately 55% following the successful exercise of the Greenshoe. Our result after tax for the first six months of '19 stands at EUR 20.2 million. If we consider the adjustments for extraordinary transformational items, which will be detailed a bit later by Johannes, the result after tax stands at EUR 28.5 million. This is approximately 44% better than the same period last year. Do keep in mind that the reported first half of 2018 was predominantly influenced by fair value recognitions of the Tier 2 conversion, with an extraordinary effect of EUR 61 million last year. Our financial foundations – liquidity, risk metrics, capital base – remain very strong, with a transitional CET1 ratio at 17.6%. Our strategy to focus on consumer unsecured lending and SME lending, and also maintaining a prudent risk approach, is reflected in the continued reduction of the NPE ratio to 4.6%, a very healthy coverage of over 73%. |

Please keep in mind that the effects of the CHF conversion law, which was enacted in Serbia in Q2, is fully reflected in these numbers.

A cornerstone of our strategy is a pragmatic digital approach. It allows us to grow in the focus area, while gradually reducing the expensive physical distribution. The number of e-banking and m-banking users in this context, increased to 191 thousand. The loans originated through digital channels are exceeding 8% in the first half of ’19, which is considerably up from 3.8% in ’18. The automated lending tool for SMEs was extended, towards the end of the first half, to Croatia, in addition to Serbia and Slovenia, which we rolled out in the second half of 2018. Nine percent of the SME loans have been originated through this automated tool in the first half of ’19 in Serbia and Slovenia. If you flip over to Page 5, I will update you on the most relevant financial metrics that we provided you guidance with.

First, the key driver of our strategy – on the top of the page – is the transformation of our book from non-focus to focus. This way, we release funding, capital, and we generate the earnings to grow in the focus area. The transformation of the book continues. We have reached 60% of the book in the focus area, up from 56% at the end of 2018. Next, the adjusted net interest margin progressed to 3%, up from 2.8% at the end of 2018. This is on track for our mid-term target of approximately 4%. We achieved a NIM progress by continued deposit repricing, liquidity optimization, as well as the shift of the loan book from non-focus to focus. The NCI grew by close to 9% compared to the same period last year. The adjusted cost income ratio, it improved from 76.6% to 78.1%. With further cost optimization measures that we initiated at the beginning of the year will be completed in the second half of the year – Johannes again will provide you with some insight on this. As a consequence of these improvements in all key parameters, the return on tangible equity improved to 8.2%, up from 4.2% at the end of 2018. This is on an adjusted basis.

For those of you we did not have the pleasure to meet during the sessions preceding the listing, let me remind you of the main strategic aspects of Addiko Bank. Please go to Page 7. Addiko Bank operates in five markets: Croatia, Slovenia, Serbia, Bosnia and Montenegro. We are regulated in Austria, where we have a full banking license, and where we run a limited online deposit taking business. The bank is the result of the good bank of former Hypo Alpe Adria Bank being spun off. Since late 2015, we are transforming from a universal bank into a focused player delivering straightforward banking to consumers and SMEs. We serve approximately 800 thousand customers, through 196 branches, and we gradually add digital solutions to improve the convenience and efficiency of our services.

Our approach to digital is very pragmatic: we take solutions that work elsewhere in the region, and bring them over to our markets, often through a plug-and-play approach from third-party providers or Fintechs. Our financial fundamentals are very strong, as I indicated earlier, liquidity, risk metrics, EUR 849 million of equity, the capital in its entirety as CET1.

If you move to Page 8, you can see the strategy illustrated in the structure of our book. The business model we implement revolves around transforming the part of our book related to the non-focus areas – mortgages, large corps, public sector – into the focus area of unsecured consumer lending and SME lending. Since 2016, when the share of the focus business in our book was 40%, we have successfully transformed along the lines of our strategy, reaching now 60% in focus. We selected the focus areas of consumer lending and SMEs for three reasons. First, this is what we as a team are good at. Second, the economic growth in our region outperforms the levels in Europe, and predominantly benefits the segments of SME and consumer. Third, the gross yield of the new business origination is the healthiest in consumer and SME. We are confident in the ability to defend the yields in our focus area; we do that particularly by promoting convenience and speed, and therefore we do not compromise on the prudent risk approach of our business. If you look at the risk-adjusted yields, we managed to stay stable in consumer and increase in SME, when taking into account the recent SME risk provision releases.

