NLB Group 1H 2020 Results

14th August 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 H1 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 any time during this event. Please use question tab located above the slides. 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.

Thank you very much and welcome everyone to the semi-annual webcast of NLB Group. Unfortunately, still audio since we have been respecting distancing and of course by that this was a reasonable way to continue and we really hope sincerely that next presentation is going to be possible also in video format. All of us are present, so for the first time I am really gladly also announcing our COO Petr Brunclik who is going to introduce himself later on while he is taking his part of the presentation. Let me please start this presentation with actually very positive spirit. The Management Board and the Supervisory Board of the NLB Group assess first semi-annual results of this year actually as very good outcome given significant uncertainties and of course the turmoil all over not only the region but globally and it is very important to highlight that we have actually managed to sustain the result at very stable level. So, when we are talking about net interest income and fee and commission income levels they are practically comparable to last years. And if you look at the pre-provision outcome it is as well very very solid. There have been some one offs, but also in previous years, so these are pretty much comparable results. Let me begin maybe shortly with the situation of how the whole epidemic and of course then the follow up waves have been handled within our region and of course there have been governmental measures taken in various jurisdictions, not fully comparable, but especially in Slovenia very very solid impact in positive terms. We have seen businesses actually with very solid liquidity, various packages and measures introduced, be it sponsoring employment, be it actually guaranteeing lending have been in place, but I can really now confidently state that they have been not used to the significant extent. So indeed, there was moratoria, but you know we have seen companies and private individuals getting out of moratoria. We have seen very robust liquidity of corporate sector, also some automotive suppliers announcing they are getting out of any of the measures from the government support. And by that clearly this has been evidence also especially in retail sector where we see really strong influx of deposits. The consumption has been picking up after the second half of March and April and first half of May of course it was significantly depressed. Second half of May and June very solid pickup, we have been really seeing very solid pickup since then and if you look at the volume of card transactions in June for example this has been practically at the level of December 2019. If you look at the first half of retail SMCG growth in this country you would see actually positive growth of 0.7 percent, energy trade has been of course a bit down, but SMCG regular retail has been really up even in the first half of the year. So, in core elements of our result, recurring core revenues I can really be happy about that they have been stable. We have clearly seen some pressure in origination capacity in Slovenia in retail lending especially which is directly linked to the restrictions of the Bank of Slovenia, otherwise there has been a strong demand again, we see consumption pickup, we see confidence picking up. A bit different situation we have seen in the countries in terms of how the situation has been handled from the health perspective, so in Slovenia a very robust picture, number of new infections has been let us ay up to 30 a day, but what is more important actual number of hospitalised people in Slovenia has been between 20 and 25 all together in absolute numbers and intensive care patients more or less in the bulk part of up to 5 with very limited use of ventilators. The situation has been a bit different in the countries, but the health systems seem to be coping. And when it comes to the economic activity it has been really picking up and we see solid origination of retail lending in the countries and we see more or less stable performance of corporate. Of course, it is early days, because many moratoria are in place in the countries especially in subsidiary landscape and Andreas will give a bit more information about how he feels as CRO about the situation, but generally I have to report at this time that we are much more optimistic than it seemed couple of months ago and we see now really significant pickup in confidence. In the meantime, we have been of course also working on stabilisation of operations which was more or less done in April and since then absolute smooth operations of the bank on the Group level. Furthermore, we have actually significantly accelerated client experience focus of our bank and we have introduced new services, so now you can open digitally fully online your account, so we have digital onboarding. On the other hand, upon once only physical identification and we are working on the legislation front that of course this also would be enabled without physical one-off authentication. We now offer actually you know also online cash loan, overdraft, credit cards underwriting which means that you don’t have to come to the branch for any of those products at all. And we offer also remote digital signing practically of any document that the bank will be offering, it is in pilot stage, but we will be soon in full production, Petr will give you a bit more information on that. And this is really something we are very proud of, so practically 80 percent of transaction standardised services the client can get in NLB in Slovenia practically online. This all is supported by 24/7 video chat functionality which means that we are actually available 24/7 from anywhere at any point of time. This is a real progress and I would say even a revolution in terms of client experience and we have seen strong pickup in usage of mobile app, usage of E-banks, so in principle we see actually numbers of M users already exceeding E users after 20 years and of course we have been strongly promoting this further on. What is very important to mention at this point of time is that we have successfully closed at the end of May the divestment of Vita which was the last milestone in our state aid process with the European Commission. In the meantime, all the monitoring trustees have been decommissioned which means that we have practically concluded with the process of state aid successfully by meeting and matching all the expectations and by that we can really be confident about our Group being as a fully business able to compete at arm’s length with of course other businesses in our home region and also internationally. Activities regarding closing of Komercijalna Banka has been continuing according to the plan, we still envisage the closing in Q4, so no big deviations from this respect at this point of time. When we will talk later in the presentation