NLB Group 2019 FY Unaudited Results

Friday, 21st February 2020

Ladies and gentlemen, dear shareholders and other stakeholders, thank you for joining us. Today the NLB Group unaudited financial results will be presented by Mr. Blaž Brodnjak, Chief Executive Officer, Mr. Archibald Kremser, Chief Financial Officer and Mr. Andreas Burkhardt, Chief Risk Officer. Before we go on I would like to draw your attention to the disclaimer related to the forward looking statements which you can again find on the second slide of todays' presentation. Our plan for today is the same as usual, we will start with a brief performance update and after that the Management Board will answer your questions. We have received a lot of them over the past few days and you are most welcome to send more questions during this webcast. Just go to the landing page and use the question button below the presentation. Now we are all set and I would like to invite Mr. Blaž Brodnjak to start the presentation. Mr. Brodnjak.

Thank you very much. Good morning from sunny Ljubljana, I am glad to be able to present today the results of 2019, last quarter of 2019 of course the whole year of 2019. The management team believes and is confident it was a solid year, we delivered on practically what was expected in all dimensions. There have been some one-off quarterly dynamics, but overall the whole year has been successful. We have positioned the bank further in financial markets, capital markets last year with solid instruments, so we have issued 3 Tier 2 instruments by which we more or less used the whole potential for capital optimisation from the Tier 2 angle and of course as we speak we have been considering as we announced also other measures that potentially can be working in this direction. It is important to say that we have completed actually the state aid process by delivering the last very important commitment, we have signed namely the SPA for divestment of the joint venture insurance company NLB Vita together with Belgian KBC Group. It has been a successfully concluded process, the closing is pending, we expect it to be done until summer. But this is really in terms of what it means for the banking group the NLB Group as such really the last milestone concluding the state aid process. This really is bringing us into a position to now normally compete and to actually deploy the entire potential not only of course in our core region, but internationally. We have been as we speak completing already on cross-border transactions, some have been completed practically, all the countries of our presence and we have been already applying for you know leasing business, we have introduced first receivables purchases leading towards factoring platform. We have introduced new platform actually for trade finance which we believe can become a regional platform and us being the only regional provider covering beside Slovenia the entire Western Balkan and we believe we can become really fundamentally important and systemically relevant player when it comes to promoting trade, when it comes to really promoting free movement of goods, capital and talents throughout the region. And this is something where we believe we can really contribute to quality of life in the region, not of course merely via financial instruments but by simply being there as the one that is living here.

There have been lately some regulatory changes imposed on the banking system, not only in Slovenia but in some other countries as well restricting partially retail lending, especially consumer lending. This has had impact obviously on the capacity of the banking system to grow loan volume in retail business. On the other hand we have been still exposed to significant inflow of abundant liquidity, so deposits have been growing and this brings clearly a structural issue to the bank's profitability, so the liquidity reserve book is growing quickly. On the other hand there are rare opportunities to invest this money in sense of lending activity. So corporate activity has still been relatively shy, especially you know in the region of our presence still more robust maybe than in some other countries in Europe, but general macro situation is not inviting for significant investments from corporate, so this uncertainty regarding actual shape of European economy is still there, so the investment activity and consequently of course credit activity from the banks when it comes to corporate lending is still relatively shy. On the other hand with these restrictions in retail lending of course this brings challenges to the banking universe in the entire region and this means of course that we have been working on finding alternative ways which means focusing on fee income which means focusing on other revenue pools. It is very good fact actually that NLB Group has not been allowed to address some of those in the past, so we do have incremental opportunities such as mentioned leasing, factoring. We will be strongly focusing on bank assurance promotion and wealth management services throughout the region. And as said through our ability to lend now internationally of course identify and then of course address opportunities for cross-border lending as well.

When it comes to key KPIs that we have been talking about throughout last two years since the IPO. In principle the biggest challenge has so far been to keep stable margins, it is clear I mean from the monitory policy perspective and on the other hand from really significant inflow of deposits that we are not able actually to you know deploy as they come in at the same pace. This has been clearly a challenge so what we are doing here is addressing other revenue pools and really you know focusing on intensified activities, but then again not only focusing on of course interest margin business but clearly on fee income. We have had solid trends in fee income and you have to look of course then at combined picture of revenue origination which is solid, so there is growth both of interest income and even stronger growth of fee income. There has been clearly an issue of cost containment, we have had wage inflation throughout the region of South-eastern Europe between 4 and 10 percent even some markets and this has clearly been something we have been dealing with intensively. If you look at employee cost tendency you have to understand of course that there has been a one-off normalisation of management layer salaries throughout the Group. On the other hand of course we have been addressing this with further focus on efficiencies and we have committed that there will be of course head count reduction in the coming years of up to practically 20 percent of staff. We have been talking publicly about 500 reduction.

