NLB Group Q3 2020 Results

13th November 2020

Ladies and gentlemen, the Management Board of the NLB welcomes you to the webcast where they will present key highlights and business performance of the NLB Group for Q3 2020. Today's presenters are Blaž Brodnjak, CEO, Archibald Kremser, CFO, Andreas Burkhardt, CRO, and Petr Brunclik, COO. This presentation will be followed by Q&A session. If you would like to ask a question, you can do it anytime during this event. Please use the questions tab located above the slides. Before we go on, we would like to draw your attention on the Disclaimer on Slide 2 of the presentation. By this I pass the word to Mr. Brodnjak.

Thank you very much and good morning to everyone. I am glad to be able to address you again, this time for the quarterly results for Q3 2020. This has been clearly a very specific year during which we were learning on the go, but what is very important, I believe that Q3 results of the NLB Group are actually very good news. From where we were in March and April and what we are looking at now, I would say that this really is strong performance. And this strong performance is not only based on our capacity to deliver seamless services towards the population and the economy, be it in terms of core transactions universe as well as financing, but also in the sense of how quickly we were able to adopt in terms of digitalisation and on the other hand what is coming actually from the recurring results. So if you look at the core business results, they are very very strong, both in corporate and retail, and the Bank this time around will be showing its robustness and very solid first capital position, but above all also liquidity and credit approach in the sense that we had not actually withheld liquidity from the system. We have been supporting with the liquidity and with that, as we know, the situation has been overcome much better as we were hoping for even in April. We had a very strong performance over the summer – July, August and September – and in this respect this is something appealing to these results. Of course, we are now in the midst of the second wave all over practically across Europe, but this shutdown/lockdown is not so severe. Especially in Slovenia we had some incidents last week that was quite concerning and worrying, but there have been strong shutdown measures in place since a couple of weeks, two more weeks now. But the production part of the economy has not been closed, vital services are provided and we believe that after experiencing the period after the first lockdown, there will be a compensation in fact in the subsequent weeks and months after the opening up again. So of course, this whole universe was requiring significantly diligence in clients and directions and understanding better what the individual status of especially corporate clients is. But we have been very active and responsive, and we have been approving moratoriums on one side, on the other hand we were providing fresh liquidity and by that protecting vital businesses. State measures have been very effective in Slovenia and also Serbia and some other countries. In principal, the situation we are looking at is much better than we have been forecasting in March and April. In the meantime, we have been working on closing of transaction of Komercijalna banka, we are advancing well, and we believe that no objectives will wrap up in Q4, about which I will give you more details later on. In terms of digital transformation, we have really accelerated the pace here, so over the summer we have offered new services. So now you can really close overdraft, card limit, cash loan with NLB in Slovenia actually exclusively from a mobile app, without having to talk to anyone. But of course, now it's remote signature, you can order any service from mobile app and you can find already within the mobile app the digital signature. No need for visiting a branch for up to 85% of services, which is a significant progress. Legislation still needs to follow in some other geographies and to some part also in Slovenia, but we are working on this and we believe that the government is going to address this in the coming months. In terms of capital position, it has been very very strong, with 21.5%.

We have been of course introducing some measures already in the first half of the year, such as Tier 2 instruments, but of course the inclusion of the profit of 2019 is beefing them up as well and on the other hand of course some minority interest has been acknowledged now appropriately in our financials. And of course, we have been in the same time working on risk-weighted asset optimisation, be it through MIGA instruments and of course hard discipline and understanding collaterals and of course underwriting standards. So overall we believe that Q3 results are a good message, rather glass half full than half empty. So, 105 million in a Covid year that was somehow stigmatised as the worst after World War II is still being the top 10 result in Slovenian corporate history. We believe this is a good basis towards the end of the year, also to overcome eventual further lockdowns until vaccine obviously is taming this virus. I would like to pass the word to Archibald to give a bit more flash on financials and then Andreas and Petr to follow and wrap up. Thank you.

