NLB Group Q1 2019 Results

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Welcome and Agenda

Moderator

Ladies and gentlemen, be you shareholders and other stakeholders, thank you for joining us today. This is NLB Group's performance update on the first quarter 2019. It will be presented by the management board of the NLB Group and it is expected to be slightly shorter than our previous annual performance update. First I would like to extend a warm welcome to our hosts: Mr Blaž Brodnjak, President of the Management Board and Chief Executive Officer and Mr Archibald Kremser, Member of the Management Board and Chief Financial Officer. Before we go on, I would like to draw your attention to the disclaimer relating to the forward-looking statements, which you can find on the second slide of today's presentation.

Now let me explain how we are planning to do this today. We will start with a brief Q1 performance update. After that, the management board will answer your questions. We have already received quite a lot of them but I kindly invite you to send them also during this webcast. Just go to the landing page, there is a question button above the presentation which you can use to send us your questions now.

With this, we can start and I would like to invite Mr Blaž Brodnjak to begin with the presentation. Mr Brodnjak?

Results Overview

Blaž Brodnjak

President of the Management Board and CEO, NLB Group

Snapshot

Ladies and gentlemen, welcome also from my side. I am glad to have the opportunity to be addressing you at this time as well after the first quarter results of 2019. I can establish that, despite the slow-down in European economy, or apparently some downward trends, the growth in our region has remained strong and it is expected to somehow remain about 3% also in 2019, as is forecasted by quite some institutions. This is something that is still encouraging, so we do see the growth, we feel the growth and we also see still a solid demand for loans.

What is happening recently is a bit of accelerated consolidation. It is potentially the case in Slovenia and not only Slovenia, the entire region. We have seen one of the market entrants, OTP, in the later periods acquiring quite some banks in the entire region and lately signing the SPA for the SKB, so the third-largest, fourth-largest bank in Slovenia. At the same time of course we are also now, following the privatisation of Abanka, the third-largest bank in Slovenia as well and in Serbia, for example, the process of privatisation of Komercijalna Banka has been somehow announced through teasers[?] and might become a reality in the months to come. These are sizeable acquisitions and sizeable banks, sizeable players that are going to enforce, a bit, the consolidation trend in the entire region, which we believe is also benefiting the entire banking industry in this region.

Following the strong growth of the macro, the entire economy in the region, of course we have been able to grow the revenue base as well. This is encouraging and we see this as somehow continuing with a comparable pace when it comes to recurring results. Mainly it is coming out of the retail and mainly coming, of course, still from the subsidiary landscape. However, in terms of core segment operations in Slovenia, we finally see also quite a solid performance, strong pick-up in Slovenia in consumer loans and stabilising volumes in retail loans as well. What we are proud of in the first quarter especially is that, despite the tensions on wage inflation and the need for investment, been able to maintain costs, so the cost base has been stable. This is following, of course, then, the trend on profitability. The asset quality has further improved; we have reduced the NPLs by an additional €43 million and the NPE ratio has been reduced to 4.3%, which is a continuation of a very solid trend in the last years.

What is especially encouraging as well is that our digitalisation efforts and innovation efforts of new services, improving the client experience through end-to-end digitalised services, has been also yielding now concrete results. There is a strong pick up in the number of users of mobile apps, both for corporate clients and retail clients. We see more than 40% growth, 45% growth, for corporate clients and even above 60% growth for retail clients. This is of course supporting our efforts towards improving efficiencies, then, in the subsequent stage.

Key events in 2019

What is very important to announce after the Q1 and of course, as a post-Q1 event, is we have initiated a strategy refreshment exercise, which we plan to conclude this year. Since we have been now looking into the privatisation effort of the residual 10%, so assuming this happens in the coming weeks and months, NLB Group will, at the end of the year, be practically free of the commitments to the European Commission as a result of the state aid received in the years 2011–2013. This means that, of course, this, for the first time after quite some time, releases NLB from constraints that are coming from this set of commitments on one side and on the other hand of course offers many opportunities will be able to address. This requires, obviously, a refreshment and review of the existing strategic landscape of projects and initiatives that we have been implementing throughout the last years. Actually we are looking forward to be now thinking with a bit of a more open hat, obviously, while of course focusing ourselves and continuing our efforts to a smart programme and deliver this programme then consistently and diligently and decisively.