On the other hand of course there is still a very solid development of cost of risk, we have seen still releases of provisions yet we have come to the levels and Andreas will talk about this later on of the NPLs which are really in absolute terms very very low, so there is not much left actually in absolute terms to reduce significantly further. And in terms of non-core asset divestments we have come practically to really below half a percent of total asset, so this is also a territory that there is not going to be a lot more opportunities from one-off positive contributions to the bottom line. In terms of returns we are practically at target level, so around 12 percent which was a midterm ambition. We will be talking later about capital, Archibald will present developments there. And in terms of asset quality I mentioned with really decisive measures of further reduction of the NPLs we have come to the NPE level of practically 2.7 percent on the Group level which is significantly below already the midterm targets and it is actually approaching the level where this is economically then questionable whether you want to reduce significantly further at margins that are still allowed in this region. By that introduction I would pass the word to Archibald to guide you through more details, Andreas will then join for the risk part and I will wrap up with the outlook.

Thank you Blaž. I will keep the presentation reasonably brief, because I understand we have plenty of questions so we will try to be also more specifically answering them later. It is a pleasure to present a very good result for 2019 with solid bottom line and ROE close to 12 percent that is actually our target. Obviously the performance on that target was helped to some extent by one-offs both positives and negatives. And of course we are putting at most attention both on revenue and cost side to meet that target in the midterm on a recurring basis. And as Blaž has indicated we are running a number of cost and revenue initiatives and are as it is also known pursuing non-organic activities. We believe that combining all of these measures we are very confident on delivering on those ambitions. Speaking now more specifically about revenue and cost in history meaning 2019. As Blaž indicated the revenue environment remains a challenge, also we are very proud to actually report a good single digit improvement on revenues namely interest income and non-interest income clearly on non-interest income specifically fee and commission income we show very solid performance, interest income as was mentioned more under pressure. Clearly it is as much an asset as it is a liability dilemma which is of course why we are considering also very specifically how to actually make up for pressure on margins incurred by a continued very strong influx of deposits which is the challenge for the whole European banking system and of course there are mitigents both on the pricing side as much as on steering some of these deposit inflows also to alternative products which is obviously heavy attention item. And you see some of that reflected in the positive dynamics in non-interest income. So we are actually quite successful in steering some of the deposits and savings into asset management and insurance products and that is certainly something we will pursue also in the future.

On the cost clearly Q4 was cost heavy and to some extent this is what we see every year as a seasonality in the fourth quarter typically in the range of 4 to 5 million. We also had as Blaž indicated to some extent variable components in salaries that are accounted for and accrued in Q4. And of course normalisation of senior management remuneration is including the variable part for 2019 which is accrued here and is also visible uptick on quarterly level. To some extent you see here charges of strategic initiatives we have been pursuing, so there is a third roughly one-off in this sense. Cost of risk Andreas will be much more specific, obviously we still run negative cost of risk largely coming from the corporate book and NPL resolution. Retail cost of risk remains very low and stable. And by that of course we have a very positive bottom line contribution over time this of course will level out, but for the foreseeable future we don't see a substantial deterioration on that front. On the income statement as such you see very very solid bottom line of 194 million euro accounting for all the dynamics mentioned and as you see very nice developments on the revenue side. Of course somewhat less positive dynamic in impairments and provisions. And of course cost is something that as mentioned is reflecting some of the investment activities we are undertaking in the digital space, also in the employee dynamics and it is clear we are very very focused on cost as much as we are on revenues and clearly there will be a measured effort to replace some of the investments and thereby costs invested in digitalisation of the business model with reductions on the physical footprint of the bank throughout the Group, but of course predominantly also in Slovenia. So this will remain an absolute focus and attention point actually of me as a person as well.