Thank you, Blaž. Welcome everybody from my side, this is Archibald Kremser speaking. Basically, Q3 was a very solid quarter in the circumstances especially, but even beyond the circumstances I think showing the strength of this franchise with very robust performance in retail, pretty solid performance in corporate and of course conscious about asset quality in Covid circumstances or the showing of reasonable risk dynamics. Overall Q3 showed 31 million EUR of net income on the back of a pretty solid operating income performance, actually core revenues stable or even slightly up on quarterly level and as much as on yearly data basis. So that is for us of course very encouraging sign. We have seen some rebound also in retail in Slovenia, housing always being very strong but also recently some signs of life in consumer finance which as you know was a bit impaired by regulations. Costs, very strict discipline throughout the year, actually flat to date and impairments in Q3 are at the expected rate. Andreas will give you flavour on full year, but overall speaking very robust performance. If you look at the year-to-date comparison, the bottom line is down, predominantly of course by impairment provision dynamics which given Covid circumstances and the exceptionally strong performance last year is of course pretty straightforward dynamic. Overall we are very very happy about Q3 and we look quite hopefully towards the end of the year and of course knocking on wood with as regards the second wave as it is called. But it seems it will be digested well. What we cannot service is the straight locked month that we see a dent in production and consumer finance. Obviously, this goes down quite significantly in a lockdown period. We obviously also see a dent in commissions driven by lower payment volume. And we have seen that in March, April. But overall the performance is very strong in terms of balance sheet dynamics, loan books are growing slightly as indicated, especially in our subsidiaries growth is very robust. We see here mid and high single digit growth even in Covid circumstances, of course in strict observations of underwriting standards. So broadly speaking we are quite happy with performance, a bit more specifically on interest income. You see, finally a rebound on a quarterly basis. But as I said before, the key message is actually, the core revenues from loans are growing, even on a year-to-date comparison. And that is for us extremely encouraging. All of this is pondered by retail which is obviously a risk we like a little bit more, especially in Covid circumstances and we are quite satisfied overall on NIM performance. The margins are down mostly for the already commented reasons, that’s predominantly the 300 million up-tick on costs on the capital side, and of course we are still suffering under quotes from very strong depositing flat we have seen in excess of the billion this year and obviously we are thinking partially of transitioning some interest income to fee income that is always discussed and this is pretty much ongoing progress. I have to comment that in corporate we pretty much recover cost of liquidity already we see and at some point we will also discuss retail. On non-interest income, as I said, very solid performance, YoY, quarterly uptick, which is especially encouraging. As I said Q4 might be impaired a little bit by the second lockdown, but from what we have seen in the first lockdown the impact is actually limited. Visible but limited. Overall we are very happy about dynamics in asset management and cost distribution. Other than that we haven't seen much of non-recurring revenues. Costs, as I said, continue with restrictive discipline. You have basically flat YoY development and that is of course pondered by, well a number of measures – I always called them the stabilisers – the management in particular has contributed, the whole Group management, in other words, all the subsidiaries, visibly to HR costs and which all sponsored in field investments into hiring expertise, which we have to both in the IT and other topics. So we managed costs I think very responsibly. You have seen also that our physical footprint is continuously reviewed, we are now down to 80 branches in Slovenia and of course this is a space where we will keep working. So this never stops until our physical footprint, real estate, offices, branches is continuously in the focus and we envisage further steps forward. HR costs will normalise next year because the reductions will expire and on the other side we of course have envisaged further continuous reduction headcount. You've seen us reducing on Group level at the pace of some hundred people, 100 employees per year and we expect that to continue going forward. Loan dynamics I mentioned, we are particularly happy about obviously continuous growth in our subsidiaries. We are also very happy that housing in Slovenia is performing strongly, actually cross the region housing is a bright spot as mentioned several times and Slovenia is a mixed pack of pretty strong housing performance and of course still quite impaired new loan production in consumers, but as I said before, there is some sign of life here. Corporates we've been cautions this year as you see on the dynamics but we have actually quite strong pipeline both domestic, regionally and to some extent also international cross-border initiative is kicking in, so in this sense we are looking forward to basically loan growth going forward also in Slovenia. The liability side unchanged pretty much, we have seen very strong deposit influx in the first two quarters, in the last quarter this has somewhat slowed down a little bit, but still clearly very strong liquidity position, a bit of a mix placing. On the other side we are fortunate enough to be considered the leading franchise in the regions and that of course comes with the responsibility and in our view this is also a revenue opportunity. On the capital side the highlights were mentioned by Blaž, very strict RWA discipline and focus showing in savings of some 500 million plus on implemented measures recently. Of course, capital position very strong in anticipation of the pending KB transaction and with this position we feel very confident also in the Covid circumstances to show with closing of the KB and meeting all our regulatory targets but also our management buffer target. As I said a couple of times this not necessarily including the 2020 result. Now I will hand over to Andreas to give more light on asset quality and cost of risk dynamics.

