NLB Group H1 2019 Results

Monday, 9th September 2019

Ladies and gentlemen, this is NLB Group's performance update on the first half of 2019. It will be presented by the Management Board of the NLB Group. First a warm welcome to our hosts, Mr. Blaž Brodnjak, President and Chief Executive Officer and Mr. Archibald Kremser, Member of the Board and Chief Financial Officer. Now, ahead of NLB's performance update, I'd like to draw your attention to the disclaimer, which you can find on this presentation. First we'll begin with the H1 performance update. Then the Board will answer your questions. We've already received a high number of questions, so thank you for these. If you'd like to ask a question at any point during this webcast, please, type your question in the box beneath the slide. If you are watching on a mobile phone, then simply scroll down for the question box, simply hit send, and we will get them asked. I would like to invite Mr. Blaž Brodnjak to begin the presentation. Mr. Brodnjak.

Thank you very much and welcome this time from London. We are privileged to be here today, on our roadshow but then of course, using the opportunity. It is the first time that we present the semi-annual results and we can be happy about the outcome so far. So the results are in the league of what was expected and what is the most important to mention here is that definitely, we have now done the most important steps within getting released from the constraint and the straight jacket of the state aid since the privatisation was in principle concluded. In June, the last 10% of the stock was privatised and by that, we have fulfilled the most important commitment to the European Commission, which was tackling the corporate governance aspect of our business and it is by that of course very meaningful and extremely important to mention that NLB is now on the track to finally get rid of all the constraints that have been actually limiting our business for practically a decade. This is something that is definitely impacting also our strategizing process so we have just initiated the re-think of the strategy as we call it. It's a refreshment, it's not of course going to dramatically change when it comes to traditional business but there are some incremental opportunities that were not available to us actually so far. I'm talking about leasing, I'm talking about of course eventually understanding the geography of our business in cross-border lending, bancassurance, wealth management as a regional opportunity. This is something now that really unleashes the potential for us, and especially the cross-border dimension also is a possibility to deploy significant liquidity reserves that we have aggregated throughout these last years, especially in Slovenia. Such a trend, we can now observe throughout the region. It is also important to add that we have also successfully the Tier 2 issuance which was announced last year at the IPO and of course later as well. We pace it in a way that of course is meaningful to us and is not dragging too much of cost for the Bank. But this is of course further strength in the capital base and enabling of the announced dividend policy on one side and on the other side of course the growth potential of this Bank. We believe we have issued this instrument at very favourable terms and by that just additionally proven the credibility of the banking business that we are running on the one side and on the other side of course the trust of the investors. This is something that we are grateful about. We have received another investment grade rating, so we have now two out of three investment grade territories which is additionally adding confidence of course to us and of course also our investors, and broadening of the pool of interested parties in doing business with us. Not only on the investor landscape, but as well in doing the daily business. We have been very active now in implementing the strategy in terms of digitalisation. So the first common banking platform that we have been using throughout the banking network of all subsidiaries has been actually the digital wallet. It has been launched already in three banks out of seven and the next one is launching it next week. So in the coming months, the entire group will be benefitting from the first common platform. When it comes to delivering digital offering to our clients we have been quite advanced already in Slovenia and in terms of lending activity I am really pleased to say so far already, last month, actually, 11% of all loans have been originated fully and digitally on-line, without the intervention of any person or signing any sheet of paper, which is strong progress. And of course through the implementation of the omni-channel platform throughout the entire network of the banks, we would like to offer the same service to all the banks, to all our clients, wherever we operate, actually, in the entire region. When it comes to the financials and the KPIs, key KPIs, we have been communicating so far, at and after the IPO, it is clearly important to mention that there has been a material change in how the monitoring policy has been conducted and how the ECB has been signalling the coming environment.

When it comes to the interest rates, this is definitely impacting not only our business but of course the banking business in Euro Zone especially but also in satellite markets. The expectations on the rates have changed significantly. So from the height we thought would be somehow coming in the late 19 or at least the mid of 2020. This is now of course obviously not on the horizon. We are looking at completely different messaging at this point of time.

