



NLB Group
Fourth Quarter & Full Year 2023 Financial Results
Conference Call

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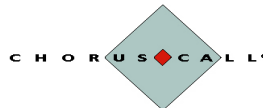
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OPERATOR: Ladies and Gentlemen, thank you for standing by. I am Konstantinos, your Chorus Call operator. Welcome and thank you for joining the NLB Group conference call and live Webcast to present and discuss the Fourth Quarter and Full Year 2023 Key Unaudited Business 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, and warm welcome, everyone. Let me draw your attention to the usual disclaimer and welcome you to our performance call, reflecting towards last year, over last year, in which actually NLB has demonstrated its strength. NLB Group has been feeling the strongest ever in history and has been above all holding the responsible position to society.

I really am very proud of that specifically. Despite all the uncertainties and, of course, climate-related phenomena and other societal challenges, NLB has been not only strong, but has been sharing this strength and success with the stakeholders and the society.

This is something that really we are specifically proud of, and myself personally as well. Besides the monetary success and performance, of course we can be really also following the agenda of sustainable development within the region.

This is something that it has been on the forefront, of course tainted a bit with the situation in Europe and the

Middle East. It is very difficult to discuss sustainability matters when we are not in a peace environment.

But generally, of course we do remain and gain our focus even more on the topics, when it comes to of course environmental protection, when it comes to, above all, society-related social matters and governance quality. And in this respect, we have further improved our sustainability rating by Sustainalytics significantly, so we now rank among 13% most advanced banks in this territory.

We have been, of course, further committing to the Net-Zero Banking Alliance goals, in the sense that by 2050, we would be of course carbon neutral. On the other hand, we have been continuing with business development activities successfully and firmly.

Besides integrating, completing the integration of a bank in Slovenia, so nBanka has been fully integrated by September 1st of last year, we have at the same time been continuing the growth path via M&A activities.

And this goes for the leasing territory, where we signed the SPA for the market-leading franchise in Slovenia, with some operations also out of Slovenia, whereby also in the asset management, ancillary services landscape, by acquiring and signing the SPA for acquisition of the asset management company in North Macedonia, from Generali.

And by that, we simply demonstrate our commitment towards of course excellence in distribution of universal financial services throughout the region of our presence.

We have been of course focusing on people still, talents. This is something that will make the difference also in the future, so NLB has been continuously winning the certificate of top employer, and has really been paying

even more attention towards education, training skills, experience, and of course also collegial relationships among the employees, driving this business forward.

And in this respect, I'm really specifically proud of our immediate reactions when the Slovenian economy and country were in distress last August, when actually we've seen historical floods. Climate-related phenomena have become a new constant. They are here to stay, it seems, obviously.

And NLB has immediately reacted, very responsibly, by immediate support to the municipalities, the most affected municipalities, towards the end of the year also to the budget, with a specific fund for the reconstruction.

And of course, NLB will keep contributing also in the upcoming years, sharing our success not only through dividends, but of course also specific donations and sponsorships. While at the same time also Archibald will explain in detail more, in terms of tax payments directly, of course, routed towards recoveries after the climate-related phenomena.

In this respect, we are in the environment that is very uncertain. We've seen changes both in tax environment. We expect changes in the rate environment. But of course, what we claim is that our not only balance sheet, as we claim being a fortress, but generally our business model, is very resilient.

And in this respect, this is something we will continue in the future, and I will come back to this when I'll be talking about the outlook a bit later. And I'm passing the word now to Archibald to give you more details on performance.

KREMSER A: Thanks, Blaž. To start with, the macro environment has remained by and large stable and favourable for banks and bank environments in general within our region, and the stability that we have observed in the past is continuing to play out well.

Also, in our view on the future, we see more or less so-called soft landing still as a baseline scenario, and of course this is very favourable for bank environments in general and also for us.

And in particular, our region continues to benefit from slightly above Eurozone growth levels, of ballpark 100 to 200 BPS, so this should also of course continue to drive loan growth, as we expect it, this year mid-single digits, and going up to higher-single digits again. And of course, in that sense, an important earnings revenue and profit driver going forward.

In terms of the financials on the full-year results, of course very solid. You've seen the key numbers. And of course, a big driver was net interest income, so we have always positioned this bank for this moment.

Now we have seized on this moment, and of course attention on our side is turning very much to stabilising this result, with both reducing a little bit NII sensitivity and, most importantly, continuing to support and sponsor loan growth as the best protection actually for NII sensitivity.

And you'll hear later that we are making good progress also in enhancing duration on the asset side, so in other words, going more into fixed-term lending and specifically also in retail.

Last year, you will remember, was affected by negative goodwill from the nBanka acquisition. This year, of course, mostly dominated by the NII development. We have a bit of dynamic on the cost side. In an inflationary environment, not very surprising.

Our fee environment was stable, so we had deliberately kept this also moderate in terms of repricing. And of course, provision, Andreas will talk about that, ultimately ending the year with negative cost of risk, so in that sense a little bit above normal results, I would say, especially given also negative cost of risks.

But we remain very positive on the outlook into this year, and Blaž will talk about this later.

In terms of details, the quarter itself remained solid. You still see NII actually growing moderately, 5% quarter-on-quarter, so that's still encouraging. It's just the peak, I guess. We have more or less seen a peak in at least the NIM space.