What is also very important to state is that we managed to issue a tier-two instrument, which was, on one side, one of the commitments to the European Commission and on the other hand, of course, is accompanying our efforts at capital optimisation and in this respect this was pre-announced also in the prospectus and previous addresses to the stakeholder society. I am gladly stating that we believe that this was a transaction on favourable terms, which shows also our responsible activity in this direction. We are especially proud of another upgrade of our ratings. Now actually two out of three big rating agencies have been rating us at investment grade, which is of course proving that our efforts from the last years have been acknowledged and by that we are back in the investment-grade universe. We believe that this is supporting, of course, our story for the future as well.

Key performance indicators of NLB Group

When it comes to the mid-term KPIs that we have announced within the IPO process and of course communication also prior to that and subsequently, I can happily say that in this respect we are close to those mid-term targets practically in all KPIs. The level of the net profits from the first quarter has been at €57.9 million, so close to €58 million, whereby in all in the key categories we see some, of course, issues with the not-happening interest hikes that were expected a bit before this period. So actually we were expecting, as many other players in the financial markets, that of course we would see a bit of a support from the interest environment. Obviously given the macro outlooks in Europe mainly we are not assisted by that at this point of time but the margin is still stable. When it comes to other key KPIs, we are more or less reaching, or we are very close to reaching, the mid-term targets already. I would especially highlight solid return from the first quarter and I would of course also again the very solid further evolution of our NPL books and by that, of course, further improved quality of our assets.

Through the key financials, Archibald will guide you through and I will then wrap up at the end. Thank you very much for now.

Financial Results

Archibald Kremser

Member of the Management Board and CFO, NLB Group

SEE banks continuing solid performance

Thank you Blaž. I will be keeping the presentation reasonably brief as anyway we have published very detailed disclosures and as Blaž indicated, the result is very strong. This was a strong Q1 result; it is actually very positive. One element of that is of course a continued solid performance of our subsidiary banks, which you see on slide six. If you look closer, you see that loan growth dynamics is continuing very robustly, also matched by reasonable increases in deposit taking. So 2%, we have year-to-date, increase in loan growth, 1% in deposit taking. Net interest income, very strong: 8% year on year. That is of course a function of a very robust macro environment in all of our subsidiary markets. You see certain one-offs in non-interest income compared to last year. Specifically, if you remember, our subsidiary in Macedonia, Banka Skopje, had the effects of the divestment of their pension business. If you normalise by that result across the board as mentioned, very strong good performance, with a bit of normalisation in cost of risk.

The other thing I would is with regard to our subsidiary in Montenegro. You see basically a one-off effect from a litigation that we provisioned in Q1 for the group. That was a legal provision in amount of €2.7 million and is related to HR litigation initiated against the bank by former staff, predominantly. It had to do with mechanics around calculation of salaries according to collective agreement. By booking that provision, the effects are fully mitigated and we do not expect further negative results from that situation.

Income statement

As I said, core subsidiaries are very strong and that led to, as I said, very strong Q1 performance, solid improvement in interest income, fee and commission income. There was of course a little bit of deviation on non-interest income coming from one-offs, as I mentioned. Still, cost performance, as we keep indicating, that is a continuous challenge in our commitment to keep investing into the future, which is, of course, very much IT-related so those cost savings are not necessarily to be expected just to be maintained on that level. At some point, the IT investments will kick in.