Archibald, thank you. Welcome also from my side, Andreas Burkhardt is speaking. On asset quality I mean one point which is surprisingly important is all the Covid measures which were given by government or central bank and based on which clients were able to apply for moratoriums. As we know Slovenia was acting from the very beginning decisively, allowing 12 months, which at that time was uncommon, but honestly speaking this has proven to be very stabilising, so it's a good thing. Throughout our region you see or you saw different kinds of measures. In Kosovo the measures have expired and in Serbia they have expired, otherwise still ongoing and we will see next what this means in volumes. Overall we had under moratorium 1.7 billion on our exposure or a little bit less than 16 percent. 500 million has expired either by end of June or end of September. We have now 1.2 billion still under moratorium. Honestly speaking so far but it's still a bit early to make robust conclusions, so far on this expired part rather positive surprise. We are following these clients very closely, also during moratorium we will reclassify them if we see indications, but then of course you get additional disability when moratoriums expire. From these expired moratoriums, from half billion we have default of little bit less than 7 million EUR so far, which if you ask me is good news. Again it's a little bit early, but so far so good. What is very good to see is that actually it's primarily coming from low ranking classes, so primarily from C-rated classes and that is actually what you would expect from clients which were before already weaker and now of course easier come into problems. If they behaved differently, so primarily good, rating classes would default that would be our high attention point but that's so far not the case. Portfolio behaves actually pretty well, if I may say, likely as expected. As you know we have primarily three areas which we see as high attention points, that's accommodation and food, that's manufacturing especially as far as related to automotive and then transportation. Here on this slide you don't see really too many news. The figures are a little bit less than 100 million in accommodation, it's manufacturing related to automotive, I think related to automotive you don't see here in the slide. That's related to automotive on the right side, under 30 million. Transportation is a bigger amount, but 360 million are with the state guarantees in EU. So here we don't expect default and the remaining part is something like 100 million as well. So overall the messages that are bright are exposures that are very moderate compared to our total exposure. And what we have learnt through the crisis is that clients are not behaving uniformly, so accommodation coastal region, tourist region was actually surprisingly robust, more problematic was apparently for hotels in cities, city tourism, city hotels, restaurant business honestly speaking also more mixed picture, so not uniquely negative. Automotive so far surprisingly robust after this shock in spring there was a pretty good catch-up and at the moment all the books are full. Even the second wave has not changed this so far. Here are rather positive surprises I have to say. Transportation is very much depending on what is really behind, for example, if you have rent-a-car business this is primarily half… management that doesn't have to be any negative message at all. So how we saw it from the beginning, at the moment we are rather happy that portfolio behaves more robust than we thought at one point of time. Overall nevertheless you have to see that this year we have completely different cost of risk than last year that was apparently not expected. You may remember last year we were still releasing provisions. This year we have been building in the first 3 quarters roughly 50 million which is reflected on the annualised basis in 84 bps cost of risk, but you have to see that 18, 19 million of that is pool provisions so this actually changed the expectations and the rest is individuals provisioning. On the portfolio quality you see very moderate increase compared to last year on volume of NPLs, from 375 to 399, and this despite the fact that gross formation in 72, so we are very actively resolving NPLs. And that's also some learning this far from this year that even under these circumstances that we see right now NLP resolution actually works very solidly and sometimes these cases we didn't expect to solve. That's comforting and you have to see that we have more or less unchanged in this 399 million, we have approximately one-third of 151 million of loans which basically have no delay. Primarily these are clients which went through problems in the past and now are in the curing period either with restructuring or even without restructuring and that's why they are not yet set back to performing. We made actually a solid part of this no-delay portfolio still resolved this year, let's see it may happen, it may not happen. If we are talking about asset quality in a sense of staging. Also this is very solid. If you see the YTD change in stage 2 and stage 3, that's net 12.12 million or 24.7 million in stage 3, so 12 million in stage 2, 24.7 in stage 3 and that's if you ask me in the given circumstances actually very solid and overall we have to say that this too, despite the fact that in these circumstances we are following clients extremely closely and we are very proactively also changing stages when we see problems coming. So we are not just waiting for moratoriums to expire because they you would apparently be hit next year. We are really trying to understand here very closely. Maybe as an outlook for this year, as Archibald mentioned before, we will also talk about that. Outlook for this year, I mean what we did is when the second wave came apparently, we were once again doing an additional push in all of our portfolios so all the bigger corporate clients were reviewed once again one by one and rest apparently we checked our portfolio assumptions and whether we had specifically hit areas. Specifically hit sure is again accommodation and food, by food I mean restaurants. I have to say it, that in the meanwhile we see things more positive. Apparently our most realistic expectation is that we will end up in this year with cost of risk between 100 and 130 bps, in this range you might remember that so far we were always guiding you up to 150 bps. So again, we see things now being so solid that we feel comfortable to give you a little bit more positive message and that is already apparently, as it's six more week until the end of the year, a quite robust view. In the worst case scenario, if things additionally deteriorate beyond our expectations we might imagine to come to these 150 bps regarding so far but for sure not above that. I wouldn't see that. And then for the next year unchanged, we are expecting to be back in with our risk appetite. You know that we usually want to have max 90 bps cost of risk. We expect next year to be back within that. The following years are still of course a little bit more in a fog because we will see how long the situation will drag back in 2021. Our current assumption is that in 2022 we will be again very solidly within our cost of risk, not stretching any more than 90 bps and coming back more to normal figures. But of course this is still a little bit early so we will have to be more with what develops in reality in the next half of year. With this I would conclude for now and handing over to COO, to Petr Brunclik. Thank you.