And you see that the quarter was also driven a little bit by a quite substantial DTA revaluation, next to quite usual seasonalities in provision and the cost dynamic.

Otherwise, full-year ROE at 21%, so I think that's really a stellar result, a stellar return, and NIM stabilising. Yearly NIMs at around 3.5%, quarterly NIMs higher. We'll talk about that. Cost-to-income ratio basically where we wanted to see them when we IPO'd the bank. Now we are firmly in the below 50% territory, and we definitely look forward to remain in that space.

You see, the balance sheet has grown to almost 26 billion, so that's also definitely a milestone. Deposit base very robust, almost at 21 billion, so we like to call this a fortress

balance sheet. And given the environment, nevertheless the positive outlook, we of course like to maintain in the safe zone on all dimensions, be it capital or liquidity, I think for good reasons.

On the NII, I've mentioned already the full-year NIM at around 3.5%. You see the quarterly NIM slightly ticked up last quarter, we talked about. We haven't probably quite peaked. You see that NIM has slightly edged up. But we are definitely in a sweet spot environment, given NII.

Looking what drives this dynamic, one important driver of course is, apart from the rate environment, the continued growth in the loan book, so that's of course the anchor, the pillar of our revenue growth. And especially in our SEE banks, so our subsidiary banking network, we see in retail very solid growth, also in corporate.

And overall, as a group, we basically are pretty much where we expected to be, so mid-single digit we guided and that's where we landed.

Importantly, deposit base remains stable, actually growing, and of course we had to accommodate a little bit in pricing. We've talked about that.

In Q3, Q4, we started to reprice a little bit, moderately. By that, actually build market share also in the term deposit space, and so by that, we continued to provide value-added products to our customers, offering fair returns also on basic cash products, we call it savings and term deposits. And we'll continue to work, enhancing and improving access to these products in a convenient, self-serviced way.

Otherwise, as regards NII sensitivity, of course the focus of everybody these days, we are pretty much where we've

been. And in that sense, even if we see a bit of normalisation of interest rates, we very confidently believe we can maintain the revenues by growing the loan book organically.

We'll offset whatever tactical losses are given to NII sensitivity, with growing the loan book, and so in that sense, revenues expected to stay stable and then growing also going into this year.

I talked about non-interest income, so fees, very solid development given the environment we operate in, and some regulatory measures here and there. We mentioned them. But overall, a very solid and positive development.

We had a couple of one-offs, some of which we deliberately of course invested in society, as Blaž mentioned, in flood relief measures. A quite substantial amount, actually. Nine million in Slovenia, directly contributed to state bodies and to the state itself.

And we had of course, as was reported already, a bit of a hit in the regulatory sense in terms of the rate ceilings on the mortgage book in Serbia. You see the 15 million modification loss, but as I already explained last time, we expect this amount to be written back, of course, as these loans accrue.

On the cost side, we naturally see a bit of inflationary pressure, so we are in our guidance, as of Q3, slightly in excess of old guidance, ten million up. But here we simply have to face the reality of the need to continually invest, specifically in the technology space.

We have a run-rate spend, CAPEX, OPEX and PEREX in IT of about 100 million-plus, so this is a substantial commitment of this group, to keep innovating and remain

relevant for our customers. That's of course the name of the game in banking these days.

And importantly, crucially, continue to invest in stabilising and securing the perimeter, so that the increasing attacks coming from cyber fraud, be it phishing, be it other malicious activities, we are very committed to keep this bank safe and stable in terms of operations.

Otherwise, we continue to seize efficiencies in all markets, so of course predominantly Slovenia, and Serbia to some extent. Serbia's still at the tail of the integration, and Slovenia to some extent at the tail of the integration from nBanka.

But generally speaking, the trend seems to be in banking to have fewer employees, better paid. And in terms of cost evolution, this means a moderate cost growth, but investing in quality and value-added spend.

The tax equation has become a bit more complicated. We had this year a revaluation of the DTA, that's something we have explained over and over again to our investor base. This is still the tail from our 2013 loss recognition. Has visibly increased our recognition.

You remember that we recognised DTAs for a five-year period going forward. And given higher earnings environment and the higher corporate income tax environment of the new legislation that has been put in place in Slovenia, we had to simply revalue the DTA, and that has shown quite visibly in Q4.

On the other side, we look forward to the new legislation, as it has been effected in Slovenia. As I said, higher corporate income tax for a limited period, and a so-called balance sheet tax in amounts of 20 BPS.

We expect, on a group level, that our group effective, we call it contribution rate, will trend around 20% for the next five years or so, before it falls back to 15%. This is a bit outlined here in more detail, so you see the tax equation, both for Slovenia and the group.

And importantly, we wanted to highlight that if you take just cash taxes, our tax rate in Slovenia is something like 11%. If you add contributions that we made voluntarily to Republic of Slovenia bodies, be it the Ministry of Finance directly or municipalities, we are at 14%, what we call contribution rate.

The same equivalent-rated group level at 14% as well. And as I said before, we expect the equation here to slightly shift up, especially in Slovenia of course with the balance sheet tax, and then 29 onwards, to come back to around 15% on the group level.

The capital is of course a key pillar of our strength, remains to be so. We are very proud to maintain a very solid capital ratio, CET1 at 16.4%, 4.5% above Pillar Two guidance level. And that means, in essence, 600-plus BPS over and above MDA, so very solid.

