NLB Group

First Quarter 2023 Financial Results

Conference Call

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OPERATOR: Ladies and Gentlemen, thank you for standing by. I'm Konstantinos, your Chorus Call operator. Welcome and thank you for joining the NLB Group conference call and live webcast to present and discuss the First Quarter 2023 financial results.

At this time, I would like to turn the conference over to Mr Blaž Brodnjak, CEO, Mr Andreas Burkhardt, CRO, and Mr Archibald Kremser, CFO. Mr Brodnjak, you may now proceed.

BRODNJAK B: Thank you very much. Good afternoon, everyone, and a warm welcome to another quarterly presentation of NLB Group results. Let me draw your attention to the regular disclaimers, and move on to what we're looking back as something which is very good. We continue with very solid performance of the fortress balance sheet, as we have been more or less been positioning our business throughout the last decade is now crystalising its value. We knew sensitivities upfront, we knew certain positions upfront, and we have weathered through the just recent turmoil with a very solid position. In this respect, we haven't eaten into the capital significantly, we have actually been performing very well in all dimensions, continued with the long growth, especially in retail.

Announced guided mid-single-digit growth has been happening in front of our eyes. There's been a bit of a short-term drop in corporate lending, given the fact that the energy sector companies, that really needed the liquidity support in the last quarter of last year, have repaid this support. Which is also a strong signal of strength of the energy sector in the region. By that, we believe we are well on track in both segments, as said, expanding financing to households and businesses of the region. Of course, this has been happening now in a different interest environment. We have continued with very ambitious activities when it comes to fee origination as well and this has been evidenced now and recorded with very solid results of the First Quarter.

In terms of net interest income, in terms of a bit moderate pace of growth of volumes, of loans and fee products, but overall, this is resulting in a very robust top line. The Group has continued with very disciplined cost management. If we sterilise results for one-off restructuring charges, we have been in a still very high inflationary environment very strongly controlling the cost development and erosion. And, by that, delivering solid top line on one side, and of course the bottom line on the other.

This has been further supported by very, very solid asset quality, so high diversification of risk and some underwriting criteria have again shown that the balance sheet of the bank has been positioned very, very well. That the credit risk has by no means been a sizeable risk category, even in such terrible times as we've been evidencing. On the other side, this is based still on a strong macro. Despite what you may read globally, this region has been growing in real terms solidly.

If you look at Slovenia, we have had a record level of employed people and the lowest level of unemployed people in the history of the nation, practically since 1990. In this respect, of course this is strong support to the, first, soundness of the finance of households and businesses. On the other hand, the impeccable repayment discipline, very, very good output in terms of the cost of risk. There has been a slowdown in real economic growth, but if you compare this to the European Union average and European Monetary Union average for both Slovenia and the region, we are still in a very good position. We are now coming from a very strong robust growth in Slovenia in 2021 and 2022, where Slovenia regained its position of the more successful transition economy with region 92% in terms of GDP per capita in purchasing power parity terms. And we see further stronger growth than in the core European Union, so Slovenia is catching up quickly and other countries in the region are still riding the wave of still-solid first order books of businesses.

And, on the other hand, now a pretty stable situation when it comes to being able to procure energy, and procure this energy at much more reasonable terms than last year. The producers, especially the industrial part of the economy in Slovenia, has been able to a significant extent, pass over the energy pricing pressures to the offtake prices. And, by that, obviously creating strong cash flows and this has been leading to the best year in history when it comes to the profits. In the First Quarter of this year we see kind of a slowdown compared to the last year, but this is still at pretty high levels when it comes to the total output.

In terms of other important developments, NLB has continued with the focus on the entire landscape of so-called ESG related matters. Sustainability is in the forefront of what we have been doing. In this respect, we have been working on now already published framework of the green bond. The funding position of the bank has been very, very strong, sitting on a significant cushion when it comes to liquidity, but of course communicated already, have been communicated for a while, that we have been working on the issuance of Senior Preferred bonds this year, and we have been in pretty advanced discussions. Actually, we have a high ambition to label this, clearly not only label, but of course deliver upon the promise from it, by green. Which means that this €300 to €500 million Senior Preferred Notes that would come to the market still preferably in the second quarter, so in the coming weeks, would also be the first ever in history with a green address to it and labelled to it. By that, further cementing our commitments in the direction of green transition within our region.