Our strategy to transform the book and deliver straightforward banking is also reflected in a simple, transparent balance sheet structure, illustrated on Page 9. If you start from the top left side of the page, we have a very strong deposit base, with a loan-to-deposits ratio of 80%, which we will continue to optimize. At the same time, we maintain a very strong focus on the self-funding principle, we apply it to each of the markets we operate in. Continuing to the bottom right side of the page, the capital base, considering the full impact of IFRS 9 expenses, is at 17%. We have considerable capital optimization opportunities, given that our entire base is CET1. We are on track in preparations to issue a Tier 2 instrument in the second half of this year, subject to acceptable terms. Continuing on the left bottom side of the page, on the asset side, we have considerably de-risked our balance sheet. NPE stands at 4.6%, as I was mentioning earlier.
This is with a healthy coverage ratio of over 73%, excluding collateral. If we consider collaterals, the NPE coverage level is at 122%. Finally, on the top left side of the page, on the liquidity side, EUR 1.2 billion of the liquid assets are invested with 89% in investment grade instruments. This, again, is reflecting our prudent risk approach to the business.

Please turn to Page 10. Here, the particular and unique aspect of our approach is that we combine growth with preserving capital and ensuring this way a sustainable dividend distribution capability. Our growth comes in the focus areas of consumer unsecured lending and SME lending. We have a very simple and clear value proposition: convenience and speed. This allows us to defend the margins while maintaining a prudent risk approach. To achieve this, we deliver our value proposition by strict collaboration between risk and business, and by standardizing. We standardize the products; we standardize the risk policies, we standardize and automate the underwriting processes. This is how we deliver convenience and speed, and keep the prudent risk approach at the same time. The response of markets to our approach is consistently positive – you see on the page the CAGR of over 20% in both consumer and SME segments between '16 and the first half of '19. We also focus, as I mentioned, on payments and transactional accounts. This is for two reasons. First, it allows us to accelerate NCI. Second, it allows us to collect data points for behavioral risk models employed for lending to our own customer base.

As I mentioned earlier, digital transformation is key to our strategy, and I want to give you a few facts on Page 11. I mentioned already we have a very pragmatic approach to digital. We take proven solutions from more developed markets in the region, roll them out to our customers. This gives us three benefits. We deliver convenience and speed, in line with increasing customer preference for digital services. Second, we keep the cost of innovation down we adopt proven solutions from more advanced markets, often in a plug-and-play approach with Fintechs or third parties. Third, we enable growth without adding new branches. In fact, we reduced the number of branches as digital preferences materialize. I mentioned earlier one of the most important KPIs that we monitor in a very strict manner is the volume of unsecured loans originated through digital channels. It stands at 8.2%, up from 3.8% at the end of 2018. This gives two messages. First, we achieved considerable progress. Secondly, there is still plenty of opportunity for us to extract from digital channels. With this, I would like to hand to hand over to Johannes, who will take you through our financial results of the first half of 2019 from Page 12.

**Johannes Proksch**

Thank you, Razvan. Before I come to dive into our financials, let me highlight that we adjust our numbers in order to provide you with a clear view of the underlying historic development. This will become less important as you become more familiar with our figures, and as the major transformational steps are behind us. We have therefore provided you with extra two pages in the Appendix, and I will highlight on the relevant pages the main adjustments. But, here in brief: as mentioned already earlier, a significant impact in 2018 was a Tier 2 waiver in the first quarter by our – at that time – sole shareholder. We adjusted our 2018 figures accordingly.

More importantly, the major one-offs in the first half of 2019 were, in “Other result,” at EUR 2.3 million restructuring costs for the announced cost optimization program, to be used and executed in the second half of 2019; the IPO-related or as we call it “Capital Market readiness cost” of approximately EUR 1.5 million; and the costs related to the CHF conversion law in Serbia, of EUR 8.1 million.

