Ladies and gentleman, the Management Board of NLB welcomes you to the webcast where they will present you key highlights and business performance of NLB Group for Q3 20201. Today's presenters are Blaž Brodnjak, CEO, Archibald Kremser, CFO and Andreas Burkhardt, CRO. This presentation will be followed by Q&A session. If you would like to ask a question you can do any time during this event. If you have joined via the webcast please use the question tab located above the slides. If you have joined via the conference call please press star 1 on your telephone keypad. Before we go on we would like to draw your attention to the disclaimer on slide 2 of the presentation. By this I pass the word to Mr. Brodnjak.

Blaž Brodnjak

Thank you very much and warm welcome from NLB's premises. I am really specifically happy this time around since we have behind us an extremely strong quarter. We have achieved further milestones and we are really significantly more confident than in previous quarters and looking forward to the yearend we maintain this confidence. So in all dimensions practically we have seen very solid developments and specifically focusing on recurring business evolution and we have been actually evidencing a strong growth of retail demand and finally also a pickup in corporate lending. Obviously seeking for talent has led to the fact that companies are now forced to think of robotization, automation, digitisation and so on and there is significant investment demand finally happening. There is also quite vibrant M&A you know society happening now in the region and NLB has been also assisting these endeavours via IB advisory which we have actually been creating further milestone at positioning us as universal financial services group. Overall I am really happy about the evolution of the loan volumes in retail throughout the region, so in all geographies very solid demand for housing and consumer lending. Clearly there have been still some subdued evolutions in terms of consumer lending in Slovenia given the restrictions of Bank of Slovenia still in place from macro prudential universe, yet housing demand is solid. There I quite good sentiment despite clearly again Covid situation worsening, nevertheless economy has been practically operating on almost full utilisation of capacities. There have been obviously some ad-hock shocks in supply chain and energy pricing, but it seems that they have been pretty much under control in Slovenia. We are closely monitoring these developments and so far the corporate are not yet reporting any significant distress coming from it. Of course there might be some further shorter lockdowns of the service industry, but we have had pretty much very strong half of the year for them, practically almost full utilisation or full capacity utilisation practically across the summer and early autumn, so we also feel confident there. And as in previous quarters we can only report that the exposure of NLB Group to the potentially impact industry has been pretty limited. On the other hand pretty important developments in integration of KB that is something that of course everyone is looking at with high level of scrutiny since this has been our first major acquisition in years, but I can really happily report that developments have been fully under control, we feel very very confident at delivering integration in Serbia towards end of April as we have been communicating so far. I am also happily reporting that restructuring charge that was foreseen so far is within this ball park and also you know timing wise we are well on track. We have sold actually the subsidiary of KB in Banja Luka, so we have signed the contract, the SPA with Poštarska Štedionica from Serbia, so there will be no integration in Republika Srpska. We expect legal closing practically regulatory closing potential is still this year. We are very well advanced in integration in Monte Negro, so actually this weekend we plan to actually already do the migration and then as of Monday open as one business. This has been really solid development and we feel very confident about this to continue, Archibald will give you more details later. Generally I am also happy to report that there have been you know there has been lifting of restrictions for dividend pay, so we will be actually we have called, convocated the AGM for December and we plan to provide a little Christmas gift to our investors on the 24 of December when we pay out the residual dividends up to 92.2 million cumulatively which would then for this full year actually cater for 4.6 euro per share pay out which is very solid and which is in line with what we have been communicating so far. In terms of evolution and you know guidance for the coming quarter and end of the year I guess that most material of course difference to so far reports is that the cost of risk evolution has been pretty solid, so even in Q3 still significantly negative cost of risk i.e. positive contribution to the result. It seems obviously that we would close the year also with negative cost of risk which will of course significantly boost the result of the whole year and adding obviously incrementally with another positive quarter towards the end of the year. I am really you know very happy about the recurring results, so in all client segments practically and in all geographies there are strong pipelines, we see loan demand and above all non-interest income, so fee income evolution, asset management products after the introduction of high balance fees are really originating significant revenue. On the other hand clearly the high balance fee introduced has been offsetting a bit and balancing out the influx of deposits. So we have seen in Q3 already much more balanced evolution, loan growth and stable deposits development, so this is of course speaking in favour of stabilisation of et interest margin at certain point as we can engage more capital obviously into the lucrative lending business, especially retail, but as said corporate following and also … products being sold that don't carry actually credit risk and are now really showing some stable production. So in this respect this is a very solid period behind us and I believe this has been continuing and now we are looking forward to the significant future quarters and by that I would pass the word to Archibald and then wrap up with a nit more guidance also for the future and strategic priorities. So Archibald, the floor is yours.