colleagues will give you more flare on Serbia and eventually Komercijalna Banka, but at this point of time we feel comfortable that of course the contractual conditions will be met and by that we can close the transaction. It I very important to mention that we have been working continuously on strengthening on one side and on the other side optimising our capital structure and base and Archibald will give you details on that but the Group has been very very solidly capitalised as per end of H1 and this not only caters for the Komercijalna Banka acquisition, but this also caters for the dividend, significant dividend flow once of course the ban that has been in place will be lifted. In this respect this really supports our story of still of course the growth, but on the other hand the dividend stock. We have been working on various measures and Archibald will give you more flare on them. Some regulatory changes have clearly impacted our capacity and ability to pay out dividend, of course there have been full bans when it comes to bonus payments in place in Slovenia and this has been as it seems till April next year. The same is true for the dividends so far. And the restrictions of the Bank of Slovenia with regards to the retail lending is still in place as well and this has been clearly impacting our origination in Slovenia, but overall as a mixed picture of the whole Group we can confidently state that this has been actually a very solid performance within give circumstances and I would just reiterate that in terms of the core recurring business we have been practically at the same level as last year and that is a very very solid outcome of the first half of the year. So, let me move shortly to the situation overall, I already somehow briefly touched it. So it is a bit of a mix from country to country, beside Slovenia where we see really strong pickup very solid situation can be seen in Serbia. Serbia is in generally the least impacted in terms of dependency on European Union automotive and tourism and some other exposed industries and here the lowest drop is expected, but also very very quick pick up and we are happy about that since this has been clearly our strategic market and we have been working on the pending acquisition and by that this just reaffirms the story. In other countries as I mentioned various set of measures in place, but we have not seen significant fallout so far, Andreas will give you a bit more details on the picture how he feels as CRO, but so far the situation has been solidly contained. Of course, there have been many moratoria in place and real picture will be shown after expiration of these moratoria, but we have been very very closely working on the key exposures, we have been talking to our clients daily and have been very close to them. It is important maybe to mention that we have provided as a precautionary measure significant liquidity lines to some automotive suppliers and some more exposed companies in March. I am happy to report that practically all of these lines have been repaid already some in May, but predominantly in June which shows a robust liquidity if you look at the level of corporate deposits they are very solid and this means that the corporates are in solid shape, also the ones on more exposed industries, especially tourism can be beneficiary of the governmental measures with this tourist voucher scheme for example and Slovenians have been really using this opportunity and have been vacating at home. There has been very high occupancy at the coast, in spas and some farm estates and so on, so this shows very solid picture also that also for this sector it is going to be significantly less painful as it seemed before. Of course, city hotels that are depending on business inflow and air travel and congress events suffer and this is going to be so I guess for longer period of time, but generally the situation in Slovenia has been significantly better than we hoped for two months ago. Macro just shortly, you have seen more or less forecasts from various institutions, it seems that we have been seeing in Q3 of course recoveries all over the place, of course we are not yet at the levels of last year, but we are closely monitoring especially development in Germany and German production output is 90 percent of pre-crisis, we see IFOs somehow forecast of three consecutive months and so on of consumer confidence picking up. And of course, this is directly then reflected in our economy, of course the largest export market is Germany and then Italy and others in European Union, but also then Serbia, the largest non-EU market for Slovenia and in this respect a very solid situation so there is boost in our optimism and confidence that the situation has been not that bad as it seemed some time ago. So coming then to key performance indicators, of course it is here difficult to be very exact, but from today's point of view in case of no further total lockdowns, selective has been happening here and there in the region and we can clearly expect them until there is a vaccine in place and until there is full confidence in health systems, but generally it seems we should be able in midterm delivering the ROE targets, especially if you look at optimised core Tier 1 levels. And on the other hand we are quite confident that we will be meeting capital ratios and also cost to income ratio is actually a very solid outcome in the first half of the year. So, Archibald will talk about cost containment and also core revenue structure, but in principle cost to income ratio has for such turmoil been at very solid level. Margin is of course the question in such a situation, but it has to be seen holistically also from the perspective of account charges in combination, on one side we see very high deposit inflows and this is impacting also net interest margin and on the other hand clearly the financial markets book is still shrinking margins and of course for last corporate investments pressure on good risk profile clients, but generally we are introducing leasing as we speak. We got all the licences, so the bank has launched this now and we expect also cross border activities once stabilisation is achieved and by that we will be addressing the margins from this angle as well. As I said margin is to be seen in combination with account packages and other charges related to the account balances as well and in this respect, we believe that we should be also in midterm coming close to that. The NPE situation has been pretty much very solid, Andreas will be talking about this more in detail, but you know of course it is partially to be contributed to the moratoria, but generally as I said we are very closely talking to our and monitoring our clients and we feel relatively confident that there should not be too big of a damage, especially in Slovenia and the other countries of course we hope for the same. By that I would pass the word to Archibald to guide you through the financial part of our performance and then of course also Petr and Andreas will have their portion of presentation. Thank you very much.

