



NLB Group
Second Quarter and 1H 2023 Financial Results
Conference Call

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Conductors:

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Conference Call Conducted by Chorus Call Hellas



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OPERATOR: Ladies and Gentlemen, thank you for standing by. I am Konstantinos, your Chorus Call operator. Welcome and thank you for joining the NLB Group conference call and live webcast to present and discuss the Second Quarter 2023 and 1H 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: To the semi-annual webcast. I'm first drawing your attention to the regular disclaimer, and then we will move to, of course these days, pretty complex situation in Slovenia. I'm sure you have all realised that we have seen historical floods.

The first message from our side is that the situation seems manageable, and all the real impact to the NLB Group is well within reason, and in this respect, we don't expect detrimental. Impact to the results? We will talk about that a bit later, with Andreas talking about the asset quality and myself then talking about the outlook.

But generally, we are looking at a strong set of results. We are improving the guidance, overall. And really, this is not something that is surprising. We are looking back to more or less strong performance in all client segments, in all geographies, in all product-related returns.

And this is, of course, partially a result of the interest environment. On the other hand, of course all the activities the bank has been performing throughout more or less now a decade. So, this is continuously simply showing and demonstrating strong results across the entire geography. We've seen, obviously, a bit cooled-down demand for loans, which is logical, which was expected.

We have been guiding for mid-single-digit growth rates, and we have been achieving mid-single-digit growth rates, right? When it comes to housing loan origination, we see a pickup in consumer loan demand. Corporate's gradually waking up. We'll see how that, now our latest actually weather phenomena will impact that in short-term terms, but in the long term, we would expect even accelerated investment now, given of course the impact on the equipment and, of course, also the stock and so on.

So, in this respect, there will be a lot of working capital financing needs. There will be a lot of replacement CAPEX, partly of course covered by the insurance, but partly of course, where the creditworthiness allows for it, also by the banks.

Slovenia is in a very strong shape, as a sovereign, as a country, and will be able to support the economy by various measures. So, we've seen two really distressed situations, first corona and then, of course subsequently, other phenomena jumping in and hitting. And in principle, Slovenia has always acted very responsibly, has had firepower on the one side when it comes to subsidies, when it comes to subsidising the waiting-for-work statuses, other

short-term subsidies. Slovenian Development Bank also is standing behind, and as I said, the banking system being strongly liquid, strongly capitalised, and more or less in daily contact now with the companies and households.

So, overall impact is absolutely manageable. In this respect, we also are looking back to what was, of course, a result of the continuous and consistently applied focus. So, a strong focus on the sales activities, but of course, also very focused underwriting criteria applied, now being demonstrated in front of these various phenomena. And in this respect, simply showing the resilience of this book and showing the resilience of the whole business.

Capital has been in a very good shape, so the liquidity indicators have been still continuously very strong. What we're happy about is, there is growth of retail deposit base, it's very sticky, and we've seen of course all the support from the economic environment, still. So, we have been talking about the real growth in the entire landscape, and at the end of the day, it is what we've been doing throughout the last period, also through our extraordinary measures such as, of course, issuances of instruments.

I'm specifically proud of us pulling off the first-ever €500 million ESG-labelled bond, which will be of course strengthening and fulfilling, basically entirely, our MREL requirements on one side, but really demonstrating a very strong commitment of NLB towards sustainable development. These funds, these proceeds will be, of course, used strictly for upfront-envisaged purposes, in terms of, of course, improving energy efficiencies and

consumptions in terms of, of course, renewable energy production and other measures that can be properly eligible within this framework.

We have put in production a couple of new services. We are now in our more or less final stage of fully replacing former e-platform, e-banking platform for the retail clients in Slovenia, which is more or less a generic name for this service in Slovenia, called Klik. And also, the mobile app that is also replacing more or less the very successful... So far, it's one, but the new times are, of course, requiring new levels of user experience, and in this respect, we have been moving on.

We are in the final stage of integration, so September 1st is the first day at which we will have one bank in Slovenia, fully merging NLB and N Banka. And I will wrap up this part of the presentation with NLB obviously standing by, strongly, behind our society in the whole region, so the Slovenian weather distress has been addressed by a proper €4 million one-off donation to the most stressed municipalities. And by that, we simply show that we are the responsible pillar of this society.

By that, I will pass the word to Archibald, to talk about macro and performance details, and then Andreas will also address asset quality, and I will wrap up at the end. Thank you.

KREMSER A: Okay, thank you, Blaž. Welcome from my side as well. Maybe just to add to the previous segment, we are of course in full swing in the preparation of the integration of N Banka.

This is going according to plan. It's, of course, a very challenging, ambitious project for the whole bank, in Slovenia in particular.

