NLB Group

Q3 2024 Financial Results

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Conductors:

Mr Blaž Brodnjak, CEO

Mr Andreas Burkhardt, CRO

Conference Call Conducted by Chorus Call Hellas

CHORUS CALL HELLAS

PROVIDER OF TELECONFERENCING SERVICES

TEL: +30 210 94 27 300

FAX: + 30 210 94 27 330

Web: www.choruscall.com

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 Third Quarter 2024 Financial Results. At this time, I would like to turn the conference over to Mr Blaž Brodnjak, CEO, and Mr Andreas Burkhardt, CRO. Mr Brodnjak, you may now proceed.

BRODNJAK B: Thank you very much. A warm welcome, everyone, good afternoon, to our regular performance call. Thank you for devoting your time. Let me draw your attention to the standard disclaimer first, and then move to something that we believe is a good story. So, we are looking back to another very strong quarter. In all dimensions, we see growth, which is good.

So, all client segments, all geographies, organic, and after successful closing of acquisition of Summit Leasing, including the participation in Croatia. Also, M&A relevant and related growth, which is all adding value, and we believe, productively engaging capital. We've been growing, as said, stably through the retail and corporate portfolios and introducing, now, leasing as a very strong pillar.

There is a very solid trend in net operating income. Clearly, the margins have peaked. We will come to that later on. But in principle, we are defending the revenue by a set of various measures. If the efficiency is still there, cost-income ratio is still very solid, and result after tax in

Q3, of course, depending a bit on seasonality and cost of risk evolutions in previous quarters, but generally very strong output.

Key highlights refer to very stable and benign evolution of cost of risk still. Andreas will give you a bit more flavour, how, of course, certain uncertainties and turbulences in German economy and generally, European manufacturing universe are potentially affecting us. But there have been no detrimental evolutions in this respect. ROE, of course, on a pretty high basic capital, is very solid, and we have been, asset managing with various measures, also the net interest margin.

So, clearly, we've seen rate cuts, and a lot more is ahead of us, but with a set of various measures, we have been addressing this one, clearly being, of course, the growth, so organic and M&A-related growth of loan books. On the other hand, rerouting some of the liquidity reserves from ECB balances to longer-term securities, hedging some of the positions, and focusing on fee income origination, which is, of course, also a very solid measure.

Referring back then, also to the dividend payout that is pending, so we have already convoked the AGM, which is going to take place on 9th December, and then distributing the second half of this year’s solid dividend. So, the macro of the region is still very promising. We've seen significantly higher growth rates than in Eurozone and generally, European Union territory. Slovenia, this year, rather, towards 1.5%, but then, for the upcoming years, practically all geographies showing very solid promise, in a sense, of what we can hope for.

The inflation coming down, unemployment being basically very, very low, these reported numbers do not necessarily reflect actual situation in the market, because anyone willing to work, of course, can find work easily. So, this has not changed. And also, in terms of the general balance of fiscal systems of the region, also referring to the indebtedness of the countries. In this respect, this is a very solid situation to be in, in a sense, of course, of prospect growth and us playing in this region as a regional specialist, addressing this growth potential.

Key developments, I've mentioned in principle. So, I'm very happy about the growth of income. On one side, of course, it's related by a still-pretty solid rate environment. But on the other hand, as said, we have started introducing certain rate reduction measures, offsetting measures already earlier this year, basically, at the beginning of the year, already anticipating some of these developments. And I also mentioned which measures have been actually undertaken.

The interest expenses versus interest income, of course, are leading to some something that is, in this respect, pretty stable, still net interest margin evolution, especially if we look at Southeastern Europe. But generally, we have been, with these measures, offsetting, generally already, a significant reduction.

On the other hand, the operational business margin has been capped at a very solid rates, even growing. Okay, in last quarter, stabilising and then gradually moving down, but still capped at very solid levels, which is, of course, producing very, very solid revenue and capacity. Low dynamics is very favourable.

We are happy about the high-single-digit growth of retail books in Slovenia and even double-digit, YTD growth in Southeastern geographies, which is, of course, a very solid prospect for the entire year, where high-single-digit to even double-digit growth rates are expected, it seems, and reasonably expected.

On the other hand, we are also seeing pickup in corporate demand, not necessarily in market-level aggregate loan books, but us being able to address the demand of the businesses that still invest in, I would say, a more engaged way, it seems, than some competitive players in the region. And I claim this, as this has been happening at absolute discipline, when it comes to underwriting standards and criteria.

So, the high-single-digit growth of corporates and sovereign books is also a good reason to celebrate the Q3 results. Interest environment is, of course, something that we are all wondering, what the future will bring. And in this respect, I would say that the nominal rates on client level are very, very supportive to the results. We have been shifting, to a significant extent, as much as possible, new production from variable to fixed rates. And of course, this is resulting in stable nominal rates on the client level.