On the income tax you see a quite visible improvement and this is basically a one-off recognition of our deferred tax asset which we basically validate each and every year with a five year projection and as we get more confident in our profit generation ability specifically in Slovenia we basically reduced somewhat our conservative assumptions for the next five years not to say we get more aggressive but just accounting for something we can reasonably expect has basically resulted in a one-off adjustment of the deferred tax asset which you see as a lower tax charge on Group level coming mostly from of course the Slovene entity. This results in a visible reduction of effective Group tax rate which is not something you should expect on a recurring level but rather as a one-off event. Of course the DTA still remains to the largest extent unaccounted for as only a fraction of what is actually available in terms of tax asset is accounted for in the balance sheet, so roughly 30 million out of somewhat 260 is accounted for in the balance sheet. So this will provide substantial buffers to the tax charge in years to come, in terms of bottom line contribution as said it is an adjustment of five year recognition period. Of course interest income dynamics are at the moment flattish and this is as mentioned couple of times already also to a large extent the dynamics on the liability side as they keep pilling in. Deposits we are somewhat struggling to deploy the same amount or even higher amounts on loan assets which means good part of that ends up in the liquidity reserve book. This liquidity reserve book is managed very conservatively for good reasons, not just from credit point of view but also from rates exposure point of view as it is not entirely clear how rates will develop in the future. We are rather carefully positioning that book and maintain a conservative profile. This is putting pressure on margins, we are aware of that.

Of course there are number of business initiatives undergoing on product side as much as on further expanding retail book. Product clearly leasing is an initiative that is in preparation and is obviously a higher margin activity. Blaž mentioned cross-border initiative of out of Slovenia deploying capital and liquidity in our target geographies. And so there will be major efforts to help sustain margin and eventually improve, but of course that is an acknowledged struggle. And to some extent the struggle on NIM dynamics will be mitigated by more efforts also on fee and commission income as mentioned before. The dynamics on entity level highlighting Serbia with the most negative dynamic year on year, this is entirely driven by a very solid growth on the asset side that is being accompanied by a concerted effort to also grow the liabilities to keep up with that balance sheet growth. And of course function of policy to remain self-funded for each and every entity. So in this sense that is a deliberate acknowledgment of our funding strategy, not so much real deterioration in the margin environment in Serbia. For Serbia itself of course we are very optimistic and consider this for many reasons very strategic market.

On non-interest income the dynamics clearly are much more positive and of course we put a lot of effort into this space both in terms of pricing products appropriately and also strategically to emphasise more third party product distribution. We are very successfully distributing asset management products, this trend has continued in 2019 and of course will remain a key focus in 2020. We are actually considering how to expand this product also into the region. And of course the insurance distribution will remain a key strategic priority of course also after the divestment of Vita which was our joint venture and as was communicated already we signed in our view a very good transaction with a strategic partner. And of course we will be putting a lot of emphasis on to expanding that partnership also possible into the region. And by that fee commission income remains absolute key priority in our future ambitions. On cost clearly the Q4 as indicated was cost heavy for reasons mentioned and clearly more importantly looking forward we expect comparable cost dynamics in 2020 as we have seen in 2019. Then onwards we will be very very much striving to not just contain but ultimately also reduce costs and you have seen and Blaž mentioned that we took a charge anticipating some of the staff reduction, specifically for Slovenia in the year 2019. And by that more or less accounting for already envisaged head count reduction. Most of them will come through natural attrition and by that we think that over time costs will actually come down. The cost to income ratio target of 50 percent remains a firm ambition of this management team.

The loan dynamics I think are by and large quite positive. In 2019 especially in strategic foreign markets, so our subsidiary markets very solid loan growth. Retail in Slovenia 2019 also very positive 6 percent year on year. Gross loans to corporate flattish dynamics, bear in mind here you actually see also the effects of the NPL reduction which are accounted for in the gross loan book. Actually the real business dynamic is better than that we see here low single digit growth also on that book, predominantly coming from also the efforts with regards to the cross-border book. As Blaž has mentioned obviously there is pressure on loan growth in retail in Slovenia specifically as a function of this new regulation being put in place and of course it is premature to comment on this specifically as it is early days after that measure that was introduced in November. So we think we can be more specific on how this really affects retail business in Q1. Not to add too much on the geographic dimension, obviously our subsidiaries all of them doing very well. We should highlight again the very positive development in actually two subsidiaries, one Serbia and the other one Priština. Serbia obviously growing from low base or relatively low base, but showing the good prospects this market offers. Kosovo as indicated many times is very very solid franchise of ours and numbers speak for themselves. But by and large all markets showed good loan growth in high single digits or even double digits and in 2019 we also observed very solid loan growth in Slovenia. The liability side remains boring as it should be, we are largely deposit funded throughout the Group and by that not relying on any capital markets funding. We also don't envisage material funding needs for so called MREL requirements. The only funding activities and it is not funding, but capital management activities were mentioned before we came out with 240 million cumulative listed bonds, international listed bonds and another 45 million listed bonds on the domestic stock exchange. This was of course entirely a capital measure preparing the Group for further risk weighted asset growth. By that I pass the word to Andreas commenting on asset quality and impairment charges.