The margin is nevertheless stable so far. But we all need to understand that especially in the Euro Zone this now produces significant pressure. So far, the economic growth in Slovenia has still been robust. Another element to mention is that of course it has been forecasted lower and the Q2 has been lower than anticipated for 2019. So there are two moments one needs to take into account. One is the lowered forecast for GDP growth in Slovenia and of course in the target region of our exports – Slovenia is exporting 80% of our goods to the European Union – and of course here we definitely impacted by the environment there, on one side, and on the other side, not only the volume of growth, also the monetary policy is impacting, you know, at what level you can place ever

increasing liquidity reserves. So far, the consumer confidence in Slovenia has been and is still high. Actually, now the main driver of the growth has been consumption, but we have learned from the past that price consumption is quite a shy bird, so in principle, if the economy still holds and the employment rate is – we are practically looking at the structural unemployment – everyone willing to work can find work and work in Slovenia. But in case there were a bit of a downturn in the sense that bigger companies started announcing certain lay-offs and the consumption then of course freezes a bit, and then this would mean significant additional influx of deposits into the banking system. People then tend to keep cash on the account and of course in this environment it is then not easy to deploy this liquidity at reasonable yields.
So the margin has been under pressure, we have kept it stable. And of course through the cross-border lending, through introduction of leasing business and of course focus on consumer lending and stronger production in subsidiaries, whereby their margins still have been higher, we would of course be building these margin levels throughout the mid-term period. I mentioned that the deposits have been really something that has been coming in very very significantly. There has been a debate, also in Slovenia, triggered now, whether and how this should be somehow compensated within the charging system so, would it be possible to start talking about charging for deposits on one side, for retail deposits, we do charge for the corporate deposits already. But of course we know that this is a very sensitive topic for consumers and this is not something that is easily to be addressed. But at a certain point of time, this changed paradigm in terms of monetary policy might lead to this thinking as well in the entire structure.
Capital structure is solid, is robust, we just supplemented it with the Tier 2 issuance. We are on a good trajectory when it comes to the costs, Archibald will give you more details on the evolution. There has been of course certain need for investment on one side of course into the talent and it is these days difficult to attract, especially IT development talent and some other specific profiles, but this is something we will have to be working on, and by that of course not following the wage inflation but there is certain reasonable need to invest into talents, but on the other hand we also need to invest into digitalisation and transformation of the business. There is going to be of course a diligent focus on our side and disciplined behaviour when it comes to cost management, but Archibald will give you a little bit more guidance on what can be expected. Cost of risk has still been very favourable but we are gradually levelling out, so in a way that we see a bit of normalisation, we are now more or less around zero. We have mentioned on a couple of occasions that the stock of assets available for eventual write-downs is not that high any more. So what we are looking at is a significant reduced book of non-core assets, significantly reduced book of NPL assets, coming to the NPE ratio already of 4.1, which was practically almost our mid-term target. It is clear that there is not a lot more potential for one-off positive contribution of actually cost of risk. We look into a gradual normalisation, still low level, but gradual normalisation.
Returns have been very close to the target levels and especially given the environment, we believe that is a very solid performance. And I mentioned already the asset quality. So very good trajectory here and significant further reduction. Remaining very high coverage, both cash and collateral for the residual book and this is a very good basis in my understanding for the way forward. By that, I would pass the word to Archibald, to give you more insight into financials and we'll then come back for the outlook.

Thank you, Blaž. A very warm welcome also from my side. I'm also looking forward to meet many of our investors these days in London and abroad, and obviously our full disclosures are available since Friday on our website. So, we are very happy to receive feedback on those and are always striving to improve them. Bear in mind, with regard to segment disclosures, we have a little bit of technical shifts, but they are very well explained in the disclosures and of course if you have any questions of whatever nature, our investor relations team is always more than happy to answer.

On the results themselves, the first half year we believe is a very solid outcome especially pre-provision and also on the recurring basis, obviously there was a dynamic on the cost of risk. But this was to be expected and in this sense it is more a return to normal. And on fundamentals, as you see on slide 5 of the presentation, revenue dynamics are positive, given the harsh environment Blaž was describing and that was obviously helped by our pretty solid volume growth we see in both Slovenia as well as our subsidiaries, predominantly on retail, but that's exactly the dynamics that we actually encourage and we see as helpful for the long-term future. Specifically, interest income was up 5%, obviously there is a little bit of support from the fact that we no longer run any wholesale instruments other than the Tier 2 instrument Blaž was mentioning. Of course, this was not taken for funding purposes but to optimise the capital structure. At some point, there will be more pressure on NIMs, going forward, also due to the fact that we are still considering adding more Tier 2 to the capital base.
On deposits, of course, retail books are growing quite strongly and as long as this continues, we are still quite confident to meeting our medium-term NIM margin targets of 2.7%, also helped by the fact that we increasingly start to get going on our so-called cross-border initiative, which will also help to improve NIMs in Slovenia.

