NLB Group Q1 2022 Results

12th May 2022

Ladies and gentleman, we love to talk, but we love results even more, so on the following round table we will have presentation of first quarter 2022 results and it will be presented by Blaž Brodnjak, CEO, Archibald Kremser, CFO and Andreas Burkhardt, CRO of NLB. Gentleman, if you are ready stage is yours.

Blaž Brodnjak

What is happening with this pointer, because it is flipping in any case forward? So first disclaimer obviously because it was not announced and clearly this disclaimer is a very important thing and everyone dealing with us and any other investment understands this very well, so I will not spend time on a disclaimer. Actually we came to Belgrade to discuss Q1 results and everything else was additional program and I guess it has been meaningful and you have liked it so far, but at the end of the day we need to discuss what we have delivered? The first quarter of 2022 was a very robust one from various dimensions. So in all client segments, in all product lines basically, geographies we had a very robust loan demand, we had very solid progress in fee income and of course in the meantime we on the go during the weekend also bought a significant bank actually in Slovenia whilst clearly delivering final stages of integration of NLB Banka Belgrade and Komercijalna Banka Belgrade. So this was a very rich quarter in terms of activity, but above all very rich quarter in terms of delivery of results. So I am specifically happy about the recurring trends, so I was mentioning strong demand, but I was also mentioning in principle revenue pickup. If you look at the net interest income, if you look at fee income, if you look at above all pre-provision recurring results and operating recurring results we are growing significantly the business and that is an important message. We are in mid of war, we are still you know not fully out of pandemic, but we have had a very solid quarter and we see you know this demand happening still. We have been mentioning clearly of course uncertainties regarding gas supply and oil supply, but so far first quarter is showing that of course especially March was extremely strong, so after there was obviously war in place March results were very very strong. As mentioned happening in all dimensions, there has been significant improvement in even NPL books, there has been solid result coming out of cost of risk despite NBanka acquisition clearly and one-off recognition of certain elements total developments are still pretty much in line and above expectations and that is really encouraging. We have been further gaining market shares, so in Q1 alone in Slovenia for example we gained 0.6 percentage points of market share in 3 months in housing lending alone. This comes on top of 1.9 percentage points last year which means 2.5 percentage points in 15 months and that is actually the size of the absolute stock of a midsized bank in the country that we simply gained and added incrementally in a single year. We have had a solid growth of books already in Serbia despite integration still not being finished, these guys were really heavily engaged, they dealt more or less with integration, but have delivered growth of corporate and retail books and this was North of what the market was growing, so they have been growing the market share on the go. So this I also see as a very strong achievement of Q1. NLB KB started delivering growth in absolute, but also relative compared to market terms already despite not yet being integrated. Of course now we will support this post integration period with strong marketing campaign which was clearly subdued because we didn't want to support two brands, but now it really starts and this is really something that is a very strong progress and this is something that we are really betting on, especially obviously in Serbia. Uncertainties have been there, of course especially around explosion of war, but so far situation has been not only contained, but very solid. You have seen growth of Slovenia for last year published in Q1 of 8.1 percent, we have seen this year forecast at around 4 percent still which is of course people are talking cooling down, but if we were discussing this in 2017 we would say are we overheating? So this is a completely different perspective in this respect. I mentioned, but would just add again positive trends in asset quality despite these turbulent times, so books in relative terms are generally further improving and that is really encouraging. Capital strength is there, clearly we are waiting for the recognition of negative goodwill, you have seen it communicated, the number is out, so now we need the regulatory recognition to be able to count it in as accountable equity, but this will of course then further strengthen the capital base and this we expect somehow in H1. So in H1 we believe we will be able to actually communicate significant improved capital ratios deriving from the negative goodwill recognition. Key events more or less after that? So yesterday we were blessed by the upgrade, so we are really happy, in such volatile times. We only hoped for it and it crystalised which proves that rating agency has understood the potential we have got within this region and loss absorption capacity and robustness of what Archibald calls a fortress balance sheet for the times to come. In this respect this is very solid basis, we place hopes that this is going to help of course bank's ambition to issue capital instruments. We have clearly informed you that you know for already now 4, 5 months we have been more or less trigger ready to issue Tier 2 instruments, we have been discussing potentially AT1 instruments, nothing to concretely disclose yet, but we are thinking of these opportunities because we believe there would be potentially many alternative opportunities to grow organically on one side and on the other hand clearly through further M&A. nothing concretely on the table as we speak, but there will pretty volatile period in front and NLB wants to be ready to keep providing stable dividend pay-out, but at the same time of course also growing the business significantly. By that I would pass the word to Archibald to give you more on financials as standard routine and the Andreas on asset quality.