Archibald Kremser

Thank you Blaž. Welcome everybody also from my side. This is really a pleasure to present this quarter, Blaž already gave it away it was very strong financial performance as well and importantly really on the back of good recurring business development. So core revenues are developing very healthy, quarterly profit 66 million, net interest income slightly up by 2 percent and really on the back of very strong loan demand from all corners, the whole region including Slovenia. By the way of course more on mortgage than on consumers as explained by Blaž, but really across the board a very strong demand especially from retail, so we are by that also gaining market share and that is of course also our continued ambition. I think we have the setup now in the meantime also across the Group to further drive that growth, we have increasingly also the technical capabilities and also the steering on Group level to keep continuing on that bases. The loan demand especially from retail very strong, also corporate picking up and of course post-pandemic both appetite on bank as much as on corporate is to some extent still muted, but we expect over time this also to normalise and we see many many interesting projects also in the pipeline in corporate both in Slovenia and abroad. Other highlights are clearly the continuing cost discipline and here we see more or less flat quarterly dynamic and that is what we like, this is what we try to keep. Obviously there are restructuring charges still to come, especially in Q4 where we will see some incremental charges, but as explained we will come to that in more detail, this is all in line with our expectations. On cost of risk not much to say other than incredibly good performance, especially on the resolution on recovery and Andreas will indicate details. Forward looking guidance we will have negative cost of risk also for the full year and in this sense we are not just looking at very strong Q3, but also at very very robust outlook for the whole year. The details to that as I said good performance on interest income driven by very solid loan demand, quarterly increase of net interest income 3 percent that is really quite encouraging I have to say and it is really very much driven by the drive going through the whole Group in terms of retail growth. We see this given the macro environment which is positive and supportive also for next year we see this continuing. Margins are stable, we took nominally a bit … because we took in some TLTRO in limited amount, 750 million and that obviously will contribute at some point to margin, but for the time being it is of course predominantly arched in central bank accounts, so technically kind of depress a bit the margin environment. If you normalise for that we are flat quarter on quarter. Non-interest income continuous success story, many elements driving that from regular core business, of course recovering payment flows to very very positive continued dynamic on our sale of mutual funds especially here of course in Slovenia. Really strong drive in volume growth and by that also increasing our market share. Cost is, well it looks boring here, but of course there is a lot of effort underlying to keep the cost flattish as we call it we run here a midterm cost containment plan and that basically reduces costs on as we call it physical footprint, you see here number of branches continue to go down, number of employees is continuing to go down and reinvest these proceeds in innovation and technology. Obviously there is a stronger dynamic now in Serbia on cost, clearly we have two operations, we are consolidating them into one. And even ahead of the merger as we have communicated earlier we are very very focused on let us say sizing the target organisation in a right way, so that we ultimately also have the space here to invest both in people, new skills and new technology. That is a very tech friendly market, so we obviously want to benefit from that. Loan dynamics very robust as said couple of times now and especially retail is really a joy to watch these days, obviously strong double digits in our subsidiaries. Particularly positive 6 percent already in KB and let us not forget that is in the mid of the restructuring process, in the mid of quite substantial headcount reduction that took already place, so we are really very pleased with that result. On corporate I would say first positive signs of pick up in loan demand. Obviously the future is increasingly smart money, so projects, green projects, infrastructure both in the region as well as abroad. Capital, in short very strong position, quite well above all thresholds, regulatory and the risk appetite 15.75. We will close the year well ahead of that, we are at 17 plus these days. I think it was mentioned and it is clearly published we are currently testing the market for potential Tier 2 issuance. We believe the rate environment is something we should take advantage of, we have 3 smaller issuances outstanding, so in a way this is either prefunding of consolidating these outstanding instruments. It is certainly adding to MREL which is going to be a topic going forward and also gives us a bit of dry powder for M&A opportunities. By that I think I would pass the word to Andreas on asset quality.