Thank you, Andreas. Good morning from my side, this is Petr Brunclik speaking. We had a quite successful quarter in IT and digital area. As Blaž already mentioned, we have delivered some crucial functionalities that enable basically distance purchasing and closing of our products. We were also safeguarding the stability of our systems. Next to that, we have also developed together with our team the IT strategy for the upcoming 4 years and this IT strategy is called Triglav, as the highest mountain of Slovenia and also of ex-Yugoslavia. This is also our aim to actually bring our IT and digital capabilities to the top in the region. Our mission is basically to enable the best client and employee experience through reliable, effective, secure, accessible and scalable IT solutions and our mission is to build the best digital bank IT team in South-East Europe. But let's go back to Triglav. As the name already signals, Triglav is basically three peaks. The highest peak that we want to reach and is our aim is to deliver the digital and CRM capabilities. Currently, we are more weighted on the back-end side in terms of investments, in sense of people and expertise. This is something that we want to basically flip and we would like to basically get very intensive on the front-end side in terms of investments, IT and deliveries. The second chapter of the highest peak is also data assets as we are working on the project basically unifying data across the whole Group and also maximising utilisation of our data. With growing digital and utilising data, we also plan to harden our security and reliability of our systems. The second peak is basically simplification, streamlining and cost effectiveness of our IT. Currently for instance in Slovenia we are running two core banking systems in the Group, we are also running two core banking systems from two different vendors. This is something that we would like to look at. We have delivered the core banking system strategy which is actually speaking about how to tackle this in the future. This is one thing, the second thing is that some of the platforms run on mainframe or basically the majority of our IT. So this is something that we would like to actually decommission and we would like to move to more distributed platforms. So we are working on this and with this we expect that we will basically simplify our foundation of obligations and we will also lower the cost so we can finance the growth in the digital and CRM channels. The plan is also to go more to the cloud and leverage open-source solutions where it is possible. Of course, all of this would not be able to deliver without proper team and good company culture. So this is another topic that we would like to work on, basically to build a performance-driven team where business and IT are working in an agile way together and that we will shorten time to market for our deliveries and we will remove silos. I think that in the last couple of months it has already been proven that this is a successful approach and improving our IT deliveries for the business. IT strategy would be nothing if it was not linked properly with business strategies. So here as you can see on the left side there is the home strategy, then we have the strategy that refines to the strategic goals and it is also visible how it is linked to IT strategy. This IT strategy was basically discussed yesterday with the Supervisory Board, now our plan is to go across the whole business get the buying of the business and profit of this IT strategy. I would really like to thank to the IT team which has put this piece together. I mean you have seen only 2 slides but there is a 70 page text behind this, with all the details and roadmap. And with that I will hand over to Archibald.

Thank you, Petr. This time I will briefly talk about KB and then I will hand over to Blaž to conclude on strategy. KB update is pretty much unchanged, we are in very good discussions with the regulator, several regulators as you know, and we still expect to close in Q4. Regulatory proofers are still pending but we are making good progress here. Komercialna banka itself and Serbia generally are developing well so we see Serbia as one of the, if you want, up-performers in the Covid circumstances. So the economic effects and the rebound are expected to be let’s say on the higher end of expectations of impacts in various markets. So clearly ex-post I think our decision to go with this target is proving still to be the right move. So, we are really excited about entering this project and look forward to make this a success. Obviously, we are still waiting for the approvals and not commenting on the specifics here. You see numbers in the slide text, but the Serbian market and bank environment is developing robust, asset quality also in Covid circumstances from what we see in our home franchise and also from published numbers of KB is robust. All of that makes us confident that with this acquisition we are on a pretty good path to meeting our strategic objectives that we have published in 2018 as targets for 2023, one of the key targets being a 12% ROE performance. We think with KB we are on a good track here and meeting the other relevant metrics which are of course within a range of expectations. So these are targets, not all of them will be met by the decimal, but broadly speaking this is a strong performing group with a solid revenue outlook, strict cost discipline and by that also having a very robust dividend outlook. You see the targets, the 70%, in other words a strong payout ratio, is still what we envisage also after KB. You know that KB inclusion into our Group will have to absorb us in the range of 3.5 billion of risk-weighted assets. Given our strong capital situation we are really quite confident that this is not posing any material challenge and, as said before, not even including the 2020 result. Now I would hand over to Blaž to conclude.