Archibald Kremser

Thank you. So I am not going to read out all the numbers, the report was published, Blaž gave you the highlights. You see here the balance sheet inclusion of NBanka, be mindful this is balance sheet of some 1.5 billion. I think the highlight really especially year on year basis is the recurring pre-provision result. That is a very impressive performance and it is both interest and so rates and non-rates. Cost is I would say developing, so that is for sure space to watch, we are conscious of pressures on cost, inflation is a fact also for us, also we pay utility bills and things like that. So for sure we will have to keep paying attention. Of course we keep investing in what we call value added cost, so everything associated to building the brand, supporting the brand, building technology, hiring talents, these are spends we are willing to take because they are building the future and we will not drain the business while we are trying to grow it. Pre-provision, even net of cost I would claim hugely impressive and we are very proud and very happy at this point. It obviously shows in all the numbers, here you see the margin environment which is stable which for the time being is good, I mean people are expecting Q1 was you know a huge market volatility already seen, the swaps went up substantially, but of course it takes time till this feeds through in our balance sheet because our liability side is basically fixed with deposits still coming in actually and we had few outflows in Serbia where by and large run a hugely stable deposit franchise and that of course in times of rising rates will now very much come to our benefit and of course on the asset side we will start slowly pricing up. We had of course lively debates with Hedvika that is not here on retail pricing because she still runs for market share. We still want to slowly shift the market upwards and of course that is going to happen not because we want or have to be more profitable, but simply this is where rates are going. So we have for start educate also the market, our customers that this is where we are headed and it is of course going to come. Fees were mentioned, this is really a success story across several dimensions, very big I think contribution increasingly from value added products, so selling non-bank products, asset management, bank assurance, especially in Slovenia this is a true success story. You remember that we ultimately decided not to divest Skladi, our fund, our local fund manager in Slovenia because simply the market was not there to offer value. So we will keep vertically integrated model for now and of course will look for opportunities to expand that in other geographies. Serbia will be very high on that list. There are many many other initiatives driving fees, I mean the colleagues talked about offering a broader service spectrum to corporates, cross-selling more in retail, our subsidiaries are just getting going really on this because of course so far they were very much rates business, so now it is increasingly also service business. Costs I mentioned, you see and huge kudos to the team in Serbia not just at the integrating and grow the business, but they also helped us manage cost, so extra rewards for that and recognition. It is necessary, we have to come to a sustainable business model also in such a situation that means to also address costs. In essence it not just reduces costs because we are too administration heavy, it also improves substantially the customer experience because at the same time that costs went down the time to yes in housing went from 30 to some 10, 11 days in Serbia. So it is not just about cost, too complex and people heavy environments are simply also not a good customer experience. So this journey continues. We talked about loan growth, I mean year to date something like 4 percent if you exclude NBanka is I think very impressive and of course we want to really keep riding that wave, as we explained we deliberately go here for market share, especially in retail. And yes, we sponsor it a little bit with let us say not immediately aggressively rising rates as my AML colleagues would want me to do, but we capture here clients and client relationships that will be with us for long term. So I think this win in market share especially in housing is extremely relevant also for the long term sustainable success. Capital, of course we are now a little bit in a tight spot because we immediately had to digest risk weighted assets of NBanka and not yet recognising negative goodwill, but of course with inclusion of negative goodwill we will be immediately let us say above our risk appetite again, visibly above and so in this sense we are in a good spot. Of course you all know that 100 million cash planned to be paid in 2022, so one 50 million already announced, the other 50 million coming up, I am still looking at cash, the high yield play on the Balkans, so yes there will be cash, cash yield coming your way as shareholders and it is all of course provided for in this capital, so this is already deducted. By that I pass on to Andreas.

