NLB Group 1Q 2020 Results

Friday, 15th May 2020

Ladies and gentlemen, the Management Board of NLB welcomes you to the webcast where they will present key highlights and business performance of NLB Group for 1Q 2020. Today's presenters are Blaž Brodnjak, CEO, Archibald Kremser, CFO, and Andreas Burkhardt, CRO. The presentation will be followed by a Q&A session. If you would like to ask a question, you can do at any time during this event, please use the question tab located above the slide. Before we go on, we would like to draw your attention to the Disclaimer on Slide 2 of the presentation. By this, I pass the word to Mr Brodnjak.

Blaž Brodnjak: Thank you very much and welcome also from the side of the Management Board. We hoped to have you here in Ljubljana today, actually, for the first ever investor day physically, so that you could visit us and see where and how we work actually in Ljubljana and the region. Unfortunately, this was not possible at this time due to the extraordinary circumstances, but we look forward to such occasions in the future.
The first quarter was relatively normal, I would say very solid in terms of evolution, until of course the second half of March when the Covid situation of course resulted in lockdowns all over the region, but up to then we have seen very solid performance, practically in all key segments, apart from the Slovenian retail business evolution where we already announced in last autumn when the restrictions were introduced that this will be impacted; so we have seen in Q1 significant impact already pre-Covid on the new production of retail lending and this practically completely stopped the growth and of course since the second half of March it was much more even then impacted. We believe that these measures have been of course unproportionate and irrational, but they still remain in force as I speak. In other key segments and other markets we have seen solid evolution, comparable to what was targeted for, whereby of course due to the specifics we have seen in the second half of March also a bit more drawing of working capital facilities for the companies preparing for the uncertain times to come, so we have seen quite a solid growth especially in working capital financing in corporates whereby the retail growth has been mainly impacted in Slovenia wherever it was deemed, but in other markets still solid.
Given the Covid outbreak there have been measures introduced in all the markets of our presence, decisive measures we must say, the lockdowns were quite quick and they were comprehensive, and have been yielding results, because the region has been, if we compare to some countries that are practically lying in the neighbourhood, solidly contained. We have seen in the last two weeks in the first half of May, less than 3 on average infections per day in Slovenia, and Slovenian government has actually as the first in Europe decided to actually declare epidemic to stop with 31 May and by that entering the second stage of containing eventual follow-up waves to come. We have seen opening up and it has been quite significant in last week and we expect gradual of course full open-up of Slovenian markets and economy and then of course other markets in the coming weeks and months. Clearly, some industries have been more impacted that the others and tourism is of course in Slovenia and in other markets significant part of the story, and has been impacted on the other hand clearly, also sharing the destiny of other markets, but Andrea will show you the slides and will

present a bit more what does this mean in terms of exposure of the NLB Group which we believe is contained and manageable and in this respect we believe a very solid position. In this quarter we clearly signed a very important deal for the NLB Group, this was this sales and purchase agreement on the Komercijalna Banka acquisition in Serbia. As we have been discussing on previous occasions, Serbian market has been of course one of the most attractive markets for expansion of our business in the region, where we are of course clearly a niche regional specialist and believe that we can understand the markets well enough that we can of course also exploit these opportunities in a lucrative way. We have been of course working now on the follow-up to the signing which is of course applications to the various regulatory bodies and supervisory bodies across the region and also Europe. We have been working on this now intensively and the timeline has not changed, we would hope to have the closing debate around summer and the beginning or mid of Q4. So this has not changed so far. In terms of our capital position, it has been very strong, as so you know the Group issued a couple of Tier 2 instruments last year and this year. They are entering now the capital adequacy and as per the end of Q1 the position has been very strong, we are working on other follow-up measures such as MIGA and including minorities and Archibald will give you more flash on what is the forward-looking development of capital position of the bank which is very very strong and this is a very solid basis for covering the still present uncertainties in the market. We have been in Q1 already showing first effects so we tried to the best of our knowledge and understanding at this point of time --- the situations so you will see full provisions already booked in Q1. Andreas will give you more details on that. There has been some regulatory support to management of this situation. Unfortunately in the European context this is mainly attacking on one side liquidity which is not necessarily something which is an acute need for the banking system in the region since we have been very very liquid and fully self-funded so independent from international financial market when it comes to funding so of course we are more interested in capital release measures to be able to boost lending on one side and that's why of course we are also looking forward to finally remove certain restrictions imposed by the Bank of Slovenia because especially within the exit period where we will need a revival and a private consumption pickup we see a clear need to enable a comparable production and comparable underwriting standards when it comes to retail lending. Two our peak countries, neighbouring countries as well belonging to the European monetary union. In terms of MREL requirements and other liquidity capital position of course Archibald will give you more details. And we can move on to more or less the Covid impact. We have in Q1 assessed how this is impacting our P&L and balance sheets when it comes to the macro changes. Of course for the time to come it is going to become more relevant how this impacted or will be impacting individual clients, and this goes both for corporate and retail. Across the region there have been various measures introduced by the governments and regulators. Of course they have not been fully uniform since of course also countries have been in different positions when it comes to either the access to international financial markets, international support and of course the relations to European Commission and other parties globally, like International Monetary Fund and so on, but there has been a development, so especially in Slovenia and Serbia we see a very decisive instrumentarium being put in place, both in terms of covering certain social contributions, covering waiting for work statuses and so on, so this has been a solid contribution by the government, on one hand we are working clearly on the guarantee schemes to provide liquidity to the system which means, which is very important in the times to come. Actually since now all that has been delivered since March/April are supposed to be paid and there has been a lack of production and new orders in April so this period will now have to be covered to overcome this liquidity squeeze of a couple of months. On one side the moratoria has helped, throughout the region there have been various modes introduced, so from 3 months obligatory almost across the board for the clients to somehow voluntary and up to 12 months and there have been different criteria used who is eligible, how can this be applied, but this has been evolving and Andreas will give you more details on this. So the real impact on clients will then be more or less realised once this moratoria expired and then we will see of course the capacity and ability of clients to come back to a normal stage of servicing the financial obligations. So, we have been looking on of course how other meaningful institutions have been projecting and forecasting developments for this region for the upcoming period and we have been deriving in our models from the most relevant ones from our side. If we look at the last day development and there have been some that have seen the situation a bit more positively than at the regional assumptions. So as said, the economy has been opening up, of course Slovenian and regional economy is significantly dependent on especially the European Union, some markets more, some markets less, Serbia seems to be especially strongly positioned, the dependence on the European Union is lower comparably to Slovenian, they are fully self-sufficient in terms of food supplies, of course they have relationships also with other parts of the world still, and in this respect seems to be --- and of course for the Serbian market it has been the most optimistic in terms of a potential backdrop but generally, also in Slovenia in last week, we feel a bit more confident that the originally believed catastrophic scenarios might not be actually then evolving in case there would be no further lockdowns. So, what we now see is opening up, there is a positive spirit, but on the other hand if there were follow-up lockdowns happening, this would re-introduce a certain uncertainty. This of course at this point of time we cannot assess. We have introduced in Q1 cost of risk assumptions which are somehow guiding for expected cost of risk, potentially also for the full year, and we believe this is the best assumption we could produce at this point of time, not yet of course the final picture, but Andreas will give you more flash to it, and by that I would pass the word actually to Andreas to guide you through some of the assumptions on the evolution of portfolios and main risks that have been materializing at this point of time and how the bank has been reacting. Thank you. Andreas.