Thank you all, guys. So in principle as I began I would also conclude with a positive note in principle. So the results as we assessed are solid, the outlook is a bit hard to give because of the uncertainty is still high and the lockdowns are happening as we speak, but are happening in an organised way. Of course the self-protective gear in the companies is everywhere. We were removed to full-remote work from the head offices practically overnight again and we are now also attending this core remotely all of us. But it’s working, so the banking system is working seamlessly and smoothly, all branches are open, the services are provided continuously, we are really standing by the population and businesses this time around. Liquidity is even further improving in terms of recurring revenues they are solid, so there is some uncertainty. Of course November’s lockdown in Slovenia is going to bring for November results but you know the months so far have been strong and what we learnt from the previous wave is that the pickup in consumption was then quick and also the economic activity was rebounding quite heavily, assisted by comprehensive set of measures by the government. Some more, some less pronounced but in Slovenia and Serbia very robust. In other countries a bit less bit still these countries have been used to live somehow in a crisis continuously and they have never practically gone out of the wave one during the summer. Overall the NLB Group is at this point of time extremely well positioned, we believe firmly that this is really an opportunity for all as well. Of course 2020 and 2021 will obviously be impacted by Covid implications, but we would expect after the vaccination is done and there is the pickup in optimism that we will actually see very beneficially this situation. So generally it is very important to pronounce and highlight that client business is robust, recurring client business is practically almost at the levels of last year despite a strict lockdown. And even this lockdown which is happening as we speak, we believe it will be overcome in December, January, February or the following months. Overall we are looking forward to close Komercijalna in this year, we are looking forward to successfully integrating it in the coming years and by this the position of this banking group as one of the most prominent pillars of not only in the finance industry but in far society in this region, since we will hold the top three positions in 6 countries. I will conclude with I believe the most important message that yesterday the Supervisory Board also acknowledged and approved new mandates to CEO, CFO and CRO, since Petr joined us only this year and this means that the complete Management Board has now a mid-term vision and is fully motivated and eager to deliver the mid-term target to the benefit of the Bank and its key stakeholders. So now we are opening the questions and are ready to respond to them. Thank you.

Thank you, Blaž. Our first question today from Gašper from Slovenia: Hello, let me first congratulate you for the solid result in these tough times. My question is regarding the declining trends of active users of NLB Ljubljana. It seems that the bank is losing approx. 8 thousand active users per year. How do you explain this trend and what is your plan to address this and stop this decline. Thank you.

Well of course this is part of the natural clean-up on one side, so of course the databases are being cleaned in a way that there are people that die, there are people that simply stop using certain services. On the other hand we are now really focusing on profitability in a much more diligent and focused way, which means that not necessary all the clients are value acquitted for the bank business. In this aspect we are really focussing on the ones that deliver the most value to the Bank. We are observing obviously the result not necessary the client count on its own, but relatively the value of the client count cumulatively and collectively. And this is one of the main reasons. So from new origination we see that we have been actually able to attract new clients, that we have been able in the last months to originate above our natural market share of both housing and consumer loans, which is naturally also carrying new client openings. And in this respect this is a natural process so we are not concerned about that at this point.

The next series of questions comes from Jovan from the Raiffeisen central bank: Do you know what is the KB approach on the risk costs. The bank has spent almost zero CoR from 1-3 Q, while peers, OTP 145 bps, RBS, Erste each 65 to 67 bps, UCG 94, and Intesa 87 bps in 2020. What do you expect to happen in the Q4? Do you still count with the modest impact from venture fair adjustment of the deal close?

Well KB has been working heavily on the cost of risk in previous years and has a very solid structure of portfolio that is quite immune to this crisis evolution but I will pass the word to Andreas to give you more.