Archibald thank you. On asset quality as you can see in 2019 we have further substantially reduced our NPL book, so from 622 million to 375 out of which approximately one third doesn't even have a zero day of delay. So that is now in the meanwhile already very very moderate numbers. What you can also see is that the formation of new NPLs has continued to be very low, actually very stable and comparable to the previous years, so down from 0.7 to 0.6 percent overall and this in a less favourable environment than we saw in 2018 so I think that is for sure a good confirmation that on new business actually the bank is doing the right thing. What you can also see and the colleagues both mentioned it actually before already we still overall had a negative cost of credit risk, but what you can also see is what I said already a year ago that slowly of course here we will see normalisation. So on one side incoming new NPL still very moderate and this seems to be for the time being also not changing. On the other side obviously the capacity from our NPL book to resolve this book is coming closer to an end because simply there is not much left and this you see obviously in the cost of risk development nevertheless obviously we are happy that in 2019 it still stayed negative. I indicated to you a year ago that we might be around zero, maybe not negative anymore, so overall I think that is a very good success here. And what you can also see is that the releases primarily going back in NLB d.d. but still the big bulk here is coming from the mother bank, so here we are still very successfully resolving NPLs. And on the subsidiary banks which mostly also have much smaller numbers absolutely you see cost around zero, actually here on average in the meanwhile slightly positive and that is for these markets also a very good and robust signal given the fact that the economies are not as bullish anymore as they were. Still very positive one Archibald also mentioned it before is Priština, so they are on one side growing solidly, having very very low NPL ratios and still even from working out what they have having very small inflow. So that is maybe one of the subsidiaries here also to mention. With this I am handing back over to Archibald.

Ok, so in brief capital being aware that of course that is a key topic of interest for any bank, but of course specifically also for us. The bank is showing capital adequacy as of yearend as targeted, we published the management target of 16,25 and we are spot on by yearend on the target and that basically tells that we manage capital on as need basis, so we don't envisage to cumulate buffers over and above we want to have. So this is how this number is to be understood. You are aware that we have substantially raised the capital that you don't see accounted for yet, this is namely the two bonds that were issued already in amount of 240 million euro and they are in the process of being acknowledged by the regulator and normally we would envisage that to be shown in Q1 of course subject to all regular procedures. These are fully standard bonds, so we don't expect any dilemmas on this space. As was also mentioned on previous occasions we basically redeemed another instrument that we raised on the local market for no other reason than basically trying to avoid a lengthy regulatory approval process with EBA consultation. Not because we didn't think eventually it might be successful, but because we wanted to avoid this lengthy period of uncertainty for capital base. Certainly we by that have completed our Tier 2 ambitions and Blaž mentioned of course the regulator also gives and allows for issuance of instruments on the AT1 space. We are observing and following this market, market conditions are quite favourable, so this is something we keep an eye on. And obviously with our current capital raised we are well positioned for risk weighted asset growth. On risk weighted asset itself the dynamic was more or less in line with loan growth and of course there is a number of things we are undertaking to also get risk weighted asset density down over time. This is an ongoing effort, some of it strategic, some of it tactical and of course we are pursuing all available instruments in this space. That will be it on the numbers and by that Blaž will conclude with outlook.

Thank you Archibald. So in principle macro environment we are all monitoring including all of you and it is not improving over time, so we have reasonable challenges here. The economic growth in the region has been slightly reduced, so forecasts for Slovenia are now between 2.5 to 2.7 percent for this year to come and in the region we still see a robust evolution especially markets like Serbia where we still see 3 to 4 percent rather. And some stimulating reforms that are actually introducing this market as a very attractive one to invest. In others we see still robust development and we expect robust development in retail lending growth. Corporate remains still an issue because there the investment capacity is still relatively low yet as Archibald mentioned within Q1 we will be able to shape up clear view on what this lending restriction in Slovenia actually means for our capacity and ability to grow retail book in Slovenia. We have as it was publicly announced filled an initiative for constitutional assessment of the measures since we firmly believe that in the environment that has a solid growth, Slovenia still has these 2.5 percent growth and practically full employment, significant growth of wages and savings there has been no need to actually make almost two third of pensioners credit unworthy in the banking system while allowing credit activity from third parties, but of course we don't have any certainty at this point in time that these measures would be modified, so more concrete picture we will be able to produce in the months to come.