We have just convoked the General Assembly. That’s going to probably take place on 19 June, at which we also announce the payment of the first instalment of the dividend. We’re sticking to what we have been communicating so far, a combined dividend of €110 million, of which 55 million to be payable in June and the rest towards the end of the year. By that, we keep the momentum in being able to address the shareholder base twice a year. I will wrap up with the outlook, at which I will explain also our capacity to address eventual action opportunities. In this respect, it might be worthwhile having the opportunity to talk to the shareholders more frequently in the upcoming period.

By that, I will pass over to Archibald, who will guide you through the details and then, later on, Andreas, to the asset quality matters. I will then resume and sum up at the end with the outlook.

KREMSER A: Thanks, Blaž. I'll keep it relatively brief because many of these slides, especially on the macro, not much has changed. Blaž indicated that things are stable across our region on pretty much all countries. You see the growth projections, they're a bit slowed down, predictably. You see a bit higher inflation rates throughout the region. Slovenia seems also a bit elevated relative to Europe, already on a pretty solid path downwards, as the rest of Europe. In the region it might stick around a little bit longer, but overall we're very comfortable with the macro situation, and that's of course the context for us operating in a safe environment.

You see the general trends are stable, fiscal positions maintained responsibly, and currency and currency management throughout the region stable and for us predictable, understandable. These things are managed rationally and for us that’s an environment in which, as indicated, we thrive. We remind you that overall, economies are, broadly speaking, still on moderate leverage level. And, importantly, these days LTDs, as you see, are moderate, even compared to Europe’s standards, and these are system levels. Our bank no different than in some markets, indeed even stronger.

This is an environment we like. As was mentioned, long growth has somewhat moderated and that’s okay. You see that longs are flat, deposits are flat. Q1 120 million profit after tax, so that’s obviously a very, very strong result. We are well excited to be able to present this result, it's positive in all dimensions. Revenues are up substantially, rates playing a significant role, we'll come to that. Fees still are rising, also on a quarterly basis with moderate growth. Don't forget, there's a bit of switchover from fees to rates still playing out. And, with this result, fundamentals and KPIs are just stellar, I wouldn't put any other name on it. All this on the back, as Blaž said, of very, very strong and robust balance sheet, so strong liquidity, strong capital. These are things that in this environment, frankly, matter. We’re very happy and privileged to be in that position, we don't take it for granted and, of course, we work every day to keep it like that.

On rates, as was mentioned, the trends that were starting to visibly show in Q4 are now continuing and it's pretty much predictable and transparent from our point of view, also for outside investors. We, of course, will start to pass on some of these rate increases to customers. We want our customer base to remain stable and loyal to the bank, to the franchise. We in the meantime offer a healthy mix of terms and sides. On terms you already get better rates, depending of course a bit on the particular situation in particular markets, but for us it's important to keep this kind of a fair and balanced equation and, ultimately, customer loyalty is something we value. In that sense, you see a bit of deposit pricing so, in essence, prices go up on Group level Q4 to Q1, from something like 10 bps up to something like 20, 25 bps up, so there is a repricing dynamic playing out.

That's something we are happy with, as mentioned, this is just fair to our customer base. These days, deposits are very much valued, not just by us, but also by competition. We are here clearly also trying to keep up with our competitive environments. Nevertheless, interest margins are now visible above 3%, so that's an environment in which banks thrive. In that sense, also our incremental costs incurred with quite visible capital market activity last year and, as Blaž indicated, to continue. We are now clearly on the path to reap the benefits of ten years of solid underwriting, being in the market, having a loyal and strong retail and corporate customer base, and now it shows. Of course, it's showing in all dimensions. Fees, as I mentioned, continue to grow, also a bit moderate. If you look at the fee commission year-on-year comparison, as I said, that's somewhat understandable with regards to the conversion from some fee to some rate revenues. Remember we had still, up until not so long ago, corporate deposit balance fees, but all of this is gone.

Also, to comment briefly, we have recognised regulatory charges in quite visible amounts in Q1. That is not a recurring cost, this is the dynamic of cost recognition, so these costs will not show up in subsequent quarters. Costs are an overlay of recurring costs, and of course we an inflation dynamic also in our cost base. Then the restructuring charges, as was mentioned, plus ongoing continued efforts to synergise, both in Serbia and Slovenia. These developments are not finished and, in that sense, with this Q1 number we are pretty confident that we will be able to keep guidance as published already. And we continue to do our homework in both markets, I mentioned Serbian integration is finished, but efficiency work is not yet done. And in Slovenia, we are still in the midst of an integration process.