Net interest income and net interest margin

Other than that, as mentioned, contributions by the various entities, core foreign banks and Slovenia, are pretty stable. You will see that, in the next slide, net interest income, actually Slovenia was able to improve margin in Q1, something very positive of course and very important for us. This is happening despite the challenges Blaž mentioned on the rate environment in Slovenia in particular. This is also happening at group, by that group could maintain a stable net-interest margin at close to 2.6%. As you see, some subsidiaries are seeing pressure on margin, in particular the reduction in Belgrade is of course notable but this is, in essence, a function of us maintaining a self-funded strategy for every subsidiary. Our subsidiary in Belgrade has made very strong efforts to keep raising local deposits. Actually, they raise euro deposits and of course we sit on plenty of euro liquidity. However, for us there is a value in maintaining the strategy of self-funded entities to a large extent. All in all, the group showed interest income growth of 6%, which is, given the challenges we discussed, I think a very strong showing.

Net non-interest income

Non-interest income is a continued success story, in essence a solid performance and steady growth in the core revenue here, which is net fee and commission income. You have always ups and downs on income from financial transactions and in reality we have seen some non-recurring elements of revenue in Q1 as well. We have seen non-recurring revenues in Q1 last year, that was the divestment of our pension fund business, predominantly. This year also it is shown technically as recurring; in reality part of it of non-recurring nature. Mainly that is referring to what is mentioned here on slide nine, repayment on an NPL that is basically measured at fair value. So it technically goes through revenue but in reality that is a repayment; that is €5 million. We also used good market circumstances and divested some of our securities at good valuations but of course you cannot assume that these are recurring revenues in nature. Overall, good and solid showing in core revenues and that is, of course, what we are mostly focused on.

Costs

Costs I mentioned before, we show actually slightly negative year-on-year dynamics amidst an environment where we continue to reduce a number of employers. Technically, there was no reduction of a number of branches at group level in Q1 but of course this number is under continuous review, as are our efforts to become more efficient with regards to labour productivity. So we expect the headcount specifically to continue to be going down. On the other side, as I mentioned before, at some point the effects of IT investments will show in a somewhat-increased depreciation, amortisation.

Impairments and provisions for credit risk and cost of risk

Impairments and provisions were on balance slightly negative as we mainly had to create legal provisions I mentioned before. Otherwise, credit provisions were negative, in other words we released provisions and so by and large we show more or less flat cost of risk. Of course that is something, at some point, that will turn but as we keep saying, this is very hard to predict as many of these items are of a non-recurring nature. Of course the cost of risk and NPL formation on the performing book, on the new production, is still at very, very low levels.

Loan portfolio

We have mentioned our asset growth, driven in our subsidiaries by reasonably solid loan growth, as I mentioned, year to date 2%, across retail and corporate, slightly above in retail. Also, in Slovenia, we see finally our numbers to go up again. That is for us, of course, a high-tension point and as we keep pursuing initiatives such as cross-border, at some point we of course expect that dynamic to accelerate.

Capital evolution and requirements

Capital dynamic is predictably stable. We have, as Blaž said, come out with a tier-two instrument, in line with what we tried to achieve with that exercise that was in the form of a locally-listed bond, very reasonably priced. We deliberately targeted that operation to regional and domestic investors and by that achieving very attractive pricing of that transaction. We reduced our medium-term target, actually our risk appetite and total capital adequacy to 16.25% from, previously, 17%. We announced our suggested payment of dividend will be in line with that ratio.

Then, for the outlook, I would pass the word back to Blaž.

Outlook 2019

Blaž Brodnjak

President of the Management Board and CEO, NLB Group

Thank you Archibald. So, despite this tension that we all believe that there is a cool-down when it comes to this region, as mentioned before, the forecasts for growth are still in the league between 3–4% and also for the year to come, so 2020, it is still very robust somehow forecasted growth for Slovenia but also other markets, which is supporting further growth in lending. On the other hand, in the entire region, if you look at the public finance health, usually the leverage of the countries is at a reasonable level if compared to EU averages and still strong potential for growth if you look at the ratio of household loans in total GDP and household loans in total loans outlook and so on. So this is a prerequisite to facilitate further evolution in this direction and at this pace. We believe that this is a solid basis. Of course, we are closely monitoring the developments. The interest rate outlook has worsened, so the spreads and the committed reserves placements[?] have been under pressure, obviously. There have been some tensions from the regulatory and tax universe, potentially, in our target markets, no concrete implications material yet but there have been rumours around that generally in Europe, so there is an observation territory as well. And of course, geopolitical uncertainties in this region have always been actual, so we have seen quite successful progress, quite good progress in Macedonia and now we are following discussions and public debate on the eventual resolution of open issues between Serbia and Kosovo. This would further stabilise, potentially, the region and so on. Yet we have been used to dealing, of course, with these uncertainties in the region for the years and of this is not new to us, so we are closely monitoring and adjusting, of course, our practices then in accordance with that.