Andreas Burkhardt: Blaž thank you. Also welcome from my side. First of all, maybe just as a reminder because you are mostly aware of that, on our portfolio composition, obviously still the majority of our portfolio is here in Slovenia, in the meanwhile approximately 40% of our portfolio is in our core markets outside Slovenia, so that is one of the basis and the other one is the split between retail and corporate, retail obviously something like 40% of the portfolio, consumer and mortgages relatively equally split, and the rest obviously on SME and corporates and state-related exposures where SME and corporates are another 40%. When we look on the industry distribution, then I wanted at least to show you here a split to see more in detail where we see sensitivities and how these sensitivities in reality from our point of view are. So obviously one big part is accommodation and food service or the restaurants and so on. And as you see the total portfolio here is something like 95 million, so, honestly speaking, very moderate, 2.5 percent of our exposure as obviously in these times are attention points and on the other side when we look on manufacturing, manufacturing is … elevated, but it is of course elevated whenever it is related to automotive. Automotive, you see exposure of 126, 127 million, so 3.4 percent of our total exposure. And last but not least of course transportation. When we are talking about pure transportation without storage we are on 514 million, but here the key message is that a big big part of that is with state guarantees that are state owned companies which have state guarantee behind that is almost 400 million for big part of that exposure. And the remaining part it is something a bit below 120 million, so obviously a little bit more than 3%. The ones of you that were present at the last presentation had this picture already but this year is now more in detail so that you also can see a little bit more detail of what we were broadly already talking about last time. Now portfolio response. Portfolio response means moratoria, the data which you see in front of you are as of 1 of May things are cross-evolving but you see actually already most of it here. We are currently now approaching total something like 2 billion a little bit less than 2 billion. You see there already almost 1.8 so obviously the dynamics are decreasing. The world here is split in two parts I would say I mean our little world and that's on one side Slovenia and Bosnia and Herzegovina where the percentages are relatively low, so 15-20% of the portfolio, and the rest is ranging between 40 and 50%. You saw earlier in the presentation from Blaž actually that the logics behind these moratoriums are largely different. The country at the moment where we don't have obligatory moratoriums is Bosnia and Herzegovina, so there is voluntary in a sense of banks don't have to give those moratoriums. We actually do so we offer such moratoriums obviously under certain conditions but we may here actually experience that many clients who were originally applying then even subsequently withdraw again because they felt the situation less dramatic and in the rejected part that's maybe not the perfect formulation you also see these moratoriums, so meaning that the clients actually then rejected and withdraw actually. Then we had on the other extreme, if you want, we have Slovenia where the moratoriums are the longest, so 12 months, the client also has to to apply for it, but you can apply for 12 months and if it doesn't fulfil the criteria the bank has to grant it. In that sense I think the percentages which we see here I told you before are rather comforting, so we don't see it exploding actually. And then as I said, the rest of the countries, they have a different logic so in Serbia and Macedonia mostly it is even to everybody who doesn't reject and that obviously is increasing the percentages considerably. And in Kosovo many people seem to do it for precautious reasons. Here the moratoriums are also relatively short compared to other countries but many people seem to do it precautious so that is driving up the percentages here. Over all I would say honestly speaking in the range of expectations, 2 billion is obviously a big number, but if you look closer behind, not a shocking number or something that should make us extremely worried, but obviously what is also true what Blaž already mentioned before to a certain extent we will only see clear after the moratoriums expire because then we will see more clearly which clients might really face trouble. But on the other side what is basically true in all of the countries is that clients have increased reporting duties for example in Slovenia on a monthly level so we will follow them very closely and actually the logic which is from the European regulator introduced is that a moratorium as such obviously is not a default criteria, but we will look on cases individually. If we see a client unlikely to pay, also obviously that could happen during the moratorium, then we would reclassify obviously to NPL and that would obviously trigger loan loss provisions. On loan loss provisions we have now in the first quarter done a first step so given the changed macro outlook we have changed or adapted actually our calculations of full provisioning and as already mentioned that had an impact of roughly 25 million or exactly 24.7 million of additional loan loss provisions in Q1. Usually that is not a Q1 exercise, but Q2 exercise, but we have uploaded it to Q1 due to the changes which we obviously saw already in Q1, but this means that obviously here you wouldn't see a bigger effect any more in Q2. For NLB d.d. we have already quite precise figures so here I wouldn't expect any changes. In the subsidiaries it is a little bit more rough assumptions which we had to use due to the time pressure and that means that we might see slight corrections in the second quarter on that one, but also here I wouldn't expect any big figures any more. Anyhow, to give you a feeling 15 million out of this total sum is NLB d.d. and roughly 10 million is for the rest of the Group. Now I guess the interesting question obviously is what will happen during the rest of the year so as I said, I wouldn't expect any changes in pool provisions anymore but obviously what will start seeing dropping in are the individual provisions and here obviously a concentration will happen primarily on the industries which we saw before, as highlighted on the other side to a certain extent on retail clients especially if they lose their jobs. And I think the bigger part of obviously we will see this year, but what is also true is we will not see everything this year because it can happen I don't know that the moratorium has not expired and we don't have any other indications or that simply the situation for the client actually only escalates then really in next year. So next year will for sure still be elevated but the key question for us obviously now is first of all 2020 and our models and logic which is actually in the meanwhile quite robust so we calculated a dropdown so model-based but also downside-up so meaning going through as much as possible single tickets and trying to establish probabilities before of default and impact on this single-ticket base. And from both directions actually what we would expect for the entire year is the cost of risk of very roughly speaking something around 150 bips so that comes to 112-115 million euro in euro terms and obviously this is clearly above our midterm target, so I think we have to say here this extreme kind of shock obviously also no one predicted in that way but even in the circumstances I still think that this is still a figure which shows as Blaž mentioned before that we are actually quite robust so given the region in which we are working and given the circumstances I think that still quite if I may say manageable figures. Obviously, it will depend largely on whether we see additional … or not. At the moment everything looks more going into a positive direction actually