While profitability is very, very strong these days and we are really privileged to be able to present such numbers, so not much to be added here. Also, the different markets, very well-performing. Every market is really showing good trends, in particular Serbia. If you see the dynamic, then you will understand that our published 100 million ambition is not so much off.

Loan dynamics we mentioned, pretty good, solid performance in individual segment, retail. As Blaž said, in essence, good repayment dynamic because the energy crisis is largely gone and then digested. So, in that sense, some of the money that we extended to the sector game back. But that’s perfectly fine and you see our subsidiary banks pretty much on target with regards to growth in an environment like that. We are, broadly speaking, very happy with this dynamic.

Capital, not much to say. We had a bit of a reverse of some of the securities valuation, some 20 million came back on OCI. On the other side, we had to expire, or retire, the benefit from the regulator on some of that, so that’s a one-off reversal. In that sense, we are still hovering around 19%, so very strong capitalisation. Of course that’s a function of us having been quite active in capital markets last year. Remember, we had 300 million in combined Tier 2 and Tier 1 that shows now and underlines our fundamental strengths. And what we like to call the fortress balance sheet these days, it's just a good thing to have, for many reasons.

On the funding side, you see our somewhat fragmented universe, and we will going forward work on consolidating this position, especially the Tier 2s. As they become callable, we will look into ways how to consolidate them. In the meantime, as was mentioned, we are on the road with the green bond and we said we will comfortably meet our 24 target. Ideally, we'll raise up to 500 million, to give us some room for manoeuvre for tactical M&A.

On the banking book, on the securities portfolio these days, everybody is looking at what’s going on. We are, in essence, as we've always said, very conservatively invested. You see here investment grade plus our own sovereigns, with valuations that clearly show the result of a record increase in rate environment observed in the last 12 months. But nothing we can't comfortable digest, so there is really nothing remarkable in here, other than we were conservative, we are still conservative. And in that sense, for us it was quite a dynamic year behind us, but our balance sheet easily digested whatever happened. With that, I'll pass on to Andreas.

BURKHARDT A: Archibald, thank you. As heard from both colleagues already solid underwriting, so thanks for that. But, indeed, I have to say the first question from risk perspective was actually excellent. You saw it already quickly in Archibald’s presentation, above €18 million of loan loss provisions we were able to release. That's coming a little bit from all sides. We were disposing of the remaining Russian bonds for much lower discount than we were anticipating. We had some solid repayment in the energy sector of contingency lines, which, with these price levels, are not needed anymore, you heard that at the very beginning also from Blaž. Then again, a little bit more than 6 million from off-balance items, so overall, a very good quarter. Some positive surprises, no negative ones.

The next slides are in the meanwhile quite familiar with you. This one, dispersion between corporate and retail and the geographical dispersion, no surprises. The only thing you can see here in corporate, a reduction of some 140 million in total exposure and that’s related primarily to what we just said, Blaž and me, that’s the repayments in the energy sector.

Very well diversified portfolio, also here no revolutions to this overview. You are in the meanwhile also used to the focus on manufacturing and trade. But if you go here deeper, also well diversified and no real surprises. On NPL ratios, still continuing to decline, albeit at these levels now slowly declining. From 1.8 in December to 1.7 end of March, that is in euros €320 million on balance NPLs, where a little bit less than half of it, 149 million, with zero delays. Also, with this, you're already familiar, these are primarily restructured cases which are not yet through the healing period, albeit very well covered. Also, geographical dispersion of these NPLs is in the meanwhile normal. Previously we saw some over average here in Slovenia, simply because we kept the non-Slovenian part originally in the beginning of 2014, but that's fully normalised.

In the meanwhile, and what we added last year because it gets more interesting, is two slides on interest rates. What you see here, if you would compare with previous presentations, is that we have a trend towards fixed, not very surprisingly. That’s especially true for consumer and housing, both here in Slovenia, but also in the rest of the Group. When we’re talking about the variable part of our exposures, what you can see with this, we explained also previously already, because our interest rates here change every three or six months, depending on the EURIBOR. Mostly, the biggest part of the portfolio, by at least three and six months, there's always a little bit after-effect. In reality, on top of the bullish development on the income and on the margins, this tells you that in this environment obviously still more to come.