We have reached ECB approval for this merger, and we look forward, actually this weekend starts another dry-run, as we call it, and we look forward to a successful merger beginning of September. So, this is moving according to plan. Regarding the macro, I think really not much to be said. This looks pretty much like a soft landing, in our region as much as in the eurozone for now, which is I think what the banks envisaged, to tame inflation. So, we see this playing out, I wouldn't say textbook, but pretty much according to what is envisaged.

Our region, Slovenia, but also our subsidiary markets, still show economic resilience, starting from a fiscally strong position in particular also in Slovenia, which of course for the dramatic event that happened recently, is of course a good starting position. Overall, we see the economic environment still supportive to moderate loan growth, which is what we see playing out, and as Blaž mentioned, we still look at single-digit loan growth.

Q2 was a strong quarter, clearly, by all means. We have moderate loan growth, as was mentioned. We have a strong and resilient deposit base, very important, we'll talk about it as well. Obviously, the rate dynamic is supportive to the rate revenues. You still see a positive dynamic in Q2, obviously pretty much a result of the ECB action and our variable rate book, especially on the corporate loan side.

And you see recurring results, pre-provision, at almost approaching €150 million. That is, for sure, a very solid quarter, and pretty much in line with what I would call now a two-year revenue outlook, as we come to outlook later. That's pretty close to these numbers, and in that sense, we might see something like a peak or at least a plateau-type of revenue and results environment for the time being.

You see, in essence, strong indicators. Not to dwell on all of them, but clearly by all means, margins are very robust and probably a little bit above historic average. And in that sense, we saw deposits repricing, funding costs kicking in. We will also see a bit of a levelling off of this, and obviously ECB rates are supposed to come at some point.

So, going a little bit into the drivers itself, you see, as mentioned, a pretty dynamic NIM expansion. And as explained in many previous calls, this is, of course, a function of our strong cash position, which of course now sits with a well-remunerated ECB balance, plus of course a variable rate book.

And in that sense, this is, I wouldn't say a linear equation, because we also have our deposit repricing, we have of course wholesale funding costs, which in our view are still abnormally high, and we have to absorb quite significant MREL funding volumes. We'll talk about that.

Blaž mentioned our €500 million benchmark bond. So, all this shows up also in margin and campaigning margin expansion, also further margin expansion. But still, by all means, these are very robust and strong numbers.

On the fee income, we, in essence, see a moderate dynamic, but that's perfectly understandable and fine. We are, of course, also not aggressively repricing in these days, so the prices are kept moderate, also to not further increase inflation pressure. And in that sense, these developments are expected and, from our point of view, also acceptable. On the cost side, we see still a couple of overlays from the integration process of N Banka, as mentioned, on the one side.

On the other side, as also in previous calls explained, we still have an overhang of some 300, 400 staff, maybe even a bit more if you combine Slovenia and Serbia. So, this is supposed to be over the next two years, and in that sense, the cost inflation we see on the labour costs is somewhat mitigated. And of course, we maintain the cost guidance for the year.

And we will, increasingly of course, discuss intensely how to ultimately really go about cost containment on a more structural level, with a very substantial push to further digitising our business and our services. We're still, across the Group, operating many outlets with many manual cash transactions, and so we will invest in technology to both make the customer experience better, but also relieve branches, but to add also, that the bank's fixed cost base from manual work and operation.

So, that's the more mid-term effect, but of course, life of our customers is heavily going mobile and digital. Blaž mentioned that we are in the midst of rolling out and deploying a new mobile web platform in Slovenia, and in

essence, this kicks off a massive, further push in digitising our operation across the region. So, this is a work in progress. We invest heavily in new technologies in the data space, be it machine learning or AI, is now advanced. Of course, we play and invest in all these technologies, I would claim, at the pace as it evolves.

So, let's also not forget, this is a heavily regulated space, and we are conscious of that. So, we will be responsible users of these technologies, but for the benefit of our customers and, of course, also to maintain our cost guidance.

Loan dynamics. We mentioned that we see moderate loan growth, and we have seen some pickup in Slovenia, as Blaž mentioned, on the consumer loan space. Of course, the mortgage production is predictably in this higher-rate environment slowing down, visibly, from last year.

And as we said, this is perfectly fine from our point of view. We don't need to, and we don't want to, aggressively grow loan books. Of course, we'll support where needed, and finance what is reasonably, but we will maintain our prudent underwriting standards.

You still see that our subsidiary banks in countries outside Slovenia are growing still at higher-trend rates, higher growth rates, still gaining market share across all geographies. And we will, of course, maintain this ambition and retain a strong position in each and every market. Especially Serbia, of course, expected to grow above trend, in particular.