On costs, we see a pretty good year-on-year dynamic also this does not yet fully factor in some repricing we were of course implementing on senior management level, including the Management Board, but not limited to the Management Board. This is crucial for us, to retain key talent in the Group. And some higher cost dynamics are anticipated to be shown also in the full year.
On cost of risk, Blaž mentioned that we are a bit more normal than last year, so this shows in an almost neutral cost of risk. But of course, that's relative to last year not as good.
On non-interest income, I think that's a real positive in terms of the recurring part of it, because there is a very solid performance on fee and commission income. And this is of course in the low-interest environment we see ourselves in a major source of revenue and revenue growth.

On the income statement you see a full half-year result of 94 million and as mentioned, that's a combination of pre-depositives on revenue and cost and of course the normalisation of impairments and provisions, that was mentioned.
There is also some of what we call one-off in Q2, that's in essence divestment of non-core equity which was happening at good valuation, and thereby showing a somewhat visible contribution to the half-year result.
I think it is important to mention that the contribution of core foreign banks and our operation in Slovenia is somewhat stable at around 40% plus minus coming from our foreign subsidiaries and a half or a bit more coming from NLB d.d., the parent bank.
A little bit of deep dive on interest income, as we mentioned, that's from our point of view so far quite a positive dynamic with 4% year-on-year increase in interest income, given the challenges we see ourselves, especially in the Euro Zone environment, this is pretty solid. As I mentioned before, largely thanks to very solid volume growth that we see both in Slovenia as well a in our subsidiaries and as I mentioned before, predominantly retail. As Blaž mentioned, we are now gearing up additional products, such as leasing, and this will further support our ambition to still increase NIMs, because these are predominantly higher margin business. And of course, cross-border is a somewhat relocation from liquidity reserves in the parent bank to yielding business in both our core geographies and to some extent also abroad – abroad meaning western Europe.
On the NIM breakdown you would see that the NIMs are somewhat stable at Group level, we see particularly pressure in Serbia but this is given the small size of operation a manageable effect and actually driven by our desire to maintain all subsidiaries self-funded. So in this sense, this is the Serbian entity increasing deposits at somewhat, well, market levels, and by that simply following our ambition and desire to remain self-funded for all entities.
On non-interest income I mentioned that we are particularly happy with our fee&commission income, because this is really the core revenue of that P&L position. The other positions are partially a little bit seasonal. We have an improvement on our regulatory charges, actually, to some extent, and we are very transparent in the composition of the other parts of non-interest income, because some elements of that are not necessarily of a recurring nature. Like, we had some divestment from securities, showing in positive results, and we also had actually an NPL repayment that is also shown with 5 million positive in this position.
On costs, we are continuing to follow our approach of cost containment, as we call it. This allows for investments that we consider necessary, especially in the short term and this is, as Blaž mentioned, apart from senior management remuneration, which now somewhat normalised, is of course investment in key talent and key talent is both in the parent bank but also abroad, predominantly investment in change capabilities and here specifically IT is a big element.
We are, as we speak, establishing a competence centre in Serbia and ramping up resources there. This will benefit not just Serbia but of course the whole Group and specifically our subsidiaries will by that not have to establish each on their own these very specific capabilities. As Blaž mentioned, we are investing in information management capabilities, so the scientists are being hired into that unit; we are investing in user experience. So all of this is going to be run in a much more centralised way. This will require some short-term investments into these capabilities, but we are convinced that they will pay off in the medium- and long-term. And by that, we re-emphasise our cost-income target is by no means compromised, just that we are conscious that, given the revenue environment, it has become more challenging, but that makes us even more dedicated to the topic.
In our strategy review that we are currently running, costs remain very high on the agenda. On the Balance Sheet dynamics, this is showing what I mentioned before and in Slovenia, the loan growth year-to-date is 2%. That's pretty solid because the underlying dynamics, especially in consumer finance, are even stronger. We will make efforts also to specifically support loan growth in mortgage volumes. Here we still see opportunities both in Slovenia and abroad. Strategic foreign markets with 6% year-to-date, 12% year-on-year of course are particularly supportive and by that also help to still increase our interest income. The distribution amongst the group members would show that Slovenia is somewhat still a muted growth and then various entities are ranging in single to double-digit territory. One should emphasise that specifically Serbia, of course, is a strong contributor to volume growth and the revenue growth, given that this is a higher margin environment. I think it is also worthwhile mentioning that we benefit as a group from the portfolio effect of various subsidiaries in various markets, all of