Thank you Blaž. I will start with a quick overview of Q1 financial performance. You have as usually of course much more detailed disclosures already published on website and we also look forward to a series of investor relation events that are planned and scheduled for the outcoming weeks. Not to reiterate everything that Blaž already mentioned, but overall that was a very robust H1 and also Q2. Bear in mind we have some non-recurring elements of the result, Blaž mentioned Vita that was closed. We also actively managed securities portfolio and by that took some profit and you see that reflected and disclosed, so we divested in the range of 300 million euro of securities. We are now basically tactically very much positioned in cash, but given the turmoil is more or less done of course this is supposed to be substantially re-invested in the upcoming weeks and months and then we have already taken steps towards that. In other words, H1 and in particular also Q2 in terms of net interest income was to some extent affected by tactical repositioning of the balance sheet in terms of interest income, but this is more or less temporary. The other thing that of course affected net interest income compared to last year is that we are now substantially loaded with capital instruments namely the Tier 2 program is finished and all of that of course in anticipation of the KB integration. In this sense net interest income also year on year is not necessarily comparable fully with last year as this more or less reflects balance sheet measures in anticipation of KB integration and to some extent tactical repositioning from securities into cash and by that also taking out some profit. The core revenues on interest income but we will come to that are as Blaž indicated very stable and we will see details in the next slides. Fee and commission income also very robust in comparison to previous year and we see very actually positive trends on the basic fees and fee structures are stable. Of course, there were some temporary basically declines in the Covid situation on the payment related charges, but somewhat we have seen in the last months May and June and also July this has all been pretty back to normal. So fee commissioning on monthly basis June this year versus June last year is pretty much on the same level. Then of course we had impairment and provision effects which Andreas will tell you more, clearly this was anticipation of macro developments largely, so not yet too much specific provisions. And finally, the income tax is showing better performance compared to last year and we also expect for the full year to be in the single digit effective tax rate. So this is of course somewhat related to non-recurring transactions which have their own particular taxation logic. So overall just to repeat very robust performance of the first half year and as mentioned before net interest income also showing a decline and pressure on margins, I reiterate this is largely linked to the Tier 2 program and of course also to the substantial increase of cash position we took on our balance sheet which of course carries a negative margin to the extent that it is with ECB. But this was a deliberate action we took, we are managing our security portfolio on a conservative basis and given the turmoil that we have seen in Q2 we basically just took some risk out and on the other side we realised profit which is here as non-recurring trading result. Interest margin on loan book was broadly speaking under pressure, both in d.d. and in our subsidiaries. Also the revenues as such in absolute terms are very stable and this I think is really largely to our very strong position in the markets, in all markets we operate. And is also attributable to volume growth we see especially in subsidiaries, but also in Slovenia we have seen volume growth in corporates. We see very robust housing market development also in Slovenia, so demand for housing loans retains strong, production ere has been largely stable even throughout the crisis and is now pretty much back to normal levels. And as we have said previously here we deliberately also want in the future to go for more volume as this for sure is one of the strongholds of the Group. It is a key product for us and it is less volatile than consumer lending, so this will remain focus going forward. In our foreign entities you see basically pretty solid volume dynamics, we have year to date volume growth of 5 percent on our loan books and we still see revenue growth coming from loan growth as well, so here we really haven't, I wouldn't say we haven't noticed the crisis but actually throughout the region loan demand remained pretty robust and from what we have seen as well in the last months May, June and July is somewhat lower than what would otherwise have been expected, but it is still showing pretty robust growth and thus also driving interest revenues. So by and large core interest revenues just to emphasise from what we have seen so far and also going forward we expect actually solid performance and especially from our subsidiaries also revenue growth going forward. On non-interest income as mentioned a non-recurring effect which just to briefly repeat was linked to closing of Vita showing with 11 million euro and divestment of some 330 million securities showing with 17 million in non-recurring result. The rest of fee and commission income as said was very very stable and again to emphasise that June was already pretty back to normal. Blaž mentioned that we have somewhat seen some shifts from fee income and what we lost in Covid related circumstances in payments and ATM charges we actually made up with increase in basic account charges. So in this sense we have pricing power and we use it to the extent possible. Generally speaking of course fee commission income growth will remain the key topic going forward in interest rate environment as we are observing and this of course is absolute key to future revenue growth and all the measures we are taking will support that. Cost of course hugely relevant in terms of maintaining discipline, I think we have shown especially also in Q2, but overall speaking that we are able to do that. Petr will talk a bit more on the Ops and IT dimension of that but broadly speaking we keep highest and strictest cost discipline in running this operation and guiding this throughout this crisis that goes without saying. You have seen that branch numbers have come down visibly, both in Slovenia and throughout the Group, numbers of employees are stable and slightly declining. Also we are hiring in critical and crucial areas. And we have put some cost stabilisers as I call them in place which are Covid related, so they are by nature temporary, management has taken a voluntary pay cut and that is not just top management that is the management that is all senior management of the Group. So by that we also contribute, symbolically, but also actually in real numbers to this flat cost dynamic. And of course we are by far not done in this sense, there is plenty more to come, we have plenty of optimisation potential on several dimensions, the key topic is real estate, of course we have now all learned to work in remote places so there are very significant cost savings potential in the whole real estate dimension on Group level. There is cost saving potential in how we run and operate the whole business that is more strategic and tied to how much we facilitate online transactions and by that simply making branch infrastructure leaner and less expensive. So these are all upcoming topics that we will be very focused on, Blaž mentioned and Petr will tell a bit more that we have just introduced full digital underwriting of more products in Slovenia, so you can now from the mobile phone app underwrite business that so far would have taken you to the branch. And of course the acceptance of this kind of services is very high and rising and expected to increase further. So there is a big optimisation potential still on Group level on cost and this will remain a key topic going forward. So in terms of underlying loan or revenue dynamics specifically the loan growth I mentioned Slovenia is more or less flat with mixed dynamics in retail, retail pretty strong in housing, but of course suffering in consumer lending which is a bit of a combination of Covid related effects plus more importantly the restrictions Blaž mentioned. Corporate lending was up, but that is also to some extent Covid related also most Covid lines have actually been repaid so in this sense this is also speaking to I think the robustness of the Slovene economy in particular and still solid demand expected going forward. We haven't seen much of the so-called cross border initiative and of course have put a bit of a break on this in Covid circumstances, but already now we are starting to relaunch these efforts and also see first transactions in the pipeline. Foreign markets have as said before been growing robust and roughly 5 percent year to date and with still double-digit growth year on year. From what we have seen and Blaž mentioned the Covid circumstances also infection rates are up visibly, we wouldn't expect such severe lockdown measures as we have seen in the first wave, we remain pretty confident and bullish especially in our foreign subsidiaries. On the liability side there wasn't too much happening other than we substantially keep growing our deposit base, so this is for us to some extent a burden because it is a pressure on NIM and to some extent this is straight cash cost. On the other side we can pretty much recover this cost increment with what we mentioned before basic account charges. So far we are not yet discussing very much the direct account related fees, also as you know we charge already both in Slovenia and in other markets for corporate balances, but for retail balances this is still work in progress, but of course at some point it might be on the table. So the liability dynamic is really very much deposit driven and of course you have noticed that our cost of funds has gone up and that is of course tied to Tier 2 program that we finished with some 285 million euro in Tier 2 funding that we have brought in of course largely in anticipation of the Komercijalna Banka transaction. Speaking about capital you see that we have other than the Tier 2 note decided also to include half 2019 profit now into the capital base and this is more or less a reflection of regulatory actions, but on the other side in substance it is the preparation for smooth KB integration into the balance sheet and I will talk about that in a minute still. More importantly we have, also it is relatively modest amount with 30 million we have now included minorities into our capital base and the important part here is that we have basically also done this for Serbia also with a very tiny amount, but that means we are technically prepared also to include minorities for KB if and when we close and this is of course relevant. On the risk weighted asset side basically you see moderate risk weighted asset growth. We haven't yet shown and this is to come some up to 500 million risk weighted assets release coming from MIGA and the so-called SME support factor that kicks in thanks to accelerated ECB measures. So some 500 million risk weighted assets release are about to come in Q3 based on those two measures. Talking about our capital situation now going forward and how well we are prepared for KB as we write KB is a risk weighted asset burden of some 3.5 billion euro and with measures I have mentioned we will end the year if KB closes with something like 12 billion euro risk weighted assets. On the capital side our starting point is now something in the range of 1.9 billion euro and let us say if KB minorities kick in we will be something at 1.95 in terms of capital. So a very solid capital base also assuming KB integration, because if you run the numbers we will give up 16 percent capital adequacy under these circumstances and this doesn't take into account any result from 2020 which then obviously would also be available for dividend to be paid in 2021. By that I would conclude my part and hand over to Andreas.