At the moment of course you may have imagined that we don't yet have a full insight we will have after closing. I can just clear it away what Blaž said. They were heavily working in the past and on the cleanup of their portfolio they are rather a little bit on the conservative hand that helps them for sure. I would expect nevertheless that they will still some risk this year. But at the moment of course it's not very easy to, you know, give you any feedback on how high that will be. But generally speaking the Serbian economy is performing in these circumstances surprisingly well and if you are more on the conservative side with your portfolio, then that should help. What for sure you will see when we own the bank is that we will have some adjustments simply because our set of rules is different. In a couple of points this will all not be dramatic amounts but for some differences. In the way of looking at the portfolio we are aware that there will be a one-time adjustment, and again will not be dramatic as far as we understand. But of course, you know at this point of time it's not to comment on complete expectations for Komercialna banka for this year.

Also from Jovan: Can you elaborate why the ECB is taking so long get the KB deal approved?

This is a question that needs to be raised to the ECB, but the process is well structured and Archibald can give you more about this.

There's not much to add. The ECB is taking I think appropriate time. We have been in a very good constructive and continual dialogue and it's hard to comment how much time the regulator needs. But everything is progressing orderly. That's all we can say.

Another question from Jovan: OTP has indicated one of the fact for the change of accounting standards for the treatment of moratoria in Serbia for the Q4. Your view, new business development in the region, how do you see the demand for new lines, mainly retail? How did you manage to generate such robust new consumer loan sales in SLO in 3Q?

I agree with touch ground on the origination. So all the pieces of the puzzle came together. So we have introduced really new digitalised possibilities for clients to do the cash business, the cash loan business, the entire consumer loan portfolio actually in Slovenia, so you can really now get overdraft increase or overdraft for a credit card increase or a cash loan over a mobile app without having to talk to anyone or sign any sheet of paper. It's all happening digitally end to end, through the mobile app. On the other hand we increased our communication, which is I believe by far the most structured in this market, especially in Slovenia. And we added also activity, so of course we are now working much more outbound and we are much more qualified and we are supporting this now with much more relevant CRM-based campaigns. As I said, in the last couple of months we have been originating well above our market share in Slovenia when it comes to both housing and consumer loans. In our loan book, we are restricted clearly in consumer loan book origination still by the measures of the Bank of Slovenia which we still don't understand and we believe they are not reasonable. But in other countries as well, as I mentioned before, the extent of the crisis and half-way lockdown has been there almost for the entire year and still we have been managing to grow the business, which is a very solid message. We believe that we are very well positioned in all the countries of our presence and especially with addition of Komercijalna this will further be the case. We are now very solidly based and positioned and actually grow market shares in our markets and do it profitably. We believe it firmly that we can also do it profitably. On other aspects I will be calling Archibald to address that.

I wouldn't add much. I mean results are good outcomes, the result of very hard work we have invested over years, so not much to add.

Also from Jovan: Has the latest sharpening of restrictions in SLO been incorporated into the CoR outlook for 2020? Your peers are softly indicating CoR outlook for 2021. What is your view on that?

Of course what we saw in Slovenia is actually a flip, right? For a long while Slovenia looked almost perfect. Now at the moment the Covid figures are not helpful and there you see also the lockdown measures which are just as of yesterday. The decision of yesterday has increased and obviously we are including this in our outlook for 2020. When I told you before that we are expecting now for the Group 100 to 130 bps cost of risk, then this is obviously including this understanding. Again we were in the last few weeks very intensively in contact with many clients and we were also from the portfolio level again reviewing potential impact coming from both sides and the new outlook for this year is definitely including that. For 2021 I think I was trying to explain it before. It's still a little bit early days, I mean I don't have an indication and we don't see it like that we would have to revise what we were previously guiding. And this next year we will be back in our target range of CoR which is 90 bps. If no positive miracle is happening, it will be if you ask me not much below, so we will probably slowly still consume that. But it shouldn't be more. So obviously that's from our current understanding which also tells us that this Covid story is for sure not yet over and things will depend on how fast vaccination will be available and so on. But with this understanding which we currently have we will still be expecting also next year to be back in our target. Of course we will have to see in 2021 what's really coming. If it comes more harsh than we are foreseeing, who knows, but from what we understand right now, we can confirm for 2021 what we said before and for 2020, despite the circumstances in the meantime are more optimistic, that means we are expecting CoR between 100 and 130.

Next questions from Mladen from Erste: Good morning, gentlemen, thank you for the call and congratulations on the result. Two questions. When do you expect some update on consumer lending restrictions? Do you have any estimations regarding moratoria exposure? How much of that can become non-performing? Thank you.

On restrictions from the Bank of Slovenia we have actually no information because there has been absolutely no dialogue. This is what I mentioned publicly on a couple of occasions, there has been no dialogue between the industry and the regulator on key terms of key business. We find it strange but this is the case. That's why I can't give you a positive feedback so far. Maybe Andreas can add something on the second part of the question.