them with pretty strong macros and some of them of course in slightly different points of the cycle. Overall, the region still shows a very dynamic loan growth and we as a group are very well positioned to benefit from that.
On the liabilities side, this is of course a blessing and, to some extent, also a challenge; the blessing is of course that this is our core funding source and we are privileged that our customers really see NLB as the strongest savings franchise in Slovenia but also increasingly in all other markets. Here, the rating of course has also helped re-emphasise this notion and we see strong influx of deposits in all subsidiaries. Obviously in our rate environment this is also posing some sort of challenge because in essence we end up to the extent that we can't place these funds in loan assets, we end up placing them to central banks. So we are continuously reviewing options of not just optimising the asset side of this equation but also the liabilities side. Blaž has eluded to some of the discussions we are having. Obviously, on the corporate side, we are already taking charges on retail that is not yet on the table. Of course, we need to find a way to turn this key benefit of our franchise also into a source of revenue. This is what we are continuously looking at. The other aspect of course is risk-weighted asset consumption which will come on the capital front, but in essence of course the influx of liquidity is also to some extent putting some pressure on risk-weighted assets as we end-up placing that liquidity.
Asset quality is fortunately not something we have to talk a lot about, because dynamics are continuing to be very positive. As you see on the NPL formation, the numbers are consistently low and of course that's what we are mostly focused on. The run-off of the legacy book is continuing with a good and solid pace and here we actually still see some support of cost of risk, as has been discussed many times. But of course, the discussions are now much more on, are we adjusted in our risk appetite on all markets and segments in a comparable way, and by that also insuring that we are consistent across the group with regards to risk appetite, underwriting policies and by that reaping maximum benefit of our group presence.
On impairments, cost of risk, I mostly said everything. And half-year is, as mentioned, showing a somewhat more normalised picture. We have seen also some limited provisions on litigation in subsidiaries but all of that we consider as manageable and contained.
On capital we are, as we speak, also in our regular interaction with the regulator, with ECB, the so-called SREP dialog is happening and will of course conclude with a new capital requirement to be maintained as of next year. So far, we are of course positive that the trend of a somewhat moderately decreasing need might continue, but that's an ongoing discussion and of course we are maintaining all targets on overall capital adequacy. Our current target is, as mentioned on this slide, 16.25 and the build-up is disclosed. That fully accommodates for the so-called Pillar II guidance and the management buffer and still includes somewhat elevated Pillar II requirement, which we are anticipating or envisaging or hoping, to be fair, that this will get to a little bit more normal levels. Of course, in regard of capital composition, we are continuously working on optimisation of our capital base and have already made the first step in this regard, that's the 45 million bond issue. We deliberately issued that instrument domestically, we did not approach international markets with a larger volume. By that maintaining maximum flexibility also with regards to P&L dynamics and actually issuing instruments as and when we need them. I think this approach has proven to be very valid and actually helped to save us a little bit of money.
In risk-weighted assets dynamics you would see that we are moderately growing with a pace of somewhat less than 3% and that's perfectly in line of our expectations. Obviously, we are extremely focused on risk-weighted asset pace consumption, risk-weighted asset density and are, as we speak, doing thorough reviews or initiating thorough reviews on the whole risk-weighted asset build-up. And here or there, we see opportunities to get more efficient either in the existing portfolio or getting more conscious in underwriting. That's of course going to be a continuous effort into the future.
With regards to outlook, I would mostly leave the word to Blaž, just maybe emphasise that revenues are remaining a challenge, but given the positive macro situation overall in the region, we would still expect single-digit revenue dynamics and, on costs I think what you will see is basically a somewhat moderate increase in the short-term, as indicated, but with a strong commitment of senior management to first achieve the cost-income target of less than 50% in medium-term, and that entails also a very concrete ambition to also address costs on absolute terms. In other words, we are very much looking into labour efficiency, leaning processes and of course to some extent changed line behaviour will allow and facilitate also lowering the staff costs. As Blaž mentioned, 11% of consumer lending in Slovenia is already underwritten fully digital and of course this will over time also have implications on the labour dimension. By that I would pass the word to Blaž to conclude.