When it comes to the business outlook, we believe that as mentioned before, we can maintain these levels of growth of core business, of recurring business. Of course Archibald mentioned the non-recurring nature of some material events still this year. The total non-core base and the total NPL base has been reducing significantly so there is less and less potential opportunity from this angle, so the cost of risk is going to somehow normalise, of course but we still expect it to be below mid-term projections, rather than very, very low still this year.

When it comes to costs, despite, of course, the wage inflation throughout the entire region and despite the need to invest efficiencies into digitalisation, we tend to do it smartly, so responsibly. We of course try to keep this pace at a flattish level and by that of course be accompanying the revenue dimension as well. This is something that of course we believe is, at this point of time, a solid basis.

So, so far, according to the plans that we put on ourselves, to ourselves, for this year, what is a very material next step and very likely the most important milestone for this banking group in the last ten years is the anticipated prioritisation. Assuming this happens, let us say within two months, this would then, of course, require our immediate reaction in terms of mentioned strategising effort on one side and on the other side as well, of course, then implementing this smartly and diligently. Many opportunities then lie, of course, in front of us in our target region and of course we plan to address them and by that, of course, be delivering on mid-term assumptions and projected figures to you as well.

By that, I would wrap up the presentation when it comes to this one-sided part from our side and we would open the floor for questions, any questions that you might have. Thank you.

Q&A

Moderator: Thank you, Mr Brodnjak, thank you gentlemen. This was the performance update for the first quarter this year. Now it is time to answer your questions. We have received many questions so far, so before we start I would like to say that similar questions will be addressed together and not one-by-one to make sure that we have enough time to answer as many questions as possible.

With this, we are ready to start and the first question is the following: 'We see the result after tax in Q1 2018 included a substantial one-off from the sale of the Macedonian pension fund. You were able to generate the same result in Q1 2019 without any substantial one-offs. What were the main reasons behind this result and is it fair to assume a similar trend to continue throughout 2019?'

Archibald Kremser: Thanks for the question, actually indeed a very valid question. I tried to address it partially, at least, already on the slide. If you look closer, the result in Q1 2019 also had elements that are not of recurring nature. So they are technically reported as a recurring result but, as mentioned before, we had a repayment of an NPL in the range of €5 million. That is certainly not something that you would expect every quarter to happen. We had some one-off revenues from an NPL situation in amount of €1.5 million and we also had the result of divesting parts of our securities book in amount of some €3 million. So, all in all, this is not that far away from what we cumulatively realised last year when we divested

Nova Penziski Fond and had a P&L effect of some €12 million. In other words, the core revenues is what we are focused on and as mentioned before, there are very positive trends and very encouraging signs, specifically on interest income on group level: 6% year on year. This is something we like a lot. Of course here again there will be some offsetting of that trend with our increased tier-two exposure. We just raised €45 million, you wouldn't see that, P&L-wise, in Q1, you are going to see it in the subsequent quarters. We actually worked to further raise tier-two capital to improve overall capital efficiency, so some of that P&L effect will be somewhat mitigated again but still we expect positive revenue, core revenue trends. Flat cost is our ambition and by that, are still maintaining our target to keep pre-provision result on a positive trend. By that, I hope that answers the question.

Moderator: Thank you Mr Kremser. The second question is from the same category, which is about revenues, 'Which markets and which segments are contributing to loan growth: retail, consumer, mortgage loans, corporate loans? Foreign markets are outperforming Slovenia, do you see this trend continuing or do you expect growth to increase in Slovenia too?'