Thank you, Archibald. One big topic these days obviously is the moratoriums, in the recent weeks honestly speaking there was not too much news anymore, so we have stabilised something like around 1.7 billion or some 15, 16 percent of our portfolio on moratoriums taken. This is obviously largely different in country by country on the way how it is done, you know the outlier in the period is Slovenia with 12 months moratoriums, other countries usually went for couple of weeks to 3 or 6 months and the first moratoriums here have already again expired that is approximately 246 million actually euro per end of June. This is first of all Montenegro where simply there was no prolongation for most of them and then also a little bit Sarajevo and

Prishtina. Generally speaking in Slovenia and in Bosnia the percentage of the moratoriums was from the beginning very small and for the other countries primarily percentages were much higher because in some legislations this was simply the standard approach, so basically whoever doesn't opt-out get the moratorium and of course then you see much higher percentages. For the moratoriums which are ongoing we are very closely monitoring, we didn't see yet any major impacts, but I mean this is of course one of the interesting questions for the next months because this might change then this staging wherever we see such effects. For the expired moratoriums we didn't get any adverse effect, but honestly speaking that is also still very early, because that is now some 5, 6 weeks but I would say so far so good. If we look on segmentation of our portfolio, I mean we were already before primarily showing you three subcategories specifically that are accommodation and food that is 2.6 percent of our total portfolio, so very moderate. And then manufacturing as far as it is related to automotive which is 3.5 percent also very moderate. And last but not least transportation, which is nominally speaking higher, but here we have to say that the big part of it is actually one exposure with state guarantee behind, so the remaining part is also around 3 percent. If you go through these categories, I mean accommodation Blaž mentioned it already before, I mean we see actually a mixed picture, so the Slovene coast is full and at the end of the day you know we were expecting here really throughout the portfolio that we would see a very bad season, so mixed feedback here is actually already a good news. On automotive I have to say that I mean this is to a very good part here in Slovenia and the feedback which we get from our corporate clients here is surprisingly positive, so for the time being looks better than we were hoping for. And transportation is also actually a mixed picture obviously passenger transportation and that is in our case no airline, so we are not in any airline, but passenger obviously is very mixed picture whereas for example freight to a big part is actually pretty solid, maybe also a little bit surprisingly, but from this perspective here you know at least no negative surprises. When we look on the provisioning obviously that is now a different year than the previous years, we have in the first half of the year 32.8 million loan loss provisions out of which 20 million is actually pool provision, so honestly speaking given circumstances the remaining 12.8 of which only 4.6 are in second quarter that is actually you know very moderate given circumstances and that reflects in annualised cost of risk of 85 bps, but obviously here the interesting part will come obviously in Q3 and Q4, so we are for sure expecting that to pick up and we were guiding up to 150 bps cost of risk so far. This guidance I guess at this point of time stays unchanged, but what I have to say is that the big part of our portfolio so more than half is still in Slovenia and Slovenia actually is surprisingly robust and surprisingly positive and also moderate with the Covid development. So if this continues to develop in this direction then we may not meet these 150 bps, but it is a little bit too early to tell you how much below we could be if we are below but give the strong development here in Slovenia and that Slovenia is clearly the majority of our business honestly speaking also from that perspective getting more optimistic compared to what we originally saw. When we look on absolute figures so NPL volumes you basically in the first 6 months see almost nothing, so we ended up with 375 million euro end of last year and we are at the end of June at 401 million, so very moderate development and we have to say that approximately one third of that is with zero delays, so to almost the majority that is actually one big client which is strategic client and for historic reasons is still marked as an NPL but where we even consider eventually to increase exposure because that is a solid and strategic client. So if you take that out then you see how low our numbers in reality are in the meanwhile or at the moment and this also with a very solid coverage ratio, so that you can also conclude that even the potential downside if something goes wrong here on that portfolio is obviously very limited. What is a little bit confusing if you look on that slide is the billion jump in stage 1 that is actually very technical effect, so the non-obligatory reserves to central bank which are included here have jumped to double basically and this is the majority of the effect because as both Blaž and Archibald mentioned already otherwise portfolio was very stable slightly increasing but obviously not for a billion and that is a special effect. Interesting part here is really the other pockets in the last 6 months and obviously here the movements are very very moderate and the big majority of our portfolio stays in stage 1 and that is obviously also comforting message. Again as I mentioned before on staging we will obviously see more movements now in Q3 and Q4 and that is why we gave you this guidance of 150 bps, but again at that point of time I am rather getting a little bit more optimistic I have to say so in the next 2, 3 months this is something which hopefully will confirm. That would be from my side for now for the risk part and with this I am happy to hand over to our newest Board member to Petr. Thank you.