We've seen a bit, I would say, revived demand for floating rates, but in terms of retail demand, it's still predominantly fixed, and people still are, more or less, of course, seeking for fixed rates. On the other hand, the banks have proactively reacted more or less already months ago, by adjusting, I would say, housing lending rates to something that is, I claim, very attractive for clients already. And it's, in historical context, absolutely reasonable. So, we are happy about housing loan demand coming back to the market.

And we have been addressing this over proportionally, in relation to some of the competitors, since we have been gaining market shares in practically all segments across geographies and across segments, as well as mentioned. Deposit dynamics is somehow managed. So, in this respect, there is a growth. There is mid-single-digit growth, of course, in private, individual business. On the other hand, of course, we have no desire, nor need to pay high deposit rates to corporate clients for higher amounts, obviously, and in this respect, some decline in total stock is expected, is leading towards more efficient loan-to-deposit ratio, and by that, overall profitability of the banking group.

We remain, clearly, self-funded entirely, and LTDs are still low 70s, but more efficient than mid-60s, as compared to last year. But total funding cost coming from the deposit universe is absolutely manageable. And I would say, my assessment is, it has peaked. We've seen, still, pretty solidly low betas of 12% and more or less stabilisation of term deposits of around a billion, which is exactly at the level we somehow planned with last year, when we saw this trend coming.

The savings accounts still remain a pretty attractive product, but they have automatic repricing mechanism of 20% Euribor rate. And in this respect, of course, are pretty interesting products for clients and us as well.

The NII sensitivity has been, as mentioned before, addressed with various measures, and we brought it down significantly from approximately 110 million to, let's say, 73.9, less than 74 million at 100 bps shift, which we believe is reasonable. Of course, we will continue growing. Of course, we will continue focusing on fee income and other revenue generation drivers. And by that, clearly offset what's to come.

We have been operating with assumptions of, let's say, around 200 basis points towards the end of next year. If, of course, the rates would go in a materially different, or to the materially higher, extent down, this would have incremental impact. And this is not envisaged in our guidance. So, we operate with assumptions of, nevertheless, moderate reductions to these levels.

The non-interest income, especially solid and happy about the trend in fees all over the place. So, smart pricing, heavy engagement, high focus have been driving this growth. We have been adding, clearly also, the leasing pillar as something that is going to also contribute incrementally as well. But generally, from the universal financial services distribution capacity, a really strong year for the asset management products, really strong year for life insurance, unit-linked products. And as said, with smarter pricing as well and a focus on cash transition to non-cash payment services, as well as strong support of these fees.

There have been, clearly, some tensions when it comes to costs. We are operating in the region where we've had a significant wage inflation, also based on some regulatorily and legislatively based measures, in terms of significant increases of minimum wages. Really still quite some exodus of talent. By that, naturally, of course, requiring to pay up a bit on one hand. So, this is partly coming from the employee cost increases, but predominantly also because we have been incrementally investing in digitalisation.

So, in this respect, we have been really moving new production more and more to digital. And transitionally, we, of course, need to invest. So, this was envisaged. This was planned for. And in this respect, that's something that's, of course, interimistically introducing certain tension, since, if we saw, then, really quick rate reductions, we will have temporary seizures until we see the new bottom when it comes to rate environment. And from then on, of course, have, again, solid growth of revenue base. Given, of course, a very strong organic evolution and us still being alert on eventual M&A opportunities.

Capital position remains strong. It is, of course, in terms of total capital ratio, a bit lower. But this is good news because this means we are able to grow risk-weighted assets significantly, again, organically, and by acquisitions, and by this, of course, consuming the buffers that are, on purpose and consciously, in place, since we have attempted some acquisitions recently, and we might again attempt some acquisitions in the near future.

And in this respect, of course, these buffers are absolutely constructive and not on the way of accreting more value to you, as shareholders. Dividend payments have been still strong, but as said, there might be opportunities for value-accretive acquisitions, and at the same time, as seen, close to, or even, double-digit growth, which is, of course, something that we like, especially at the nominal rates we are able to generate this growth at.

When it comes to the wholesale funding, yes, we have acquired Summit Leasing. This has increased the Slovenian resolution group. And, of course, this requires incrementally consumption of MREL instruments, i.e., requiring, of course, certain increases at certain points of time, of MREL funds. In this respect, we might fast-forward some of the planned issuances.