That’s from my side. Thank you and I'm handing back to Blaž.

BRODNJAK B: When we’re talking about the outlook, clearly we can say that we took some time to revise the reality, we have been performing significantly north of what we’re expecting for this time of the year. In this respect, it was simply responsible to review these communicated guidance targets and, in this respect, produce a set of them that we believe are much more reasonable and representing what is actually happening. It's almost half of the year gone and, in this respect, this is of course good news.

This is all good news for investors. We are seeing this business position now more solidly, when it comes to top line origination capacity, so exceeding a billion. Already this year more or less reaching almost a billion, but then in the upcoming years anticipating further normalisation, this time a bit down again, of the interest environment. But of course, growing the business and, by that, being able to deliver the top line, that is significant hard and expected. On the other hand, keeping the discipline when it comes to the cost management, delivering on synergies through both integrations that have been pending.

And especially the upcoming years will be the years of focusing on process efficiencies and improvements all over the place, end-to-end, and further push on digitisation. We believe that overall results, and there have been discussions and dilemmas when and whether NLB will reach 50% cost/income ratio by some investors, but we are very close, if not over-delivering below 50% cost/income ratio.

On the other side, the returns, both the normalised and the actual reported ones, are significantly better than expected, so we are looking at more than 18% outlook for this year and in the upcoming years even up to 20%. We have been moving this bank to the 400 million net profit ballpark, even more in the upcoming years. The internally originated capital through expected profitability is leading to even more capacity to consider eventual technical M&A.

It is, on one side, facilitating for organic growth, but it's seen a bit tamer development here, so we still stick to the mid-single-digit volume growth of both retail and corporate books this year. On the other hand, this leaves significant room them for even a bit more ambitious thinking of potentially acquiring businesses within our home region landscape. In this respect, we have been talking at around 2 billion capacity, now we are actually talking about around 4 billion capacity, which is very good news for us, believing that we can significantly increase the volume of our operations in the upcoming mid-term period, which is in the interest, on one side, of further robustness of this banking Group, further poisoning of this Group in this region. But also, it's good news, we believe, for shareholders because simply growing capital base at even the same volume of shares, automatically leads, in principle, at a certain point to normalisation of valuation.

Of course, higher liquidity hopefully bringing this banking Group closer to the emerging market perception. This is something that is our goal in mid-term and we have been acting in this direction. This means that we will be engaged in terms of actionable pending processes. Be it in Slovenia, when it comes to potential leasing, as has been announced, that there might be a transactions. And of course, we have been closely monitoring developments in other core geographies. As soon as there might be actionable assets, NLB would analyse the opportunity and potential EBIT. Currently there is nothing we can speak of concretely, but once this might be the case, we would properly follow rules of disclosure.

Overall, just to sum up, we are in very good shape. NLB is very likely in the best shape ever in history and the ten years of hard work on positioning the business in terms of target segments, target products and capital buffers and liquidity position, and high diversification of the funding base and high diversification of the asset base, is for this time simply the best possible. If we compare our business with peers, both in terms of betas, both in terms of deposit stability, dimension of diversification of risk on both sides of the balance sheet, we are really fairing fairly well, if not standing out. That's something I think is a very important match on top of financial performance. Financial performance is clearly very good, but also the strategic positioning of this business in terms of commercial activities, but also the expected deliverables from the structure, it's simply something that provides significant room for optimism for the upcoming mid-term period.

Given that, the management board and the colleagues in the NLB Group have decided to this time, when publishing these good results and strengths, also try to give some of this success back to society. We will in the upcoming weeks, together with our employees, who will suggest and then vote for the recipients, donate €1.35 million on all our markets combined to people in need. This time, these donations really go to the ones in social, health, handicap distress. And by that, we simply want to and will act as the responsible systemic sub-pillar of our society.

We believe that this is a very important gesture. It's not just only about us being highly successful in monetary terms, but really impacting the environment. Besides our clear focus on the ESG sustainability when it comes to climate change related and green transition related matters, we believe there are still in this part of the world many society related matters and inclusion and governance related matters, on which we focus equally, passionately. In this respect, I can express my utmost pride of my colleagues, that we have jointly come to this conclusion, and will communicate in due course who the recipients will be.