And now let me explain on Page 13 how strategy is reflected in our numbers, by highlighting the progress we made in the first half, or second quarter of 2019, compared to the previous year’s period. Like in the past years, in the first half of ’19, compared to the first half’18, the higher rates in the focus business translated into a further increase of our interest income from this portfolio. And, as a consequence of further reduced deposit yields, we increased our net interest margin by another 23 basis points, to 2.97%. Our net commission income, of which 90% are related to our focus business, further increased by 8.8%, predominantly driven in the consumer area by payments, i.e. account packages, as well as bancassurance, and with a very positive growth in SME-related products, as shown earlier already on Page 10. This planned positive development in net interest income and net commission income is also visible in the quarter comparison, where the second quarter is usually a less active one compared to the second half of the year. Operating expenses have slightly increased, predominantly due to IT. Our announced cost optimization, i.e. reducing our FTE number by 180 and 8 branches in the second half will keep them in line with 2018 and will result in cost decreases in 2020. All this has helped us to reach, as mentioned this morning in our press release, an adjusted post tax profit of EUR 28.5 million, or a reported EUR 20.2 million, the main difference being the CHF conversion law reflected in risk provisions of EUR 8.1 million in Serbia. All of the above led us to an adjusted return on average tangible equity (at 14.1% CET1 ratio) of 8.2% for the first half ’19.

As many of you have asked us during the Analyst Presentation and the Road Show, we have added three pages (14 to 16) providing a granular picture on the development of our interest income and expenses composition, and yield-related developments. On interest income, Page 14, I would like to highlight the continuous increase in the part related to our focus business –reflecting now 70% of the total, and clearly overcompensating the gradual decrease in the non-focus area – and the stable development of our yields, proving again that we were able to defend our margins in a challenging environment via our proposition of convenience and speed.

On Page 15, we wanted to highlight the composition of the Other interest income bucket, which includes: a decreasing income from our bond portfolio of roughly EUR 1.2 billion, which is expected to continue to decrease as a consequence of overall pressure on bond yields (currently, we earn on average 148 basis points, versus 150 basis points for the year 2018); and us redeploying our excess liquidity in the growth of our focus business; the decrease in interest income from non-performing exposures, i.e. unwinding, as we continue to resolve our NPEs successfully; and the increasing interest-like income related to fees accrued over the lifetime of the loans.

On Page 16 we illustrate that our disciplined repricing of deposits over the last years, is also in 2019 contributing to decreased interest expenses, on the back of reduced funding yields by 20 basis points, meaning we pay today on average 54 basis points on our funding.

Now, on “Net commission income” on Page 17. As indicated earlier, compared to the first half’18, the increase of close to 9% in net commission income, of which 90% are related to our focus business, showed an increasing share of SME-related net commission income, as our clients have increasingly used us for transactions and trade finance, i.e. including guarantees offered digitally. The exceptional increase in non-focus commission income in the second quarter of 2019 is due to a reallocation of MasterCard commission expenses of EUR 750 thousand from the corporate center to the consumer area.

Allow me now to elaborate on the “Other income” on Page 18, where you can see, on the one hand, the very stable and predictable fees and levies related to the first three items, i.e. the deposit guarantee, the banking taxes, and the contribution to the Recovery and Resolution Fund; and, on the other hand, the restructuring provision of EUR 2.3 million, as mentioned as the main one-off and, to a smaller extent, the provisions for legal cases, with a net impact of EUR 500 thousand, where new ones built for legal cases relating to customers not having converted their mortgage loans following the CHF conversion law in Croatia were compensated by releases in other legal provisions. And, then, the result on financial instruments includes the large adjustment in the first half’18 of EUR 61 million, related to the Tier 2 waiver, with the remainder related to gains from bond sales, having enabled us to pay our dividend in the first quarter ’18. Our ’19 gain also relates to bond sales, and a gain in the second quarter’19 of just above EUR 4 million from selling the converted equity piece in the context of the restructuring of our so-far largest NPL in Croatia.