faster and in a positive direction than we were assuming, so that's rather comforting but obviously we will have to see whether this trend continues. So the assumptions which we are basing this whole calculation on are obviously here the key determining factor and they are assuming obviously that the trend will go in the direction we are currently seeing. But I have to say also and we are discussing with customers but also with subsidiary banks the feedback which we are getting are sometimes more positive than that. So the 150 bips cost of risk really much methodologically based and much based on logic … which we would see rom clients losing income losing business, that is not always corresponding fully with the subjective feeling. So the subjective feeling both from clients and also from management levels of subsidiary banks are sometimes more positive so that would rather indicate lower figures but for the time being being the CRO … that we still have to be here a little bit cautious and not get enthusiastic about something which is in reality still a very harsh impact compared where we still saw it a few months ago. Asset quality as of 31 of March obviously you know that in the last years, we were largely reducing NPLs and we are status quo at a quite reasonable level already and that is obviously also reflected here in this asset quality slide. The real interesting question will be of course what is now to come and I think as you heard both from Blaž and from me, we are not expecting revolutions but of course what you will see this year is for sure some deterioration so we will be on a higher NPL-levels at the end of the year than at the beginning, but as it looks like it's not a dramatic jump but it is obviously clearly visible. On the next slide here you see the same story if I may say a little bit differently, obviously in the first quarter this year. As you can see is that another time the coverage ratio was going up that is not very surprisingly I told you we booked these 24.7 million on pool provisions, but that also tells you that if you deduct at least 24.7 million then we would have slightly reduced actually figures in Q1. 137 million out of this figure has healed, so approximately 1/3. As I told you on previous occasions, these are primarily restructured clients which are not yet fully healed, we have actually one or two clients who despite of the Covid are currently really coming close to a healing so it might be even positive news here from that part but again as CRO of the Group I really believe that if I had all the proves on my table and if we upgraded them, that's been a little early days to say that but even in times of Covid we don't only see negative surprises and obviously as you can see on the right part of that slide, in Q1 obviously impact of pool provisioning which I told you before we didn't see any big movements yet, but obviously given moratoriums that was also not to be expected as something which if we see it we see it obviously in the upcoming quarters. That would be for the beginning from my side, and with this actually I will hand over to the business performance, so to Archibald.