By that, thank you very much for listening and now we are open for any questions and comments you might have. Thank you.

Q&A

OPERATOR: The first question is from the line of Sikimic, Jovan with RBI. Please go ahead.

SIKIMIC J: Hello, guys, congrats on strong results. I have three questions, if I may start with cost of risk. Those releases haven't happened, so it's hard to predict them. But given the huge amount in Q1, you're in fact just a bit narrow to the cost of risk guidance for 2023. If we imply the rest of the year based on that, the current mid-point of the cost of risk guidance, it would imply 50, 60, maybe even more, additional provisioning for the rest of the year, which is equal to the pandemic year. It is really realistic or you simply want to stay conservative on that front?

BURKHARDT A: That’s a good question. As the CRO, I'm tending to be a little bit conservative. You have to see we are living in a highly volatile environment. So far, I have to say there are no specific clouds on the horizon, so position is going very regularly, with these exceptional items which we had in Q1. So, you might say it's a little bit conservative. On the other side, it's a highly volatile environment and you have to see if two, three mid-size to bigger clients would get into trouble, which we might not have foreseen in that way, this cost of risk, if you translate it in million euros, that’s not exactly a huge manoeuvring space.

That was also, by the way, a point we were discussing, but if you ask me, at that point of time to predict, 30 to 40 bps cost of risk for the whole year is not overly conservative, but is for sure careful, given where we are at the moment.

SIKIMIC J: Fair enough. Have you describe somewhere, I didn't get it in the presentation, about commercial real estate exposure, given all these unpleasant events in US, can you say a little bit on that?

BURKHARDT A: Yes, I was almost expecting that question. First of all, we have to define what commercial real estate is. There is a definition here in Europe, which is simply a regulatory definition, so reporting to the European Central Bank. This commercial real estate is simply the real estate which is not retail. So, residential, to say it simply. And, of course, we have here a sizeable amount of collateral, but you have to see that the bank is only very, very selectively doing what you would probably call asset-based lending.

In most of the cases, the analysis of the corporate client in the way we are giving loans is not related to the collateral. The collateral is a comfort element, but the repayment source is the business quality of the client and not related to this concrete real estate. Insofar, if you take that figure that's a totally unhelpful comparison because it's just a reporting line to the European Central Bank. If we're talking about commercial real estate in the sense of shopping malls, in the sense of offices, in the sense of, for example, also wind parks, our exposure is below €300 million and we face zero trouble for this part of the exposure. The reason is also relatively banal. Shopping malls in this region are booming, people are coming to the office, offices are needed, and wind is there, so wind parks are working.

Of course, you always see a little bit ups and downs with this or that concrete client, but again, we don't have troubles, we don't have delays, and we are also selecting these clients very carefully, so usually they also have other repayment sources than this concrete project. Overall, so far that's a very limited part of our business, but I have to say that's the content answer. The formal answer is related to reporting in line to ECB, but this is a completely different dimension, and you mentioned it actually correctly, than what we're discussing currently or what we would discuss in the US.

BRODNJAK B: Frankly, office space is immaterial. We have a couple of commercial centres, but this is big capital cities of the region and they don't have an abundance of that. On the other hand, we have a couple of hotels, but these are centrally located hotels in capitals, again. When it comes to materiality of it, office space is practically immaterial. And these are the biggest concerns, given the remote work concerns.

SIKIMIC J: Yes, of course. Thank you. My last one would be, if I may, I think you booked some provision against potential fee reimbursements in case of early repayment. Is this a one-off nature or should we expect it more going forward?

BRODNJAK B: We, from today's perspective, believe it should suffice. This is coming as a fallout to the so-called Lexitor case, in the European Union, whereby you're bound to return proportional fees in case of early repayments. This is going five years back and we have assessed that with this level of provisioning, this should be covered. There might be potential, in case of further need, this would be something that is palatable and should not significantly eat into the result, so it is palatable.

SIKIMIC J: Thank you, appreciate the answers. Thank you, bye-bye.

BRODNJAK B: Thank you, Jovan.