Andreas Burkhardt

Thank you Archibald. The colleagues said it already basically good news, especially for such a not easy year. You know we have some 15 billion on the loan side, but that is a little confusing because these 4 billion which you see state that is primarily central bank, so you would somehow I guess have to deduct that one. The growth is exactly going in the areas we want to and you heard it before actually, so both retail mortgage and retail consumer, but also on the corporate side focus on SME that is what we want, so also here happy. By geography obviously what happened is that Slovenia now is approximately half and our other markets are half with the by far increase through the acquisition of KB in Serbia. If you look on staging we have high percentage of stage loan portfolio obviously and actually zero negative surprises here. We have solid coverage which we will see then also on another slide in a different way. So here I would say very stable, very solid especially for such times. On the NPL ratios, I mean we are further reducing NPL ratio and also actually absolute amount of NPL, a little bit less than 400 million. The interesting thing is that 170 million here have zero delays, so that is now already something like 40 percent for different reasons. A lot of that is restructured clients which are not yet cured and some well special cases, but here you see also the very solid trend and obviously here again in a little bit of a different view the NPL coverage which is very solid. Here on the right side you see added also collateral values and the coverages with that. So this total coverage here NPL cash and collateral coverage 141 percent actually of course also very solid. If you go a little bit in the year, so in the first three quarters so far on loan loss provisions only, so that is the dark blue 34 million release that is minus 50 bips and that is obviously much better than we were hoping for and as Blaž already said given where we are end of third quarter we are planning to stay in the negative territory in this year, not exactly on minus 50 bips, but still negative. And if you go a little bit more in details what you can see is that in this year there was a moderate release on the pool provisioning side, so that is basically changed expectation of the macro environment, this is approximately half of what we built last year, this plus 7.5 million. And then also especially still Stage 3, so provision charge through cases which well primarily came into Stage 3 or deteriorated there even more that is 23 million and that is very moderate, but on the other side what you see is repayment of written off receivables where we were especially successful this year and that is for sure in that sense extraordinary year with 37 million, not expecting that one to repeat next year, but here obviously we have the special effect that we have KB in our stomach and here we had actually one big case which is contributing to this then. Here in NLB we had 1 case where actually from a side topic we collected quite some money which was, where the case was not anymore in our books. So overall here exceptionally good contribution obviously from that side. And with that for this year I can just say pretty happy, I mean we are constantly revising our outlook to lower cost of risk figures, now will be already negative and that is again for this year I am really extremely happy. And what is also good and you will see this then also in the midterm outlook we are still expecting in the upcoming years to have very solid figures. What will gradually normalise obviously is the regular items on cost of risk, but we still see some good inflow in the upcoming years from extraordinary items like also still written off items and in that sense I think also from here very solid future in the upcoming periods. With this I would keep it for now from risk and I am handing back over actually to Archibald.

Archibald Kremser

Thank you Andreas. This is then quickly update on KB integration and of course we will be happy to then answer more detailed questions. We are following the milestone plan that is well known now in the community, it is published and we follow it the very same way. Governance on this is very tight, we really put a lot of emphasis in making sure to get this right. Crucial milestone is coming up, this weekend we will cutover in Monte Negro becoming one bank legally speaking. Technically this was of course a tedious exercise, but much as technically also the HR dimension is something we put really a lot of intention in, ultimately we merged two organisations and we want to make sure we keep the best talents in all the markets we operate. We really put a lot of attention into picking also then the right senior management for the combined organisation and keeping the best of both worlds. And I think we are really making very solid progress both technical and HR dimension, clearly for Monte Negro this is as of next week a new reality, I think it is well prepared and I don't expect any issues from the process. As a chairman in Monte Negro of course I keep a special attention on making sure we really get it right. In Serbia we are in essence mirroring the process with you know a longer period of time, even the larger complexity, but the same processes in essence going on. As in Monte Negro clearly HR, technology and most importantly be there for our customers and get the business right. So here clearly this is a transition process, but we see very encouraging first results. Production volumes in retail are up significantly and this with a reduced headcount actually in branches as we had the first voluntary leave program implemented and close to 500 people already leaving. We have now further programs open. We are really putting a lot of emphasis in both getting the business equation right, but also the human equation and this is both talent retention, but also let us say socially acceptable way to reduce headcount when necessary. I would claim we are on good track on all dimensions, so we look forward to execute the legal merger in Serbia by end April next year. This is still the milestone we followed. There is still a lot of pending discussions including also with the regulator, but we really try to make sure to get this process done in time and by that we will have a world class operation in Serbia with a lot of potential ahead in a market that we really see is providing plenty of opportunities both in corporate and retail. You know that we have signed an agreement to divest Banja Luka, I think that is a beneficial transaction, we have always said that we are open for tactical opportunities here. Jist of KB acquisition was clearly to increase presence in Serbia and to this extent we were happy to also have a transaction that is a win win for both sides, in this case the acquirer is another state owned bank in Serbia. And for Monte Negro we simply concluded at the end of some deliberations that the merger is the best way forward. On the merger process itself both cost and synergies are something that clearly we are tracking very closely and so far every let us say even early stage deliberations are still valid more or less. So both the restructuring charge is in line with what we anticipated and of course the synergies, in other words the cost equation, the target cost structure is pretty much aligned with where we wanted to be. By that I would conclude KB process well on the way, incredible effort, it is driven entirely by people in the organisation, so this is not an outsourced exercise. I would really also claim that collectively we have with this process also build a quite credible capacity for further integrations should they come. With that I pass it back to Blaž.