On the capital side, not much new things to tell. Of course, we just went through the new SREP cycle, our results to be announced. But again, no major changes in this sense. We maintain, as you see, a very strong capital position, which passes on to guidance in the range of 300 BPS, 400 BPS. So, that's clearly a position of strength, both for dividend capacity and future growth.

And it was mentioned that we're very proudly issuing our first €500 million bond format in the senior preferred space, importantly green format. And we are, in essence, getting geared up to further funding operations, presumably early next year. Other than that, we are strongly positioned, as you see, on the MREL space, so we will of course meet with this issuance the 24 targets. And as I indicated before, and you see it here in front of you, the funding rates are high, also the standards. And the funding position, with €1.4 billion now, is of course substantial now, by all means.

In other words, this is, for sure, a focus area going forward in terms of investor relation efforts, broadening investment space, also introducing new formats, possibly issuing in dollars at some point, and in that sense, increasingly, I would say, rationalising economising these positions.

But clearly, we will be a player in the capital markets space for the foreseeable future, or, in essence, from now onwards. I talked about the funding rates on the deposit side. Clearly, deposits also repricing. You see it in front of you, both in Slovenia and in our subsidiary banks.

Obviously, we maintain very strong funding positions. You see that, especially in retail, we have been able to gain

deposits, also particularly in Q2. And in Slovenia, we wanted to highlight that actually our offering to retail customers, we call them savings accounts, seems to be well accepted. So, half of our so-called site deposit base is actually in a conveniently accessible product, where customers can save money conveniently, and also at better rates than at overnight.

And you see this obviously also playing out in our average deposit rate. Let's not forget, this is the average across all deposits on this product. You get something close to 75 BPS, 80 BPS these days. By that, I pass on to Andreas for asset quality.

BURKHARDT A: Yes, Archibald, thank you. As mentioned already at the beginning by Blaž, obviously I will first show you the First Half of the year, but then also briefly go on to the flood topic.

On distribution, no surprises. Half of our portfolio, as you know, is in Slovenia. The next biggest one is Serbia, and then the rest distributed primarily, of course, through our core markets. You see a little bit of a special effect in the First Half of the year on corporate, that's primarily repayments of liquidity lines in the energy sector. All other segments you see solidly growing.

Distribution between the industry sectors, very distributed. Also here, no revolutions, no surprises in the First Half of the year. When we're talking about staging, very good portfolio quality. You see this across in Stage Three. We have a little bit increase of Stage Two Portfolios in retail.

Here I have to say this has three effects, and I've told you already previously. So, it's a change of methodology, it's a change of booking logic, and it's also somehow a little bit increased delays of some clients. But overall, the change looks quite clear. But honestly speaking, the, by far, biggest part is here methodology-driven, and overall, the numbers are still very small.

What I said before, you see of course now also here. We have total €330 million non-performing loans, out of which 40%, 45% don't even have any delays. So, this is obviously now very good numbers in the meanwhile, and you also see that, of course, also basically unchanged, the coverage. It's very good, and the distribution in the meanwhile also fully normalised between the geographies.

From P&L impact, very good two first quarters, so we were releasing overall €29.9 million provisions, and this has a couple of parents. So, one is the IFRS 9 review. This time we also have upgraded granularity, so we are looking more detailed on portfolios. So, we have more granularity here. This led to a release of €7.3 million in Q2, altogether €74 million, so basically, it's all from Q2.

Then, portfolio developments. This, of course, also has to do a little bit with what I mentioned before, the repayment of liquidity lines in the energy sector. This, of course, is also releasing pooled provisions. And on the other side, very good results, again, from bad loan resolutions, both on and off balance. From the off balance alone, you see here in these two quarters €14.6 million, so yes, simply very solid.

What you can see from fixed versus variable, if you would take the previous chart, which you saw in the previous quarters, that slowly of course we are moving to more fixed loans, especially in retail. Of course, corporate, where you have more working capital financing, you still have a bigger part in variable, but also here you see the same tendency, actually.

And of course, if you look on our pricing, this we started telling you, I guess, already now a year ago, that of course we're seeing interest rates, Euribor is only changing to contractual rate, so we are always running a little bit after. And that's actually, for our profitability, good news, so we are still not fully on the current level of Euribor, logically, and this means here still some more good news to come. Yes, that's it on the asset quality.

The first two quarters now, of course, we had a flood here in Slovenia. I have to say it's still a little bit early days, so you can imagine that after a few days, it's stabilising. But what I've learnt so far is that, first of all, retail, honestly surprisingly low impact. So, we were looking, for example, on mortgages, which are in flood areas, it's a very low number, I have to say.

So, here on retail, I have to say it looks better than I thought initially. And on corporate, very moderate exposures, of course more than in retail. But the bigger exposures here are with big clients actually, so they have, for sure, strength to sustain that. Of course, where needed, we will also give liquidity lines, as Blaž mentioned before, for creditworthy clients. But here exposures are moderate

and actually, luckily, if you want like that, more for very good clients, where we're in reality also not expecting too many troubles.