Thank you very much Andreas. Good morning from my side, as it was said I am the newest so let me spare couple of words of introducing myself. My name is Petr Brunclik, I am in the banking/consumer finance industry for roughly 20 years, I used to work for GE Money Bank in Czech Republic which later on got IPO-ed and renamed as Moneta Money Bank. And then I worked for Home Credit in Philippines. I worked at the beginning of my career in United States. I am happy now to be in Slovenia with NLB, I got very warm welcome which I would like to thank to my Board member colleagues and also for support of onboarding because I could imagine better conditions to start my job than with Corona pandemic crisis, but I must say that we have managed very well to support the bank and support our colleagues to work remotely and we are ready in terms of any worsening of the situation to provide such a technology that people can work remotely and have social distance thing and so on. So let me just briefly talk about IT and digital. The slide you see on your screen is the slide from current IT and digital strategy. As I mentioned I am with the team for 6 months, we are working on new IT strategy which should be prepared and introduced on the next fall. So far we have made some changes in the IT leadership, so that is why the new people will be working on the new strategy however I can announce already that the basic cornerstones which you see on the screen will be also in the new IT strategy, because they definitely make sense. If I touch on those cornerstones, basically data project that we are running we see the first fruits of the implementation and the project is running according to the plan. The second cornerstone which is the most important right now is basically the digital channels in the midterm, so the plan is to replace our digital channels which are highly evaluated, but our ambition is even higher with the new platform, new technology. At the same time we are working on some very short quick wins, so basically roughly in 3 months we were able to introduce the digital onboarding basically for people without entering the branch and they can open an account. And for our existing customers we provide in our mobile banking solution basically onboarding to credit card, overdraft and any other product of NLB, because we are basically provider of digital certificate that is accepted by the government, it is qualified certificate so basically our customers can sign whatever documents. Together with investing into digital we invest in changing the culture in IT, we invest in agile principle, we are changing our let us say approaches towards agile and we also structurally are changing the IT team plus the biggest goal is to motivate for the fast … market development. As Archibald mentioned the cost dimension is very important and this is basically mainly touching the IT, currently we run two core banking systems, so we are working on the core banking system strategy where we would like to basically come to one core banking system. The second thing is that there is quite big portion of legacy systems and also some duplications, so this is something what we are working on and the simplification of our IT and basically decommissioning of some older systems will be in the future of our effort also going to the cloud and cutting down the cost and make it more efficient. For the Group synergies currently or in the last years basically we were not very much utilising the Group synergies and we were approaching the areas as 7 different banks, but this is changing. What we are working on is basically unifying the infrastructure, currently all the banks are basically buying the same hardware and also the same licences, so this way we get economy of scale and there is also, we can actually shift the licences as needed. For the approaches we are setting up similar IT security approaches to all the banks, so we have one security control centre and also currently we are implementing one network for all the banks. This has been a bit delayed due to Covid, but once the situation in the countries improves we will continue with that. There are also some regional activities, currently we are working on a project of implementation of unified approvals, a loan approval system. This has been already piloted successfully and we are going in the implementation phase. Also we are gaining synergies from the unified procurement for all of the banks and we are renegotiating contracts with the major vendors. Last but not least what I would like to mention is that we are expanding our Competence Centre in Belgrade, this Competence Centre should work as a development and IT infrastructure support centre for the Group and also later on when the acquisition is closed for Komercijalna Banka. So we have approved enlargement of this centre and we are currently hiring resources. And with this I would conclude and pass the word to Blaž.