Archibald Kremser: Thanks Andreas, a very warm welcome also from my side, as Blaž said we would have loved to have an investor day but instead we will do this webcast and of course we are planning a series of one-on-one some of which are scheduled already so very much looking forward to also discuss the results in more detail. I'll keep the presentation brief to leave sufficient room for questions as well. Many relevant topics have been mentioned already. On slide 14 the revenue-cost dynamic overview you see some pressure on interest income but in reality that's to a good extent the incremental cost from the frontloading of capital instruments that we have implemented and also as was mentioned a somewhat softer demand on retail particularly in Slovenia. On the non-interest income you actually see an underlined pretty strong performance on the fee and commission income year on year, however again a little bit of softening on payment revenues in second half of March and of course that is expected to be continued to some extent also as long as the lockdown is or has been implemented, varying by country a little bit but on the other side especially for Slovenia we are actually looking forward already to lifting of lockdown measures. On the cost side, here we have on quarterly level obviously a quite good dynamic, year on year you see in the Q1 of course the repricing of senior management positions to some extent, on the other side of course our continued investment activities in digital projects that materialise in elevated cost on IT for the transition period that is something we have indicated. Cost of risk was mentioned and by that we do now a little bit of deep dive. On balance sheet we saw in Slovenia on the retail side basically the effects of the measures imposed by the regulator especially in consumer lending. I think that was extensively discussed already. Obviously for retail demand through the lockdown period we have seen and will continue to see softer demand also going forward especially on the consumer side and of course this highly depends ultimately for subsequent months on consumer confidence going up again and of course to a good extent also in what ultimately will happen in regards to employment numbers. Corporates was a little bit the other way around because obviously in Q1 some corporate draw liquidity lines but nothing that would be otherwise remarkable to give reason to concern that was a normal reaction partially it was already reversed in Q2 and of course of course there is now a mixture of some underlying regular business activity which is of course muted because investment activities have been scaled back and in this sense we rather expect here a relatively further evolutions. In foreign markets Q1 was very strong but of course on retail going forward we would expect the same dynamics to the extent that lockdowns are in place and of course until people are getting more comfortable again with the post-Covid situation in regards to the employment, prospects and salary levels we would continue to see softer demand. However of course situations can reverse the very quickly and this really will ultimately depend on how the Covid situation is perceived ultimately. I think it's worthwhile mentioning that in our retail portfolio a significant share of our retail customers is regular salary recipients, to very material extents, especially now subsidiaries also related to public sector so the quality of our portfolio is solid and I think that has been also indicated by Andreas in his cost-of-risk outlooks. Income statement is ultimately a result of what has been mentioned. I think that the quarter was clearly marked by this cost of risk predominantly and as was mentioned by Andreas, this is for now only full provisions, and from now of course it is anyone's guess how this will play out in terms of portfolio migration. The facts have been presented in terms of higher exposed segments of our portfolio, especially in corporates, so in this sense I guess we still are to some extent in a way then see positions. On the liability side I think we continue to see a very strong liquidity situation. Actually indeed we need to further continue to focus on making money out of the desire of people to place money with us, especially in Covid we have seen actually continued inflows of deposits in some geographies especially Slovenia, Macedonia stood out but also other markets didn't in essence lose any liquidity. So here I think the challenge is to migrate that safety that we provide as a bank to customers also to further increase in fee and commission income. And that is of course continuous topic and one of our prospects for increases in fee and commission income. The cost side is something that of course we are now very focused on. We have put if I may call it cost stabilisers in place, so that will start to show effects as of Q2 and in cumulative effect we expect cost year on year to remain flat given these cost stabilisers, we talk reduction of even fixed remunerations of the Management Board as well on salary reduced fixed remunerations at least up until December in amount of 15 percent, in amount of 10 percent a larger number of senior managers in the Group have actually voluntarily accepted reduction of fix salary. Obviously, we don't expect to pay some variable elements of remuneration that had been paid last year. So overall these stabilisers would keep costs flat year on year and in this sense, I think we show a strong immediate reaction also for 2020 and of course we are very very focused on basically emphasising everything that will help us save costs in the future. So we are as we speak also reviewing branch network and to some extent expect further reduction in physical footprint even this year still. That is an exercise we will run on Group level. And also headcounts are something that of course as a result of a somewhat accelerated implementation of digitalisation efforts and as we have all learned that remote work is not just a possibility, but can be a very effective and efficient reality we expect both reduction in physical footprint cost in other words real estate and ultimately also we will accelerate headcount reduction as such. So that might result in temporary elevated costs even in 2020 rather to be seen as sort of a restructuring charge, but of course expected to have effect in subsequent years in material numbers. The capital situation I think is very very comfortable entering into this unusual situation and of course we account for all the Tier 2 instruments that we have issued and show capital adequacy of 18.5. We are working as we speak of inclusion of minorities that is expected to happen actually already in H1 that will add another 30 million to capital most of it Tier 1. And of course we also work on final implementation steps of risk weighted asset measures that were going on for quite some time this so called MIGA program. So overall we expect 100 bips roughly to be added to capital adequacy with those already anticipated measures and that of course leaves us with a very solid balance sheet also in capital adequacy also for pending discussion with regards to the KB acquisition. So we see ourselves well prepared for that exercise in terms of capital adequacy also considering the Covid situation. In terms of other topics in relation to capital I think it is worthwhile mentioning that the recent measures by the regulator are to some extent helpful because they took some adjustments in regards to composition of Pillar 2 requirements that was communicated, so that basically adds up a little bit of potential in regards of further Tier 2 measures and of course reduces actually visibly the requirements on AT 1. That is a bit of a tactical thing. I think it is also worthwhile reminding us that we took effect and benefit of the equivalent regime that was implemented in Serbia that took some 100 million risk weighted assets of, so in this sense risk weighted assets evolution was flattish. As I said we of course continue to work on all pending capital measures, so the AT1 topic is given market circumstances for now on hold but of course it is in full swing in terms of getting technically ready and as soon the market opens we will of course continue to pursue that activity. It is nothing we want to be pushing or rushing because that would just result in elevated price of such an instrument and it is not necessary likely that this will happen in 2020, but for 2021 I am pretty confident that market circumstances will normalise possibly on a somewhat higher level than we envisage but still it will be a worthwhile exercise. In this sense I think just to complete the picture on capital Bank of Slovenia has basically imposed a break on dividends now until early next year subject to revisit towards end of this year. So for the time being we also of course cannot propose dividends, but as we always said of course any 2019 dividend discussion is subject to full understanding of KB implications. Of course we are here in close interaction with the regulator, with the ECB in understanding both portfolio dynamics in the existing Group as much as of course the potential effects of the acquisition, but so far we are as I said very confident that we are very well prepared for this exercise. By that I would leave it to Blaž to conclude on outlook.