Andreas Burkhardt

Thank you a lot. Hello and welcome everyone also from my side. Since we have a little bit wider audience today maybe 2, 3 sentences more than you are used from my side. So on asset quality, I mean we have a very well diversified portfolio which is to the large, large extent in our core markets, actually we have a split corporate retail 50:50. Here again on the corporate side half is bigger corporates, half is SME and on retail also very well split between consumer and mortgages. From the regional distribution obviously we are still big in Slovenia, so good half of the portfolio is in Slovenia and the next biggest market obviously is Serbia. If you see the growth in the first quarter then on the corporate side obviously here for a good part NBanka is contributing, on retail it is both NBanka, but also as mentioned by Blaž I guess our strong growth. On asset quality Blaž also mentioned we are still improving, actually for these times honestly speaking quite impressive, Stage 1 portfolio remains very high. What you shouldn't be surprised is that Stage 2 is now flat because in the recognition of Stage 2 from NBanka this becomes Stage 1 because it is fair value recognition initially that is why in Stage 2 nothing is changing. Now asset quality on a different view, we have 378 million non-performing loans left, actually that is again slight decrease and obviously since we are growing percentage wise a decrease, but you see nevertheless 20 million more than at end of last year and that is obviously from NBanka and that is actually good news because that tells you that also here the size of the NPL portfolio from their side is very very small. If you see the coverage ratios and you are used to that they are very very solid and obviously no bigger changes from the last quarter. On impairments and provisions we actually build 4.4 million additional provisions in the first quarter, you see actually organically still releases, so again very successful quarter from NPL resolution also from off-balance items again. On the other side you see the one-time effect of 8.9 million from Sberbank that is of course to a large extent which you can also then see on the lower part due to the fair value recognition. Now just don't be surprised that cost of risk is minus 17 bips despite the fact that we have positive cost of risk that is from the one -time effect, so the 8.9 million because it is one time recognition distributed over the year and if you divide that by 4 obviously we are still slightly negative. So far to the figures. Before I am then handing back to Archibald actually maybe just a few more words, I mean we again are in very challenging times. You see sharply increasing energy prices, you see also strong inflation and obviously for a risk manager that is always something which gives you high attention point. I have to say so far it is almost too good to be true, I mean again like in Covid times we are very very carefully going through our portfolio and of course there are some attention points, but so far no negative news. As you probably also read we had some 20 million Russian bonds at the beginning of this story whereas something like 12, 12.5 million matured and were paid, so actually we are down now to 7. something million which is obviously also good news and otherwise no direct impacts from this region. But of course you know we have some clients which are working with the region, this is also very limited I have to say, but we have them. So far here everything goes regular. And for me I have to say first time maybe since I am in this Group a little bit higher attention than usual is retail, retail was always very very solid, is still very solid, we don't see changes, but of course you know consumers if the income is moderate and you go in the supermarket and prices are 20 percent up that is a stretch. So we will follow this very closely, we will keep you very closely informed, but I have to say also here so far everything looks very solid. I also have to say through the relatively big portion of the mortgage book we are also here very solidly covered, so if you create an NPL the next question is will you have a loss? Should be also very moderate, but so far I have to say we don't even create NPLs, so so far so good, but again a challenging year which after 2 years of Covid, I was somehow hoping that this would now fadeout a little bit as CRO, but we will keep it watching, but so far I have to say I am happy. With this thank you a lot and as I said I am handing back over to Archibald.

Archibald Kremser

I will be short on KB integration, you had a full panel on it. In short really good success story, the team delivered everything that was promised in time, in budget and I can just say thank you again at this moment to a lot of people that were involved both in Slovenia and in Serbia, literally hundreds of people working on it. I think what worked well for me personally is to keep really close touch with the key people in both entities, we had weekly call to sort out outside big formal meetings what needed to be discussed. So I think collectively we have created here something like a methodology path how to integrate. So we really learned as an institution how to go about such a project and we have partially codified this already, so we are really ready more or less apart of that team seamlessly transitions already including myself to integrating NBanka now and we will onboard a consultant and repeat the exercise. It is a bit emotionally tiring to run the whole program again, so the colleagues in Serbia can happily move on and I will have some fun in Slovenia. The roleplay, the role book or the playbook is defined as I said, so there is nothing to be invented here, we have really all dimensions covered. Of course IT is going to a bit more complex, you know that I help oversee the IT function together with Jiri our CIO and Bojana, his deputy. So we run of course now 3 core banking systems in Slovenia, so that is going to be tricky, we were just about starting consolidation of our own systems and now we get the third system. We probably will just accelerate the integration still into our legacy environment and then consolidate, but there is of course let us say technically a little bit of a more challenging situation than what we faced in Serbia because here we actually had the two core systems from the same vendor, so this admittedly helped of course and we don't have this luxury with NBanka, but otherwise this is pretty much now established playbook and as I said the key people will run this project again. By that I think Blaž are you going to cover it?