OPERATOR: Ladies and gentlemen, we will now move to our webcast questions. The first webcast question comes from Andre from HSBC, and I quote. Are there any signs of any potential adverse government measures, such as windfall tax?

BRODNJAK B: There is nothing concrete indicated, but there are versions of it. In North Macedonia, there has been a measure that did impact us, given last year's performance. There are some other announced in Montenegro, there are some mainly fee restriction measures. There are some central bank related placements, measures where some central banks are keeping intentionally very low interest levels, not following the ECB, so we call this a bit of a hidden windfall tax, but this is all factored in in our results. And what is coming incrementally, potentially, we don't see as really material, so this should be within single-digit million parameter. It's not something that will destroy the results from today's perspective.

OPERATOR: The next webcast question is from Ronak from Hermes, and I quote. First question, what is the NIM expectation for the rest of the year, given First Quarter performance and the further rate hikes by ECB?

BRODNJAK B: Two unknows, right. What will be further hikes, and whether and when we would see a retreat of the levels? This is a pretty difficult question. We have been pretty conservatively planning originally, that is why we've also been guiding conservatively. Our existing guidance does factor in that there would be a cooling of this hike at a certain point in time, I cannot be specific, but the margin as of today has still been growing. Because the rollover of EURIBORs is not finished and we have a €5.6 billion long EURIBOR position and we have that much money in central bank balances. When the next hike comes and what is the size of this hike, is a crystal ball question.

The other side of the medal is the deposits pricing, and here we are moving up gradually, responsibly, because we also expect retreat of the rate at a certain point. We do not now want to come to the situation that the rates on deposits side are exploding and then it's difficult to take these rates away from clients. So, it is also a moderated process, in a sense. I can't be really specific, but from today’s perspective, assuming there are, for example, two more hikes to come, let’s say 50 bps combined coming in the upcoming months. And then the retreat of rates is happening, let’s say end of Q3 or early Q4, gradually.

We would still see quite some time of margin at least being stable, if not growing. And then potentially going down again but supported by the volumes that will then pick up because this would been stabilisation of general perception of the environment. Is inflation manageable, even how we perceive generally some normal regulations within the society and economy, and some normalisation of economic policies, fiscal and monetary. In this respect, we feel we are in the sweet spot structurally, and we aim to keep margins fairly high throughout the mid-term period. Then, of course another crystal ball question, would then finally after retreating, new normal level of EURIBOR be 2, 2.5? Who has the answer to that?

KREMSER A: We tried to give you a handle with our 25 outlook. If you want, that's the mid-term view that we take. That factors in a number of all of these elements that you ask for, so from deposit betas, which currently are in the low-single digits or mid-single digits, but they will come conservatively into the double digits. Not high into double digits, but we will talk double digits. Then funding is still to continue, there are some rollovers we will have to look at, so it's a complex combined question. The simple answer is our 25 guidance that we provide, that I think gives you a reasonably good handle to get a sense of revenue dynamics, which ultimately matters.

OPERATOR: The second webcast question is, and I quote, the 5% Q-on-Q, quarter-on-quarter loan growth in Serbia. Was that driven by strong sector-wide growth or market share gain? And how sustainable is it?

BRODNJAK B: Generally, actually already before the integration, we've seen Komercijalna Banka growing quicker than the market, and this has been continuing. This is a bit to be attributed to the fact that we are running the largest network in Serbia and that we have reactivated the engine. We have brought quite some talent in the bank, we have introduced some basic KPI principles, incentivising sales activities. And this is happening across the board, so corporate and retail. In corporate it was really catching up because Komercijalna, actually we have moved out of the corporate sector almost from the bigger corporate entities in the country. We are returning to the positions and there are some anomalies expected.

And retail, we have reactivated the engine that sits on a very strong deposit franchise. If people hold accounts with you and trust you with their money, obviously you also want to sell them other products, and this is something that finally now is happening. We are really focusing on housing loans, we’re really focusing on cash loans and the teams have simply been successful. In this respect, this is something that we like, this is something that we expected. I called this bank when we acquired it a sleeping beauty and this beauty has been waking up now. It will wake up even more, in a more energised way.

This is something that is normal because if you have the market share of deposits of X and loans of half of that, it's simply a normal convergence process, if you just do the things right and you're simply competitive. People don't take loans in other banks, they seem to take them with you. If you have a normal distribution of client portfolio somehow resembling the society, then in principle you naturally converge the natural market share also on the asset side. That’s where you're growing actually quicker than the market, on average now. We expect this to continue throughout the mid-term.