And this, of course, accommodates already for the dividend payment that we have envisaged from the result 23, to be made next year.

And in that sense, I think we continued to both remain very strongly capitalised, while generating enough returns to be an attractive dividend payer as well.

Of course, we have maintained this also by continuing to work on our capital market funding side. We have just recently issued a subordinated bond, very successfully, with substantial oversubscription following our senior

bond. And you see here the total funding stack, basically delivering very solid MREL ratios, far in excess of the regulatory demand.

And of course, we will continue to remain a recurring issuer on the capital markets. In that sense, I think we have passed now several milestones on the benchmark issuance, both in the senior and unsecured space, following our AT1 bond last year, so we're here very well established in the meantime, and look forward to remain active in this space.

We, in the foreseeable future, intend to issue another senior bond benchmark size again, and we are very grateful for the interest we are able to attract these days. By that, I turn to Andreas on the asset quality.

BURKHARDT A: Yes, Archibald, thank you. The main message on asset quality, on the risk side, is there are no surprises. What you can see is that portfolios continue to grow, you heard it already before, with the exception, if you want, of corporates, bigger corporates.

But this is influenced primarily, and you heard this in the previous quarters, from relatively high repayments in the energy sector. We were providing, in 22, additional liquidity. This came back. If you correct it for that, also this portfolio was growing.

And what you can see is that simply our subsidiary markets, so outside Slovenia, are growing a little bit faster than us. In the meanwhile, a little bit more than 50% of the portfolio is actually outside Slovenia.

The portfolio is very well diversified. If you see the deltas in the last year, it's actually everywhere relatively modest.

Of course, also here you can see again the electricity part, where we had a decline, as I mentioned already before, for the mentioned reason.

But overall, very nicely diversified. And if you see staging, then you can see that we have a slight increase in Stage Two in corporate, and relatively solid increase in Stage Two actually in retail.

Retail is not unexpected. I'm telling you this since a year approximately. In a high-inflation and high-interest-rate environment, that's obviously expected.

On the other side, what you can see on Stage Three is that we are still making progress, not only in relative, but also absolute terms, so Stage Three is still declining for corporates and is actually stable in retail.

Stable in retail means of course we have some inflows, but we are still successful in the same speed actually to resolve. That's why this stays absolutely flat, and of course, given our growing portfolio, relatively still slowly declining.

Overall, end of last year, €301 million of NPLs. I think that's actually a very good figure. One third of that has zero delays. Very solid coverage ratios, still improving. And the geographic dispersion as expected, so also here, fully normal situation.

And the overall cost of risk, this was mentioned already today, minus 7 BPS, so very well in line which what we were guiding for. In the last quarter, also not very surprisingly, and I indicated that, we had a certain charge, so 50 million, that's actually on our portfolio size very moderate.

In general, you see here a couple of effects. You see still very solid development on corporate. You see still off-balance repayments. On the other side, you see certain charges on the Retail Portfolio, very much expected and in line, what I said before. And overall, we were guiding at the end around 0 BPS cost of risk. We're at minus seven, so release.

We still see a little bit a trend towards fixed interest rates. Actually, corporate is very stable, and retail still trending toward fixed, which obviously is helping our structure.

One thing which we got repeatedly questions, that's why finally we decided now also to have a slide for you, is on commercial real estate. What in our bank in reality is commercial real estate, is retail shopping centres, office and congress centres, and hotels.

The overall figure here is obviously below €500 million and is actually to the very big part in the operational phase. In the first two categories, so retail and office and congress, you have zero defaults. In hotels, you have defaults below 5%, but this is coming from a very few cases, two, three very old cases, before we restarted, so that's from the very long-ago period, still left.

And then two, three cases which we currently put a default rate because they're highly leveraged. They're coming from the recently integrated bank, from nBanka, but these are cases which are paying. Just they are for our taste, for our standards, a little bit too highly leveraged. This is less than 5% altogether of the Hotel Portfolio, so overall, a very moderate sum.

You will see in the following quarters, we will keep tracking, so you will see this now quarterly, just also that

you have a regular update. And overall, on top of the fact that the size is moderate, a very good portfolio quality, with good indicators and minimum problems, so, so far, so good.

Of course, commercial real estate also for us in these days is a higher attention point, but I have to say that in this region, these areas in which we are working, they're still performing very well. And actually, relatively few clouds on the horizon, so we are not really expecting this to change. With this, I conclude for now for my part. Thank you. And I'm handing back over to Blaž.

BRODNJAK B:

Thank you, both. The main message is that, of course, we have performed better than we planned, obviously, in an environment, and actually following ten years of hard work in structuring the business model in a way that it's really resilient and potent, in the sense that of course we can generate growth in a growing environment.

The last information on real growth of Slovenian economy is 1.6%. Regional economies have been growing in the ballpark of 2% to 3%. So, this is a growing region, significantly and swiftly. A growing region in the heart of Europe, in this respect.

In this respect, of course this is something that we believe is an attractive region to play in, and on top of, of course other elements driving the success. We are of course sharing this success, and the biggest and the most important message is, of course, that we are significantly beefing up the dividend.

The so-far guidance on the dividend uptick, which was so far communicated in the form of €290 million in 24 and 25

combined, is now of course much more attractive for shareholders, as we are intending to suggest this year, again in two AGMs, cumulative payout of €220 million, which is 100% increase this year compared to last year, and it's of course 40% of the profit generated in 2023.