Thank you, Archibald. In principle, what keeps us awake at night is a macro. This is something I mentioned at the beginning, this is something that, you know, imposes on us a certain level of uncertainty. So the forecasts of the general and GDP growths in Slovenia and the region have been decreasing a bit, which might challenge the possibility to originate volumes in lending business. And on the other hand, the rate environment is really not helping out in this respect. We will really be eagerly exploiting the opportunities that are arising from new revenue pools, such as leasing, factoring, trade finance, but on the other hand of course also having ambition on traditional pools as well. Imposing stronger and more ambitious KPIs on one side, but on the other side as well really unleashing digitalisation and transformation. Facts which, as I said, In Slovenia have already been more or less delivering quite a significant part of production on-line. But of course, we would like to provide such standards of service to our clients throughout the entire region. Then of course, the additional element to consider is the geographies, of course, on one side lending activities but on the other side, strategically, where you want to hold your retail operations. So it is clear that our strategic focus remains ex-Yugoslavian territory. We are the only international banking group present in all the markets of the ex common country in Western Balkans. So belonging to Western Balkans geographically, we are the only player. Furthermore, in all of those markets, apart from Serbia, we hold more or less top position, one of the top positions, which is a very solid basis of course to speak about supporting the international trade in this region. Of course, we are an advocate and promotor of free economic zone in this region and of course accelerated process at least of accession to the European Union. I mean, this is an island within Europe that needs to be understood by also the European regulators and politicians. For a long-term geopolitical stabilisation and vision to these people to want to stay there and want to improve the quality of life … There will have to be a certain agenda for this region. And of course, we can only be benefitting from this. One of the elements of this is the risk-weighted assets, their density, if you look at it, but this predominantly deriving from the fact that the entire landscape of these countries has been treated like from another part of the planet, a hundred percent risk-weight, hundred percent capital consumption practically on the sovereign exposures and the central bank exposures, whereby for the surrounding countries zero, just because they are European Union or investment-grate rated. This is something that is not necessarily beneficial. On the other hand, of course, this represents in our balance sheet a strong position for the future you know, because the succession would eventually mean that these exposures can be treated differently. This would release a significant part of assets in our balance sheet as well. We are now continuously focusing on accelerating the digitalisation agendas Archibald mentioned, which would then enable also a stronger focus on reduction of cost a real reduction then at a certain point of time in absolute terms. As of mid-next year, we plan to introduce an omni-channel platform in Slovenia for the production of digital onboarding, so account opening, overdrafts, credit cards, approval and management of the limits as well as cash loan, which we offer already today, and went digital. And all of that supported by 24/7 video chat is really actually bringing the level of our offering matching the standards of client experience of the fintechs. I still firmly believe that this is the only valid, legitimate response of incumbents. We have to simply match the client experience and then, as a universal provider of financial services, supported in chat, video chat, in a local language, is very very important. We can really differentiate, still. We can do much more, still within traditional pools, but then really understanding what else and more can you do with a new opportunities, like I mentioned leasing, factoring, trade finance, and within geographic context. Of course, we all know that there is a position in Serbia that maybe we, have not yet exploited the full potential. And we try to understand this situation much better. But on the other hand, there is maybe Albania, which we also are publicly talking about. Of course, there is nothing on the table yet and it will be of course properly announced and presented to the public. By that, I would wrap up the presentation part of this transmission and would then allow for any questions. Archibald and I will gladly respond to them.

Thank you very much, gentlemen. We have had many many questions come through already. One of them being a question about your results. Your result after tax was ten percent lower compared to last year's result and also quarter-on-quarter, the result was substantially lower. I know you've touched on this already, Archibald, and Blaž, but, can you dive a little deeper into the details for this.