Blaž Brodnjak: Well, more or less this is a continuation of the trend we have been communicating so far: so very robust growth in the subsidiaries, especially of retail books but finally we have also solid single-digit growth in Slovenian retail and we see stabilisation and gradual growth of corporate books as well. So, more or less, all segments are contributing, all of them are contributing to growth. On the other hand, obviously we see that this has become a more robust trend, currently. Of course, growth in retail for the last two years was exceeding 10%, so it is not necessarily that we will see 11% growth this year but this is still very robust growth in subsidiaries and as mentioned, also in Slovenian retail mainly. Corporate is gradually picking up; our core segments, performance segments, have had a solid trend but of course at the same time we have been also reducing still the NPL books, right? So total corporate exposures have to be seen also through this balancing way, through net effects of reduction of the NPLs and of course then performing books. So we are quite positive about the trend. Assuming that these growth forecasts will hold, so about 3% growth still basically throughout the region, we believe that we could be seeing comparable growth rates of moderate volume growth and reasonable growth of, still, interest and non-interest income.

Moderator: Thank you. The next question is again from the revenues category: 'Net interest margins in some subsidiaries are falling. How are you planning to achieve your mid-term target of 2.7%?'

Blaž Brodnjak: Yeah, we touched this a bit in the presentation; Archibald was talking about this. We have been expecting, a bit earlier than now it seemed reasonable, the interest environment to be a bit more stimulative, so stimulating the interest margin. On the other hand, we have been managing to produce a mix of lending which is strongly focusing on consumer loans, which naturally carry higher margins. Of course we are now adding the cross-border dimension, which so far was not possible until recently. So the high liquidity reserve in the Slovenian book we have been already applying internationally and deploying internationally. Of course this will continue as well. So, for us, our placements of liquidity reserves will be replaced gradually throughout time with better-priced international exposures. On top of that, assuming that, of course, the prioritisation happens as announced, or as expected, obviously it is not in our hands, this would release further opportunities for us, which is leasing and factoring, where naturally of course you will land at higher margin. This is something that is a new opportunity for us as well. It is coming from partly new products, partly new geographies, or the same geographies with more potential because now we can operate with the entire potential of the entire group, so from Slovenian liquidity reserves and partly from the originated mix of lending. By that we believe that in the mid-term, of course, these margins should be achievable. On the other hand, of course, in the mid-term we also hope for the interest environment to gradually normalise after all.

Moderator: Thank you. Now we are moving from the revenues category to costs and there is a question for you about costs. Is the operating cost figure you have a good quarterly run rate for the rest of the year or should we expect Q2 to Q4 costs to be higher than the Q1 figure?

Archibald Kremser: Thanks. The Q1 number is showing a year-on-year decline. Of course we are very proud of such a trend but it should be looked at with caution. We typically see a Q4 cost increase relative to other quarters that is partially technical with accruing certain contracts and recognising certain contracts. As I said before, we are in the middle of a visible, if not substantial, CAPEX initiative and so over time, this is happening gradually of course, the pace is over the next 2–3 years, this will gradually increase depreciation and amortisation. On the other side, we are really ramping up efforts to increase labour efficiency. In other words, we are investing in process improvement initiatives and by that we will reduce, on one side, headcount in, mostly, Slovenia. We will continue to wind down the non-core operation, which still carries a cost base of some €7–8 million and altogether, our ambition for the full year is to contain costs at last year's level. However, partially that is a little bit also subject to our ability to invest and our investment pace. So our ambition is containment, it is subject to developments that are partially of a project nature and not fully predictable on a quarterly base very accurately.

Moderator: Thank you Mr Kremser. I think, with this, you have covered all the cost-related questions and we can move on to the next category, which is capital and risk-weighted assets. So the question is: 'Is there a plan to issue an additional tier-two capital later in the year? The initial guidance was to issue a tier-two equivalent to 200bps of risk-weighted assets; is this plan still valid?'