Blaž Brodnjak

Thank you Archibald. So Archibald said that some of these figures are not yet including NBanka effects because there are still some things we need to figure out obviously, but he was simply mentioning revenue dimension. 690 million guide in here is still without NBanka, so we are very solidly in 700ish territory as we speak. Details and more reliable numbers will be provided at next interaction, but in principle this is very robust revenue evolution and development. On the other hand still a robust asset quality which means cost of risk is not overwhelming, the books are in relative terms still improving counterintuitively, but being the case, coverage is even increasing, so good news from the risk universe. And I guess of course everyone is somehow questioning the decision of the Management Board and the Supervisory Board of the bank to suggest to the AGM clearly this at the end of the day shareholders decision right to hold actually a qualified discussion with you twice a year. We believe there is value in splitting dividend payments because by that you a bit reduce volatility of share pricing around dividend cut-off dates on one side and you keep more stable shareholder commitment. On the other hand we believe that in upcoming period there will be many opportunities eventually requiring also discussion with you is it still a high yield dividend play or is it a growth play? If these were more sizeable acquisitions this would allow to us actually and to you to actually discuss this in a structured way twice a year as an automatic mechanism not calling ad hock AGMs. This is a bit easier to predict, it is easier to plan. So one thing is to really have a bit less short term volatility around dividend pay-out dates and cut-off dates, on the other hand it is allowing us twice a year dialogue with our key stakeholders. We believe this is important, this is simply facilitating such a structured debate. If your will was different you could of course decide differently at the AGM. This is what we suggest, we see a value in such an operating mode and simply because of that we have suggested it this way. Our commitment for 100 million dividend pay-out this year is here, it is provided for in capital, this is something we can open and clearly explain. So that is why I think it was necessary to explain the suggestion a bit more, there are only these two reasons and nothing else, there is no other dilemma or whatever to be associated with it. So so far robust evolution, what remains to be a challenge is the delivery of oil and gas and of course this inflation pressure which we still need to understand in relation to how European and regional regulators would simply absorb this within their monetary policy. So this is a fact that is more or less impacting capital markets to the extent that we have not been able to issue yet the instruments, but we have announced we are working on issuance of capital instruments which would further strengthen the capital base on one side and would on the other side of course reassure that the dividend pay-out capacity is even stronger not impaired. Thank you very much, this was it from our side when it comes to simply presenting and introducing and now it is your time, you will have of course chance to raise any questions. Thank you.

Thank you very much gentleman. We already have some questions from the platform, but we will give advantage to the question from the audience. So if you have a question just raise your hand and just wait for the microphone. Let us go first to the first row, then the fourth row. Go ahead.

Sam from J.P. Morgan. Firstly thanks so much again for really eventful and successful capitals market day and congratulation on all the milestones you have delivered upon including first quarter results. So I have got a couple of questions on the results and then some clarifications on your guidance. Firstly with the NBanka transaction you have recognised nearly 173 million of negative goodwill, could you clarify what the fair value adjustments on the acquisition are given into results you were guiding? They could be as much as a 100 million, but it seems that actually they were significantly lower than that?

Archibald Kremser

So in short things were better than we conservatively when we announced the transaction anticipated, I mean we had very little time to run due diligence. We identified couple of question marks in this due diligence, we put conservative price tags on all of them and then we of course systematically ticked off these question marks and could with a lot of engagement, I mean these things don't resolve all by themselves, so we started to chase money all over the world from Sberbank places across Europe practically and most of these situations we could successfully resolve that is the short of it. In this sense it is a robust number this 170 plus. Of course there will be another go on it because we now run a full review on this number because we have to apply to ECB to recognise the capital also from the regulatory point of view, so there will be another test on it, but we are pretty confident that it will hold by and large.

Sam

And in terms of the capital impact when the ECB approves the recognition what at the moment, how much capital do you think it will add or where do you think your capital ratios may end up at the end of the second quarter? Not just because of the negative goodwill, but also anything you might need to do around RWAs or such like?