Furthermore, we, now almost at the end of February, feel confident enough to simply guide for this year, that this performance is going to be continued, in the sense that of course we believe that we will be able to generate sufficient level of revenue at contained cost evolution, and of course retained asset quality and growth at mid-single digit levels. That we will be able to distribute also next year at least 40% of this year's profit.

This is, of course, a significant step-up in sharing of capital and success with stakeholders, whereby we have been still very responsible when it comes to the matters in the society. I was mentioning before, on one side, classical CSR, but then we are one of the most important supporters, obviously, also of the regional culture, regional sports, of regional humanitarian and health-associated institutions, bodies and projects. And in this respect, we really do share our success with the society as well.

This is here to stay, so this step-up in the dividend payout does not impair our ability to grow the business. We are able to grow the business in the upcoming mid-term period at high-mid-single digit rates, organically, and we are retaining further M&A capacity at the level of up to €4 billion of risk-weighted assets. This is a strong signal to all of the stakeholders that, of course, NLB will remain equally potent while sharing significantly higher part of our results, on the go, also with the stakeholders.

I firmly believe that this is, of course, a significant addition to the value proposition, not only to the shareholders, but also to our clients, our talents, and the whole region where we play.

We believe that in the mid-term period, we can expand this, and by that, I'm cordially inviting all of you to the upcoming Investor Day, which will take place this time in Ljubljana, where we actually are headquartered, on 9th May. And on that occasion, we plan to actually disclose the new mid-term strategy, up to the end of 2030, within which we are going to address these mid-term opportunities.

So, where do we believe are the key revenue pools to deploy our capital to, and allocate our capital to, in order to of course accrete more value to you and sustainably grow the business? And by that, be able obviously to become an even stronger pillar of the regional society, potentially entering also some additional regional geographies, of course expanding our business in ancillary universe, and simply being an ever-improving bank, when it comes to client experience from traditional banking services in the region.

I would wrap it up here. We are stronger than ever. We are more responsible than ever. We feel confident more than ever. And we believe we are worth of your trust, and we thank you very much for closing the market today at a historical high. And by that, I move to your questions, to which we will gladly respond. Thank you very much.

Q&A

OPERATOR: The first question is from the line of Sikimić Jovan with Raiffeisen Bank International. Please go ahead.

SIKIMIĆ J: Yes, hi. Good afternoon, and thanks a lot for the opportunity to ask questions. And congrats actually for lifting the dividend, so it was very good.

I would have just a couple of questions. First of all, on 2025 guidance, it seems that there was a bit of upgrade, I think rather from revenue side. Can you just tell us maybe roughly what's the rate assumption behind, particularly on the Eurozone side? And also, whether the Summit Leasing Unit has been somehow incorporated into the guidance?

KREMSER A: Summit, yes, of course, we assume we will close this, so we are quite confident. And the rate environment, basically we always work on the forward, market-implied rate, that's something in the ballpark of 2.5%.

And I mentioned the rate sensitivities. Just bear in mind, they are mechanical rate sensitivities, so in essence assume ceteris paribus. And of course, we will continue to grow the business and, by that, the revenue base, also on the rate side. The realised rate sensitivity is of course much lower than that, which is why you see us confidently increasing with revenue guidance as well.

SIKIMIĆ J: Thank you.

BRODNJAK B: You see a gradual shift towards retail, so you see growth of retail book that is a bit quicker than the corporate book,

and you see structural shift within the retail book towards fixed. This, we see as a natural hedge. And in this respect, besides of course the structural change, we have also growth of volume, by which we also address the revenue boost. We do believe we can grow revenues, in the upcoming years, within what we guided for 24, 25 and beyond.

SIKIMIĆ J: Okay, that's really...

KREMSER A: Importantly, deposit betas have remained very resilient. You've noticed that we stick around below 10% range, although we offer, I think attractive products, so we've seen moderate pickup. And of course, when rates come down, we'll also consider repricing some of these products as well, so there are counterbalancing effects.

SIKIMIĆ J: Okay, but on the deposit betas, you mentioned it. It is less than 10% on the group level. Are there any big differences among countries? Slovenia is apparently the lowest, right?

KREMSER A: I'd say broadly speaking, it's quite comparable. Of course, you have some markets a bit more under pressure, when market shares are a bit lower, and clearly the equation is a bit more sensitive. But broadly speaking, it's give or take in that ballpark.

SIKIMIĆ J: Okay, and maybe one technical on the margin performance in Q4. Definitely there is a bit of slowdown, still of course appreciating. But compared to Q3,

separately, it seems that the upside in Q4 came mainly from Slovenia compared to the, let's say, SEE network. Was it any special reason for this?

KREMSER A: No, I think we are in essence, Slovenia is always a key pillar of the whole group. And of course, in Slovenia in particular, I think we are very successfully continuing to originate retail loans in particular, and we originate them at a bit higher level these days. But I wouldn't now see any particular thing I should highlight. We of course engaged a bit in hedging in Slovenia, but nothing I would mention here as outstanding. We choose to continue to do our business and are very focused these days in stabilising NIIs.

BRODNJAK B: And we should not neglect the fact that Slovenia obviously is a Euro country. We have other countries that are not directly necessarily Euro countries, and we've seen such a rate environment in Slovenia before, and now a new rate environment, with the last hike actually in the Q4. By that natural structure, more or less, and 16 billion out of 26 in Slovenia, yes, you would see it naturally.