Blaž Brodnjak: Thank you Archibald and Andreas. So at this point of time we actually have been quite comfortable, confident that we have been mastering the situation, so operationally the bank is running absolutely smooth, we are rolling back to normal mode of operations. As per the end of the month epidemic will officially be declared you know finished by the Slovenian government in Slovenia and we expect this to follow in the countries which will lead to of course opening up the economy. We are bound to opening up in other countries as well clearly that are our major export markets, but listening to our key exporters the most effective ones are the automotive where we clearly expect some subsidy scheme on European level to boost the industry back. On the other hand there are some uncertainties regarding tourism and this season is going to be of course very likely a survival season, but then we expect normalisation. So in this respect we see this year now maybe a bit more optimistically than a month ago, after two months of lockdown we are opening up and there is a positive spirit psychologically as well. The region has been not affected that heavily also health wise, so health systems have you know been sustaining this solidly. Information from today of last days infections is just one, no death casualties and only seven people in intensive care in Slovenia for example. This is very very solid information so we of course hope that this will now bring a result. We hope for no further lockdowns and by that the year might wrap up a bit more optimistic that it was seen a month ago. We have tried to provide a guidance that is based on today's information on cost of risk around 150 basis points to see how this evolves. On the other hand the situation is bringing opportunities to the table that we are now exploiting which means accelerating certain measures in terms of further optimisation and on the other hand really moving into the more sustainable working mode which will also drive the costs down. So it is not only remote work it is then clearly linked to the capacity you need in Head Offices and so on. So this is on one side going to bring some savings. On the other hand we see much more pronounced shift of digital, we have ben for years trying to persuade clients to move to some digital channels and digital services and we see now a strong uptick and we see that this is now significant opportunity for our business model to transform faster and by that deliver results in sense of further efficiencies on one side, but then bringing experience to the level of challenge the banks as well much earlier than we of course believed so far. Suddenly you know we can move much faster than we were able to move so far also internally, so overnight practically the bank has been producing solutions that otherwise would take weeks or months and this is somehow showing us in a different light we are able to change faster and of course we are going to accelerate these things. Archibald mentioned also that of course in terms of branch formatting and physical footprint we might accelerate certain things, you know doing certain things quickly in this year instead of maybe waiting for next year. So overall the outlook is in our understanding relatively solid, of course we are not talking about the ROEs of previous years, for this year clearly, this is a distressed year, but in midterm we still hope to and believe we can deliver actually the midterm targets, they might be challenged a bit by the year of when you achieve that but we are sticking to them actually. So we believe we can still achieve that, we still see merits in of course Serbian market growth significantly given of course higher margins and given growth opportunities and combined we believe that we can still deliver on the midterm targets. This is something that at this point of time is for us very very relevant, so we move on to build the position of the clear regional specialist in all the markets of our presence coming to a leading position. It is still a very challenging period, but we feel as an institution that we have been mastering this very confidently and solidly and we believe we can overcome and we will overcome this period in a very very solid shape at the end of the year in terms of capital, liquidity is anyhow very very solid and has been such throughout last years, so self-funded fully independent from international financial markets in this respect, fully focusing on our clients and their situation. So we are really now intensively working with key corporate clients and international clients on overcoming the liquidity situation. We have been very diligent in that because, we have accelerated also our approval processes and of course also our stress test processes and other things to understand much better clients individual positions yet we have been heavily responsible and we believe that together with the corporates that have been significantly deleveraged throughout last years, we all know that the total stock of corporate loans in Slovenia has been practically significantly below the total stock of retail loans whereby also the total stock of retail loans has been in terms of comparison to GDP at a very low level in European terms. So this is a solid begin position and we will overcome I am sure this situation in a better shape that you know we believed a month ago. That much from our side for this introduction and presentation and of course now we are opening up the Q&A session and we will be gladly responding to questions. Thank you.

Q&A: We have quite a few questions lined up. The first question is how have the fundamentals of KB change since the start of Covid? Provisioning, loan growth, margins and impacts of moratorium?