Blaž Brodnjak

Thank you Archibald. On that note in principle we can touch the guidance clearly and further developments. We really feel very very confident at this point of time, not that we are only able to buy meaningful business, but also meaningfully integrate the acquired business. We are improving this on a go with pretty well developing integration countries and then of course the divestment where there was really not making a lot of sense. So in this respect this is building the track record, the experience that is extremely relevant for what is to come and it is clear that we are able to grow market shares consistently throughout all geographies and we have been doing this in anchor segments which is retail and housing loans. This is really hooking the client for 20, 30 years cross-selling 5 other products and so on. We have been clear pioneer in digitisation of banking universal financial service actually in Slovenia and we want to replicate this consistently throughout the markets as well. We have been a finalist of Gartner assessment of European businesses when it comes to data universe. So we have a very consistent and pretty good idea of where we want to develop our data universe to really become business that is data driven, not data have only. In this respect this is positioning bank obviously in the society as someone that is really seriously promoting not only digitalisation, but actually living it. On the other hand the sustainability territory that is of course in forefront of practically every debate these days NLB has been clear frontrunner, a clear frontrunner of these efforts and endeavours in the entire region and this is of course not going to shy away, we are simply you know adding energy and power to this as well. So we start with all the measurements, all the impact analyses practically still this year we should be measuring Scope 1, Scope 2 and significant part of Scope 3, reporting this, disclosing this. In lending terms clearly out of coal for good, no coal even enhancement for good, seeking actively for energy efficiency improvement projects, renewable projects, developing retail products, corporate products, you know really fostering the green transition. On the other hand be a pillar and strongest promoter and advocate of other two pillars of the ESG. Which is inclusion which is obviously the governance, especially the governance, we have been observing clearly some issues with the governance with state owned businesses in the region. So you know we have been the proof that it is possible to govern the businesses that have material state ownership in a professional independent way and create value for all stakeholders. And then coming back to with what Archibald wrapped up, so we have capacity to grow the business organically, but we are building and have already significant capacity to of course also consider eventual M&A opportunities. We cannot be concrete at this point of time since there is nothing yet concrete to disclose, but clearly we have been analysing eventual opportunities to buy portfolios or of course the entire businesses in the regional geography, without being specific. So there is significantly more room for in-market consolidation and you know there have been of course other players as well potentially interested in that and especially OTP has been moving in this space significantly in last period now with acquisition of the MK Group, Sberbank Group and so on. So this consolidation is of course just speaking in favour of economics of the industry gradually improving, getting more rational in terms of the market approach, in terms of less inferior price, inferiorly structured campaigns, because you are in distress. We have had the privilege of actually operating with critical mass in all our existing markets, in all markets we were practically top 3 business, we have been gaining market shares in segments in geographies. So this is very good position to be in and yet we are not sleeping, so we are heavily investing in digital, we are heavily investing in data, we are heavily investing in sustainability. As we speak we have also been trying to understand eventual tax pays, Fintech pays in the region, potentially partnering of course with these guys as well. Payment turf is something we have been heavily interested in and we just increased our participation in Bankart as regional card processing platform, so we are now at 46 percent of the stake. There might be interest clearly you know to partner with other people in the region to really develop this into a regional hub and platform and by that not only create value for the banks, driving unit costs down, but of course also for the clients having reliable, predictable real time instant payment universe available