It's still a little bit early to give final conclusions, but we just have revised our outlook for cost of risk downwards, and at least what we can see so far, I feel confident that we will stay with this outlook, so that we do not have to revise it upwards. With this, I'm actually handing over to the outlook and back to Blaž. Thank you.

BRODNJAK B: Thank you, Andreas. It's, indeed, the case. So, the Slovenian economy has been in a very good shape, and as I mentioned before, Slovenian Sovereign is also in a solid position.

We have been also assisted by the European Union. We are very happy about that. So, the first signals of the aid coming from the European Union as well, will help obviously for the efficient reconstruction of the infrastructure. But corporate clients and retail clients, in terms of what is the actual exposure of the bank, are not leading to a different conclusion, that we would not impair what we prepared a couple of days before that, obviously a new guidance suggestion, which is keeping the cost of risk below 15 BPS. So, this is, of course, the good news.

Generally, given the strength of performance, and the banking system generally, of course, is also in a very strong capital and liquidity shape to be able to extend financing support that will be needed for the reconstruction and replacement CAPEX and so on. It's going to actually drive,

we believe now, a bit of Q3 maybe a bit lower activity, but Q4 catching up then quickly.

In this respect, catering for what we still believe is reasonable to expect when it comes to the growth. So, mid-single-digit growth, when it comes to both corporate and retail, and when it comes to volumes. But of course, these new volumes are generated at reasonable rates. In this respect, this is of course providing additional earning capacity to the banking system.

By that, we have been improving the guidance when it comes to the ROEs, when it comes to, of course, also absolute levels of profits. In this respect, also normalised ROE is exceeding basically 20%, which is of course a very solid value proposition to the Group, to the shareholders, and also other stakeholders, because this strength has been enabling us to be able to support society also, in distress.

On the other hand, this is improving the capacity of this business to grow, so we absolutely stick to the second lag of the dividend, to be suggested to the shareholders in December, so the remaining €55 million to come. And of course, then a natural question. What's happening with the sizing of dividends in the upcoming years? So, as of today, we are talking about the same €500 million cumulatively, from including 22 to 25. We believe there will be room for growth.

Besides organic, clearly, we would have been active in case of M&A. We would analyse, we would get engaged, we would potentially bid, and we would potentially buy. I can't

be more specific as of today, but we believe there would be opportunities coming our way, and we would be able actually, and prepared to address them.

We will initiate a strategizing process at the end of this year, in December. We will kick it off in December with our Supervisory Board, with a plan to conclude until the Investor Day. That is going to take place on May 9 next year, where we'll want to communicate, let's say, our 2030 strategy for the upcoming period, which will then further define horizontal and vertical, eventual, opportunities for growing the business as a universal financial institution.

In the upcoming mid-term period, we have mentioned on various occasions, publicly, that we believe there is value in size. So, we would want to definitely go into the direction of potentially doubling the balance sheet of this business in a reasonable period, by of course performing well on one side through organic activities, and then of course be adding value-accretive M&A opportunities, while maintaining very high discipline when it comes to valuation.

So, we would only be doing this in a value-accretive way. We are in absolutely no distress. We are absolutely under no time constraints to have to do something. This is by no means the case. We would, however, pursue of course opportunities that we would see as really accretive in terms of our position in the region.

We have been discussing, of course, various geographies where we have not been present yet, but we have of course

also been looking at eventual further in-market consolidation opportunities, in our home markets.

Wrapping up, we are strong, stronger than ever, and we are a vital pillar of society in the region, and we proved that by our socially responsible behaviour. We are on a good track. There is a lot, even better to come, and thank you for trusting us on this journey. And by that, we would then refer to the eventual Q&A questions, and of course, we will gladly answer, all three of us. Thank you.

Q&A

OPERATOR: There are no audio questions at this time. We will now move to our webcast questions. The first webcast question comes from Pia with Bloomberg Adria. And I quote.

PIA: How do you comment on the fact that Italy taxed the banks because of excess profits? Finance Minister of Slovenia has also not taken this proposal off the table.

BRODNJAK B: This is a pretty populist question coming from the media, right? First, Italy has not taxed yet anyone. There are rumours about eventual taxation. On the other hand, clearly, we have to understand what would be the gist of this taxation.

NLB, as the systemic institution, has, on our own, been this year donating €5 million for humanitarian costs, so in this respect, we have been contributing to society. I can't comment on other speculations in this respect, frankly.

So, we believe that we are looking at something that is, of course, now a bit elevated-interest environment. Banks cannot impact monetary policy. As much as we believe that previous policy was a liquidity trap and moral hazard, let's see what this one brings. It has not been showing the effectiveness that everyone was expecting.