ŠIKIMIĆ J: Yes. And maybe last one from my side. On Komercijalna, do you dare to predict or to guide for net or pre-tax profit 2025 roughly, or it's too early for that?

BRODNJAK B: We refrain now from guiding for specific single subsidiaries, because we simply now see Komercijalna as a well-integrated business that has been performing north of what we guided for, when we acquired and then

integrated. There is no specific need to highlight this specific guidance, but we of course expect growing trend in terms of profitability, and we are very happy with the performance.

The bank is growing market shares at double speed than the other players, in terms of new origination, and in this respect, we are very happy with both retail and corporate evolution. This is what we can say at this point, and of course, Komercijalna should become one of the key pillars of this group also in the future.

SIKIMIĆ J: Okay, appreciate it.

KREMSER A: I think you'll hear a little bit more at the Investor Day, on geographic ambitions. This is where we probably will get a bit more specific.

SIKIMIĆ J: Okay, no, appreciate it. Thanks a lot, guys. Thank you.

BRODNJAK B: Thank you, Jovan.

OPERATOR: We will now move to our webcast questions. And the first webcast question comes from Antun from Allianz. And I quote.

ANTUN: Congratulations on great results. Does the increase in dividends in 2024 mean that there are fewer M&A opportunities in the region than you hoped for? Would you be willing to pay a premium over the book value, if some opportunities appear for bank acquisitions? Thank you.

BRODNJAK B: That's an interesting question. With so robust performance in 23, we actually generated sufficient buffers also upon paying this dividend uptick. We are guiding, we are able to still assume acquisition in the ballpark of four billion of risk-weighted assets, and there are not many potential actionable targets of this size in the region. If there was one, this is actually the size of the leading bank in Serbia. This is the size of a sizeable bank in Croatia, for example, if we were allowed at a certain point to enter this market as well.

We believe we are keeping sufficient buffers for eventually actionable opportunities, and on the Investor Day, we hope we will be able to come in front of you with something that is more concrete than that. We believe we are introducing here a balancing act, sharing more value with shareholders, but keeping sufficient buffers for eventual mid-sized acquisitions, which is what we believe we can absorb meaningfully in the, let's say, mid-term period.

We believe this is actually a very balancing, value-accretive way of thinking, in the sense of sharing immediately our result, with still keeping sufficient buffers for growth.

KREMSER A: And M&A discipline will remain in place. You have seen us being disciplined. You will remain to see us being disciplined.

BRODNJAK B: Yes. In terms of valuations, this is simply the axiom of how we perform business, so value accretion is the only clear criterion here. We will not acquire anything for the sheer

purpose of growing the size. Whatever we will be engaged at, will have to accrete value as well.

OPERATOR: The next question is from the line of Gadhia Ronak, who's a private investor. Please go ahead.

GADHIA R: Good afternoon and thank you, and congratulations for the results. Just a couple of quick questions. Maybe on the growth side, are you still guiding towards mid-single-digit growth? Any downside risks to that, given that the German economy seems pretty weak and, as we know, Germany is a big driver of growth in Slovenia and across the region? And the second one was maybe if you could provide an update on what the potential M&A looks like in Croatia?

BRODNJAK B: When it comes to the growth, it's a bit of a mixed bag. We've seen Serbia growing. We've seen regional economies still growing, 1.5% to 3%, which means that we are looking at the full employment basically, real talent shortage, which means households are in very good shape and healthy. And we've seen still household debt to GDP that is in low 20s, and in this respect, obviously there is still a lot of room for growth.

And we see especially in retail very sound evolution, let's say also in Slovenia, 5%, but in the countries still high-single digit, 8% to 10%. And this is actually driving the mid-single digit because, on the other hand, when it comes of course to corporates, we see a quite prudent way of thinking still by the CFOs and CEOs in the region. Because of this uncertainty mainly coming from the

German economy, they somehow delay certain investments.

And in this respect, there is a bit lower demand for corporate loans in Slovenia versus still pretty solid one, with 6% growth proven, in the countries. In this respect, that's why we are basing this, let's say, steady state when it comes to retail, high-single digit, and corporate rather lower-single digit combined in aggregate terms, leading to the mid-single digit.

We would hope for stabilisation finally in 2025, and then normalisation, which would mean the return of some positive sentiment. And then, of course also more corporate demand, then driving the total growth to, let's say, high-single-digit levels. This is how we look at it, from this point of view. And remind me, what was the second question?

GADHIA R: Croatia.

BRODNJAK B: Croatia, we've obviously signed an SPA, the SPA for the acquisition of the Summit Leasing, with of course 100% participation in Croatia. We have filed the applications to regulatory bodies, and we are awaiting the response. We believe that this will be cleared, and this would then potentially signal further steps in Croatia. We cannot be more concrete on that at this point of time.

GADHIA R: Okay, but with that acquisition, do you think it opens up opportunities for bigger acquisitions in the country?