Archibald Kremser: In essence, yes and what you have seen with the bond issuance is one element of that plan. There was no need to do all of that ambition at once and we basically tried to benefit from our relationships, our relationships to domestic and regional investor basis, our relationships to IFRS and by that, cumulatively, try to simply get an overall better result for the bank. However, the ambition to increase capital efficiency is still the same.

Moderator: Thank you. Another question about risk-weighted assets: 'What are the implications of the new MREL requirement?'

Archibald Kremser: So MREL is not, strictly speaking, a risk-weighted-asset-related topic. MREL is the requirement imposed by the new bail-in regulation to maintain bail-inable funding. Our MREL requirement, as recently communicated with a separate capital market notice, has basically been postponed to the year 2023. Also we were about to meet the previously-indicated requirement anyway. This requirement is now temporarily off. Of course this does not change our ambition to fully meet MREL requirements if and when needed. However, for now, actually, technically speaking, the MREL requirement has been put on hold. Of course, that is, per se, beneficial because it somewhat reduces the need for typically expensive capital markets funding.

Moderator: Thank you. I think we are staying with you. The next question is about cost of risk: 'Cost of risk was still negative in Q1 2019. I know this is difficult to predict but could one expect negative cost of risk to continue in 2019?'

Archibald Kremser: That is indeed difficult to predict. We maintain our statement, which is, at some point, cost of risk will normalise. Blaž mentioned the macro environment is very solid throughout the whole region. Also, of course, it is evident that, at least from a European perspective, there are many clouds on the horizon, so how long this will be maintained is hard to predict. However, for now, the performance of the non-legacy book in terms of credit risk is very, very solid and positive and of course the NPL resolution dimension is really single-transaction-linked and partially pretty material. As mentioned, Q1 has seen a €5 million P&L effect from such a situation. So we maintain that, yes, our outlook is carefully optimistic regarding very low cost of risk but of course, ultimately, you never know.

Moderator: Thank you. Now we are moving on to the general questions, so the general category and our first question in this category is: 'Is the restructuring plan and binding restrictions on M&A, is the acquisition ban, in place until 31st December 2019 or until privatisation?'

Blaž Brodnjak: This is the only commitment that remains in power also beyond privatising residual 10% and is actually in power until the end of 2019.

Moderator: Okay, thank you. Another general question: 'What attracts you in Serbia? Do you see a potential in M&A in Serbia?'

Blaž Brodnjak: Well, the Serbian market is of course the largest market in the region of our presence and by that, of course, also one of the main markets in our landscape of Western Balkans, where we have been the only international banking group actually covering all ex-Yugoslav markets in the Western Balkans out of the European Union. This is also our unique value proposition to our client base, all of our regional specialists, of omnipresence. In the Serbian market, unfortunately, our market position is the weakest of all because in all other countries, our market shares exceed 10%; in Serbia they have still been below 2%. So of course we are interested in finding ways to grow this business in Serbia and of course we have been recording a strong organic evolution. However, we also announced previously that there might be M&A opportunities and the bank would not shy away from analysing such opportunities eventually and of course, in a dialogue with stakeholders, taking decisions in this direction or not. So we would be exploring, analysing all possibilities to grow the business, of course subject to this analysis and then, in agreement with stakeholders, pursue the strategy.

Moderator: Thank you. Another general question about the investment grade: 'Recent Standard & Poor has upgraded NLB to investment-grade; does this bring any positive effects?'

Blaž Brodnjak: Of course it does, first mentally, because two out of three, it is already very relevant positioning, so after big distress of this banking group, after receiving the state aid, after fundamental restructuring that took years, finally for the last three years NLB Group has been, firstly, the most profitable Slovenian group, which we are proud of on one side. However, at the other side, of course, this is opening doors and opening potential to cooperate with the broader investor base, be it of course for capital instruments, be it for funding instruments, this is actually reaching a substantially bigger landscape of potential counterparties and our partners, the ones doing business with us, acceptability of our instruments for clients, like guarantees, like documentary business instruments. So this is really a very, very important milestone for us, very likely one of the most important ones in recent years. I would put it in the context of finalised privatisation, us being, of course, worthy of investment on one side but then freeing strategy, finally being able to compete normally with other players in the region, this is a very, very strong opportunity on one side. However, as I said, mentally for us, something that is an extremely important milestone. So we are really proud of it and we really are basing our future operations on this strong progress.

