Addiko Group 1Q24 Results: Webcast Transcription

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Herbert Juranek

Good afternoon, ladies and gentlemen. Let me welcome you to the presentation of the First Quarter Results 2024 of Addiko Bank on behalf of my colleagues, Ganesh, Tadej, Edgar and Constantin. We have prepared the following agenda for you.

I will start with the key highlights of the first quarter and then pass on to Ganesh, who will update you on our achievements on the business side. In the second chapter, Edgar will provide you with more insights on our financial performance and Tadej will inform you about the development in the risk area. At the end, I will do a short wrap-up and comment on our Outlook for 2024, before we move on to Q&A. So let's begin with the highlights.

The results of the first quarter are quite positive. We were able to raise our net profit by 61% year on year from €9.7 million to €15.6 million. Compared to the previous quarter, the increase amounts to 42%. This leads to €0.81 earnings per share in the first quarter. The return on average tangible equity jumped from 5.4% in Q1 last year to 8% this year. Our operating result grew by more than 41% year on year to €28.5 million despite inflationary impacts on the expense side.

This positive result is based on a double-digit year-on-year growth in our focus business and a solid cost management in the given environment. In addition, we were able to improve the net interest income by 14.5% year on year despite increased funding costs and the usual seasonality effects. Due to our Acceleration Program efforts in product management, mostly in cards, bancassurance, accounts and packages, we were able to improve our net commission income by 8.4% compared to last year. Our expansion project in Romania is also progressing according to the plan.

Now let's look at the risk side. Our cost of risk remains benign at a low 20 basis points or €6.9 million. The NPE volume slightly increased to €146 million with an NPE ratio of 2.9% based on the provisioning case with one customer in the first quarter. Tadej will give you more details later during his part of the presentation. Nevertheless, we were able to further improve our NPE coverage level to 81.4%.

The funding situation remained quite strong with a slight growth in our deposit base to €5.1 billion deposits resulting in a loan-to-deposit ratio of 69%. Our liquidity coverage ratio is currently above 400% at group level. And finally, our capital position is also very strong with a 20.3% fully loaded CET1 ratio.

As you know, we had the AGM on 26 April, with all agenda topics approved. Consequently, we paid out €1.26 dividend per share yesterday on 7 May.

Now let's look at our business development. The two main messages on this page are that we were, number one, able to continue our double-digit growth of our focus book and, number two, that we managed to increase our new business generation by 10% year on year despite a bit of a slowdown in the micro and small SME segments. To give you more background on this development, I would like to mention the individual growth rates.

On the year-on-year comparison, our consumer book grew by 12% while our total SME book grew by 6%. This blended rate in the SME book is based on a growth rate in our micro and small SME book of 13% year on year while, at the same time, we reduced our large ticket medium business by 15% in order to further decrease concentration risk in our portfolio.

The focus book stands currently at 87% of all gross performing loans. Our focus yield in the consumer business improved further from 7.7% at the end of last year to 8% at the end of the first quarter. On the SME side, the focus yield went up from 5.7% at the end of last year to 6% at the end of the first quarter. This development resulted in a blended focus yield increase from 6.3% at the end of last year to 6.6% at the end of the first quarter.

As usual, I want to highlight that we continuously calibrate our underwriting criteria to the current environment, in line with our risk appetite. We keep a prudent risk management approach in order to ensure the right balance between business growth and risk management.

With that, I would like to pass on to Ganesh, who will give you more insights on our business activities.

Ganesh Krishnamoorthi

Thank you, Herbert. Good afternoon, everyone. Moving to page five, I'm pleased to inform you we started the year with strong business results with an impressive 10% year-over-year growth in focus book with premium focus yield of 6.6% despite the challenges in SME markets.

Our consumer segment saw exceptional growth this quarter with a 37% year-over-year increase in new business and yields reaching 8%. However, we experienced a slowdown in SME new business, likely due to SMEs anticipating interest rate cuts in the next quarters, resulting in current reduced demand. Despite competition driving rate cuts in pursuit of volumes, we maintained our premium yield at 6%, up by 65 basis points year over year.

Going deep into consumer segment, our strong growth can be contributed to, number one, market demand: Strong demand across key markets has been a driving force.

Number two, expanded partnerships: We have doubled our partnership lending business through 575 partnerships across 1,000 locations, and our new partnership business will also be launched in Bosnia to drive further growth.

Number three, improved cross-selling: Enhanced cross-selling efforts have boosted our revenue by driving new customers from partnerships to high-value consumer loans.

Number four, effective marketing: Both digital and offline marketing initiatives have bolstered our brand recall better than the competition and generated business opportunities.