- BRODNJAK B: We would hope so, but of course it's not certain.
- GADHIA R: Okay, and just a follow up on the Summit Leasing acquisition. Just remind us of what the timelines are, and what the synergy benefits from the acquisition would be.
- BRODNJAK B: Yes, timelines are, let's say, mid of this year. We of course conservatively communicate latest end of this year, so we would want to close with all the regulatory approvals before the year end. We are aiming that it's more or less mid of the year. We hope it's feasible. When it comes to synergies, Archie, maybe you can assist here.
- KREMSER A: Typically, we assume a certain share of cost base. We are still doing the numbers here, but in essence, it was not a synergy case in essence. It was a strategic ambition to grow leasing in the first place in Slovenia, and also prevent competitors stepping in. But synergies will be in the single-million-Euro-digit, annually.
- BRODNJAK B: When it comes to obviously cost synergies, but when it comes to commercial boost, this means acquiring the market-leading leasing business.
- And if you look at the look-through funding equation, funding synergies of course here are extremely important, because you boost the growth of business at higher margins than regular lending products, and you fund it from your own base, which is here. In this respect, this is really incrementally bringing a lot of value accretion.

GADHIA R: Okay, understood. Thank you very much, and congrats again.

BRODNJAK B: Thank you.

KREMSER A: Thank you.

OPERATOR: The next question comes from the line of Goodacre Samuel with J.P. Morgan. Please go ahead.

GOODACRE S: Good afternoon, everybody, and thank you for your time. A couple of questions. One for you, Archie. Perhaps you could clarify what appears to have been a trading loss in the fourth quarter? Which I believe predominantly came from the foreign strategic markets. Could you give a bit of colour around that?

And then on the dividend, I think we're obviously awaiting a bit of an update on the future trajectory of dividends at your Capital Markets Day in May, but already today, you're moving away from targeting an absolute amount, given that you've been focusing more on the pay-out ratio.

What might we expect from a dividend policy going forward? Just in terms of how we can think about how you are deciding how to allocate capital, whether it be in those nominal amounts or in pay-out terms. Thank you.

KREMSER A: Not quite sure what you refer to as trading loss. The only significant event that I'm aware of is the modification loss we had in Serbia. Maybe you're alluding to that? That is the effect of the regulation coming into play for ceiling,

fixed-rate mortgage loans, and we had to account for that in our existing book.

With regards to dividend policies, Blaž I think more or less outlined our thinking around this. In essence, it says higher than 40%, and it still very clearly underlines ambitions to grow the business, so we will have to maintain a balanced equation between pay-out and invest. And I think you also can see or hear between the lines, that we want to maintain robustly capitalised. It is, after all, uncertain days, so in that sense, see us 100 BPS, 200 BPS above let's say management risk appetite it's called, but really it's a risk appetite view. In other words, a lower limit, and I'd rather see us 100 BPS, 200 BPS above that. But details are really for the Capital Markets Day, to be shared.

BRODNJAK B:

But you can somehow try to understand it, from 1.2 billion let's say around revenue ambition level, and then cost-of-income ratio below 50%, and then cost of risk, and then at least 40%. We can't be more concrete than that.

But of course, we would want to keep from today's perspective, somehow, these dynamics also in the years to come, but to be still verified by the strategizing process and communicating in May.

But we believe we are bringing good news here. We now of course move from absolute amounts, from this five-year period to dividend pay-out ratios, which was somehow signalled by various investors as something they would now prefer after this period over the last couple of years.

This is now what we try to do, in a way that is stimulative and motivating, and we say consciously at least 40%. If

there were no reasonable opportunities in the upcoming period, when it comes to the M&A, of course in a single year, this might be significantly more. This is really depending on our ability to identify and then act upon concrete assets in the region.

GOODACRE S: Okay, thanks very much. Cheers.

KREMSER A: Thank you, Sam. Welcome.

OPERATOR: The next question comes from the line of Dodig Mladen with Erste Group. Please go ahead.

DODIG M: Good afternoon, gentlemen. Thank you for your time and the opportunity for questions. And of course, I join with the congratulations from all the colleagues on the results. My question was on the dividends, but you explained it before a couple of times already. Correct me if I'm wrong, so conclusion on this 500 million is now off the table, and we are now talking about...? What I want actually to ask is, for example for this year, if this was staying unchanged, we could have expected, let's say, 130, the next year 160 million, in order to arrive to those 290? But that's now out of discussion, right?

BRODNJAK B: Both. You will have now 430 already paid this year, 70 next year, and we want to pay much more than 70 next year, so we refrain from 500.

DODIG M: Exactly, of course. Let's say in some case, this 130 becomes 220. Okay, thank you. Correct me, maybe I didn't see in the presentation, I think I haven't seen the update on your average value of Euribor in the portfolio. At the end of third quarter, it was 3.45. Do you happen to have information with you for the end of the year?

KREMSER A: I think we don't disclose it, but if you kindly address IR, they'd be happy to give you the exact number.

DODIG M: Okay. And one more question regarding politics. Do you expect any, let's call them strange developments in Serbia? Maybe repeated elections? Okay, of course this could be a long discussion, but just maybe I wanted to hear your sense on the situation right now.

BRODNJAK B: We don't, of course, speak out publicly about political relations in the countries. We believe that Serbia is a country with significant growth, with clear focus on development of the economy and build-up of the infrastructure.

There's been this constant question about relations, when it comes to our operations in the two markets. We run two banks, one in Belgrade and one in Prishtina. We've closed, at the end of January, all of the branches of NLB Komercijalna Banka in the northern territory of Kosovo, and by that, in principle, there is no ambiguity in this respect anymore.