We believe that, of course, we are looking at an interim phenomenon. So, these profits are looking, of course, excessive, but this is by no means the case, if you put it in an historical perspective. And who can assure that 12 months from now, we will not see significantly lower rates coming from the ECB? And what this will cause then in the bank's balance sheets, we will see, and P&Ls, right? We have been looking at seven years of negative rates, where banks were bleeding and were barely earning cost of capital, and half of the systemic European institutions were not earning cost of capital.

So, we see one year of earnings, which will be of course quickly gone with these levels, and should we now take the value out of the banking system by this robust capital, and responsible to be able to support the economy? Of course, it's a political question. If you ask me, there is no ground in Slovenia for something like that, but of course, we are not politicians and we can't comment, possibly, on the decisions of the government.

OPERATOR: The next question, it's a follow-up question from Pia with Bloomberg Adria. And I quote.

PIA: We have unofficially learned that NLB is in exclusive talks to acquire Summit Leasing. How are potential takeover activities going in Croatia?

BRODNJAK B: I'm not sure where you're getting this exclusive information from. NLB has, as mentioned, been observing and analysing eventual processes, in M&A terms, that might take place. And if they might take place, we might be engaged in them, and this is all I can say.

OPERATOR: The next webcast question comes from Nishant with Citi. And I quote.

NISHANT: What are your plans with regards to M&A in the next three years? Any regions you are looking at?

BRODNJAK B: We have been continuously explaining that, of course, we are interested, we have been interested, in potentially adding a couple of geographies. This was Croatia and Albania specifically mentioned. And we have been, of course, closely analysing the situation in all of our existing markets for potential in-market opportunities.

There have been not necessarily many assets, to date, that have been actionable, but the situation might change, and might change quickly, right? So, we have pre-funded, basically, eventual opportunities, which is a good position to be in, because by that, of course, you can act swiftly and you can act decisively.

And if there were any opportunities, we could get engaged and could transact effectively and efficiently. And that's all I can say at this point of time.

The new strategy debate, that's going to take place with the Supervisory Board towards the end of the year, and then until mid-May next year, will determine whether there is any addition to this strategy that is now strictly focused on this geographic territory and on, more or less, banking exclusively, which means of course then no vertical, further opportunities.

But would there be any expansion of that beyond existing geographies, beyond the businesses? This is not on the table as of today, and I cannot possibly comment. So, we are prepared to get engaged into acquisitions that are eventually addressing more than €4 billion of risk-weighted assets. In case we didn't find proper opportunities, let's say, in 12 to 18 months, we could always discuss with our shareholders to potentially size up the dividends, because this is of course something we can afford out of the existing very strong capital base.

It's too early from today's perspective. We believe there will be opportunities. We believe that paying out the dividend that we have signalled so far, stepping up in the upcoming two years, is a very solid dividend promise. It's actually a very solid dividend yield in terms of what this means relative to the share price, still. But of course, we would be, by that, also supporting in both an organic and M&A way.

We would be immediately publishing when something would be to publish, and as of today, there is, unfortunately, nothing yet to publish. But of course, I can only say what I said a couple of times today. If there were processes, we might have been engaged.

OPERATOR: The next webcast question comes from Pia with Bloomberg Adria. And I quote.

PIA: What is your plan for issuing bonds in the coming year? Thinking of a retail release? What are the expectations of required returns by investors for potential future assets?

KREMSER A: So, I have alluded, before, that we will be a recurring player in capital markets, and indeed, as early as next year, we will be in the market again with some €500 million, around about, in seniors and most likely original subordinated to 12 months.

And as regards addressing the retail investor base, that's, indeed, something we think a lot, about whether that is at some point feasible. From a technical point of view, from a sales point of view, from a compliance point of view, we would love to make this instrument accessible, but we need to find a compliant and safe way to do so.

Otherwise, we are extremely interested into regional investor bases, so both in Slovenia and in Croatia. And I have to say, I'm very glad that in the last €500 million bond, we have been very successful in these efforts. And of course, we will continue to put all efforts and first priority

to domestic and regional capital market players, both institutionals and eventually, possibly, retail.

In regards of return expectations, as I said before, at the moment they are at historic highs, which also speaks to the perceived riskiness of banks, and especially small and mid-sized banks like ourselves. And this is simply a circumstance we have to live with, which is why I said our funding costs are rising, and this is, of course, a very material element in funding cost going forward.

So, the rate environment, plus spread expectations, whatever this will amount to next year, but for sure, seniors will be still in the 5% range, given or take, and subordinated typically 1 BP to 100 BPS above that.

But we'll cross that bridge when we get there. Market circumstances have changed very fast, very substantially, upwards. And we have already observed, with the last issuance, that pricing expectations have somewhat normalised, but still not yet at, let's say, historic averages.