Let's move now to operating expenses on Page 19. As mentioned earlier, 2019 has shown so far a continuation of our operating expenses from 2018 of roughly EUR 47–48 million per quarter, just below EUR 190 million for the full-year 2018, while shifts in 2019 are reflected in the various cost categories. Apart from the neutral shift within depreciation and admin expenses, related to the adoption of IFRS 16, approximately EUR 3.7 million in depreciation, higher depreciation in IT are increasingly compensated by the other cost items such as premises, expenses and intellectual expenses, except marketing, which we keep relatively flat over time. We will update you during the next earning calls on our progress regarding the ongoing cost optimization and the resulting cost improvements for 2020.

Let's now move to risk on Page 20. During our Analyst Presentation and Road Show, we have shown you the significant progress in reducing our non-performing exposures to currently 4.6%, while keeping prudent coverage ratios, as mentioned already by Razvan. Here on this page, you can see the continuation for Q2 2019. We have been particularly successful in restructuring our largest non-performing exposure so far and selling the equity piece on the market at a gain, as mentioned before.

Broken down by segments on Page 21, you see that we were again able to reduce our non-performing exposure in the focus areas while growing the portfolio, with increased coverage ratios. And in the SME and non-focus areas, we were able to release provisions related particularly to mortgages and large corporates, which helped us to overcompensate the impact related to the Serbian CHF conversion law on mortgages of EUR 8.1 million in the second quarter of 2019. The consumer-related risk provisions of EUR 9.3 million for the first half of 2019 are better than expected, reflecting the portfolio ramp-up, which is based on our prudent underwriting and portfolio quality assessment process. The comparison to the full-year 2018 provisions in consumer is limited, given that they were positively influenced by releases, as a consequence of the sale of legacy portfolios.

And now, a brief update on our capital position on Page 22. Not much has changed within the first half 2019 with regards to our regulatory capital ratios, and we continue to have a very healthy total capital ratio and CET1 ratio of 17.6% on a transitional basis, or 17% IFRS 9 Fully-Loaded. More importantly, as a consequence of our successful IPO, we are preparing the announced capital optimization by raising the Tier 2 of roughly 2% of RWAs, or roughly EUR 90 million, in the second half of 2019, subject to acceptable terms. And now back to Razvan.

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| **Razvan Munteanu** | If you go to Page 23, I would like to conclude with a few facts that we consider very important. First, we execute our specialist strategy. As you see from this report as well, we do what we say we do. Second, this is visible in the book transformation, and it is fundamental to our delivery of both growth and dividend distribution capability. Third, we demonstrate that, as a specialist, we can adapt to relevant uncertainties in the markets, and we can absorb one-off impacts driven by regulatory adjustments. Fourth, we remain focused on what led to our success so far; we stay on track to deliver the mid-term targets we shared with you. Five, going forward, we are on schedule and in time with our preparations for the issuance of a Tier 2 instrument in 2019, subject to acceptable terms. Last but not least, I am very pleased and happy to have established a process for the quarterly reporting of our results. With this, I would like to thank you for listening to this presentation and open the floor to questions. Operator, may I ask you to assist us with the Q&A session, please? |
| **Operator** | Thank you. And now we begin our Q&A session. If you are on the conference call and have a question for our speakers, please 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 your question is answered before it is your turn to speak, you can dial 02 to cancel your question. If you are using speaker equipment today, please lift the handset before making your selection. 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. One moment please for the first question.<br><br>The first question we received is from Anna Marshall, Goldman Sachs. Your line is now open. Please go ahead. |
| **Anna Marshall** | Good afternoon. Thank you for the presentation. A couple of questions, please. The first question is on capital and dividends. You reiterated several times that you are in progress preparing for a Tier 2 issuance, subject to acceptable terms. I wanted to understand, in terms of your plans to potentially pay out the resulting excess capital as dividends from that issuance, how would you consider the scale of that? Would it be the full scale, i.e. up to EUR 90 million, or a smaller portion of that? And if yes, what would be the determinants? And my second question is on your margins, and specifically on the outlook. I see that you have reiterated the 4% margin in the medium term, but I also see that you no longer mention interest rate increases, but instead some other drivers. So I just wanted to confirm what kind of interest rate environment is assumed in your 4% margin in the medium term, and what is your sensitivity to, say, rate cuts, i.e. falling EURIBOR. Thank you. |