The Bank Prishtina is focusing on the territorial area and on one side, and Belgrade bank, NLB Komercijalna, is

focusing obviously on the other territory. And in this respect, we have a clean cut.

We believe that, anyhow, the only reasonable future of the whole Western Balkan Six is within the European Union, and we again speak up publicly that the European Commission better come to its senses as soon as possible and integrate the Western Balkans fully into the European Union. But that's all we, as a systemic institution, can say about that. This will stabilise, finally, the whole region.

DODIG M: Yes, of course, I fully agree with you. Yes, it was something that I also wanted to align within my thoughts, that the whole region is going to the right direction, especially with all these billions of Euros being ready for the region throughout various growth plans and similar stuff coming from the EU. Yes, I guess that would be all from my side, and thank you very much, and I hope to see you in Ljubljana.

BRODNJAK B: Thank you, Mladen. You are cordially invited, as everyone else. Thank you.

OPERATOR: We'll now move back to our webcast questions. The next webcast question comes from Miguel from WOOD. And I quote.

MIGUEL: Can you please provide more colour on the DTAs recognised? What is the remaining balance, and until when do you need to recognise the remaining DTA balance? Thank you.

KREMSER A: I alluded to this a little bit, and we tried to be quite explicit this time in our presentation. You'll see that, in essence, all of the not recognised and recognised DTAs will be used over the period, up until end of 28, upon which we are back to normal.

In that sense, I explained, we'll see, given the balance sheet tax in Slovenia, slightly above 15%, in the 18% range group. Let's call it contribution rate, because technically the balance sheet tax is not accounted for in the corporate income tax, it's expense actually.

But to be transparent, we have now established this contribution rate, and so both this balance sheet tax and the DTA more or less expire throughout the period until end of 28, upon which we arrive then at the steady-state scenario, with some 15% roundabout group tax rate.

And in terms of recognition policy, we recognise in essence five-year earnings projection, utilisation, in the balance sheet. On a conservative basis, I should emphasise. Not in full, but on a let's say conservative estimate of earnings outlook, this part is recognised in the balance sheet.

OPERATOR: The next question is a follow-up question from Miguel from WOOD. And I quote.

MIGUEL: Does the increase in dividend pay-out ratio to 40% and €220 million already account for the excess capital distribution you alluded to in previous calls, or could we expect further dividend distribution in 2024? Thank you.

BRODNJAK B: For 2024, as from today's perspective, we have no intention to suggest more to the AGM because we believe that, as Archibald said before, in this uncertain environment generally, it is a good thing to have a bit more capital buffer, at least temporarily.

On the other hand, we believe there might be actionable assets within the upcoming 12 months. And in this respect, of course we want to keep sufficient capital reserves to be able to act upon such eventually actionable assets, if this arose as an opportunity.

In 2022, from today's perspective, we have no intention to suggest something like that. The strategizing process has been still pending, so I would not now preclude or prejudge on what will be the outcome.

But we will then communicate on 9th May a bit more mid-term perspective from this end. What is there that we believe is distributable and reasonable to suggest to the AGM, and what we believe is actually on the one side a strategic reserve? Or on the other, already addressing concrete opportunities that might arise until then already, or soon after. This is all I can say at this point. But it's 100% uptick from last year.

OPERATOR: The next question is again a follow-up question Miguel from WOOD. And I quote.

MIGUEL: You previously guided for 0 BPS cost of risk in 2023 but booked provisions that imply 10 BPS for full-year 23. I was just curious as to why you decided to book more provisions than maybe previously anticipated in third quarter 2023.

Also, what is included in other impairment and provisions?
Thank you.

BURKHARDT A: I think we are mixing here two topics. One thing is cost of risk, so here we are talking about impairments for loan loss provisions, right? And the figure per end of the year is 7 BPS negative, so we are releasing cost of risk.

Of course, there are also other provisions, so non-loan loss provisions. Here in 2023, in general, we saw some charges on the legal side, primarily topics like, for example, Lexitor here in Slovenia and...

KREMSER A: HR provisions.

BURKHARDT A: HR provisions, exactly. These kinds of things. But these are not loan loss provisions and of course, not calculated in the cost of risk.

OPERATOR: The next question is a follow-up question from Miguel from WOOD. And I quote.

MIGUEL: Can we still expect further NIM expansion in first quarter 24? What is the current share of term deposits and average cost? Thank you.

KREMSER A: The term deposits I think have been shown. A share of deposit base, so we talk something in the territory of 10% at a group level. And the pay-out on the term in Slovenia is, in essence, 2.5% for in excess of 12 months, to give you an idea. And of course, we will review and revisit these

pricing assumptions as we go along and as market price dynamics develop.

BRODNJAK B: Yes, when it comes to NIMs, obviously crystal ball, so it's really the function of whether and when and to what extent the ECB starts moving. Until then, it is clear that not necessarily everything has already been repriced, when it comes from the last hikes, because you have some six-month, 12-month Euribor and so on, there must still be something coming in.

On the other hand, there is a slow shift towards term deposits where we pay a bit more. You saw of course in the document how average funding cost is moving up slightly, but we believed that we had seen the peak in the, let's say, middle of quarter four. But at the end, the whole quarter was still growing in terms of NIM, so let's see.

But it's really a function of how decisively and when ECB will start moving down with their rates. And it's an assumption everyone can have.