at all times. That is something that clearly is you know a very solid opportunity for us and of course we are looking at it. So we are currently of course analysing the situation in the whole region and as I said talking about products like leasing, talking about portfolios, like credit portfolios, talking about of course the banks, Fintech businesses. We are building the capacity that Archibald mentioned the Tier 2 issuance as well, on one side consolidating and on the other side providing the MREL and the third component clearly is having the dry powder for acquisitions as well. So very very good position to be in and this all is leading obviously to you know the guidance for the period to come. I am really happy that we will be able to pay out now this residual amount of 90 million this year. We have the capacity for strong dividend pay out in the coming years, but this dividend pay out to be combined clearly with meaningful acquisitions and organic growth as well, primarily organic, but if there were value accretive opportunities and here we would absolutely retain absolute discipline, so maximum discipline only value accretion that is the only criteria. So we don't want to grow for the sake of growth, we want to grow meaningfully and by that of course create more value for all our stakeholders. When it comes to concrete KPIs I would not go to detail, we are sticking more or less to the guidance. Obviously cost of risk for this year is going to turn out better than just recently still guided for. 2023 is the year where we believe actually for a kind of normalisation, so it seems that first half of 2022 is still going to be this or other way Covid impacted on one side, but on the other side we really see very strong performance, zero delinquencies coming from retail, full employment practically in place, absolute search for talent which means there would be no delinquencies coming from retail. We are closely monitoring corporate developments, so you know corporate don't show yet any weaknesses, any signs of weaknesses and repayment discipline is extremely high, practically impeccable. So we would see very limited chance for NPL migrations next year and that is why of course there might be still pretty low cost of risk next year. 2023 we see as the year of let us say normalisation of environment. And then when we are talking about cost of risk it is in this ball part then which is you know something close to what we have been normally talking about. But then we now see really high single digit growth of loan business, of lending. We see very high demand for services, for asset management business and that is really encouraging, because this is adding risk free income obviously. Dividend flow we want to retain, very strong, would potentially be addressing this with key stakeholders if there were larger acquisition opportunities, but as I said at this point of time there is nothing like this on the table, so we stick to what I was talking about. In terms of returns, of course talking about normalised levels of core Tier 1 we want to show more than 12 percent and that is you know ahead of 2019 promise at that time despite Covid, despite very solid dividend pay out in the meantime and so on. I am really very confident, I am really very happy about developments so far and I am really excited about what is to come. I claim NLB is extremely well positioned to become really champion of the region and we will not shy away from exploring and exploiting these opportunities. So this would be from our side. Any questions clearly you might have then subsequently address to our IR team otherwise now of course happily responding to any immediate reactions. Thank you very much for listening and looking forward to Q&A session.

Thank you. If you would like to ask a question through conference call please press star 1 on your telephone keypad now. If you have joined us on the webcast please use the question tab above the slides. Our first question today from the conference call comes from Jovan from RBI. Your line is open, please go ahead.

Hello, thank you for the call. I would have 2, 3 questions. If we look at fee Q3 it seems that it was down 2 percent versus previous quarter, so it is a bit of underperforming versus some of peers? And also if you look at KB level kind of visible decline quarter to quarter. Can you explain maybe what is the reason for that? The second one would be if you can also explain this movement on other impairments quarter to quarter? Also if you look at KB there was big I think booking in second quarter and then release in third. I am not sure whether I fully understand, but it has to do with these legal cases or with something else? And then I have another one, but that one I can ask later. Thank you.