Number five, digital expansion: Launching branchless digital operations in three key markets have led to incremental growth.

Number six, focusing on new non-lending products: Product feature improvements in cards and insurance have resulted in a 35% increase in net commission income.

Number seven, innovative products: Introducing ID-only loans in Bosnia has also driven the growth forward.

Overall, we have consistently focused on driving growth by targeting digital-savvy customers and point-of-sale segments with lower-ticket, high-priced loans.

Shifting our focus to SMEs, our goal remains to become the fastest provider of low-ticket loans to the underserved micro and small segments throughout our digital platform. Last quarter, our efforts were focused on, number one, process efficiency: We continuously refined our loan application process, resulting in reduced time to cash and strengthening our unique selling proposition, while maintaining premium pricing.

Number two, enhanced online channels: We're prioritising improved experience and increased conversion on our new online platforms.

Number three, product expansion: In line with our Acceleration Program, we introduced auto-overdraft and bancassurance products to enrich our SME ecosystem and revenue streams.

Last but not least, risk finetuning. Tadej's team is constantly refining criteria to improve in risk assessments, mitigation and monitoring.

Looking ahead, we anticipate the interest rate cuts will stimulate market demand in the second half of the year.

On the technology front, last quarter, we started piloting Copilot and other AI tools to support automation, programming and various other use cases. We believe in AI's pivotal role in banking and will actively explore and test various use cases to drive innovation and efficiency.

Briefly, on page six, we've consolidated key milestones that drive us forward towards our mid-term objectives and our banking specialist vision, which we set three years ago. Last quarter was another positive step towards achieving this vision.

To conclude, we are positioned well to deliver strong, sustainable growth in future and we continue innovating and solidifying our specialist position in consumer and SME space.

Please let me hand over to Edgar.

Edgar Flaggl

Many thanks, Ganesh, and hi, everybody.

Starting on page eight and the composition of our result for the first quarter 2024. Quite a good start into the new year. Net interest income improved significantly and, despite higher deposit funding costs, was up 14.5% compared to the previous year. The quarterly development is naturally muted due to starting the year 2024 at, in our view, pretty much peaked deposit funding costs. Despite this fact, our NIM remained at a strong 389 basis points.

Overall, our key revenue driver, the interest income, improved by more than 25% year over year. This was driven by our focus segments, which recorded a 22% year-over-year increase on the back of our premium pricing of new business and the contribution from treasury and liquidity management.

We ended the first quarter with 87% of our book in high-yielding focus loans, compared to 83% a year earlier, and we remain on track to exceed the 90% in 2024.

Interest expenses ramped up through the year 2023, as we have all seen, and naturally, we started the new year with higher deposit funding costs. We expect that we have more or less reached a peak in terms of funding costs, which stood at 126 basis points for the first quarter, up from 69 basis points a year ago, mainly driven by the strategic shift into more stable term deposits. So, fully in line with our expectations and guidance so far.

The second key income driver, the net commission income, now started showing the results of activities performed by the business teams and is now up 8.4% year over year in a naturally weak first quarter. This is what we spoke about in our last earnings call, about having a plan to get back on a positive trend going forward, and Ganesh and his team will continue to work on further improvements. This continued momentum on the top line led to further improvements on net banking income with an increase of 13% year over year.

Now to the other income, which comprises the net result on financial instruments and the other operating result. The development in this position is mainly driven by deposit guarantee costs and regulatory charges. In the first quarter, we recorded a positive effect from lower deposit guarantee costs in Croatia related to the fourth quarter last year and the first quarter this year.

This positive effect, however, was consumed by higher bank levies, mainly driven by the new Slovenian banking tax, for which we booked €0.7 million in the first quarter, which corresponds to €2.8 million for the full year.

Next, to general administrative expenses, in short, OPEX, which continued to be up year over year and remained contained at an increase of slightly north of 6% year over year. We're currently performing better than our full year guidance. However, the guidance had not planned for advisory costs related to the voluntary takeover offer that was announced in March.

Our cost-income ratio landed at 60.7%, which is a year-over-year improvement of 3.8 percentage points. To sum up, we have continued to deliver a positive improvement of our earnings power, which is reflected in a 10.4% increase in the operating result compared to the previous quarter and 41% year over year.

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, the first quarter charges remained benign and normalised, while also containing a charge related to Swiss Franc matters in Slovenia, such as for the voluntary settlement offer that we launched for socially vulnerable customers.

Just a note on credit loss expenses, which once again came in benign and below expectations. Tadej will provide insights on the development in a moment.