Thank you for the question. From what we see also from published information Q1 has been relatively normal also in KB. They haven't shown yet elevated provisions and I guess to some extent that is still a matter of how things play out in Serbia in particular. As we have seen ourselves and as was mentioned Serbia's response to Covid is robust in itself from public finance point of view, the country has the means to support its concipients with measures. So it is early to say I guess to see how the portfolio quality plays out but the fundamentals of the country as such are relatively solid and as was mentioned the reaction to Covid pandemic, the resilience to Covid pandemic is relatively speaking stronger compared to other markets.

Next question. ECB gave banks recommendation to refrain from dividend payments till October. On the other hand Bank of Slovenia has restricted banks from paying out dividends for the years 2019 and 2020, measures are expected to be in place one year. Do you have any indication that this restriction could be lifted sooner as the world tries to normalise?

So far, the information has been that the Bank of Slovenia would revisit the situation at the end of the year, so at the end of 2020. We of course have no better knowledge of how Bank of Slovenia has been assessing the situation. We understand that the Bank of Slovenia has been more restrictive in couple of areas than ECB's framework has been providing so far, so there is a full ban on dividends, there is full ban on any variable payments to managerial staff and there is also clearly a much more restrictive retail lending regime. In this respect this is something that is over proportional that we don't see in other peer markets, but we have not been successful at addressing these issues since there has been no qualified dialogue on that.

I think it is also fair to add that we have said that 2019 dividend is anyway something we would synchronise with the KB process and we would finally take a view on that once KB is digested one way or the other.

Ok, next question. You have already reduced the remuneration of employees on individual contracts. Do layoffs follow, the number 300 by the end of the year is mentioned, is there really no reason for new negotiations on the price of KB given that the economic circumstances have changed significantly due to the epidemic?

As we said previously, so far, we of course are obligated to follow obligations, mutual obligations of the SPA and that is the process we will pursue. And if any of those circumstances change that is the moment we will revisit.

Ok, next question. Transactional part of fees and commissions should be under certain pressure because of the lockdown and less financial activities of your clients, but the fees from customer accounts should be quite stable. What can we expect in terms of fee and commissions income in 2020?

It is early days to of course be talking about that and we cannot give a very specific guidance in this respect. We are opening up as we speak, so from Monday on all commercial centres will be open and all the stores, so we expect people moving back, also restaurants will be open from inside, not only the terraces, so some consumption will be happening again. On the other hand there has been of course clear still uncertainty on the side of the population, unemployment has been increasing, yet talking to some governmental officials and some other projections on expected unemployment rate we currently don't see a situation close to 2008 which was then leading to 143 thousand unemployed versus just shy of 90 thousand today. So we would rather not see such high pressure on the unemployment which means that there might not be such a reduction of consumption as we saw in the years from 2009 to 2015. But to be more specific we need couple of weeks to understand what is happening after the full opening, up of you know consumption capacity is there. This is one aspect. Of course the access to credit has been limited on the other hand and usually people when uncertain they usually crunch a bit in terms of consumption. So if you look at the period from 2009 to 2015 there has been a continuous decline in cash loans in consumer loans for almost 6 years, consumer confidence in Slovenia was at that point of time very very low. We don't know yet at this point of time to what extent this has been affected this time around and that is why we believe that you know we need to work on removing certain hurdles when it comes to of course lending restrictions and so on since there will be many many retired people, public sector employees, also industries that have actually been benefiting from this situation where indeed people have been paid at lower levels but they have secure jobs and secured pay checks and so on, so these limitations should in our understanding now be moved directly countercyclically. The other element is the volatility of financial markets, so significant part of our fee income is coming from asset management, insurance products, mutual funds and investment fund sales at high volatility of the markets usually people crunch for a certain period and it is too early to say for what period this we are talking about right now in this situation, but we see some interest because valuation generally have reduced in the meantime in the markets and people have been already asking whether this has been reinvestment opportunities, but it is early days.

Thank you. Next question, give the sharp NIM pressure what can we expect for the remainder of the year? What was the level of consumer loan sales in Slovenia after the restrictions?

That is a very good question, because restricting consumer loans moved part of the production to housing loans and these naturally carry a bit lower margins than the consumer loans. On the other hand we have had a bit of a shift in pricing power when it comes to corporate lending so we expect a bit more normal risk adjusted pricing in terms of corporate lending which might partially offset lower production in retail and shift of production in retail from cash to housing. Generally NIM should be effects from both ends and we really hope for a bit more normal return to cash loan production which carries higher yield. We have been gladly reporting now that we have been allowed to introduce leasing services, so we are now accelerating return to leasing services which should also provide higher margins, but of course we hope for recovery in car sales and some other durable goods sales that are leasing relevant basis. So it is a mix of production, in corporate terms we see more solid margins happening, not yet in public sector, we still see banks now moving to from their perspective better risk profile public sector financings where the prices have been extremely low, we believe too low given the pricing that sovereigns have been paying at this point of time. On the other hand as said in classical corporate still we see a bit of a margin uptick which is good and which is of course also reflecting higher risk to a certain extent. And for retail we hope for consumer confidence to pick up and we hope for removal of restrictions and then we would be you know moving NIM up. It is also here a bit too early to be you know guiding relevantly on NIM, but with the mix of the measures we believe we can stabilise it.