Archibald Kremser

The core performance on fees is very robust and stable. There was a bit of a technical adjustment on accounting methods between KB as a new entity and the Group and that has led to a little bit of reallocation of fee income, so that is not loss really, it is reallocation in the P&L. Underlying performance is pretty robust, so I would say Q2, Q3 pretty flattish, so this kind of drop is kind of optical effect. On provisioning in KB, I mean the thing we got a little bit worried about previously was retail litigation and this has led to quite some provisioning as cases went up. We had a very positive and strongly supportive ruling at Supreme Court in Serbia that basically took this question more or less off the table. In other words as of September we don’t expect massive or any visible new dynamic from that space. So that was a bit provision dynamic there and obviously they run HR provisions for the restructuring process. So clearly they booked I think in the range of 7 million HR provisions already and there is more to come and this is clearly in the restructuring bucket that we anyway had envisaged and we are following it, tracking it and also intend to disclose the progress made here. So as I indicated before from today’s point of view we will book roughly two thirds of restructuring charges that were envisaged. Cumulatively if you remember that was 30 million on the level of Serbia and another 3, 4 million from Monte Negro and two thirds of that roughly are going to be booked this year, the rest next year. And your question on capital?

Jovan

Thank you very much for explanations. On capital you mentioned Tier 2 issuance, I mean if we look at your current position here I think you have already more than 2 percent of risk weighted assets. So what is the size that we are talking about and is it also linked to potential portfolio or bank acquisitions in the region as Blaž just mentioned? And also the one related to these …, expect any change from your draft SREP maybe following the KB consolidation and triggering of course the change of capital requirements?

Archibald Kremser

Maybe the last one first. I mean obviously the SREP final decision …

Jovan

I cannot hear you.

Archibald Kremser

Can you hear me?

Andreas Burkhardt

Now yes.

Jovan

Now it is better.

Archibald Kremser

I didn't do anything. So on SREP the short answer is we don't expect any bigger change. There will be little ups and downs, but cumulatively we don't expect big changes. We will publish that as customary in the annual report. The short answer is no big changes expected. On Tier 2 I mean the rationale is relatively simple. We have 3 very illiquid instruments outstanding and in a way we thought this is still a low rate environment where we in a way reconsolidate these outstanding. The other dimension is MREL, we are in intense dialogue with SRB and clearly we have to get MREL funding in place hence this is also building block for MREL. And third, we want to be ready if there is a tactical opportunity to also work on that and in a way be prepared for whatever may come that is our slogan. So we thought this transaction at this point in time should we ultimately be willing to do it at prices offered is ticking many boxes. So I mean you can always argue whether you know you got it right and this is the right moment, this is the right cost and we feel it is better to be early than late on capital and we just want to you know gain from what currently still looks like a low rate environment. But you know that rates are going up and Tier 2 are the most sensitive to rate vibes.

Jovan

And Tier 1 is not an option?

Archibald Kremser

Well Tier 1 is an option, there is still a bit of tax dilemma that is not yet resolved and that makes it a bit more expensive. AT1 is an option, but I mean it is even kind of then more expensive, so clearly Tier 2 comes first.

Jovan

Ok, appreciate your answers. Thank you.

Archibald Kremser

Thank you.

Thank you. As a reminder if you are on conference call and would like to ask a question please press star followed by 1 on your telephone keypad now. We have no questions on the conference call at the moment, so we will move to the questions on the webcast. Our first question from webcast comes from Mladen of Erste Group. Dear gentleman, congratulations on positive developments. It seems that waiting music in this webcast gets more cheerful every quarter. It looks like KB is starting to contribute positively to loans and deposits ratios. Do you expect this to accelerate and at which pace? Could you tell us more about potential Tier 2 issuance, size, purpose maybe' are there any M&A moves on the horizon? And finally how is the Skladi sale developing? Thank you and all the best.

Blaž Brodnjak

If I may jump in. So we expect from KB clearly much more and I mentioned this before. So we will be now focusing on successful integration, we plan to actually fully merge until the end of April and then only have one business and then I would really personally count on significant more than 10 percent annual growth of retail and corporate books, so pretty concretely very significant growth. This is simply of course attractive margin environment, so KB should really start contributing meaningfully and we have mentioned in previous appearances that we expect 100 million net income from Serbia alone pretty soon in midterm. The guys are committed to deliver that and we are looking forward to it. When it comes to eventual acquisitions as I mentioned we cannot disclose anything concrete yet since there has been no concrete activities, but we have been very closely analysing the whole turf, the whole space in the region and if there were concrete opportunities coming out our way clearly we would not shy away from analysing and eventually addressing. Next year might already show some developments in this way, but there is nothing matured to the level that we could actually disclose. And in terms of capital you know for it, we believe we can meaningfully acquire on top of organic growth. I am not sure I fully understood the question, but on one side Tier 2 Archibald mentioned all components of Tier 2. It is consolidating the Tier 2 universe, it is adding clearly the MREL eligibility on the other side and is of course providing incrementally as well capital boost. We have been obviously generating capital with better than expected running result and we have triggered also the sale of fund business which I am sure you realised and you know this would close somewhere next year, of course it is too early to judge on any P&L contribution of it, but it for sure is going to affect it, add capacity. NLB has been operating with significant acquisition capacity also from capital end.