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| **Razvan Munteanu** | I will ask Johannes to answer both questions. |
| **Johannes Proksch** | Thanks, Razvan. So, basically, nothing has changed to our guidance with regards to dividends, which we had included also in the prospectus and in various meetings and I would like to reiterate that following the issuance of the roughly EUR 90 million Tier 2 instrument in the second half of '19, we expect to distribute as part of our annual distribution of the 2019 dividend, any excess capital from the Tier 2 issuance in addition to the EUR 40 million dividend targets for the financial year 2019. So, this is basically what we always said very clearly. And, for the moment, we are preparing the Tier 2. We always add "subject to acceptable terms." This was something advised by our lawyers, just to make sure that obviously decisions still need to be taken. And the second thing is, in the context of closing the financials, doing the assessment, having a new budget and five-year plan, we will assess what the excess capital, which we do not need for business, would be. And this will be, then, basically distributed. This is unchanged from what we said during our Road-Show and Analyst Presentation, and in our guidance.<br><br>The second part of your question was regarding the NIM. We had, as you remember, in the guidance of 4%, a sensitivity made to reflect a EURIBOR environment of 0 throughout the whole period of time. We have not updated it in the meantime, but what we said at that time is that the impact would be, if we assume 0 EURIBOR throughout the mid-term, just below 50 basis points, resulting in just below 4% of NIM. And this would impact our return on tangible equity target to reach roughly 10%. All this pre any mitigation measures, which we will obviously deploy over the time. We will, obviously, do an update when we prepare our budget/five-years plan towards the end of the year on this, reflecting the current market situation. |
| **Anna Marshall** | Okay. Thank you. |
| **Operator** | The next question is from Simon Nellis, Citi Bank. Your line is now open. Please go ahead. |
| **Simon Nellis** | Oh, hi. Thanks for the call. Actually, can you just clarify your minimum capital position? The 4.1% SREP, that is excluding P2G or is that including P2G? |
| **Johannes Proksch** | Yes. I think that, currently, we have not yet received the new SREP for the following year. So, this is the SREP ratio which is the one in existence for the year 2019. |

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| | We expect to receive the SREP ratios every year towards the end of the year, and obviously as soon as we received an update on that one, we will disclose it. So, therefore, the 4.1% is a pre-P2G method, and is 4.1%, as shown on Page 22. |
| **Simon Nellis** | Right. Okay. Do you see a risk that the SREP stays the same and a P2G is added on top, and then that limits your dividend distribution capacity? |
| **Johannes Proksch** | We can obviously not predict what the outcome will be, but you know that we have for our own purposes established a 1.5% management buffer, which should cover for this kind of outcome. |
| **Simon Nellis** | Right. Okay. That's all for me. Thanks. Thanks very much. |
| **Operator** | There are currently no further questions on the telephone lines. As a reminder, if you would like to ask a question on the conference call, please press 01 on your telephone keypad.<br><br>And we have received another question. It is from Thomas Unger, Erste Group. Your line is now open. Please go ahead. |
| **Thomas Unger** | Hi. Thank you very much for the presentation. I just have a couple of questions. First of all, under your "Net fee and commission income" guidance that you have in the mid-term targets, you expect a low-teens growth rate for the mid-term. How do you expect to generate that? Is that out of the portfolio shift, or any other factors? Then, also, the NPE ratio development in Q2, I understand that this decline, or part of the decline, was due to the largest case that you had in Croatia, the retailer, but was there any other sector that led to this steep decline from Q1 to Q2? And then, also, if you have any outlook for 2019, any financial guidance forward for your profitability, or anything else on the P&L? Thank you. |
| **Razvan Munteanu** | I will take the first question on net commission income development. Johannes will answer any other effects that contributed to NPE performance other than the largest exposure in Croatia. And with regard to forward guidance, we cannot provide additional elements.<br><br>So, let me start with the NCI element. Indeed, we show a guidance in the low teens. There are several elements that will continue to accelerate our net commission income, and we roll them out as we speak. |