Clearly 2020 is NIM wise under pressure and clearly that is I think understandable, we have several objective factors, we have the capital frontloading that is a burden on NIM with some 10 million euro per annum. We are deliberately de-risking our bond positions to some extent given the market volatilities. We see softening in retail demand. So all of this will take its … on NIM that is out of question. I guess we can somewhat mitigate as Blaž said on the corporate side but clearly that is something to be very cautious with in Covid circumstances and the big question is really when retail confidence will come back and that is the question for the whole world as much as our region.

Ok, next question. What is the main risk to your conservative cost of risk guidance of 150 bips, both up and downside for the financial year 2020?

To start with at the moment of course we were developing in a couple of weeks our understanding of the situation which I think is very hard to find a comparable situation ever, so obviously all the risk systems and the way how we are looking on it they are not tuned on that so that is now all a little bit more handmade. I mean one thing which we can probably say is that our expectations at that point of time are wrong, we just don't know are they positive or negatively wrong. To hit at this point of time to 100 percent reality how it will be at the end of the year would be a miracle. For a risk person like I am that is not a very comfortable statement to say. Having said that I have to say that as I mentioned earlier at the moment we rather see few well surprisingly positive signs given circumstances than negative points and if that is continuing then we have a really fair chance to be below our current expectations. On the other side the major risk here and I think what was mentioned both by Blaž and Archibald also is obviously if we would face new lockdowns, if we would see coming back of what we saw in last two months then obviously things would turn more to a negative side. Here we have to say that obviously many companies compared to the last crisis have largely deleveraged which in these circumstances is good news. Households were able to build up savings which is good news. But of course that has a certain breaking point and at the moment I think given the developments and then how the lockdown is supposed to end for many of them they still have sufficient buffer also given government measures in different jurisdictions to sustain that and that would just come back again then we might actually see over-proportional change in that so that is clearly a risk, but for the time being as I said we are rather in reality a little bit more on the positive mood compared what we are actually at the moment projecting. It is still a very fragile picture and the reality is we will have to learn in the next month's more.

Ok, next question. What is the price of MIGA guarantees?

Well that is business secret I would say, but it is effectively speaking a very cheap supported, it is cheaper than Tier 2 bond that I all I can say.

Thank you. Next question. Thank you for this call. Regarding expected 1.5 to cost of risk would you attribute it to V shape or U shape recovery pattern? Also if I understood correctly no significant ramp up of provisions are expected in Q2 2020?

The majority of analysis which we see is either on a V shape or on a U shape, obviously not on L. So if we would see the L developments than I think we are not conservative enough yet, but at the moment there is no such indication. Our current projections are obviously assuming if you ask me V or U shape it is something in between that but definitely I mean the expectation is that by next year there will be a rebound, so from recovery and now obviously you can always discuss to which extent this is happening and how fast? If you ask me for the 2020 developments that has a minor impact, the question is more from 2020 onwards how the situation will develop? I mean you know our midterm targets and at the moment we are convinced that we will come back to that rather swiftly, so eventually already 2021, but that will obviously depend a little bit on the question V or U? For the second quarter 2020 as I think was already mentioned before by Archibald I mean we are expecting relatively well stable development on this high level, so we are not expecting any huge jumps, but of course what you will start seeing in Q2 is clients to be defaulting or we see them as defaulted even if currently they don't have to repay and of course we will start booking that. So I think this you will now see during the entire year. My expectation would be on a relatively comparable base quarter by quarter but remains to be seen. If anything then we would see maybe a little more in Q3 and Q4 than in Q2, but obviously we are trying to understand our client's situation as soon as possible. So in an ideal case we would see it rather proportional.

Next question. What are the underlying macro assumptions with respect to the cost of risk estimate? What percentage at Q1 provisioning is Stage 3?

I think hardly anything, hardly anything is Stage 3 provisioning, vast majority of Q1 provision is Stage 1 and 2. The GDP scenario are basically following what we published adding a little bit of conservatism actually, so in this sense conservative.

Next question. What are your expectations regarding the outlooks for the average loan rates corporate and retail in strategic foreign markets for Q2 and the remainder of the year? In addition to rates cut impact is there increasing competition too?

Increasing competition has been happening in the least risky parts of the market, this is private sector financing as I mentioned at rates which we don't necessarily even want to follow, because it is not responsible to capital. In main clients segment we see reasonable pricing evolutions, so in terms of corporate lending and consumer lending the pricing is less under pressure. Housing loans might be a bit under pressure give the limited production and this might be evolving through the cloudy year this way, but more precise indications we cannot provide. This is first too early and secondly you know we see mixed behaviour from banks, some banks have been crunching a bit and trying to analyse and understand the situation and focusing on the least risky segments, but at the pricings which are not necessarily risk adjusted compared to sovereign pricing. Whereby at normal business we don't see such a pressure and we believe the margins will be kept stable. With a bit of more adjusted pricing for regular corporates the total needs of production could be …, but Archibald was mentioning before the specifics of 2020, I mean this is not a normal year and throughout the year quarters will be moving differently depending on the behaviour of individual banking players and their commitment and devotion to these markets, we might see different tactical moves, but I would rather see this now at these of course a bit depressed levels stable for this year and then we would be working on the optic actually because of course new normal is going to be we believe at a higher stress maybe for sovereigns but as well also for regular clients as well, so this is not necessarily bad news. On the other hand we will be dealing clearly with eventual migrations to NPLs, Andreas was talking a bit more elaborately on expected levels and here the interest is suspended as well and this brings other risks, but in terms of classical NIM also depending on eventual introduction of further capital measures such as AT1 at certain point of time this year would be of course impacted by one-offs which are difficult to project in midterm.