Thank you. The next question today on the webcast came from Vladan Pavlovič of … securities and has asked 3 questions. First question is the bank will be very near 90 percent stake in KB after the merger with NLB Belgrade, will you come out again with an offer for the minorities and eventually do the squeeze out to delist KB? The second question is where do you see the largest potential for growth in loans amongst regional countries where you have presence? And the third question is any opinion on dividend payment for … from 2021 earnings as … dividend policy is terminated? What may be the pay-out ratio if you plan to pay it at all?

Archibald Kremser

KB, obviously we cannot comment on any whatever capital market transactions. If there were anything we would have to publish it or the bank has to publish it. For the time being we are focused on the merger and nothing else. On dividend policy of KB, I mean clearly at the moment there is still no possibility for dividend from the regulator. Should that be lifted clearly we would you know do what we do in all our subsidiaries, we manage capital efficiently and that would typically mean they pay dividend from their recurring profit, have the capital they need for operating in the market and ultimately also get capital efficient, so we also like to see a good combination of Tier 1 and Tier 2. We will implement all these measures over time in all our subsidiaries. I cannot disclose now tactical in between steps and timing elements, because that would be premature.

Thank you. The next question for today comes from … from JP Morgan, he has asked 2 questions. The first question is cost of risk no reversals for 2021, so does this imply further reversals in Q4? And the second question is where are you on your ESG agenda and what are the key pillars you are focusing on for 2022?

Blaž Brodnjak

Coming to ESG agenda we have by far the most concrete roadmap from all the businesses in the region, I claim that confidently and we are really heavily moving forward. We have engaged significant fleet of actually you know senior professionals who are dealing with this in terms of introducing the measurements, introducing the policies. We have just yesterday actually approved the Sustainability Committee chaired by myself and on the other hand clearly we have signed many protocols, be it UN principles for responsible banking, be it obviously MIGA instruments, EBRD commitments and so on. More or less we live it, so we are actually not financing coal anymore, we don't have reduction targets, we are not financing it anymore. We are actively developing clearly the products that are stimulating energy efficiency and renewable production and so on. And I was mentioning especially the inclusion and other elements of you know the society support. So we have had actually very successful campaign called Help Frame where we actually have been promoting our clients, not us and you know lending, but our clients giving them the advertising space in all geographies across the region. We are introducing all these practices universally across the region. Maybe as a side note we have been awarded the advertiser of the year actually in Slovenia as the first bank in history competing with retailers and food producers and so on because of our sustainability efforts. We have been also awarded for the marketing excellence for the comprehensive marketing just recently by the Slovenian Marketing Association exactly for sustainability efforts, both in terms of communication and measures introduced. So we have been actually publicly recognised and acknowledged as the pioneer of sustainability. Of course we don't have yet ratings in place, but we as I said would start reporting Scope 1, Scope 2 and significant elements of Scope 3 still until the end of this year. Next year actually develop us further in terms of of course our own carbon footprint in a sense that we would really start accelerating our efforts to consolidate our Head Office footprint, so moving in from 6 building in 1.5 really talking about the car fleet, I am driving plug-in hybrid that I am consistently plugging actually to the plug and I don't drive as a conscious personal decision more than 120 km/h ever in my life anymore. So these are real decisions that are concrete decisions. We will go for ratings as well, but the whole comprehensive program has had a very specific roadmap and we are going to be disclosing it and reporting this now regularly periodically. That much maybe on sustainability, but Archibald if you want to add something?

Archibald Kremser

I think you address cost of risk Andreas?