So firstly, I would really refer to the detailed disclosures, as I mentioned. On one side there was a bit of a segment re-shift, which is explained in detail, on the other side, there is some quarterly dynamics, especially on regulatory charges, there is some quarterly dynamics on what we call non-recurring or less stable revenue sources. We have mentioned that there was a divestment in the securities book happening and of course, this is not-recurring or not necessarily recurring part of revenues. So in this sense, quarter-on-quarter dynamics are always a bit tricky, there is no like, a linear trend as such, especially not on bottom line, cost of risk is fluctuating quite a bit. I'd rather look at year-on-year trends and dynamics, and of course more observe the core revenue, core cost dynamics. And here, the result was actually pretty solid and is in single-digit growth, pre-provisions.

Talk about positive effects as well. We got a question about that. There were some positive one-off effects and some non-recurring income in the period. Can we expect, can investors expect this trend to continue into the second half, do you think?

So, non-recurring, you can never expect, because by definition they are non-recurring. So, no. The unknowns are more of course in the cost of risk component, and as we explained many times to our investors is that this is mostly the result of NPL resolution, and these processes basically run over, take their course over a couple of years. So it is very hard to predict, even on the half-year level, which of those items materialise. Because a multi-year process takes its time. It's often embedded in legal issues, partially even litigation and for sure with very complex negotiations with various counterparties.

Any potential positive surprises then?

Well, we would not want to comment on potential positive surprises but rather see them. Ex post. And by that not disappoint but rather positively surprise.

I might just add one thing, which is of course the last commitment to be fulfilled by the Bank. And this is the divestment of our subsidiary, joint venture with the KBC, NLB Vita, life insurance company. This is one of the last really material assets. And depending on the outcome of this process, there will be a significant, very likely non-recurring effect, one-off effect, but of course we cannot comment the dimension of it.
Now, let's talk about loan dynamics as well. They are very different, as you mentioned, across markets. Year-to-date gross loans are declining in Slovenia and in North Macedonia, and increasing in other subsidiaries. One question that came in was, do you expect this dynamic to continue?

We have to understand that of course, we have core portfolios, regular performing client portfolios, where we have a solid trend – Archibald can comment on the figures here – but generally, this is a phenomenon of corporate lending and still winding-down of non-performing and non-core corporate books. But indeed, also somehow slow evolution of corporate business in Slovenia, especially. Because Slovenian companies have been very cautious. So, given this uncertainty in the macroeconomic constellation of Europe, the companies have been simply postponing investments. They are really nor sure whether the orders that are somehow slightly reducing, is this now a sustainable situation, just a new normal, or something more serious ahead of us, in terms of economic activity, especially Germany, Italy and so on. So they are quite cautious. Corporates are not really investing. But if you look at the core volume of our key, account, mid-market and small-cap portfolio, you see actually a moderate growth. But then there is retail, which is a different story, the very healthy production, especially in the consumer lending across the border. And a bit slower than you would hope for in housing market. But this is more or less due to the lack of supply, you know. So there was really, for ten years, very very limited residential real estate development. There is a pipeline now, especially in the capital of Slovenia and some surrounding cities around that should come in, but it is going to take, 12 to 36 months, depending on the pace of individual projects. So we believe that there is going to be some additional supply. By that, we will be able to produce and originate more housing in Slovenia as well. In other subsidiaries, consumer loans still very healthy production, it is not necessarily 12%, it's more like, 8% - 10%, but this is still very healthy, given the situation in the European Union. The forecasts for these markets, when it comes to macro, are still solid, we are still looking at 3+% growth. Whereby in Slovenia, Q2 indeed was 2.5%.

And this 3+% growth, that's loan growth?

That's GDP growth. And the loan growth in retail is, you know, double, triple that. The corporates are also there, strongly dependent on European economy as well. Serbia exports 25% to Germany. So this is very comparable dependency to Slovenian. That's what I'm saying – corporate evolution a bit more gradual, if you look at Serbian growth of corporate book, it's still high; indeed, on a lower base. And also in some other countries, there is 4% corporate growth, but there is significantly stronger retail growth. And in Slovenia, I'm really happy about the consumer loan evolution, consumer loan book evolution, housing, as said, more influenced by the lack of supply, but there is demand, and the Bank has reacted with proper parameterisation and pricing of products. So we believe that, as soon as there is more pick-up I demand, we will be able to address this demand productively.

So you talked about retail just now. We have someone coming in with this question about corporate loan contraction, I know you touched on it. But, is that exposure to Germany as well, as one of the main reasons for the contraction in the second quarter?