Moderator: Of course. Thank you for this answer. The next question is again general but it is related to corporate loan growth. The question goes: 'Corporate loan growth: there has been reclassification between the segments but it does seem Slovenian corporate balances have stabilised. Can you let us know the dynamic between the new disbursements and redemption; might we see corporate loan growth, finally?'

Blaž Brodnjak: In core segments it is happening as we speak for quite some time actually. In core segments there is a solid evolution, apart from, of course, the public sector where we have been losing base for the last years because we were not able to compete because of the ROE commitment. So here we have seen our stabilisation and in prime-rated corporates, the effect was comparable in previous years because we were not able to offer, actually competitive pricing. Now, finally, we see pipelines that we are able to follow first, of course, in terms of pricing positioning and on the other side, yes, there is stabilisation, we believe, at least at this point of time, of corporate books, beyond netting simply because of the NPL reduction but this growth is still very shy. So generally our level of investment in the country and in the region of corporates is still on a very low basis and by that we do not see a potential yet for a very, very strong pick-up in growth. There is a growth, a moderate one but there is some growth, finally.

Moderator: Thank you. Another one which is related to segments because you have just explained this a little bit: 'Can you comment on the segment changes you introduced in 2019? What were the reasons for that?'

Blaž Brodnjak: So we did reorganise, basically, our appearance towards clients some years ago to establish normal underwriting practices, contemporary underwriting practices, already then understanding that one we are ready with a digital value propositioning and once we are ready then for a solid underwriting process based on solid cost models, we would eventually be moving, again, micro companies to retail. So regionally, actually, we took the micro segment from retail, isolated it and worked on it to be come, really, a reasonably run operation according to contemporary underwriting standards and market, also, sales practices. Once we reached a point that we now believe that this is now ready to really become again a standardised business, able to address requirements and needs of mass clients, we are basically moving this back now to retail. So we are now going to service, or have been already servicing, the micro-companies from, actually, branches, be on the location, supported by robust models and supported also through mobile app and digital propositioning through the chat and video chat support 24/7 so that today small micro-companies can actually get an overdraft or a quick loan for small investment needs via mobile app, money on the account in a couple of minutes, not having to talk to anyone or sign a sheet of paper, in principal, as a final outcome. So this is something that is a strong progress in terms of client experience. On the other hand, we cleaned a bit, also, other segments where we have segmentation criteria between key accounts and mid-market clients and then, of course, the micros. So we cleaned up, more or less, this segmentation and client responsibilities. This is the main reason of this segmentation.

Archibald Kremser: Maybe just to complement, we also isolated the investment banking revenues and actually the investment banking operations, so the people and everything, of course, going along and formed something we call corporate investment banking. This is basically a new, combined segment that shows not just from a P&L point of view but also from how we want to deal with larger corporate clients to offer them the whole universal banking and investment banking services in our region. We want to be the leading corporate investment franchise in that region. That has then naturally also led to some reclassification of revenues but more importantly also the organisation itself. Finally, we basically cleaned up the previously-called non-core segment and in the remaining non-core segment, we only maintain now, really, run-off operations. Blaž mentioned already some reallocation to micros to partially retail and partially other corporate segments. So all of that is described and disclosed in detail in our public disclosure. Of course if there are detailed questions, we realise it is a bit complicating also the year-on-year comparability but our investor relation team is more than happy to address specific questions on that matter.

Moderator: Thank you gentlemen for all these answers; I think you have provided a lot of valuable information. We are also getting close to our time limit for today, so we will accept one more question, which is very straightforward: 'What is the current status of NLB Vita?'