Thank you Petr. Talking about outlooks in such environment is always a challenge, but I believe you have sensed a positive queue in the sentiment when it comes to the Management Board. We feel really significantly more confident than two months ago. I would specifically highlight that at this point of time NLB has really throughout this crisis played the role of systemic institution and this is not only true for Slovenia. I claim that we have been a role model on communication when it comes to and in internal communication to the employees, but also external communication to clients. We have seen our practices being copied by also competition and also from other industries and the government. We have been through this difficult time really focusing on the entire ESG territory, be it from of course direct social responsibility supporting hospitals and health systems on one side, but mainly focusing on clients and employees as well. So on clients as I mentioned we have been really providing digital services online practically continuously now for practically all standardised services when it comes to Slovenia and Macedonia, other markets are following, so we can also underwrite cash loan now through mobile app in North Macedonia for example and the other countries will follow with this kind of approach. But especially the entire social framework of ESG I am specifically proud of initiatives which we undertook to support actually local businesses, and this goes in two dimensions. The first is that we have been very very close to our corporate clients providing liquidity lines, providing experts support and focusing on liquidity and so on. There has been a campaign, Group wide campaign called Frame of help through which we have identified small businesses that have been dealing with sustainability and healthy life, sustainable life and by that really providing advertising space to them throughout the whole region. So not advertising bank products and cheap loans, but really showing them, their faces, their premises, their programs, their local products and by that really promoting their businesses and helping them out through this crisis. We believe this is really new paradigm of communication at least in our region and we are specifically proud of this achievement as well and this is something that we will continue. So the entire ESG constellation is gaining on importance, but I would add one very important feature of this crisis and this is supply chain challenges and risks. And Western Balkans and the entire South-eastern Europe is actually 4, 5 hours drive from Vienna and 7, 8 hours' drive from Munich, so in the heart of Europe. We believe that some supply chains will be moving from Pacific or other parts of the world into Central Europe again to simply de-risk certain epidemic situations and this region while working on the infrastructure building roads, railways, energy and communications will be beneficiary, can be and should be a beneficiary of this development. That is why our bets on the region are high and that is why we believe that this year might play out at the end of the day better than it was perceived 2 months ago. It is difficult to give concrete guidance, but you could sense during our presentation where it might be. We feel strong confidence picking up, especially in retail and also in corporate in this respect orders picking up and getting back also in the exposed industries. And the situation in terms of managing the health situation, managing the health status here in Slovenia has been very very robust. We have seen people quite disciplined, we have seen people respecting the rules. On the other hand as said practically only couple of 10 people in the hospitals, only couple of people in intensive care. And we believe that this is very very solid situation and looking forward to of course vaccines and other needed aspect that will stabilise things in longer term. We at this point of time feel pretty confident. By that I would pass the word actually to you dear guests of this presentation, it is Q&A of course in front of us and we will gladly response to the questions you will raise. Thank you very much.

Thank you very much. Our first question is how do you see loan growth developing in July and August?

Well we have been indirectly mentioning that there has been a robust situation, so already in June as you can see providing then of course stable underwriting and even certain growth especially in the countries we have seen this continuous through July and August and this fact is something that gives us this confidence. So I cannot be very specific on concrete numbers, but the trends from June have been continuing and this is something that gives us hope.

Excellent, thank you. Next question is last week we saw NLB Skopje sign a big loan in Macedonia, looks like this will be where the future loans come from as we are seeing more big infrastructure projects being started in Serbia and the region. What is NLB's strategy in participating in those? Also how do you see KB position participating in Serbia state infrastructure projects?

Well this we have been announcing as one of the core new revenue pools incrementally, so as you saw yes indeed we have signed the Eastgate project in North Macedonia in Skopje. We believe this is one of the best located malls in the entire region and I am proud that I can say that NLB has been the leader agent of this transaction. We have been participating as core agents or participants for example wind park transactions in Kosovo and we have been expecting opportunities for sustainable energy projects throughout the region as we speak as well, so be it hydro, be it solar, be it wind park is something that we believe in. That is something that we with our ESG thinking are actually actively promoting and would be actually eagerly participate in. And this is of course also true for Serbia. So any bigger infrastructure project either sponsored by the state or through some PPP structure with sustainable cash flows we would clearly be interested in exploring and understanding. We have been talking in our previous occasions that overall ambition for such cross border activity is in a range of a billion in midterm, so yes it is somehow stalled throughout Q2 because of, of course uncertainties related to Covid, but Archibald mentioned that pipelines are again picking up and feeling and we are confident that there will be many projects in this region especially given the opportunity I somehow announced on supply chain repositioning and redistribution that can accelerate these investments. This is really something that we are actually awaiting with quite some optimism.

Thank you. Our third question is how many of the employees at the end of the second quarter were working remotely? How many will be working remotely as a target by the end of the year?

It has been during the crisis 70, 80 percent and it went down to some 30 percent, so we are now working really on formalisation fully in line of course with legal prerequisites of remote work to become actually you know a regular way of work in our banks here and in the Group. So in early autumn, beginning of October we plan to actually launch this as ordinary course of business and my hope would be that towards the end of the year close to 40 percent of our employees would be actually working this way already, not only temporary, but really reasonable and sustainable way of work. In midterm perspective I would see you know 60 percent as the ambition and it is possible to do that and Archibald was already then announcing what this means for both sides. Improved quality of life of employees and on the other hand significant opportunity for cost reduction on the bank's side and this is something that we will be very very actively pursuing in the coming year.

Thank you. Next question is you mentioned sustainability and being meaningful, what does this mean, what steps have you taken so far and what are your plans in this field?

I mentioned in my outlook addressing principle that we have put ESG really to the forefront of our interest and this has been addressing the society as whole and if you read our strategy, the main pillars of this strategy have been really client experience in this region that we call home and clearly the quality of life. And so introduction of new services to our clients that are really enabling them to use our services from their home at any point of time. And at the same time we are really sponsoring initiatives, projects of our clients that are addressing conditions for their businesses to thrive on one side and direct impact to quality of life. This is something that really we are addressing I believe in one of the most consistent ways in the whole region. Through this ESG effort we are addressing a meaningful agenda, so we don't want to be the best or the largest necessarily, but what we really aim for is to become one of the most meaningful business. This of course on one side automatically sees business success, but this business success is then of course used also to benefit our stakeholders and that means also that we are of course actively focusing on the standard on one side, but you know ability to work for our employees which is then leading to the second very important ambition of this banking group and that is we are really aiming to become one of the most desirable employers as well in this region. We believe it is possible and with this whole constellation of activities we believe we will be there in midterm.