That is why in principle but not only because of that clearly we have been focusing on the revenue pools out of the country, so Slovenia becoming less attractive actually for banking investment. We have been investing of course out of the country in sense of lending activity and in this respect of course deploying our capacity in terms of liquidity and capital you know productively. And by that of course clearly trying to understand the growth opportunity not only through lending and through traditional products, but eventually understanding M&A opportunities, Archibald was specific on attractiveness of Serbia in this respect and we have been continuously analysing opportunities and of course participating in eventual processes. And in the midterm clearly we would be trying to understand eventual other opportunities on our markets, we have been mentioning of course Albania as the add-on market in the region by which we would be wrapping up Western Balkans as actually the only player covering all the markets and in all the markets actually holding relevant market position. And by that of course developing more or less a regional player of universal financial services distribution and that can of course bring significant improvement of client experience, but of course through the entire set of CSR activities, we mentioned continuously this is our home or head office is in this region so we understand the specifics and via focusing more on the entire ESG universe of course also delivering or promoting and helping out to improve the quality of life in the region generally. So in this respect it has been a very solid year 2019, 2020 is bringing challenges but we are not specific in that so the entire European banking industry is exposed to these challenges.

We would of course be happy if there were no restrictions imposed in Slovenia, but we are dealing with this professionally and we are of course exploring opportunities internationally while finding then ways to improve the fee income especially in Slovenia considering measures of course how to de-stimulate such strong influx of deposits, because this is really the gist of the interest margin compression and really also you know profitability challenges. As we mentioned already before we introduced the asset management fees for the corporate clients and of course there has been a public debate on retail clients as well pending when then how this would be introduced is still too early to say, but in case you know such environment somehow is there to stay for longer period in NLB we see practically no alternative to charging also you know for retail balances and deposits in the banking system. Generally we are very positive, optimistic about our capacity to grow internationally, about us being able now to deploy the entire as mentioned capital and liquidity potential of the Group internationally to really develop a leading regional universal financial services platform and via covering all these markets practically being more or less a representative of the macro of the region and by that we believe also a reasonable investment opportunity.

The growth is coming through organic and as said M&A opportunities and we are fully equipped for it, we are confident we can manage even in case of M&A post-merge integrations of what we would acquire and by that really lead to accretion of value for all stakeholders of the banking group. So thank you very much for listening to us so far and we would now gladly answer to the questions. I would simply announce one more thing which is very important, so it will be jumping into the answers, allow me to invite you all to our first official investor day which we are organising in May in Ljubljana. So the ones that have not yet had a chance to visit our beautiful country and Ljubljana will now have a chance and we would gladly host you all here on the 15 of May. More details will be published and of course your relations with our investor relation team you can get more details. We are really looking forward to the event and meeting you all and then we might have of course more opportunity to debate further details, but in any case our investor relation team is on standby to answer your questions as we go. For today we then go to Q&A session and I kindly ask Lili to raise the questions that were raised.

Thank you Mr. Chairman, thank you gentleman. This was the performance update with a lot of valuable information already and now it is time to answer your questions. As I said before a lot of questions have come in, they are still coming actually and they will be grouped and addressed together, not one by one which should give us more time to give you as many answers as possible. And we can start with our first question which is the new consumer loans production. The question is it seems that the new consumer loans production went down by some 25 to 30 percent quarter on quarter. Do you expect further downward trend for 2020? And another question is what are offsetting or mitigating actions you can take in the phase of the tighter consumer regulations in Slovenia?

We tried to answer this question implicitly already, so these restrictions have had impact, it is clear beside impact of total volume of retail lending there has been a shift of lending from consumer loans to housing loans and housing loans are long term products and more stable, but carrying lower margins, so there is a pressure actually on earning capacity from the retail portfolio. And we are of course by that forced to understand alternatives and of course one of the alternatives is focus on fee income which might lead as mentioned you know to introduction of asset management fees, to repricing of basic retail products which is going to damage the entire population, but you know these were the measures introduced and this is something of course we have to live with. On the other hand we have fortunately international horizons, so NLB is not you know somehow bound to Slovenian market only and we would be actively addressing as the other revenue pool opportunities. So it is really focusing on leasing, factoring, cross-border lending, still you know being able to leverage on the retail growth in other countries and of course hope for nevertheless more stabilisation in the macro environment and then corporate investment which the banking system can support.