Archibald Kremser

Well it will be pretty much negative goodwill, we might also add Q1 because technically it is going to be Q1 result, a part of all of NLB d.d. Q1 if we consider that we want a bit more comfort. So I cannot give you a precise number because, but we wanted to be comfortably above all management targets, so we don't want to run capital stress. We also run a bit of MREL need obviously, we started to run MREL needs, so we might also just want to be more comfortable for MREL purposes and by that we will use this to position us comfortably.

Sam

Thank you. And then I have got just three question on the guidance on 2025 that you presented. So when it comes to the sideway you spoke about the pillars of growth to 300 million plus of earnings on the revenue side you mentioned loan growth and fee income without perhaps eluding to rates, so could you remind us what your rate expectations are, what the sensitivities are and is that indeed baked into the 300 million or not?

Archibald Kremser

It was originally with a very limited amount baked in, if you ask me if anything it has improved because by no means did we expect such a rapid change in the rates environment as we have experienced now in Q1, so if anything you know it is rather a bit on the upside, but of course we have to be careful because if this is not happening in a controlled way the feed in through Euribor, I mean Andreas eluded to you know we also run a bit of downside risks here and in this sense for the time being the base case is controlled uptick of the rate environment and that rather provides more upside.

Sam

Thank you. And then on the dividend commitment of 500 million in the next 4 years, could you just clarify how that sits what you have previously said about 300 million to 2023? So this is not an additional 500?

Archibald Kremser

No, it is not that high yield. So from the 300 200 are still due and that is the basis on which we add the 500 outlook. So in other words for these 4 years 500 to be paid.

Sam

Then final question 1.5 billion of RWAs that you think you could absorb is that based on the current situation or would that post any issuance? You said you were ready to go with Tier 2 and you would consider AT1, so is it reliance on issuance or is that the sort of?

Archibald Kremser

Depends a bit, you know if as Blaž said I mean if we were running any tight spot and wouldn't have the capacity from Tier 2 let us say, we currently have a lot of headroom for Tier 2, so obviously we would like to use this headroom and issue more Tier 2. Our risk weighted asset base has grown considerably, so we could issue, just that capital markets for the time being are not very much supportive to that. So in this sense I would rather see us doing the capital markets, be prepared for M&A and not be rushed into any other conversation. But that is the base case scenario, as you know situations can develop dynamically. We have got the phone call on Sberbank I don't know Friday, Saturday, so I hope next situation is going to be that spontaneous, but still situations can evolve fast.

Sam

Thank you very much.

Thankyou. Now gentleman in the fourth row.

Simon Nellis

Hi, thank you very much, it is Simon Nellis from City Bank and thank you for the opportunity. I would be interested actually in you elaborating a bit on your risk weight optimisation plans, I think your risk weight density is now 60 percent, where are you targeting in that going forward? Then also on the risk side you mentioned that the impact of new macro forecasts will only be in the second quarter, I guess given the challenges the global economy I facing what kind of IFRS 9 forward looking provision changes might be coming from that? And I guess in the worst-case scenario what would be the impact of some kind of immediate oil and gas embargo do you think? Maybe difficult one to answer..

Andreas Burkhardt

First of all on risk weighted assets optimisation, I mean what you can see is that equivalent treatment now we have in the meantime in three countries, this will only contribute over a while because in Bosnia for example what we don't have yet is we don't have insurances in many cases for the collaterals, so that knocks it out for the time being. Of course now the team are working on that so that will help a little bit. And obviously we will continue to try also on the other working steps on which we are working to further improve that but that will not be revolution that will be gradually. Now help me again with your second question?

Simon Nellis

That was on the risk cost from changing your macro forecasts.