Archibald Kremser: So, as you know, the commitment to divest NLB Vita is basically, for now, a given and the result of a somewhat slightly delayed privatisation process initially. So the bank is getting ready to run the process of divesting this operation in an orderly and competitive fashion. We do not see this at all as a distressed sale and we will, for sure, organise a competitive tender. We are firmly convinced that this is an attractive asset per se and we are, of course, not abandoning this operation but are looking forward to maintaining quite a close relationship with that entity. In this sense, the product ownership is, for us, not as strategic as the ability to distribute this product effectively, which we have shown to be doing very successfully in the past and very much looking forward to continue to do so also in the future. In terms of strategy, nothing changes, this product factory ownership is most likely resolved in a competitive tender. There are still certain discussions pending, whether or not this commitment, ultimately could be relieved. For the time being, our assumption is that we will proceed with that transaction.

Blaž Brodnjak: So, to sum it up, we are working towards fulfilling the commitment, which will be the last remaining commitment, practically. However, of course, at the same time there is a parallel dialogue triggered with the European Commission yet there is clearly no guarantee that this would lead to a successful outcome, so to be, of course, responsible, we have been running activities as if, of course, this transaction will happen.

Moderator: Thank you very much, our time is up. We tried to give you as much information as possible and we hope that most of your questions have been answered. If you do have further questions, you can always refer them to NLB Investor Relations. Their contact details are on the last slide of today's presentation.

Now I would like to ask Mr Blaž Brodnjak for a few closing words.

Closing Remarks

Blaž Brodnjak

President of the Management Board and CEO, NLB Group

Thank you very much, I would just reiterate that the development of our business has been according to plans. We are firmly on our track to become one of the regional systemic institutions. We believe we have been so far already but we believe there is opportunity to further, of course, enhance this position. Very soon we count on finalisation of the privatisation process, which will finally free up the bank from the straitjacket of long-lasting state aid and restructuring process. By that, of course, we will be able to address new opportunities, be it, of course, geographies through cross-border, be it through, potentially in the future, acquisitions also but addressing some product lines that were not available to us so far for quite some time, such as leasing, factoring, supply chain finance, trade finance and so on in the entire region, being able to following project finance, infrastructural projects in this region. By that we will be able to deploy the very solid liquidity position of the bank internationally but at the same time also focusing, still, all our activities on efficiencies and improvement of client experience. We are convinced, firmly convinced, that the client experience is the name of the game so we are working on onboarding, as we already presented so far, a front-end omnichannel solution that is one of the international leading ones through the entire landscape of our banks, so all seven banks and by that, of course, be closer to clients in a uniform way at a high service level. At the same time, for all standardised transactional services, we will actually offer end-to-end a straight digital experience, supported by chat and video chat service from our contact centre. However, of course, we will still keep in very close contact with clients when it comes to products and solutions that have long-term consequences, so talking about long-term savings, talking about housing solutions and other comparable wealth management, bank insurance products. We want people in branches. We want our esteemed clients in the branches to have a qualified dialogue, having more time for this qualified dialogue, whereby actually transacting standardised products practically on their own, so the clients can do it practically from their sofas. In principle what is very encouraging – and I would mention this as an example – is the strongest individual branch in consumer loan production in the last months actually has been the mobile app. This is just evidence that there is a strong pick-up in digitalisation. Of course, there is also some time that clients understand that they can actually do it on their own. The second very encouraging feature of this channel is that more than half of the production happened, actually, during a holiday or a weekend. This means that people are valuing their time, of course and by us being 24/7 available with chat and video chat, if needed, we are actually meeting this expectation. By that we believe that, by doing this homework, we will be able to differentiate in this region because we will be offering this as a uniform standard of service throughout the entire region. By strengthening our position in some markets and of course potentially thinking of other international opportunities when it comes to lending, we firmly believe that these mid-term forecasts and projections that we have been showing to you for the last quarters will be achievable.

Thank you very much, warm greetings from our side and we look forward to the next webcast for the semi-annual result. Thank you.

Archibald Kremser: Goodbye.

[END OF TRANSCRIPT]