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

ANTUN: What is the expected contribution of leasing and asset management segments to group profit in 2024? Thank you.

KREMSER A: If we exclude Summit, leasing is still a bit of a start-up business in Slovenia, so we're just rebuilding this book. We talk total book size, something in the ballpark of 300

million, margins here are 2% to 3%, so it's a straightforward calculation.

It's not very material these days of course with Summit, and that's why we explained before, this was not a synergy case, this was us accelerating growing in this attractive business. And here we then talk about a billion-plus altogether, so that of course will become material. We'd then certainly count on revenues in the ballpark of 30 million, give or take.

This is material for us, and of course importantly, it's underpinning our strategy to provide not just the core banking services, but to complement our distribution capacity with as many products as possible. Yes, asset management these days is a 20 million revenue, give or take, pool, and again here we expect more to come.

And we just announced that we acquired a business in Macedonia, Northern Macedonia. We continue to operate with the subsidiary of former Komercijalna Banka, so we see here the glass half full, and are very ambitious in also setting us up organisationally to fully, let's say, chase this revenue and profit pools.

But again, I would ask for a bit of patience. I think more light we will certainly shed on this in the upcoming Investor Day, but for sure, that's a big theme there as well.

OPERATOR: The next question comes from the line of Brzoza Robert with PKO BP Securities. Please go ahead. Mr Brzoza, can you hear us?

BRZOZA R: Hello? Yes, can you hear me now?

BRODNJAK B: Yes.

OPERATOR: Yes, we can. Please go ahead.

BRZOZA R: All right, thank you. Sorry. Good afternoon, everyone. I have two questions, one on the potential impact of Basel Four introduction, and second, on your expectations regarding the further 2024 level of NPL recoveries, whether you would see them at a similar level to 23, or significantly below that level? Thank you.

BRODNJAK B: I apologise, I didn't understand the first question. What was the first question?

BRZOZA R: The impact of Basel Four Rules introductions on your capital position, risk-weighted assets, etc.

KREMSER A: The first one, easy. Moderate, if anything at all, because we are still standard-based approach. And regarding NPL recovery, I will pass on to Andreas.

BURKHARDT A: Yes, so on NPLs, you saw end of last year, we are at 300 million NPLs. I would say this is approximately the bottom where you can get to. We are still growing, we continue to grow, so if we just absolutely stay in this range, I think we can say this is very successful.

What you saw in 2023 is a certain inflow in retail. We were able actually in the same speed to resolve also NPLs. You

saw on the corporate side still some good success. Overall, we've again decreased a little bit, even in absolute numbers, in 23.

I would say at one point of time, given also the area in which we're working as a group, there's a bottom to that, so I would not expect much more decreasing absolute numbers. We might still, if we're lucky, see slightly decreasing relative numbers.

As you saw on the cost-of-risk guidance for 2024, we are expecting moderately positive cost of risk, so 20 to 40 BPS. You have to see that, of course, if you see any of our mid-sized tickets, one, two tickets can make a solid difference. If you calculate so sharply around zero, you might have also one day a negative surprise.

I have to say, I don't see these surprises coming for the time being, so what we can see for now, I'm very confident that we will stay within the predicted cost of risk, and that we will stay relatively flat-ish on the absolute NPL level in terms of millions of Euros.

But of course, as the colleagues also before mentioned, it's a vivid environment, it's not even a peace in Europe, so it's always possible that you see one or two cases outside the range that we are expecting. But do we see this for now? Do I expect it for 2024? No, so we are very confident and optimistic to stay within the forecasted range.

BRZOZA R: Yes, all right, thank you.

BURKHARDT A: Thank you.

BRODNJAK B: Thank you.

OPERATOR: The next question comes from our webcast participant, Antun from Allianz. And I quote.

ANTUN: Do you think Slovenian government retail bonds will affect your level of deposits in Slovenia? Thank you?

BRODNJAK B: First of all, we want to congratulate the government for deciding actually to go this way, because this is a very important milestone. We firmly believe in developing the Slovenian capital market.

We are, at the same time, happy that NLB was one of the main of course distribution channels, and I believe that the outcome of this issue was ideal, slight oversubscription, because we would hate the scenario where not everyone will get everything that was asked for.

In this respect, I think this was just the perfect outcome. It's 250 million in a 27 billion deposit portfolio, so it is by no means deteriorating the bank's structure, the balance sheet of the banks. And in this respect, it's something we welcome. Our LTDs are at 66%. We have solid growth of deposits, still. We believe this is simply a way to develop the market further, and the rest is in the hands of the Slovenian government. We have by no means been impaired by that.

Furthermore, I believe that this is following the, more or less, main goal of literacy, of the development of capital markets, of balanced distribution of assets of Slovenian

households, private individuals and businesses. And this is going to benefit us, as a universal distributor of financial services in the long term, in many ways. So far, so good. I think this was actually a perfectly done transaction.

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: I think it was an exhausting feature here, so thank you very much for being with us, for your continuous trust. And I'm really celebrating today because we have seen the historical high of the stock.

This is more than doubling since the IPO in five years, and this is really bringing the dividend promise of, at today's price, still more than 10% dividend yield. And this is leaving still room for further organic- and M&A-driven growth, and we believe there is much more to come. And we believe it's worthwhile now extending this trust also in the future. Thank you very much.