OPERATOR: The third webcast question, and I quote, is, will increasing contribution from Serbia lead to higher Group NIM in the medium-term?

KREMSER A: We answered that question already, I think. What we communicate is a combined picture. I gave indications on all of the elements going into the equation. The 25 outlook is pretty specific, so you'll find the answers there.

OPERATOR: The next webcast question is from Nishad from Citi, and I quote. First question, where do you see most growth in international operations and why?

BRODNJAK B: That's an interesting question. We have communicated many times, we are focusing clearly on our home region, and we see a lot of projects coming our way when it comes to energy efficiency and renewable energy production. That's something that is now becoming really very, very actual throughout the entire region. We have been very interest in entering the Croatian market as well, which might be incrementally adding a significant pocket of potential placements. This is clearly a subject to the agreement between both countries and that's something that we believe the sentiment has come to the point that there is quite some hope that this might actually lead to a solution at a certain point in time.

General, we see with the reduction of the inflation and stabilisation of the environment, again a convergence gain of the region because this region have had, traditionally, significantly higher growth rates than the heart of European Union. By that, we simply believe there will be significant volume of opportunities, besides the energy-related projects, also basic infrastructure. This region still misses roads, still misses railways, still misses productive infrastructure, communication lines and so on. There will be a lot of infrastructure investment. Still the waste water treatment project, things that have been done some 20 or 30 years ago in more developed markets will now come with a big swing to this region.

On the other hand, when you grow the business, we are developing the economy, to a certain extent, clearly the average wages grow. And this has been a phenomenon now for a couple of years. Average wages have been growing, not significantly, also in other countries besides Slovenia. Which will enable people, households, really to start thinking about long-term savings products. Which means ancillary services to classical banking deposits, which is investment fund business, real asset management business, insurance, unit linked insurance business.

Besides classical lending opportunities, we also see a lot of opportunities for generating fee income simply by developing these markets to something that is half-way comparable to already developed markets. In this respect, there is a lot of room for us, delivering good results simply by being a good bank. Not innovating something totally from out of space, this is really simply delivering the businesses of the region and households of the reason, comparable products and solutions that has been the case in other markets already for some years. NLB is well positioned as a systemic bank in all of the current markets of our presence, basically. And significant networks with novel and really proven business model, especially when it comes to ancillary services offering in Slovenia as the hub, and of course then in other countries to pick up.

Overall, we believe there will be a lot of investment opportunities coming, especially from the infrastructural landscape, related to green transition specifically, as well. And, on the other hand, simply by pickup of economy. The economy has been growing and has been growing at rates that are significantly higher than the rates in more developed markets. If you look at the FDI volume in Serbia, it's still at the level of 4 billion, which is just money coming in. There is a lot of investment coming in.

OPERATOR: The second question, and I quote, is what deposit betas are you seeing currently?

KREMSER A: I mentioned before, we are in the single digits, actually mid-single digits. But, as we mentioned also before, we see this going up because we want to be fair to loyal customers. That means we want to offer attractive savings opportunities and that means these betas will enter double-digit territory. By that, coming back to the NIM question, the combined equation is still very, very strong, so we still see us maintaining robust NIMs. If they always will exceed 3%, I think is the question that you press us, but it's hard to tell, as many elements go into this equation, but it will be on a good, healthy level for the foreseeable future, and the 25 guidance, I think, is testament to that. That's the baseline message and that factors in some pickup in deposit betas.

BRODNJAK B: We try to stimulate people to think… Sorry, just to finish. Some time ago, we introduced products, a kind of investment pass. You deposit the money longer term, but you also place some money into the investment fund or other, alternative investment opportunities. By that, we stimulate that also with higher rates a bit, so it doesn't necessarily mean all of this money goes into longer-term deposits. By NLB d.d. on the loan-to-deposit ratio of 55%, we see a lot of room for us rerouting this money to alternative investment opportunities. Not necessarily meaning betas go sky high but meaning but meaning this money find other ways as well. In this respect, we are again extremely well positioned, extremely well positioned.