Thank you. Next question is how do you expect provisioning needs to evolve in the second half of 2020 if we don't see another significant Covid wave? Is it reasonable to assume we would be more or less in line with second quarter 2020 level in that case?

So here clearly I mentioned before I don't think so, no. So the current projections have not been assuming second lockdown. I mean now we can discuss what is second wave and will such wave be there or not. The really essential question here is how is the reaction of the government on such potential second wave. I think someone mentioned it already before we don't expect second full lockdown and I think the tools which the governments throughout the region are using here in case of need have become much more focused and much more precise and it would be now a very big surprise if that would completely turn again. So given these assumptions we are for sure expecting to stay within what we have been announcing and forecasting, so maximum up to 150 bps cost of risk, but if you calculate that for the rest of the year that is for sure considerably higher number than we saw in the first two quarters, especially when we are talking about individual provisioning. The individual provisioning in the first two quarters together has been in the range of 12.8 million euro and that means obviously we are expecting considerably higher numbers for the last two quarters. On one side that would be probably the bigger effect on the expiring moratoriums, obviously we will see some effects, but then also from staging otherwise clients which are still in moratoriums but where we see their situation deteriorating and we will not wait obviously till the moratorium expires, but we would then restage the clients at that point of time. Again given this understanding I very well can believe at this point of time that we will not use those 150 bps cost of risk on annual basis, so maybe even be clearly below that but it is still a little too early. I mean in the first half of the year to a certain extent items were frozen and visibility was limited and we will now actually see much more in Q3 and Q4. I am becoming optimistic I have to say compared to what we forecasted originally, but it is too early here to really change an outlook.

Thank you. Our next question is net interest margin is falling across the Group and not just in Slovenia where the Tier 2 instrument is booked, what explains that?

So I mean one big element I mentioned before is substantially increased cash position both in Slovenia, but also in other markets because NLB has proven to be a safe haven in times of crisis, so people simply place money with us and that per say puts pressure on NIM. And as we said before the way to turn this let us say challenge into an opportunity is through fee income as was also mentioned couple of times now. So we will translate part of that into increases in fee income. On the other side I mean not to disguise the fact that we are operating in competitive markets and yes, loan yields are coming down so the way to work around that is with very strict focus on digitalisation of the business model, so take costs out and compensate or divert some of that to fee income as mentioned before. And of course not to forget volume growth versus margin in other words pricing is still some potential to create value. Ultimately we are not focused only or exclusively on NIM, we are focused on value creation and we see value in volumes rather than placing cash in central banks we would like to place more money in loans. So to some extent it is also a trade-off between price and volume which is value creating.

Thank you. Our next question is, will the acquisition of KB have an impact on the number of employees in NLB Group or in KB? Would NLB retain KB’s existing management team?

These are very specific questions that we of course cannot fully respond to, but generally you have been observing the trend, we have been focusing on process optimisation, on digitisation, on really client experience which means that we have been transforming as a business from very traditional business into much more IT driven business and naturally this means adjustments. And if you look at our dynamics in this respect since 2010 when the NLB d.d. in Ljubljana had 4200 employees we are down to 2600 and we have announced we will be down to 2100 practically in 5 years which means 50 percent adjustment. The same trend is going to be pursued practically throughout the whole Group, so this process optimisation and digitisation will be driving efficiencies and will be of course on one side reducing number of employees and will be of course at the same time transform the profiles that will work in banks, much less selling clerks and much more data scientists and IT developers. So it is the transformation all the same for the whole industry and NLB is of course not specific. Same is true for the KB, it is going to be a part of the same story, not specific and will be treated the same way with the same focus and process, allocated more or less management attention and client experience and digitisation management attention which will naturally lead to adjustments of such kind. Of course we cannot at this point of time talk about management in KB.

And just to complement and remind investors we have published a piece on KB on our website about synergies potential. My personal view is that was rather conservative take on the whole story and we are refreshing this as we speak. And of course to reiterate again KB was not necessarily cost play, KB is revenue play, so KB is very much about growth, we see Serbia as growth opportunity, this is a higher margin environment and we see a lot of potential in working with that client base that we would acquire with KB, so there is a lot of unutilised potential in that client base. Not to mention of course, not to forget that Serbia in particular is very open to digital business model, so this is something we highly appreciate and of course this offers plenty of opportunities to emphasise again and much more digital way of doing business, in other words taking cost out of existing structure.

We mentioned timeline of KB as well and we are still expecting closing towards the end of the year, so in last quarter and of course then full focus on integration within 2021 and 2022.

Thank you. Our next question is any initial thought on the cost of risk trajectory in 2021, what is your normalised cost of risk now?

So I mean what we were seeing as normalised cost of risk in the midterm this is unchanged, just overlapping now by the smoke from Covid. I think you remember we said at one point in time we wouldn't like to be above 90 bps and on average we would us rather see on half of that roughly speaking whereas we were originally foreseeing this very moderately approaching this figure. Now obviously this year we will be over this target which we basically set for ourselves so that is really extraordinary circumstances that we are above these 90 bps cost of risk, but next year we definitely again want to be in there. Whether we can do more meaning coming below that considerably this is still I think very early days to say, so here I would be careful. So you have to see that next year we will still see considerable fallout from Covid partially simply due to the fact that also moratoriums will continue to expire especially here in Slovenia. On the other side as we said before I think more or less all of us we see Slovenia here also as pretty positive example actually in this crisis, so I wouldn't see the effects too dramatic. So big picture definitely I am expecting next year again to be within this maximum target, but whether we can go below that this is still to be seen and will depend on many factors in the next couple of months.