As I said, you have to understand the result is sterilised for the one-offs. There is still, on the corporate segment you see also restructuring books and some non-performing exposures as well. So the winding-down of non-performing on one side is reducing the total corporate book. I was talking about the core segments of key accounts, md-market. There is, in the last month, really a growth in this segment.

3% year-to date, if you exclude NPLs.

So 3% year-to-date growth in six months – it's not that bad, given the environment – in corporate book. And I was mentioning that, especially we are happy about the retail. Slovenia is growing, single-digit but growing, core segments, which is good. But of course, the tales from the past are gradually fading out. On one side this means, yes, reducing volumes, but this also means, on the other hand, reducing NPLs, you know, that's why you have contribution to the result on the bottom line as well.

One should also say that we are not necessarily volume driven – we are results driven, and that relative to capital consumption. And Slovenia is a market where there is a lot of liquidity, so there is a lot of competition and chasing of, especially good assets, that drives yields down. For us, it's more a question of choice. Do we want to invest in a low-yield asset, that still consumes 100% capital, versus the opportunities in our geographies, with maybe twice the asset yield? And that's increasingly a part of discussion.

At the same time you talked about the challenging rate environment, we have one question here. Given the pressure on margins and the interest rate outlook, which you touched on, do you think your NIM target is achievable?

I commented on production mix. If we were to live within the Euro Zone alone, this would be a problem, clearly. But of course, luckily, we are not any more bound by the constraints we got due to the state aid. So now that mainly all of the key commitments have been delivered. The VITA divestment is the only one, really, and then we are fully free, in terms of strategy. This is now bringing new horizons, because now we can really lend cross-border. We are not dependent only on Slovenian macro. We of course are introducing, as we speak, and have introduced an international desk functionality which is underwriting business in our home region, but is also seeking opportunities in other countries of the European Union. Maybe, you know, with still reasonable margins. But mainly, as said, our key geographies. And then of course, we applied already, to the ECB, so that we can re-launch the leasing business again, and factoring business, and some trade finance, supply chain finance, which naturally is carrying higher yield, higher margin. But then on top, the production mix of current production is more or less focusing on consumer lending, which is also a higher-margin business than housing, for example. Housing is of course following, but naturally, the books are evolving through higher portion of retail and higher portion of consumer lending, and then cross border, compensating for the loss in the Euro Zone. So this is something we place our bets on.

Maybe one sentence on NIM. NIM is also a function of our deposit influx. That's the part of the equation we have a harder time to manage, because, simply, the desire of people to save. We are a strong savings franchise. Influx in deposits nowadays means pressure on NIM, and here we need to discuss and find better ways to actually translate these trends to revenues, not necessarily showing up as net interest income but as fee&commission income. There are two ways to go. One is to increasingly focus on the cross-sale of ancillary products, other savings products, asset management, mutual funds, insurance type linked products. And the other thing is simply charge a bit more for the basic services of maintaining an account with us, if that's a desire of our customers, they might end up paying a little bit more for it.

I'm glad you brought that up, Archibald, because there is a question about charging customers. What is the likelihood of that?

I would not comment at this point of time, what is the likelihood. I mean, this is a systemic matter, right. I mean, this debate has been more or less held throughout the European union, the Euro Zone. So we heard the CEO of Deutsche, you've heard some other important people from the banking industry in Europe. The monetary policy is really putting a significant pressure on the Euro Zone banks. I mean this is something that is historically unseen. If you look at the margins of American banks, or the margins of some other banks, in other parts of the world, Asian banks. In Europe, we are talking about 150 – 200 bips lower margin. You apply this margin to Deutsche Bank's balance sheet, this increment of 2%, and you can see, that this can be actually a profitable bank. But in the current environment, it's close to… it's very very difficult. We can all have our views on the monetary policy. Is this a liquidity trap? Is this really helping the economy? We are heavy liquid. Anyone that has a half-way credible business plan has access to funding today at historically low rates, and they are still not investing. Will additional 50 bips help? I doubt. But of course, this is now eating directly into the profitability of banks, that's clear. The dilemma is really, consumer confidence so far is very strong. People are still spending. When they freeze in terms of confidence, they will simply reduce spending but they will still be, in Slovenia at least, for quite some time, employed and they will still have a lot of money. But this money will be held as cash, more or less, in the accounts of the banks. So even more pressure can come from this angle. And that's why, of course, we are thinking of some systemic measure, that should address that. We have been charging corporate so far, practically without exemption, above 100,000 EUR balances are charged. The retail, you heard the debate in Germany, to be banned below 100,000. But no one is talking about banning above 100,000 thousand and some banks have been charging above 500,000. So, this is something that is, in my understanding, really necessary to address, because otherwise, the robustness of the banking model of the Euro Zone based banks is going to be an issue, you know.