OPERATOR: The next webcast question comes from Antun with AZ Funds. And I quote.

ANTUN: What kind of damage did NLB suffer in the recent floods? And is the bank planning any increased activities related to the financing of reconstruction?

BRODNJAK B: I can give you the strategic aspect to it. So, Andreas explained before, that actually the direct impact, when it comes to flooded housing loans, collateralised by the

mortgages, is really surprisingly limited. So, really immaterial for the bank Group.

The companies that were heavily affected are mainly the ones with very strong backgrounds, with very strong performance rating and general creditworthiness assessment, and have been also sitting on strong cash flows up to now. Luckily, August is a bit low season, also, for production across Europe, so in the entire supply chain, this is something that is a good circumstance in bad times. But these businesses will be quickly up. Slovenia has learned how to recover quickly, and it will be supported by, as mentioned, state support and also European support.

Banks will be providing, extending. We have still the €100 million line, actually, for the working capital loans, for the integrated businesses, at reasonable rates, which will be helping them and re-establishing production and capacity to perform services.

And as needed, of course, we will be expanding moratoria. There are no signals yet that this might be needed at all, but as Andreas also said, it's a bit too early to fully assess the damage. Taking everything together, we don't believe it would impact the business to the extent that we would be doubting into the predictability of the guidance, when it comes to the cost of risk. So, we still believe the overall annual cost of risk will remain below 15 BPS.

BURKHARDT A: Maybe just to add on that, because I think we haven't mentioned it. Our own branch network, so here we had, you

could say, unbelievable good luck. But if you ask me, simply the branches are properly positioned.

So, we have one branch actually where we have a flooded basement. Otherwise, no impact on our branch network. All branches are up and running again since today. Before that, all of them except one. So, the last one came back alive today. And also, our ATM network. We had two flooded ATMs. So, here of course we were taking out the money, replacing the ATMs. All other ATMs from the branch network are fully up and running, so also in this respect, really minimum impact.

BRODNJAK B: Yes, two out of 560-plus ATMs.

BURKHARDT A: Yes.

OPERATOR: The next webcast question is a follow-up question from Antun with Allianz. And I quote.

ANTUN: Your outlook for 2025, regarding costs, is flat on the 2023 level. Besides reducing the number of staff and branches, you mentioned digitalisation. Can you provide more information on what can you further digitalise to control costs?

BRODNJAK B: We've seen very solid trends in all geographies, when it comes to picking up to mobile apps. Of course, we have to add additional services, and this is what we are working now on, to actually expand really the wider range of what is possible, to end-to-end transact fully digitally.

And in Slovenia, you can already now, 24/7 basically, close any transaction online, 24/7, through the videos and the video chat in the contact centre. But we are adding now capacity besides cash loans, also for credit cards and overdrafts, that basically the client can actually get approval without having to talk to anyone and without having to sign a sheet of paper. And that's something that's beyond the integration.

Now we are completing the integration of N Banka at the end of August. We would then really put it back to the pipeline of priorities, to develop. And by that, expanding more services to be fully closable online would, we believe, bring, of course, stronger origination in fully digital terms. The entire payments universe, cash handling universe, is supposed to of course also get more optimised, in the sense that already now in Slovenia you have 98% of all transaction in branches performed digitally. So, payments totally digitally, and there are barely any cash transactions in branches.

Of course, in Southeastern Europe, you will still see significant branch operations with cash, and that's something that transitionally we want to stimulate to move to the ATMs. So, we have just revamped, for example, the ATM network in Serbia. It's now the most contemporary network in Serbia, so that you can have also the Day-Night Vaults and the in-cash deposits, and of course withdrawals at the ATMs and so on. So, it's a continuous process.

On the other hand, we have clearly been working on the final details of integration. So, the sole fact that we will

integrate N Banka into NLB will deliver a significant contribution to the further reduction of number of employees. Archibald was mentioning from approximately 400, up to 400 to come in a couple of years.

And this is going in this direction, right? Flat, to me, means very low single-digit growth. That's what I would still see as flat, potentially, but this is in this ballpark, plus or minus a couple of million.

We believe it's a reasonable expectation, and it's coming actually from this universe of dealing with processes, dealing with shift towards digital, and actual reduction of the number of employees, and further reduction of physical footprint.

OPERATOR: The next webcast question comes from Pia with Bloomberg Adria. And I quote.

PIA: Could we perhaps expect a higher dividend based on the results?

BRODNJAK B: I tried to explain before, that it's too early. The existing dividend payout is following the mid-term plan that was communicating. That is being stepped up in the next year and the year after, which is automatically paying a higher dividend.