Andreas Burkhardt

Yes, here obviously, I mean we only had 2020 extraordinary this booked already in Q1 usually, this is due in Q2 as you said and here of course I do expect the impact. So far as I was discussing with the team the impact should be less sharp than in 2020, so not a drama, but obviously visible. In 2020 Covid was simply something which, well such kind of impact that we didn't see for last 100 years, so it was a little bit hard to model. What we see now is of course very dramatic, but in a sense let us say more something which can be modelled. So far again impact should be less dramatic than we saw in 2020, but let us see, I mean the team is working on that. The very interesting question is your question number 3 I guess what happens if there is oil and gas embargo or the other way around actually, so if Russia would stop? I think the more sensitive question here for the region is the gas, Slovenia for example is largely depending on gas, there is dependency also in Serbia and so on. I mean what we are doing is we are in very close contacts first of all with corporate clients which are potentially impacted and here honestly speaking the two questions are very relevant. One is we see sharply increasing prices and this we see now already for couple of months, so here honestly speaking so far that for our clients has proven to be very manageable, so they were largely handing this on and we didn't see any bigger disruptions here. Obviously a bigger shock is to be expected if just suddenly someone turns the wheel. It is a little bit hard really here to work with a scenario because which scenario in that case would come? As far as I understand Slovenia has for example to stay with Slovenia very limited reserves, practically no reserves, so is depending from Austria from Austrian reserves and Austria on the other side is depending to a good part from German reserves and so on. So what would really happen, how suddenly would that happen? What would Germany do? Would Germany try to cover also these smaller markets or would they just try to cover for themselves? So here I cannot really help you with concrete number. Obviously we have to understand if that happens too ad hock I would expect solid impacts, but one thing and we saw this actually in the last crisis, so in Covid, one thing has proven to be true which is what I said then, so 2 years ago the very good thing with the companies and also retail clients here in the region is people are used to a lot of trouble, they are very creative and they are well educated. And what we saw in the last scenario is that in reality things turned out to be much softer than we were afraid of initially simply because especially companies found solutions and that is what I would honestly speaking to a good extent also expect here. What is a little bit higher tension point which for us as a Group of course is unusual is also retail, so that is not immediately just turning the wheel question, but if you see increasing prices, if you see further increasing energy prices however then energy would be supplied and if you have certain income and incomes in this region are still relatively moderate and you go in the supermarket and everything is 20, 30 percent more expensive, if your heating is getting much more expensive, the gasoline for your car and so on the question is how many of these clients would not be able to repay their loans anymore? Of course we are following this very closely and so far honestly speaking also from early warning signals nothing visible yet, let us see how that might change? This is of course for me at the moment let us say unusual high attention point. Least worried here I am in Slovenia because Slovenia is low indebted, households are low indebted, people are very conservative, they have savings, they are living a lot in owned properties. So these are all elements which if you ask me make it the smallest question in Slovenia, but outside Slovenia that might look a little different. Of course what is true actually for outside Slovenia much more than for Slovenia is that family as a concept where people keeping together still works much more than we are used in the Western world, so that should for sure also help here. And again we have a lot of mortgage loans, so on the impact then on our P&L it is still next question, but of course my first worry here would be the NPL increase rather than the P&L. So let us see, so far I have to say everything very controlled, but to an extent your question is the one million dollar question which I guess no one at the moment can answer in a simple way.

Blaž Brodnjak

The real question is what would be a systemic support? In Slovenia you have seen through Covid through governmental measures so much support that people have actually pilled up the savings. And we saw now in Slovenia immediate reaction was regulation of pricing, so the government simply started regulating oil pricing, so suddenly fuel was 1.5 Euro fix for 3 months. So this is happening and Slovenia can it seems afford it, other countries not necessarily have this firepower, but improvisation capacity Andreas is talking about is enormous. You know these guys have been used to continuous crisis of this or other nature, so we would see them resourceful to overcome the situation. And of course the real question is is embargo at all, full embargo at all realistic because some of Eastern Europe countries you know might be suffering a lot and then would simply condition it with support from other core countries of European Union.

Simon Nellis

Thank you.

Any more questions from the audience? You just need to raise your hand and we will provide you with a microphone. First row, just a second, microphone is coming.

Mladen Dodig

Hi everyone, Mladen Dodig from Erste Group. Thank you very much for picking Belgrade to organise your first investor day, I think that means a lot for the country and for the region and thanks for all the promotions you made for Balkan countries. Just one question first, a small one, are there any new rumours from Constitutional Court decision on Swiss Franc?

Blaž Brodnjak

We expect 6 months to 2 years for them to rule.

Mladen Dodig

I heard yesterday 3 to 9 months, so obviously everybody has its own opinion.

Blaž Brodnjak

I believe there should be no other outcome than annulment, but of course we will know when we know.

Mladen Dodig

In the light of today's rate hike by Serbian Central Bank, so 50 basis points to 2 percent, can you remind us, I think you spoke about it in the pre-earning about the structure of your portfolio which is exposed to variable rates? Can you remind us, I think you spoke about one billion, but I was not sure whether this is only for Serbia?

Archibald Kremser

On Group level we have something like 3 billion give or take variable Euribor linked.