To conclude, a strong result on the back of our ongoing momentum in the top line, continued cost containment, coupled with sound risk management, which allowed us to achieve a net profit of €15.6 million, which is up 61% year over year and corresponds to an 8% annualised return on average tangible equity.

Briefly over to page nine, which illustrates our capital position that remains standing strong. At the end of the first quarter 2024, our capital ratio landed at a strong 20.3% fully loaded, and all of that in CET1 - and that is excluding interim profit and accrued dividends.

As you can see in the chart, our OCI continued the trend of recovery, adding back roughly ten basis points in CET1, while RWAs continued to grow on the back of loan book growth. To summarise, the batteries are fully charged for continued growth.

And now over to Tadej to share insights on risk management.

Tadej Krašovec

Thank you, Edgar. Good afternoon to all.

We continue on slide ten with the credit risk part. In the first quarter of 2024, our overall portfolio quality continued to be strong. As you can see on the chart on the left-hand side, the stock of the non-performing exposure increased from €138 million to €146 million resulting in the NPE ratio of 2.9%.

Increase of NPE portfolio was planned, but to a slightly smaller extent. Increase happened due to two factors, first, worse risk performance in Serbian SME portfolio, especially driven by one legacy default client, and second, a planned debt sale in Croatia was postponed.

For Serbian SME portfolio, we have already implemented more restrictive risk criteria during 2023 and we are working on a further finetune.

On a positive note, we successfully concluded the restructuring of the two largest NPE tickets in Addiko Group and already received the first instalment payments following the restructuring agreements. This should bring a visible, positive effect still in 2024.

We are continuing to find solutions for a further NPE reduction, and due to high coverage ratio and material part of portfolio being 100% provisioned, we are solidly equipped to reduce NPEs without further P&L input. Let's now move on the next slide.

The credit loss expenses for the first quarter amounted to €6.9 million. This resulted in a cost of risk of minus 0.20%, a performance better than we had anticipated. At the same time, we kept the post-model adjustment unchanged at €6.5 million. Provisions were released in the non-focus segments, resulting in a positive cost of risk of 0.45%, and allocated in the focus segments, with negative cost of risk of 0.30%.

To conclude, from the risk behaviour and risk quality perspective, we are solidly on track. We see negative deviations in the SME portfolio in Serbia and, on a smaller level, in consumer portfolio in Slovenia. But overall, we are inside our plans and expectations.

We are actively managing mentioned deviations by tightening our risk criteria, where needed, and I believe this will soon be reflected in lower NPE inflow in specific sub-segments and have a positive impact on the NPE portfolio size also.

With that, I hand back to Herbert.

Herbert Juranek

Thank you, Tadej. Let's go to the wrap-up.

In the upper part of the slide, you see our outlook figures, which are derived from our mid-term targets. We are in line with these targets, and hence, we want to confirm them for this year. Nevertheless, I would like to mention that additional costs related to unforeseen shareholder activities are not included in our initial assumptions.

The macroeconomic environment continues to be impacted by uncertainty, driven by the war in the Ukraine, the Israel-Hamas war and other factors, like the inflation and the interest rate environment.

Altogether, the macroeconomic situation leads to a bit of reservation and a wait-and-see attitude with the part of our SME customers. Consequently, we see the demand in certain business segments slowing down.

However, we are already in the process to establish measures to compensate a potential impact on our growth plan. We share the view of the Vienna Institute for International Economic Studies that our region will outpace growth in the Eurozone. Therefore, we should have enough possibilities to fuel sustainable business growth for Addiko.

We are confident that we will get closer to our goal to be the best specialist bank for consumers and SMEs in Southeast Europe. On that basis, we continue to work with full energy to further improve the bank, to create value for our clients and for our shareholders.

With that, I would like to conclude the presentation. Our next earnings call to present to you the half year results is scheduled for 8 August. I would like to thank you for your attention. We are now ready for questions. Operator, back to you.

Operator (Q&A)

Thank you. 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 your questions.

Anyone who has a question may press star and one at this time.

If you participate via the audio webcast, you can write questions via the Q&A function of the webcast by pressing the question mark button.

As a reminder, if you would like to ask a question, please press star and one on your telephone. The first question comes from the line of Hugo Cruz with KBW. Please go ahead.

Hugo Cruz

Hi. Thank you for the question, for the time. I wanted to ask two things really. One was on your shareholders, Mr Kostic and the Alta Pay Group. I was wondering if you could disclose what kind of conversations you've had with them and what are their intentions for their stake in the bank.

And my second question was around your comments around the peak in deposit rates. So how do you expect your deposit rates to evolve? Why are you confident that we are at a peak level? And if you could give a bit of colour there around the timing and the repricing strategy that you have for your term deposits. Thank you.