Well, so far what happened is actually rather comforting. I told you from the expired moratoriums so far we have a little bit less than 7 million EUR default. It's also that the portfolio is behaving like a portfolio would expect to behave, so primarily lower rating classes are defaulting. It's a little bit early here, you know as a risk manager I am used to have a little bit more data behind and obviously we have now half a year living in a little bit of a new world and that is for a risk manager not a very comfortable situation. But so far we have now indication that we will have mass-wise unllogical or expected behaviour of portfolios. Overall, how we expect our portfolios to behave, and here of course you have to understand that primarily we are here concerned about moratorium clients because there are certain restrictions in their business and their income. What we are overall expecting you can basically conclude from our CoR expectation because you know what is our average provisioning level on defaulted clients and if you include that in your calculations then you come already pretty close to the expectations which we have on NPL volumes for this year and for next year. What is maybe not fully fact here, I also have to say that we in the last 3 quarters did almost surprisingly well, still resolving existing NPL cases or sometimes newly incoming cases, so if we are very lucky we may see some counter effects here from resolutions of existing NPLs, but that is to be taken with a lot of care.

Next question comes from Ognjen from Alba partners: Are you comfortable with the price to be paid for KB having in mind the size of the deal which is more than 50% of the current NLB market cap and current market conditions? Since the signing of KB deal prices of European banks dropped by 35 to 40%.

Well, we are interested in fundamental value of something and we signed the SPA in February, after which we have been closely monitoring the performance and it is in line with what we expected. So we believe the value is still there and we also have a signed contract which we mean to respect. Archibald might have some thoughts.

As I said we and I personally believe the market is undervaluing NLB and you have seen management's conviction of us investing in the shift.

Next question is from Jovan from Raiffeisen: What is the cost of MIGA guarantee and where do you book it? Thank you.

We said so far and that is still true that the effective cost is lower than the comparative capital instrument and I can't be more specific than that. But it's a favourable transaction for the Bank, reducing risk-weighted assets in direct and immediate way and very cost effectively. It's booked as fee and commission expense.

Simon from Citi asks: Can you elaborate on the cost of risk guidance of c. 90bps for 2021. What are the main assumptions behind that baseline assumption?

The only thing at this moment I can say is that we are trying really hard to understand this year which problems occurred this year. Generally you are consuming the problems when they occur, right? To be more precise, when they occur and you can see them. I think with very close monitoring our client base, we were discussing this also on the risk side, I believe a good part of the problems that occurred we will be consuming this year. That's why this year you'll see us most probably above our risk appetite, above 90 bps cost of risk. But that means on the other side that we are next year not expecting mass-wise fallout from what happened this year, because even if the problem materialises next year, if the problem was created in this year, we would book it this year, not next year. And then you see the next year obviously from effects which are coming from next year which obviously will not be a regular year yet, we still see a higher CoR than the next year. That is still, you know, I mean, still considerable because 90 bps is still at the absolute higher end. But we do feel comfortable that we can separate effects good enough that we can really consume this year enough so that next year we will be able to stay at least within this frame. The disclaimer of course is that we will have to see how 2021 really is developing, you know. We would not expect the whole 2021 to see some lockdown and that is a very realistic expectation, but if that would come across then of course things would change again. But under circumstances we see right now we feel comfortable that we could come back into that range.

Sam from JP asks: Given your cost of risk guidance for 4Q this implies significant increase in 4Q provision. Can you help us understand the driver of that, such as additional forward-looking model changes versus underlying?

Yes, that is not anymore big amounts from model changes, this is really cost of risk from clients moving to Stage 2 or 3. And especially Stage 3 are obviously defaulting clients. And this has a variety of elements, so this is on the one side single pickup ticket which we intensify basically ticket by ticket already. This is on the other side more portfolio view on the rest of portfolio where there we will of course start seeing things. In the upcoming two months additional items will drop in. These are special areas like accommodation, like restaurants and so on, where we see in these circumstances increased need for provisioning and where we see clients defaulting. And then of course on the retail side it has to do a lot of with customers which have lost their jobs. And it has to do with customers which in these circumstances reduced incomes. So that gives to a certain amount and then to a smaller extent, so that's really a smaller portion of the total. But you also have to see that we are still expecting business to develop, so here you have a certain percentage of pool provisioning. That's not a big part of that amount but it's also worth mentioning.

Andreas also mentioned there might be of course not certain but there might be some resolutions you know, so in terms of net cost of risk then we are potentially looking in a way that we have been communicating the range now from 100 to 130 bps. So with some good luck it will be 100 and with not so good luck it will be 130.