Blaž Brodnjak

So more variable on asset side.

Archibald Kremser

Of course there was a shift a bit to fixed in the last years, so this number has gone down a bit and the housing production in Slovenia for example good part was fixed because people wanted to lock in these low rates. Serbia in particular, I mean the colleagues will now better, but again the variable space is very much the Euro linked business, so the corporates are borrowing in Euros Euribor linked, again not necessarily local rate linked, but of course Dinar liquidity is here the question and consumer lending I think is a fixed business mostly at local currency. So I don't expect a lot from Serbia, I think Serbia is very prudently managing its macro position, I was in Kopaonik the other day and I listened of course very careful what the Finance Minister and the Governor had to say and to me it was very I mean reassuring, this is a very big picture, long term view managed situation and so far it was very successful, so I have a lot of confidence. The biggest priority of the Finance Minister if you remember was to achieve triple B rating for the country which seems ambitious now, but it tells you that there is a lot of thought process around how to manage the macro environment in a non-disruptive way which I think for us is the most important thing.

Mladen Dodig

Thank you very much, congratulation on the result and all the milestones made.

Blaž Brodnjak

Thank you very much. Maybe just adding, we have been investing liquidity reserves in for example 10 year Slovenian bond a year ago at minus 0.3, now it is plus 1.8, so it is repricing also liquidity reserve book gradually. You didn't see the rebound yet of the margin, but this will significantly impact the margin on the go.

Any more questions from the audience? If there are none I would switch to questions which arrived through the platform. So gentleman, we already broke our timeframe, but let us try and be concise. So first question Serbia's energy dependency on Russia, have you modelled potential energy shock scenarios on your loan book?

Blaž Brodnjak

I guess Andreas responded.

So we are going to skip that one. So how are you viewing potential impacts of inflation which has ticked up considerably in other countries in CEE?

Blaž Brodnjak

I believe we touched this one as well just now. So as long as there is moderate uptick of the interest hike, I mean one thing is of course non-Euro, but if you look at 15 year average of Euribor before actually negative experiment it was 2 percent. So in 2 percent Euribor level it would not introduce overwhelming credit risk for our clients and would significantly improve profitability of the bank. So moderate hike is absolutely in the interest we believe of normalisation of specific elements in the way that average cost of capital calculations in any of the business models because negative expectations from the banks or you know zero lending rates are not normal.

Thank you Blaž. Let us move on, Komercijalna Banka discrepancy between net interest income and loan growth, can you please explain the year on year growth of interest income of 3 percent year on year versus loan book expansion of 17 percent year on year?

Archibald Kremser

So very technical, but of course one part of the answer is dynamics, so loans start contributing over time and a lot of the loan origination came from ZIB and there was a bit of heaviness on second half of the year or even last quarter as I recall. So it is a bit of a timing question. And there is a technical dimension as well in the fair value consolidation in the Group versus the standalone result and for this one I would really refer you to the detailed disclosures which we will of course provide to explain this in more technical details.

Thank you Archibald. Do you stick to your 100 million Euro profit target in Serbia?

Archibald Kremser

Yes, I think we have been loud and clear on that.

Then let us move on to the following considering we answered this one already. So pressure in the region on banks from politics, regulators to expect like in Hungary, Poland given sharp rate hikes there?

Blaž Brodnjak

Well we have been discussing Serbia, other more or less countries so far are practically linked to Euro, I mean practically fixed rates and solid reserves to actually maintain the situation. We have seen Swiss Franc experiment which didn't come from regulator, but from the legislator and it is now with the judicial system and this was a surprise, there might be such populistic surprises, but at the end we believe in sanity and we believe it would not prevail. Rate outlook in Serbia, I mean we touched a bit.

Archibald Kremser

Here the Central Bank has excellent publications on their website, I think they are more qualified to provide guidance here. My expectation from what I said before this is a very forward looking and responsibly managed macro policy for FX stability, rates stability, FX reserves stability, so they really cover all dimensions very thoughtfully.

And let me just check whether we have some additional questions from the platform? No that is it. Gentleman, thank you very much.

Blaž Brodnjak

This was it for the webcast, so I would still have a wrap up short address later on, thank you very much for attention and guys online, next time hopefully we see you live at the investor day. Thank you very much. Now it is very interesting piece because we will host now three special people, don't run away, three special people for half an hour and then we finish. Thank you very much.