On the other hand, could this be even higher? It's, of course, a function of us being able to bring to the table attractive opportunities that actually accrete more value than paying cash out to the owners. And that's something

that is the homework of the Management Board and the Supervisory Board to define, within the new strategy on one side, and within of course the actionable perimetry.

So, what assets would eventually be transactable in the upcoming year or two? If there were no opportunities, you could always size up the dividend, but as I said, there is a natural step-up. If you count the so-far paid dividends within the total €500 million promised, you can see that, of course, what is still to come is higher than this year.

So, you have an automatic increase of the dividend. Could this be even more? It could be more, if we couldn't find better opportunities to invest. From today's perspective, we believe there would be value-accretive opportunities to invest.

That's why, from today's perspective, we don't envisage even higher than what is automatically embedded as higher. But of course, this might be changing next year, if there were no really concrete possible outcomes. From today's perspective, we believe there will be.

OPERATOR: The next webcast question comes from Antun with Allianz. And I quote.

ANTUN: Can you tell us how is your lease business going? Can you compare the situation across countries?

BRODNJAK B: Sorry, was this a lease?

KREMSER A: Leasing.

BRODNJAK B: We are happy with the developments. Slovenian leasing business is growing, to the extent that we are now already originating more than 10% of new production, which is for a novice in the market, after two years, a strong achievement.

We have never shied away from communicating the ambition of holding natural market share also in the leasing business. So, us being at 30% total asset business in banking, this would be a natural aspiration also, in the long-term, for the product of banking, basically. So, we are gradually moving in this direction. If there were inorganic opportunities, we would consider, as mentioned before. We have a very strong evolution in Serbia, so we just introduced the business at the beginning of this year more or less, and it's developing very well, and we're very happy about that.

And we have just started in North Macedonia, so in North Macedonia, it's really the beginning of the journey. We believe that Slovenia and Serbia will grow quickly. We believe that we have introduced now, just in the last couple of weeks, new services where you have basically a so-called leasing button at web portals. So, in principle, you are directly transacting with your clients, and this is the future, we believe, of leasing business.

So, this is something we are specifically happy about, and the team is fully eager on developing this further, and then adding, of course, selling potentials to link this with the banking network and so on.

With the distribution power of NLB, we have no doubts, leasing will be a highly successful business. And the only question is, is it a purely organic play, or would there be a shortcut to one of the leading positions? And that's, of course, a function of eventual M&A.

OPERATOR: The next webcast question comes from Jovan with RBI. And I quote.

JOVAN: Where do you see wholesale funding costs in second half versus First Half?

KREMSER A: It's a relatively straightforward equation. We've given the full details of the whole funding position. So, the only change there is, is the €500 million bond that kicks in, in the second half of the year, with a coupon of some 7%. So, you do the math. It's very straightforward.

BRODNJAK B: Yes, and there are no new issuances planned for this year. The next one is coming middle of next year, and that's it.

KREMSER A: And as I said before, the cumulative funding cost is then a function of, where's the market developing? Are rates coming down a bit, eventually, next year? Are spreads coming down a bit? I've given you a rough guess of what senior funding costs might be next year, but this is speculative territory.

And overall, the balance sheet, the wholesale funding position of 1.4 will technically possibly increase by €100 million, €200 million, temporarily, because some of the refinancings will be a function of marketability, sizing up in

the right buckets, etc. But broadly speaking, we talk €1.5 billion, and broadly speaking, average funding costs of this position is in the 5% range.

OPERATOR: The next three questions are follow-up questions from our webcast participant, Iovan with RBI. And I quote.

JOVAN: Floodings impact in your corporate loan book?

BRODNJAK B: It is very marginal, but Andreas will...

BURKHARDT A: Yes, so we have two, three bigger clients which are affected. Luckily, very strong players on the market. So, here, first of all, we see a considerable capability on their own side. Also, state support, which is already indicated, is very decisive, as Blaž mentioned, very similar to the last years. So, in reality, here the most realistic outcome is no impact on us, honestly speaking.

Then, we have a couple of smaller cases. Cumulatively, honestly speaking, very moderate. Here, of course, we have to analyse still deeper to which extent and in which cases we may see some impacts. But overall, at least what we can see so far, once again to reconfirm the revised outlook cost of risk, which you see still in front of you, should hold.

In reality, we will be more confident in a few weeks, because then you see really all the details. But honestly speaking, compared to the initial shock, two, three days ago, it looks already now better.

Because some of the clients were originally quite pessimistic, how long it takes to reinstall production, and that now looks already after a few days, much more optimistic. So, I think the shock is behind them, and now they are cold-blooded, analysing what it really means. And it seems, as we see for now, even less dramatic as initially, actually.

JOVAN: How does salary adjustments on inflation work within the Group?

KREMSER A: How does...? Salary?