Mladen from Erste asks: When do you expect/plan next adjustments of pool provisions? I assume latest macroeconomic projections are better than those which caused initial allocation?

I am not sure that I 100% got the question. Look, on the pool provisioning, I mean usually we are running circles in the second quarter of the year and of course we are running extraordinary circles if something dramatically changes. So we were in this year already doing the big part of the pool provision changes in Q1 because obviously Covid became very visible in March. And we had certain corrections still in the second quarter which are then in reality minor. So let's see how things are developing at that point of time, we don't yet see a need to correct that again. So if nothing dramatic happens later in Q2, we will see the next regular round. If of course earlier we feel the need that macroeconomic parameters are changing so fast that we should do that earlier than you would see an earlier correction but we are not yet there.

Simon from Citi asks: What portion of your Stage 2 loans are under moratoria?

I think this question we will have to follow up. I cannot give you immediate proper answer on that. Let me think one minute about it, so maybe I can come back later on in the presentation but I don't yet have perfect answer for you right now.

Let's take another question.

Sam from JP asks: What is your intention regarding capital distribution out of 2019 and 2020 profits, if the restrictions are lifted? Do you intend to make a payment out of profit for these two years and does the KB acquisition allow this? Can you provide any guidance vis-à-vis the potential level of dividend?

We will of course want to resume in 2020 a dividend flow, based on course on the regulatory approval. So you know there is a full ban until end of April or practically mid of April that was imposed on us by the Bank of Slovenia. We are not sure whether this ban would be lifted but generally we would like to resume dividend payouts in 2020. And Archibald might give you a bit more of details here and that's something that we are committed to.

The mechanics here are pretty straightforward. We expect, including KB, to end with RWA base of around 12 billion, plus or minus. Capital base of 1.9 billion is a pretty much number we see already from Q3. We are quite confident that we can add minorities of KB because we're in the process in Serbia already with the regulator. So if you run the numbers you see that capital adequacy is in excess comfortably above risk appetite which is 16.75. And that crucially doesn't include 2020 result. In other words the 2020 result, given the regulatory approval, and I underline result needing anything in terms of goodwill etc., is pretty much available for dividends. So not to say that we will pay it in the range, but that shows you that there is a solid dividend capacity in place, should we be given green light from the regulator. Our intention is to clear the fog once we have consolidated KB, because I think that's the process we owe to us and our shareholders and the regulator to do that diligently. So far you have heard indications and so firmer guidance you can expect from us in the course of Q1. We will give some more light on that when we get green light on KB, for which case we will certainly plan another IR event in a similar form as is now.

Simon from Citi asks: Does a 3.5 billion EUR RWA guidance from the KB acquisition incorporate the recent addition of Serbia to the regulatory equivalence list or is there some potential RWA reduction?

It includes.

Our final question today comes from Karlo from Alliance Invest: Thank you for your presentation. Question for Mr. Kremser. Do you expect smooth consolidation of KB and is there any probability of unexpected impairments on their loan portfolio?

The short answer is that we don't know for sure but we have pretty high confidence that we will stick within our expectation range which we had in due diligence. We looked at the loan book and we have pretty good comfort also from the fact that KB ran an extraordinary half-year audit by an international big company. So in this sense the process is being prepared as we speak. And we will most likely have a third party come forth, in other words quality assurance from another big firm. We will ensure that we do the thing correctly but we don't expect really big surprises. So what we might see is what we have already seen in due diligence, some adjustments on provision levels here and there, not necessarily a recognition of substantially new NPLs, but simply adhering to our NLB Group standards regarding the provision levels which as you know are quite conservative.

So this was the final question. So Andreas in the meantime, have you been able to find this out, otherwise we will submit it individually.

I think we will submit this individually. I asked the question to our Global Risk, pending the answer shortly. But I think it will be too long for that call.

Ok, thank you. Are there any other questions?

There are not, so I hand back to yourselves.

Thank you all very much. As you see, we are on the part of the population that believes that the glass is half full, not half empty. So seeing some titles in Slovenian media mainly "NLB's profits down by 33%". I actually believe that given the situation, given the Covid, this is fantastic news. The title should be the other way around: "Despite the crisis a very solid performance of the banking system". I firmly believe that this is really a solid basis for us and that is a basis for optimism on one side, for growth of business and then of course for really great value for our key stakeholders. So thank you very much and we expect next such interaction and hopefully closing of Komercijalna banka that is supposed to come before year-end. Thank you and all the best and stay healthy.