We shall also add that specifically leasing is an undertaking that we are just about to await regulatory approval which we haven't obtained yet, but it is in process and we expect to get it any time soon. And that is a product predominantly aimed at the retail base, so somewhat the effect on banking will be mitigated with leasing and of course we will put an even higher emphasis on that activity in the environment as we have it in the banking system. Of course the whole toolbox available not just in Slovenia but also in other markets is what we are looking at and retail is not just a Slovene product, it is a very very important product across the whole region.

Thank you. The next question is about again loan growth expectations, so are you going to revise down the net interest margin and loan growth expectations since retail loans are now regulated? If foreign markets will compensate what is the risk for increasing NPLs and competing in markets where you don't have the same expertise?

I would pass the word on expertise when it comes to risk management and underwriting practice to Andreas, but in terms of parameterisation of products we claim the expertise is more or less present in the entire banking group. So I wouldn't say that our subsidiaries actually apply inferior practices, this is by no mean the case. So we believe that professionally of course we can address the opportunities at equal standards. On the other hand the other markets have yes indeed still being growing with you know reasonable pace. It is a bit early to say for Slovenian market where it is going to end up, because we nevertheless believe that Bank of Slovenia would realise that the measures have been too radical and there would be at least easing of it. But on the other hand we would be then compensating as said through other revenue pools and other placement opportunities especially leasing and cross-border and of course retail in other countries. On the expertise and underwriting side I would ask Andreas to supply a short respond.

So on the underwriting I think we can really firmly state that we have this expertise in all our core markets fully developed and whenever we back-test our logic and our models honestly speaking what we are seeing is rather that we are sometimes a little bit still on the conservative side. So in that perspective I am extremely calm. Also what we have to say is that our exposures are very well dispersed, you see that we push to a certain extent more for retail and SME and less and less we have big single tickets, so very well dispersed exposure. What of course is true is that you see in some of our markets higher cost of risk than you would see it in Slovenia, but you also see much better margins. So I think overall to the extent we have here the opportunity to grow under similar circumstances than in the past years, I think that should be rather something which additionally helps us. What was mentioned before is that we started introducing cross-border but that is not something very new, the point is just that due to EC restrictions till 1.5, 2 years ago we were here simply limited and we couldn't do that and now we started deploying liquidity obviously in our core markets for clients which we already know very well. That honestly speaking triggered more input, more interest than we originally expected, but of course what we are also learning that initially it also creates a little bit more wishes which we cannot fulfil and that is a job then obviously in risk management to sort that out which we are doing. So that part works very well. Where we are still very cautious and just have a very few tickets is outside our core region, but only in cases where really that is a well-established consortium, so where we also have a lot of expertise in reality from other banking groups and on very selected tickets within Euro region, so here we are still very conservative. In that sense we might see technically speaking a little bit higher cost of risk, but that should be overcompensated actually with better margins.

Thank you. There is a sort of a follow up question, because it is quite specific about net interest margin. When do you expect the net interest margin to bottom and what magnitude of support do you expect from leasing and cross-border?

So maybe if I take that. I mean NIM we rather like to see gross revenues than specific components of revenues and as mentioned now couple of times interest income is somewhat correlated also to non-interest income. There is a tendency of NIM to get under pressure, not just on the asset, but also on the liability side and we are working of course on mitigants, on the fee commission income. Then obviously NIM also in Q4 was already affected by our capital measures, the capital measures of course are basically front loading risk weighted asset growth coming from organic and non-organic opportunities. In this sense NIM is a little bit of, well it is not to be considered necessarily on quarterly level especially with this pretty substantial capital measures we took which basically are a burden on NIM in the amount of 10, 15 bps, so quite visible in reality. With regards to outlook I mean as now mentioned couple of times we are doing everything possible pursuing solid credit risk in the region and the region still offers plenty of opportunities in banking and also in leasing. We are just about to start pursuing all these opportunities, the incremental opportunities, so I think we are conscious that it is a challenge but of course we are also still aiming to meet our ambitions. The 2.7 percent NIM target we put out some time ago and we see now somewhat more relative in the context of a combined revenue target of interest income and fee and commission income. So in this sense it is ultimately the combined equation matters and in reality we look very much at bottom line performance, ROE performance and dividend capacity as the ultimate metric to follow.