Essentially, so far we did not have a credit card business to speak of; we gradually rolled it out. We rolled it out in Croatia towards the end of the first half and in the beginning of the second half we rolled it out in Serbia. Over the next 6–12 months we will roll it out in all other markets. So, the new credit card offering; this will contribute over the mid-term, it is one of the contributors to our net commission income growth. Secondly, we continuously make improvements and adjustments to our bancassurance activity. It has been one of the fastest growing areas being rolled out – introduced – in the course of 2018. Now we are adding improvements in our product offering for bancassurance, to be able to serve larger loan tickets. And, at the same time, we introduced a very simple accident insurance combined with our current account offering, which is very much in line with our very simple, straightforward banking offering. It's a click-and-buy type of product. Also, in the course of the year, we anticipate an acceleration in the shorter term, an acceleration in net commission income, driven by the height of the tourist season, particularly under the line of FX and DCC – DCC stands for Dynamic Currency Conversion.

The second part, the NPL reduction besides the large Croatian retailer, is basically on an ongoing basis, again, debt settlements, cures through performing loans, as part of regular focused NPL management. The biggest impact, however, in the second quarter, was the restructuring of this large retailer, which allowed us to sell the equity piece in the market. And, maybe as you remember and as was disclosed in the prospectus, with previously EUR 47 million on NPE total exposure, this came down to just below EUR 14 million.

**Tomas Unger**

Okay, and then the settlement by itself led the NPE ratio to drop from 5.5% to 5.1%, right? Is that correctly remembered?

**Johannes Proksch**

I don't have the numbers. The outcome is basically coming from both areas, so I cannot break down how much one element was from the other. But both combined – so, ongoing NPL management together with this large exposure and the restructuring – came basically to the reduced non-performing exposure ratio of 4.6%. Now, the last question you asked was with regards to any guidance. And we would like to highlight that we cannot provide an outlook or guidance for 2019. What we have shown and Razvan explained is where we are in relation to our mid-term guidance; and we see that we are on track. I still would like to make a comment with regard to the return on tangible equity at 14.1%. The 8.2% - please do not overestimate this figure. It is obviously driven by not only the improved operating performance, but also a provisioning line that is supported by releases from the non-focus in the first half'19, also SME, which is part of our focus portfolio.

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| Thomas Unger | Okay. Thank you. May I add another question just on the CHF conversion issue in Serbia and this EUR 8.1 million – I believe you said – that was the effect on the P&L. That was booked in risk cost retail, is that right? |
| Johannes Proksch | That's right. Risk cost mortgages, because these are old mortgages. And maybe to also add something, the EUR 8.1 million is the gross figure. The net figure which reflects that we are already ahead of this conversion have for cautious reasons, put a lot of these mortgages into Stage 2. We were able to release these kinds of provisions, and therefore the net figure is roughly EUR 1–2 million. |
| Thomas Unger | Okay. And there is nothing else coming in the next quarter, out of that? |
| Johannes Proksch | No. We see that, basically, as you noticed, the law was enacted in the second quarter. The conversion period expired in the meantime, and we see this fully reflected with the EUR 8.1 million gross provision allocation. |
| Thomas Unger | Okay. Thank you very much. |
| Edgar Flaggl | Operator, we have a question over the webcast chat from Thibault Nardin, from Wellington. I'm going to read it out. "Can you help sizing the cost reduction exercise you are doing a) in terms of FTE numbers and b) branch reduction? Also, are all restructuring charges already reflected in the first half of 2019 results?" |
| Johannes Proksch | So, the second part, yes. This was the one-off we referred to earlier, and these restructuring charges will be basically used and released in the second half of this year. We are carefully monitoring the reduction of the 180 FTE throughout the second half of the year. And, obviously, this is split into back-office and front-office. The eight branches, front-office employees, roughly 4–5 persons per branch, is the number within the 180 related to the front-office. Now, as I said before, we would like to provide more guidance on the cost improvement in the next calls, but as we always mentioned, there will be a reduction in the cost base overall from EUR 188 million in 2018. 2019 will be a very similar figure, and 2020 you will see the reduction coming from this optimization. |
| Edgar Flaggl | Operator, back to you. |