Herbert Juranek

Hello. This is Herbert. On your questions on the shareholder, since the AGM, there was no contact with both shareholder groups. And there is also nothing I want to share right now about it.

You know that Agri announced the acquisition, and I would assume now the regulatory process is in place and we need to wait for the feedback of the regulator on that side.

	And as you also know, Agri Europe, that most probably between the 13th and the 16th, the proposal will be made public. And then, as a management board, we have to reflect on that and give our opinion on that. And we will do that according to the procedure. Who wants to take the other question?
Edgar Flaggl	Sure. Hugo, hi. Thanks for joining. This is Edgar. Can you maybe repeat your second question because I'm not sure if I 100% understood it, on the term deposits?
Hugo Cruz	Sorry. It was just if you could explain what is your repricing strategy for the time deposits and the timing of that repricing. How do you expect deposit costs to come down as rates come down as well?
Edgar Flaggl	Yes. Look, I'm not going to share or disclose here in detail our deposit strategy. But in general terms, our strategy was to start earlier, where prices were still lower for term deposits, which we did. I would say if you look at it not only at one year but across two years' horizon, also financially until today, this has been beneficial - let's call it this way. We are not pricing anywhere in the top of in any of the markets. So we are usually within the average, in contrast to loan pricing, where we are 100 to 150 bp above the market. And of course, we are watching, as pretty much everyone, the rate environment and also what the competition does very closely, and we do expect, with rate cuts coming in and with the sufficient liquidity that is available to banks in all the markets, that also pressure on deposit pricing will not only go down further but reduce. We have already reduced in the network, here and there, deposit pricing as we go and have not lost any volumes in that sense. So maybe, Ganesh, if you want to chime in.
Ganesh Krishnamoorthi	Yes. Thank you, Edgar. Well, just to add one thing. We have also been cautiously getting deposits with lower terms like six months for instance, not three or four years overall from a term point of view. So when the rate cuts come in, we can carefully also extend those deposits with the lower rates. So what I mean is that we have not committed into long-term deposits, where we would have more interest expense and we can reflect more the interest environment as we go forward.
Operator	Mr Cruz, are you done with your questions?
Hugo Cruz	Yes. Thank you very much.

Herbert Juranek	Thanks. Thanks, Hugo.
Edgar Flaggl	Thank you, Hugo.
Operator	Ladies and gentlemen, that was the last question. I would now like to turn the conference over back to Mr Constantin for questions on the webcast.
Constantin Gussich	Thank you very much, Operator. I have one question from Wolfgang Matejka from Matejka & Partner Asset Management. On an actual basis, did you see some movements within your client base in relation to the latest announced shareholder activities?
Hebert Juranek	Well, I will take this question. We didn't see any movements in our shareholder base. But what we are getting is we are getting questions from our clients and we're answering these questions.
Constantin Gussich	Then I have two more questions from Aleksandra Babic from Agri Europe Cyprus. First, any changes related to CHF topic?
Edgar Flaggl	Hi, Aleksandra. Thanks for the question. Nice to have you on the call. Look, overall, you have seen in the other result, we have not had any additions in terms of provisions related to Swiss Franc in Croatia, which has been carrying the highest charges last year. In Slovenia, we have added some provisions for both slight additions on legal provisions as such, but also provisions for our assumed acceptance of the voluntary settlement offer for socially vulnerable customers, which was, I believe, announced on 8 April, and where we and a few other banks are actually proposing that. This has also been positively commented by the banking association, of course, but also the Ministry of Finance. When it comes to verdicts on Swiss Franc legal claims in Slovenia, I think it's worthwhile to mention that there has been a positive Supreme Court verdict recently. Now, it's still too early to say how this will affect the rest of the claims, but this is at least a good start, I would say, closer to the right direction in terms of legal stability.
Constantin Gussich	Then the second question from Aleksandra from Agri Europe Cyprus. What is the level of NPL ratio overall and on SME segment?

Tadej Krašovec	I will take that. Tadej speaking. So NPL ratio overall is 2.9%, while on the SME segment, it's 2.6%. How exactly depends a little bit on the segments, of segments inside of SME, but interval is between 2.2% and 3.5% NPE ratio depending on the segment. Yes. And you can find these data further on, on slide 40 of the presentation.
Constantin Gussich	Okay. I have no more questions on the webcast, so I hand over to Herbert for closing remarks.
Hebert Juranek	So, I would like to thank you for your participation. We wish you all the best and we'll see you next time, or we'll hear each other next time at the next earnings call in August. Thank you very much. Have a pleasant afternoon.