Thank you. Our next question is if you are not allowed to pay 2019 dividends would it be assumed that it would be paid out in 2021 together with 2020 dividends?

So there is no issue per say, once the bans are lifted and once we have clarity on KB closing which is of course the big unknown for us, also we expect it but it is not a given and we are talking to the regulator as we speak, but once this is done and once as anticipated at some point dividend ban will be lifted I gave before a pretty specific KB let us say scenario on capital adequacy we of course would resume with normal dividend payments, because as we said we are very aware and conscious that we are meant to be a dividend paying stock, KB is incremental growth opportunity that we put in play and with retention of 2019 results I think we are more than well prepared to absorb this now. As I said before we will be roughly 12 billion risk weighted assets and give current capital levels we are already well above target, so there is room to pay dividend for especially then also 2020 result. And I haven't mentioned yet that none of this includes consideration of so called negative good will and none of what I said before considers the possibility to still do more on the capital side. ECB has actually now opened room that we might or might not use, but we could add something in the range of 100 million in Tier 2 which of course would come in much cheaper than AT1 as we mentioned previously. So this is an incremental space on the capital side, of course ultimately available also to shareholders.

Thank you. Question 10 is can you tell us how did the moratorium on interest payments affect current interest income result?

Basically that was neutral as so-called modification result has turned out to be immaterial and in this sense it is actually neutral.

Thank you. Our next question is do you experience any changes in clients' behaviour after lockdown? Did usage of the digital channels stay at previous levels? Was there any impact on costs?

Well we see various actually positives I was mentioning at the beginning of the presentation that some people are actually getting out of moratoria on their own initiative and this is true for private individuals as on businesses. I was mentioning that the use of mobile apps and digital services went up significantly in annualised levels of 14 percent and so on, but the users of mobile app are now in higher numbers than E-bank and the new users for example we see are M-bank exclusively users, so they don't even want to have E-bank. So this is really entire new generation of our digital clients. And what is a phenomenon is that we see and I was a bit surprised is that cash is back to the significant extent, so we expected that there will be significant shift to card payments which happened to a certain extent because volume of card payments in June was practically on December last year level, but if I am observing now cash developments and cash usage it is also back up significantly. So there is no really significant lower level of cash usage and this speaks that this region is still more or less cash society and this is especially true for other countries than Slovenia, but in private individual retail consumption for example segment usage of cash is still very high. So we are enabling our clients to be able to pay digitally, we are of course offering digital wallets, offering electronic ways of payments and there is pickup, but it is going to be still some time I guess before there is going to be much more significant shift. But the progress is there and we are happy about it.

Thank you. Our next question is how is the KB regulatory approval process progressing? Please elaborate on the comment that capital adequacy ratio including KB would be or exceed 16 percent? In particular what bargain gain from buying the bank below book value is assumed in this indication

So we mentioned already that we are in continuous talks with ECB, this is pending and ongoing, it is an advanced conversation, final application has been submitted as it has been done with other relevant regulators, specifically of course the ones in Serbia, so this is an advanced stage of conversation. And of course with regards to the KB scenario, I mean already in the previous call when we discussed the KB acquisition we have disclosed that KB adds something like 3.5 billion euro in risk weighted assets, so this is a known and disclosed fact. You have seen H1 capital base that is something in the range of 1.9 billion euro and so it is basically a simple calculation to arrive at the capital adequacy of something in the range of 16 percent which is exceeding our risk appetite of 15.75 and not including 2020 result which by definition is then available for pay out. And as I said before clearly this doesn't include the so called negative good will.

Thank you. Our final question is will you take any measures to channel rapidly growing customer deposits into fee generating wealth management projects?

There have been many initiatives, so combination of products, deposits asset management related and of course we have seen very strong production even throughout the Covid crisis in the asset management products actually and bank insurance products as well now lately again picking up. But influx of deposits is so strong even government measures, given employment protection, given some other more or less chopper money like interventions that at this point of time this is overwhelming. As said we are reacting to that practically with the price in general of accounts be it packages, be it other direct account services and payment fees and by that partially offsetting that but we cannot do it entirely. The real shift in fair time would be charging of course fees for the retail deposits and this would be of course a novelty in the market and has its own sensitivities. While at the same time these sticky retail deposits are really essential value of our franchise of future growth as well and at a certain point in time we hope for some normalisation of monetary policies also in a direction that there would be no such burden of these deposits placed with the central banks and then this is going to become enormous value of the business. So there are two sides of the medal always.

I understood this has been the final question so allow me to thank you very much for attention. I believe you have sensed positive sentiment of the Management Board when it comes to latest developments, I just got fresh numbers from Slovenia on the health situation, so only 18 people in hospital, only 3 at intensive care and despite a bit higher infection rate, but these are practically almost all asymptomatic, so the situation is under control at this point of time from this angle. In terms of business developments stable, consumer confidence picking up, core business revenues stable and even growing as we speak, so this is a very good trend. We are accelerating our efforts in terms of client experience and of course empower efficiencies in the banking group when it comes to the IT universe and the channels. The entire ESG constellation we believe we have proven throughout this crisis to be one of the most meaningful companies already, but our aim is to clearly further position our banking group at this level, so one of the most meaningful businesses in the region and one of the most desirable employers and we firmly believe this is reachable and this is going to be the case in the midterm. We are looking forward to Q3 publication, we hope this time video, we hope the situation will further stabilise and we are at this point quite confident and looking forward to full year and hopefully closing also of Komercijalna Banka. Thank you very much and until next opportunity take care.