Andreas Burkhardt

Yes, exactly the other one was cost of risk. So that is obviously true what you are saying or assuming, I mean we are saying that we will end at around minus 20 bips for cost of risk this year and that means of course tat we will still see some cost of risk in Q4. That is actually not you know different development than before, so you see overall moderate cost of risk, but we are not assuming currently for last quarter is any bigger extraordinary items. Actually there are 1, 2 topics which we are still discussing which are pending, might still change a little bit, but most realistic expectation is yes, we would see some positive, so some booking of cost of risk in the last quarter and that is why we end up then around minus 20 bips. Generally speaking what we are aspiring is from next year on, so starting with Q1 reporting next year we will split cost of risk in how we show it to you in regular and extraordinary topics. We are still now fine tuning the definition and then we will start rolling it out and from next year on then trying to report that in that way to you, because of course these extraordinary items mixed in the regular flow always trigger the same kind of questions which are very natural, but we are trying to improve here on the way how we show it to you also from next year that is a little bit easier to follow, but your assumptions are correct.

Thank you very much. Our next question is from … Are you thinking about starting own share repurchase program?

Archibald Kremser

We discussed that a lot with our investors and we still think a simple dividend is the most straightforward capital return instrument we have at hands, so at the moment we are not considering anything like that except at some point we, well here the regulation has changed, so in the past we had programs to fund our employee programs and management programs, remuneration programs we had to install for compliance purposes as EBA regulation stipulates certain amount of variable compensation to be paid in stock or stock like instruments. Here the local legislation has changed allowing now also TOK mirror instruments, so in a way at the moment no repurchase program need and also not intended.

Thank you. And the last question for today comes from Simon from City Bank. First question is what is the outlook for fee income at KB given the adjusted for the reallocation of OPEX to fee expenses? Second question, can you please provide an update on legal risk in Serbia related to consumer loan fees?

Archibald Kremser

The fee outlook in KB I cannot be specific because we are not commenting specifically on subsidiaries, but in essence I would see it very positively, I mean they have normalised a range of products in terms of fees. So far they have been below market, now they are on market with their fee structures, so there should be a visible positive effect coming from that side. With regards to consumer litigations I have commented before that also with very strong support I shall say from the regulator speaking out on behalf what is lawfully correct the Supreme Court has come out with a ruling that basically confirms the position of the banks that as long as consumer lending fees have been properly disclosed as effective interest rates there is no dilemma in charging those fees. So I think by that from our point of view the legal system has worked as it should, also with strong support from the regulator and from our point of view this is a matter of history books.

Thank you. And the final question comes from Gašper from Slovenia. Hello, congrats on the good results. Can you speak a bit more about the data monetisation and the Fintech angle you are pursuing? Does that mean offering digital products in the countries without physical presence for example?

Blaž Brodnjak

I am not sure I understood the question, can you please just repeat it?

Of course. Hello, congrats on the good results. Can you speak a bit more about the data monetisation and the Fintech angle you are pursuing? Does that mean offering digital products in the countries without physical presence for example?

Blaž Brodnjak

Well, we still believe that there is value to take in our existing region, but this doesn't exclude eventually of course offering services digitally only in the missing geographies, but from the region. We have not yet thought of eventual opportunities beyond SEE and Western Balkans frankly, but clearly if we find ways to come to the platform that could reasonably go beyond those borders of course we would not necessarily shy away from exploring such an opportunity. We have nothing like that in hands as we speak, but since we are working on platforms and ecosystem platforms and open banking, we just today launched a hackathon on open banking and if there were ideas introduced where we believe that any BNPL and so on schemes might be or actually run by us or be cosponsored by us and so on we might do that. But there is nothing concrete to report on yet. I hope this responds, but otherwise we are closely monitoring the entire Fintech universe in the region, we are observing the entrance, we are observing obviously others that have been already developing something and then putting it to launch. But as said talking about also eventual partnerships, it is not only monitoring and we might in the coming months or years report on potentially even acquisitions in this space, not only banking and portfolios. I understood that this was the last question?

Yes, thank you very much.

Blaž Brodnjak

Then I would just wrap up by stating that combining the privatisation proceeds, dividend pay-outs envisaged until the end of this year and the residual value of the Republic of Slovenia in our participation NLB has fully repaid state aid from 2013. I think this deserves reflection. From this moment on we are creating new value to our stakeholders and I hope everyone is appreciating that and we are creating a regional champion together. Thank you very much.