Thank you Mr. Kremser. The next question is about net non-interest income. Net non-interest income is growing quite nicely particularly fees and commissions without the non-recurring component. Since the disposal of Vita is most likely to show here can you guide us about the range of the non-recurring component? Another thing related to NLB Vita is that distribution agreement between NLB and reinsurance Pozavarovalnica Sava, how much of this agreement can we factor into our assumptions?

Clearly we cannot be exactly specific on that but we believe that transaction itself is of course accretive from both angles, so P&L contribution is going to be visible in 2020 and on the other hand distribution agreement that we believe is an improvement from the previous one. Furthermore we believe that it is going to leverage actually the regional distribution of bankassurance in the coming years, so we generally see this of course as incrementally beneficial decision yet we cannot be clearly specific on the magnitude of the effects.

I mean what is clear is we and this was imposed by Commission we had to divest the entity and by that we lost revenues coming from the equity shareholding that is in the range of 3 to 4 million euro on an annual basis, so this will obviously no longer be ours. On the other side we have to say that the logic of this transaction has a merit in itself as for sure we as a banking group are not necessarily experts in managing an insurance business, so to this extent it was maybe a more normalisation of our structure. And of course on the actual income, on our core income from distribution we expect positive dynamics as we used the tender to also renegotiate the distribution agreement and in this sense are optimistic not just for Slovenia but ultimately also for our Group subsidiaries that there will be visible effects also coming from that space. In other words better distribution agreement not just for Slovenia, but also a good platform for the whole region and this will show in the years to come.

Thank you. Moving on to costs. Costs were up 4.4 percent year over year, what is your guide for costs to further increase in 2020? What will be the main drivers contributing to this growth?

That to some extent was answered before when I said we expect comparable dynamic on recurring cost also for 2020 as we have observed in 2019. As said before Q4 was particularly cost heavy for several reasons. One third roughly is basically variable component in cost dynamic as this is basically performance based pay for senior management. So in good years and 2019 certainly was good year you would see relatively higher costs, so in this sense this is if you want a profit share type of cost. Then we had some seasonality and we should also say there was quite some visible one-off charges booked on Q4 which of course we don’t expect to be recurring and that is also roughly one third of the incremental in Q4 versus other quarters. So we are focused on cost management, we have to keep investing in talent, we have to keep investing in IT and we are very conscious that we have to keep saving on less value added services and activities in the bank and ultimately also have to reduce our physical footprint as the electronic channels become more and more relevant. So that is why we say after 2020 we would want to see costs having plateaued and ultimately come down again with all the efficiency measures and reduction of physical footprint actually starting to show effects as well.

Thank you. Can you provide some more detail on the significant increase in other impairments and provisions and what this relates to? What are your expectations for 2020?

So clearly these are more or less one-off or restructuring related charges, as we disclosed roughly half is related to HR provisions and the other half is in essence still legacy NPL type of litigation that of course we see here and there materialising. We had cases both in Serbia and Monte Negro both in the range of 1 to 2 million euro, I mean those markets were the markets in our subsidiaries that were mostly exposed to NPL developments and so in this sense that is a little bit of a legacy. None of this in reality should be of a recurring nature.

Thank you. We hear a lot about risk weighted assets optimisation as risk weighted assets density is still above the sector average. Can you explain what initiatives have you taken and which you plan to undertake to optimise the risk weighted assets?

Partially we all have to understand that we are living in a part of the world that is non-EU and partially of course we are being penalised by European framework of you know treating sovereign exposures and treating some other exposures by practically almost 100 percent weight. There has been now a move in Serbia through so called equivalence process so that at least local currency exposures are treated differently, but I will give more specifics maybe chance to Archibald to respond to this. There is a set of measures we have been working on together with Risk colleagues, together of course with the Sales colleagues what business to underwrite. It is a comprehensive universe and it will have significant focus and attention from our side, but maybe Archibald you can answer more to this.