Especially in terms of building-up the capital. If there were a recession coming in, really, the banks will be seeking for a robust capital base. And this will be eating into profitability. Which will then be difficult to build up.

I'm sure it's a conundrum. The ECB would love to find solutions too. With the ECB, we have a question on that. If we see a cut in the deposit rate, what is the sensitivity of the group's net non-interest income?

Well, the sensitivity hasn't changed that much. The cash position is disclosed, so you run your numbers on what the sensitivity and straight cash position is. The talks are now that, you know, that the over-night rate will be from -40 to -50 possibly, or even worse. We talk less about the EURIBOR sensitivity these days, because EURIBORs are unfortunately anticipated to remain flat for quite some time. So we hit the floors here, all over the place. We are much more focused on how to turn the challenge into an opportunity. Because, if there is a desire for banking services, than there is also to some extent the willingness to pay. And this is the thing we need to turn, from challenge to opportunity. And the other thing is, specifically for us, I think the opportunity is also to play outside the Euro Zone. Yes, the parent bank is in Europe and in the Euro Zone. But half of our profits come from outside the Euro Zone. So this is where we still see pretty nice margins, pretty solid volume growth. Yes, the challenge is higher, so we have to run a little bit faster, and that's what we are doing.

Running a little faster. Looking outside the Euro Zone. Any update on your M&A plans. Is one question.

Blaž.

We communicate continuously that we have been actively investigating this region. It is clear that we are solidly positioned in the majority of our markets. There is one market where we are not. And of course, there is potentially a market where we might consider entering, but we have not yet been present, such as Albania. So, we cannot see much more, at this point of time. From the fact that we are really trying to understand the movements in the region, trying to understand any transaction happening. And then building our view on it. So in principle, if there were anything we would be seriously considering, this would always have first high discipline and understanding the value of something like this. The value for the shareholders and the value for business. Something that we would believe is palatable, doable from our resource point of view, capacity point of view. But on the other hand, mainly really focusing on value. So we would really not be wiling to overpay for anything, or willing to simply getting it just for the sake of it. We would really want to understand that this is incrementally benefitting the business and of course also in mid-term the shareholder value and the strength of this banking group.

You also mentioned Tier 2 plans. Someone is asking, do you have any specific targets to raise further sub-debt.

Yes, we are in bilateral talks with investors as we speak. We always need to make sure that there is some competitive dynamic and tension in those processes, to retain pricing power, but yes, we expect further build-up, and ultimately strive for an optimised capital composition, which would allow for up to 2% of Tier 2 in our capital base. We are by far not there yet. So at the moment, we are somewhat around a third of that.

And finally, when can we expect the finalisation of the refreshment of your strategy?

Towards the end of the year. We have workshops now with the Supervisory Board, we are quite far in developing the framework and we believe that towards the end of the year, we will have actually this… for a couple of more occasions discussed with the Supervisory Board. Because we really want to have a consistent paper. Not only paper, of course, but solid basis for implementation. Towards the end of the year, it would be approved and then published.

Brilliant. Thank you very much. Our thanks to Mr. Blaž Brodnjak and Archibald Kremser. We do hope that all your questions have been answered. If you have any further questions, please, kindly forward them to NLB Investor Relations. Do you have any closing comments before we finish up?

I would just reiterate – NLB is good on track, what we have been planning for this year, and so far has been achieved. We believe that the first dividend after the IPO has been a proof that what we have been talking about is actually what's happening. We are still a conservative bank, a plain vanilla bank, really focusing on retail deposits and retail and corporate lending in a relatively constrained environment. In the absence of global players it's a niche play. So it's a very specific region and we see that in this this niche play, we can really be one of the prevailing ones in mid-term, and this has not changed. We are actually excited about the coming period, despite the turmoil, despite the volatility, we really see it as an opportunity. We thank again for the trust given to us by the investors and we will look forward to further debates.

If you have any further questions, please, kindly forward them to NLB Investor Relations, the contact details are on the last page of today’s presentation. That is today’s update. Thank you for watching.