OPERATOR: The next webcast question is a follow-up question from Ronak from Hermes, and I quote. Does the regular profit guidance of €400 million in financial year 2025 include the potential profits from new acquisitions or is this going to be generated from existing operations?

BRODNJAK B: That’s standalone, it's not foreseeing any acquisitions. Acquisitions we never plan for because they are, of course, totally uncertain. And, as I mentioned, currently there have been no actionable assets. There might be a leasing process, but we don't factor this in in anything, until we are selected as a bidder. Of course, we will do then the business case and properly model everything, but we can't guide anything that is uncertain. It's totally uncertain or unpredictable.

KREMSER A: We are conservative.

OPERATOR: The next webcast question comes from Ladin from Erste, and I quote. Good afternoon. Thank you for the call and congratulations on results. You just mentioned Croatia, which by the way, had a nice First Quarter 23 lending activity, probably due to the switch to euro. Could you tell us whether there is some news on NLB entering this market? Any concrete details, potential triggers, upcoming events in that respect? Many thanks and kind regards.

BRODNJAK B: Thank you, Ladin, for the nice words. There is nothing concrete, we are just saying that we believe the sentiment is right and we have been observing some activity on both sides of the border potentially leading to removing the hurdle NLB still has to be confronted with when it comes to considering Croatian exposures. Be it in terms of cross-border lending, be it in terms of finding acquisitions. The upcoming months will tell us whether there is any real opportunity for us to enter.

I was just mentioning before that this would for us be, of course, a very reasonable new market. This is the GDP that is bigger than Slovenia and one of three big GDPs of the region, and a missing link, a bridge to other markets that seems to be offshore because there is no connection in between, although this was once a common market. In this respect, that's something we have high hopes for, but it is still uncertain. If you ask me personally, I see the biggest likelihood in the last 32 years, for something to come up. Is it going to come? I don't know.

OPERATOR: The next webcast question is from Andre from HSBC, and I quote. Why didn't Kosovo NIM increase?

BRODNJAK B: Why did or did not?

OPERATOR: Why didn't Kosovo NIM increase?

BRODNJAK B: Sorry, once again, didn't or did?

OPERATOR: Why didn't Kosovo NIM increase?

BRODNJAK B: Because it's high already. There are specific, regulatory related measures hidden there. We were mentioning central banks not staying up, still keeping rates at zero, and then of course you see the production mix and so on. And we really had in Kosovo very high rates, and that was a pressure of not being able to put them up even more. This was simply from consumer protection perception and regulatory and governmental focus is not something you can easily exercise in an already very high margin environment.

On the other side, clearly it was not assisted by simply central banks paying more. This is a specific temporary phenomenon we see there, but if you look at the total results and the output of Kosovo, this is very likely one of the best, if not the best, performing bank in the region with an ROE just shy of 30%, with cost/income ratio below 30%. And this was coming out of very, very solid margin levels. This is the answer, this is a very specific market and you would have to understand the specifics of this small, but for us very lucrative, market.

KREMSER A: And I remind you about our principle of remaining self-funded in our markets. So, deposit pricing dynamics are a bit different market to market, so in this sense, whereas in Kosovo, the situation is to some extent specific. This is a leading franchise in the market and it’s continuously being attacked here and there. To preserve this margin that we have would be already a very, very good outcome, so in that sense, it's a privileged position, as Blaž said, to protect as much as we can.

BRODNJAK B: This is the answer, basically. We had a very quick growth of corporate lending especially last year. This lead obviously to a bit of a liquidity stretch because we, as said, are keeping our subsidiaries self-funded. We are strictly following the multi-branch point in terms of also M&A requirement. By that, colleagues, of course, we're fuelling this growth with a bit of higher paid deposits. But generally, the margin is still very solid and this is incrementally still benefitting, adding to the overall output that we like.

OPERATOR: Ladies and gentlemen, there are no further questions at this time. I will now turn the conference over to Mr Blaž Brodnjak, for any closing comments. Thank you.

BRODNJAK B: Thank you very much for hanging in there and being with us for all of this time. We are on a good track. NLB, as mentioned, is stronger than ever. We not only are happy about that, we believe with the systemic business we have had the levers and drivers to actually assist this society to develop and thrive. That's something we believe have been demonstrating throughout last times and will continue doing. Amidst of the second quarter, we are happy also until now. I wish you all the best and looking forward to our next meeting very soon. Thank you.