Well not much more to be added in reality, finance risk stream is working heavily on this topic and as you mentioned there is some structural development, some elements where we basically discuss with the regulator how to look at certain exposures and it is premature to be very specific on this. The obvious question for us is if at some point we will look at more advanced risk weighted asset recognition models and this is ongoing effort where we are basically at feasibility stage. In any event any effect from that if we were to address that in other words going from standard to advanced risk weighted asset recognition that would be a multiyear effort. I mean as you hear all three Management Board commenting on the topic it is very clear this is a key strategic focus, it is actually also captured in one of our strategic initiatives dealing with risk weighted assets density specifically.

What is limiting of course to a certain extent and Blaž already mentioned it is that we are only working in one EU country and obviously the possibilities to risk weighted asset optimisation in the other countries at this point of time are rather limited except now in Serbia as also Blaž mentioned, so that was for sure a helpful move. And then sometimes you know smaller things which also help, so we have established here in Slovenia last year a very good and professional cooperation on that topic with the insurance houses, because the problem is sometimes simply that you have a collateral and the only thing what is missing that you can recognise it from Basel 2 perspective is that you are sure that it is insured. So if the client doesn’t report back to you that is sometimes more tricky than it sounds and in the meanwhile we are exchanging with insurance houses this information automatically. So that means we have basically for all our collaterals the information for sure whether the insurance is up and valid or not. And obviously this is then also a certain release potential for risk weighted assets which we realised last year. So sometimes it is rather these small medium sized topics which at the end of the day also help you improving and as both colleagues mentioned we are all three of us having here a lot of focus on it and trying to optimise further.

Thank you. Effective tax rate from the year 2019 was 6.4 percent, much lower than statutory tax rate and lower than previously guided. From the presentation one can see that you have increased utilisation of DTAs, can you please explain this decision and make clear if we can expect the same in future years?

I think in effect I have explained that decision quite specifically so I would just reiterate we are looking every year at 5 year projected profit in Slovenia. As we got a bit more confident in our profit generation ability we increased the asset. That is nothing specifically exciting in this sense, of course it is visible bottom line contribution and it just is showing that this asset that we don’t recognise is a real thing because still the largest part as mentioned before of the DTA is not recognised in the balance sheet and this activity just took a relatively small part into the balance sheet and that is the whole magic. But the disclosures in the annual report will be as specific as possible so there will be full transparency on this.

Thank you. Can you comment on the potential acquisition of Komercijalna Banka in Serbia, when can we expect more clarity?

Well as I commented before we cannot be more specific at this point of time and we just continue messaging that we have been of course trying to understand and following eventual opportunities also for non-organic growth specifically and especially in Serbia, because we believe it is a highly attractive market and is really offering a lot of value to us in terms of accretion to the stakeholder and shareholder interest yet of course we cannot more specifically comment any of such process.

Thank you. I think this will be our last question for today and it is about the AGM and the dividend payout. Your financial calendar defines expected date of AGM sometime between 25 of May and 15 of June, do you have any clarity as to when do you expect AGM will take place? Can we assume that convocation will be the first opportunity to find out what is Management Boards proposal for dividend payout?

So clearly that is a regular process, there is of course the unaudited result that we published yesterday evening. There are certainly the basis for any AGM resolutions on dividends, our dividend policy is unchanged. Obviously there is the element that we always mentioned that in case of eventual material acquisition would occur we would have to tactically fine tune our dividend capacity and nothing has changed in this regard. So we are committed to in all imaginable circumstances also we strive to pay a dividend for 2019 and details will be communicated as things develop one way or the other. Clearly we have substantial capital buffers in place both on the Tier 2 as well as in retained earnings and we will dispose of this capital in the best possible way for shareholders.

Thank you. Thank you gentleman very much, our time is up. We tried to give as much information as possible and we hope that most of your questions have been answered, but if you still have some please send them to the NLB Investor relations and they will be more than happy to give you all the information you need. You can find their contact details on the last slide of todays' presentation. And now I would like to ask Mr. Blaž Brodnjak for a few closing words.

I will be very short, so thank you very much for being with us, it is an exciting journey. We believe that NLB is now really well positioned to not only address but really exploit the opportunities that lie in the region and of course internationally for us on a table. We are as a management team really thrilled and excited about it and we will of course do our best to address them also in the interest of you as the final beneficiaries and of course any interested stakeholder in NLB Group operations. We believe we can and we will develop a regional champion in distribution of universal financial services and a meaningful company also to the citizens of the region. So thank you very much and we see each other at the next webcast and until then of course our Investor relation team will be with you. Thank you very much.