BRODNJAK B: Salary.

KREMSER A: So, salary. Labour cost inflation is a fact, so we are talking double digits on a per capita, if you want, basis, and this is clearly a function of the runaway inflation we had in the last year and, to some extent, still this year. So, that's certainly something we're watching very carefully.

To the extent that we compete for talent in certain areas, we are of course also willing to invest in quality. Quality banking is provided by quality people. And very simply, we simply compete with not just the banking industry, but with many other players, especially with tech or data-related job profiles, but increasingly also in sales positions, where we compete against even retailers.

And then that's why, of course, we have to first maintain the quality of personnel with repricings, and on the other side, what Blaž mentioned before, making sure that

increasingly lower-value-added activities are optimised. So, that's the way to go, and this is what will keep the price equation in check.

BRODNJAK B: Yes. Otherwise, if we have 12%, 13% inflation in Serbia, you can't expect you will have 5% growth of salaries. It's simply not acceptable.

JOVAN: KB may cross €100 million profit in 2023. Do you consider upgrading the mid-term outlook?

BRODNJAK B: This is a function of expected rates, right? So, we see KB originating more or less new loan production at, more or less, almost double the market average, which means we are successfully growing the business.

The key focus points in the upcoming years will be client experience and digitisation, so now we will move, in principle, the processing to our common platform, Bankart, and then we would be able to, of course, introduce modern services such as Apple Pay, Google Pay, smart POSs or mobile phones and so on.

That's something that we have done in Slovenia, and now accelerating through the region. And this is going to bring the bank closer to also the younger population and the more digital-savvy population, and by that, we believe we will be able to also push further for the efficiencies. And yes, KB could be making more. That's why we have changed around €100 million to more than €100 million. No?

KREMSER A: Exactly.

BRODNJAK B: How much more? The time will tell. We love the business in Serbia, and the First Half of the year is very good. And with these trends, we are really looking forward by a very positive lens applied.

OPERATOR: The next webcast question comes from Dan with the Ion Group. And I quote.

DAN: Would you be able to offer more details on your prospective bond issuance, following up from your comments on a potential USD issuance?

BRODNJAK B: Archibald will give you the details, but it's, first, almost a year remote from today, right? And second, it's very difficult to judge what will be the environment then. But Archie?

KREMSER A: As I said, we are playing with the idea of various formats, and of course, dollar is something that is on our radar because we get feedback from investors, that they would wish for such a format. Of course, the US investor base is also, again, very interesting. But it's one of many routes, one of many options, and it's too early to tell for now.

We will do the tours. We will do the investor non-deal roadshows to shape up our views. I think that was the route to success in our €500 million green bond issuance, where it is a lot of listening to what investors expect from us to produce. And we will try to put out again a good, attractive instrument, as I explained before.

OPERATOR: The next webcast question comes from Christian with Frontera. And I quote.

CHRISTIAN: In what quarter, or quarters, will the €4 million flood donation appear on the income statement? And in what expense lines will this appear?

BURKHARDT A: It's brief. The expense line in the costs, I guess.

KREMSER A: We will make sure it's disclosed transparently.

BRODNJAK B: It is a donation directly to municipalities, and it will be paid out, presumably, in the next two weeks.

KREMSER A: It's clearly something like an other expense-type of position, but it will be transparently shown and commented and disclosed.

OPERATOR: The next webcast question comes from Marlene with Deutsche Bank. And I quote.

MARLENE: Looking at the tax rate in the Second Quarter 2023, it appears to be much higher than in previous quarters. Could you please comment on the drivers behind that increase, and whether this 17% should be seen as new run rate going forward? Thank you.

KREMSER A: This is technically driven by the dividend cash flows that we receive at the parent bank level, and that drive up, of course, the income. And so, in this sense, no, it's not recurring.

OPERATOR: We have more questions, but we are short of time. The final question is from Mladen with Erste. And I quote.

MLADEN: Thank you for the call and comments. Congratulations on the results. Where do you plan to hold the next Investor Day? Belgrade again?

BRODNJAK B: It's going to be Ljubljana this time around. It is our home also, so it's going to be May 9th, 2024, in Ljubljana, and you're all cordially invited.

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

BRODNJAK B: Thank you very much. It has been an enriching discussion, so thank you for raising many questions. NLB, as said before, is in its strongest shape ever, and is a vital pillar of this society, and when I'm talking about society, I'm talking about the regional society.

We have a clear view on how to continue. The new strategizing process might add some angles. This is going to be discussed, obviously, also then in subsequent events. And we will end up this year strongly. We will pay out the dividend.

And we are looking to a bright future, despite, of course, these interim turbulences driven by the climate change, which we all have to embrace and adjust to the forces of nature. Thank you very much, and until next the webcast.