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| Operator | The next question we have on the conference call is from Stefan Maxian, RCB. Your line is now open. Please go ahead. |
| Stefan Maxian | Hello. Yes, thank you. Just two questions remaining. One would be: can you give us an update on the competitive situation in the region with regard to pricing trends, especially in which countries do you see more intense pricing, when it comes to consumer lending especially, right now? And the second question would be with regard to MREL, if you can give us an update, or by when you would expect a decision? |
| Razvan Munteanu | Thank you very much for the questions. I will take the one on the competitive environment, and Johannes the one on MREL. Of course, we do see competitive pressure; this is why we selected as a value proposition convenience and speed, to be able to defend our pricing position. We see ourselves successful in that effort on both consumer and SME portfolios, in the sense that the new origination starts inching up in terms of pricing. Of course, what you see in our analysis is the effect on the total book – it takes a while for the new volumes to reflect the gradual pricing improvement on the total book. In terms of differences on the competitive landscape between markets, the ones with a pricing cap – Croatia with a total pricing cap and Slovenia with a pricing cap only on the interest rate – are obviously the more challenging ones. But we see, even in these markets, as I was indicating, the new volumes origination with a pricing inching up. It's true, in terms of basis points, but still inching up. On the SME segment, obviously there is a very active competition, given the large volumes of liquidity in the market. If you dig deeper into our portfolio, you will realize that the risk profile of our portfolio, the maturity profile of our loans, which are between 1–2 years, and the accelerating net commission income on the SME side, which will continue to materialize going forward, reflect the overall improvement of our SME portfolio. Once again, in SME as well, we see the new origination inching up in terms of pricing. If this is clarifying, I will ask Johannes to address the MREL question. |
| Johannes Proksch | In short, nothing has changed. But I would like, also for the benefit of maybe new-joiners, to give again our perspective on MREL. Addiko has been in discussion with the SRB regarding MREL, but to this date there is no binding target being submitted. We expect such a decision in the second half of '19. Today, we expect it actually more towards the end of '19, maybe even early '20, and expect that the SRB will apply the single-point-of-entry approach for Addiko in the first or maybe subsequent years, review cycle. |

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| | However, we are of the view that Addiko Croatia should be the resolution entity, as Addiko performs critical functions, for bank resolution purposes only in Croatia, and . are progressing in our discussions on that basis with the SRB, and have our next meeting on October 24th. We see it as very unlikely, as a management, that the SRB will stick to the single point of entry, but we understand that this can be a longer process until we really reach what we believe is right, the multiple point of entry. If, however, for whatever reason, the Single Resolution Board sticks to their decision, we would expect to have a transition period of four years, and would need to raise above EUR 460 million in eligible papers. |
| **Stefan Maxian** | Alright. Thank you. |
| **Operator** | The next question. It is from Hadrien de Belle, of KBW. Your line is now open. Please go ahead. |
| **Hadrien de Belle** | Hello. Thanks for the presentation. Just a follow-up question. I was wondering if, from the current level of interest rate, your focus segment both SME and consumer loan yield should stabilize from what we see on your slides? Thank you. |
| **Razvan Munteanu** | Yes, I can confirm that. We do anticipate that on the new volumes we bottomed out through the mix of portfolios, and we see the interest rate inching up. We see, on the mid-term, the gross yield on the consumer segment in the range of 7.5%-8%, and in SME we will cross back to 3.2% point or thereabout on the mid-term. |
| **Hadrien de Belle** | Great. Thank you. |
| **Operator** | There are currently no further questions on the conference call |
| **Edgar Flaggl** | Alright. Let me just remind everyone, you can also place questions via the chat function in the webcast. |
| **Operator** | And just as a reminder, if you would like to ask a question via the telephone lines, please press 01 on your telephone keypad. |
| **Edgar Flaggl** | Alright. Since there are no further questions on both channels, I believe this concludes the call. |

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| Razvan Munteanu | Okay. So, we thank you very much, and we are going to send out the invitations and here you again in a quarter's time. Thank you very much for your time. |
| Johannes Proksch | Thanks very much. |
| Operator | Ladies and gentlemen, thank you for your attendance. This call has been concluded. You may disconnect. |