Thank you. Next question. Can you comment on financial year 2020 Group loan growth prospects, will there be any growth? And if yes what level is realistic?

It is always resolving around the same dilemma which is how fast will retail demand recover and how willing are we to take incremental corporate risks? And that is the question we will answer practically on day by day basis because it is nothing we can give firm guidance on. Simply this situation is unknown, nobody knows how the crisis will play out in the various markets. For now I think at least for Slovenia but I think also for other markets we are reasonably confident that recoveries will be fast, also EBRD came up with research yesterday that was relatively positive. So there are many indications that we see a V shape recovery and we all hope that this is what we will see and observe. Even in a V shape recovery I think loan growth as such will be rather flattish throughout the region and that would already be a good case because we simply lost now practically one quarter of retail loan production to a large extent and this will not be easy to be recovered. Our main message is this year is for sure extraordinary in all circumstances, the positive of this year is that the pressure on … clients probably will have been mitigated or reverse and of course we see a big opportunity to het focused on structural cost measures. And of course we entered this whole situation with a very strong capital situation, so that provides cushion for both risks that we haven’t yet foreseen plus of course crucially for the pending discussion with KB and with the emphasis that Serbia for us is still a very attractive market especially or even under Covid circumstances given its relative high resilience in our perception to the situation. So 2020 difficult prospects stable and good and that led us also to uphold our midterm targets as a guidance.

Ok, final question. Will closing of the transaction of NLB Vita in 2020 lead to reduction of assets under management of NLB Skladi which has been managing assets on behalf of NLB Vita? If yes what will the amount of reduction of assets under management be?

First of all we are very much looking forward to the closing. We have good reasons to believe that it will happen soon, possibly already in Q2 and that is the most important aspect we are focused on. That for sure is and has been a very good transaction for both parties and we very much look forward to deepen the cooperation with the prospective buyer and that should ultimately lead to increased business. The tactical aspects of asset management by Skladi is something that we have of course considered and is subject to certain regulations which certainly I cannot disclose in detail, but it has been considered and I think a good outcome has been achieved for both sides.

Those were all the questions and I will now hand back to Blaž.

Thank you all very much for listening to the presentation and for raising quality questions. So maybe I will just start with the last topic, so we are eagerly awaiting for the final closing of Vita by which we would then finally fulfil the last commitment from the state aid process to the European Commission and at the same time we have received in the meantime the approval to start leasing business. And of course we have been pretty much and pretty well managing this very unusual and unexpected situation of the Covid, so in terms of operations and in terms of our daily business we are running fully smoothly, reliably and securely on one side. On the other side we are now in stage 2 of managing the crisis which is really focusing on clients and their main challenges and Q2, Q3 and practically the whole year will be dedicated to on one side containing the damage of course for clients and the bank consequently and on the other hand preparing solid grounds for years to come where we expect that the rebound would be happening. So if we were quite concerned or reasonably concerned a months ago where this might end mood today is a bit better and more optimistic, so it looks rather a V or at least a narrow U than something converging to an L scenarios. We have had experience from the previous crisis which in Slovenia actually took place since 200 till 2016 almost, so we are used to manage the environment in crisis mode, but it seems that we would be out of this one significantly earlier and that the entire economy, so the corporate clients, retail clients and especially the banks have been in much better shape this time around. So our solid liquidity position, our very solid capital position in the meantime which has been further enhancing as we speak are a very solid basis to overcome this crisis situation. On the other hand we have been continuing also with implementation of the new strategy including strengthening our position in the most important strategic markets. We still see of course challenges on the regulatory framework especially in Slovenia where we see more restrictive approach from the local regulator than the ECB has been introducing and this is something that we as bankers not only as NLB in the Slovenian market need to understand better and need to of course get arguments for. On the other hand we are confident that our team with a really solid spirit and now proven ability to change very quickly in crisis situation will be able to deliver certain progress much more accelerated progress in digitalisation offerings, services to clients that we believe to offer actually next year already earlier, so already mid of this year and accelerate certain efficiency measures such as eventual adjustment to the physical footprint and further cost measures which have been proven now to be able to be delivered through either remote work, more efficient ways of communications and so on. Thus leading us more or less all together to the believe that we can stick to midterm targets, it might be more challenging, it might be in terms of a year of delivery maybe a bit differed, but we stick to midterm projections on the main categories and we continue the process of closing of Komercijalna Banka at this point of time. And we will of course have much more clarity and visibility of the actual situation in a month or two to come, but generally today Slovenia has as said declared that the epidemic will stop at the end of May which is a very strong psychological message to the entire society and will also boost the spirit of companies and general population and by that we believe that also consumer confidence might be this time earlier back than in previous crisis. And we expect the assistance of the government and the regulators to boost the consumption and by that we might see 2021 very very strong, but 2020 here clearly still strongly impacted, but 2021 then brings us back to the trajectory to deliver the midterm targets. Thank you very much again and see you hopefully soon physically in Ljubljana and the investor day then you know organised as planned for this time around. Thank you very much.