We are talking, so far, that towards mid of next year, we will be planning a benchmark size, up to 500 million senior preferred notes. We might accelerate this to the beginning of the year, and by that, of course, cover this need. On the other hand, we have been talking, on various occasions, about our eventual interest in issuing also AT1 instruments that would, of course, support the growth from potential incremental acquisitions, while securing very solid dividend payouts.

When it comes to the asset quality, I would pass the word to Andreas and then come back for the guidance.

BURKHARDT A: Yes, Blaž, thank you very much. Welcome also from my side. We are back to 50% of our portfolio sitting in Slovenia. This is here on the lower part. That's now not a surprise. This is actually the influence from Summit Leasing. And on the upper part, when it’s split between SME, Corporate, Housing and Consumer, you see it a little bit more in detail. So, the white part is, actually, if we would not have acquired Summit and, well, light grey is the actual situation. You see everywhere very solid growth.

And of course, the 31% for Consumer is including, now, the part coming from Summit Leasing. Without that, it's around 12%, so still very good, I would say. And also, where we have some solid influence from Summit is in SME. So, here the growth is 14% with them and would be around 6-7% without them.

Very well-diversified portfolio. What you can see is, we were very solidly growing in construction industry area. Actually, these are, for a good part, deals, which are already coming from previous period, and now just start being implemented here. Quality of the portfolio is very, very good. And otherwise, I would say, no major developments to highlight.

What, recently, is a little bit more in the focus of discussion is Automotive. So, that's why we prefer, this time, a slide on top of the ones we had so far. You see manufacturing, so car components, that's actually very, very limited. That's 155 million in the Group. And then we have, in leasing and in banks, of course, car sales and car maintenance-related exposures. That's, together, something like 230-240 million.

On the last two. So, far, zero negative developments, very, very regular. On the manufacturing there, I have in my head now one medium-sized and one, well, rather smaller client. One of them, yes, not pleasing easy. But honestly speaking, that's much less a result of the current situation. That's more of homework to be done. This client is intensively working on it, so I think this will go in the right direction. The smaller one, I'm more sceptic.

So, here you see a little bit of a movement. And what you don't see here is that, of course, also in steel industry, also here, we have some clients. The current situation has some impacts in lower volumes, but no dramatic developments here, actually, either. It's more that whoever, of course, before, didn't do a perfect homework, now feels it more than others. So, we will have to see how this is developing.

I don't expect any dramas, but in such situations, clients are usually exposed with multiple banks, so it's not just depending on us, but if everybody stays calm and rational, then I think this is very well manageable.

On staging, I mean you saw the jumps for a variety of reasons, quite some of them, also methodological in Stage 2, in retail in the past. And as I told you already last time, I am expecting this to stabilise. That's now exactly what happened. And what you otherwise can see is that Stage 2 and Stage 3 stay very, very controlled actually, now, in the Third Quarter. Basically, well, just minimal changes everywhere.

If you look on the NPLs, we have, now, a little bit more NPLs in number of euros than the end of last year. So, actually, 20 million more. That's actually still pretty much of a luxury discussion, I would say. A part of this now is, of course, also coming from the leasing acquisition. Also, there we have some Stage 3, some NPLs, logically, and a little bit is coming from Retail, basically still zero from Corporate.

And what is also still true, that approximately one third, so concretely, 125 million of these NPLs, are with zero delays. So, many of them are in a healing stage, and they are not yet healed. Collateral coverage remains very, very solid, and the geographical dispersion, you’re now already used to that, is obviously normal, compared to the shares in our overall business. And I guess, that's what you want to see, so that's okay.

And then, last but not least, cost of risk. So, we had some methodological changes, actually, improvements this year. This is something, which, and I think somebody asked me last time, I'm not exactly expecting to repeat next year. So, this is, well, if you want more or less one-time effect this year. On the other side, portfolio development, very, very moderate in the entire year. On the negative side, you see 26 million, and on the last quarter, 4.5 million. So, very moderate on the other side.

We still have good results from repayments of written-off receivables. This is still amazing, which figures here are coming in, honestly, for very much ageing of balanced portfolio, and that's good. Overall, we still see releases in the first three quarters, so this might not be like that anymore until end of the year. For sure, we will very solidly stay within what we are guiding for, so below 20 BIPs cost of risk.

Whether it's still negative will need to be seen. We have here two elements. On the one side, I told you a little bit about corporate clients here. Of course, a little bit of focus is really, indeed, on Automotive and on Steel. On the other side, we see, currently, some layoffs, of course, also to clients in these sectors. We are exposed to the weaker clients now, but on the other side, as Blaž mentioned before, it's still a situation where everybody who wants work gets work pretty fast.

This case, we shouldn't see, here, anything, but let's see. So, I'm still the CRO, so I'm a little bit careful, but developments so far this year, of course, again, very good. And I'm not expecting any dramas or evolutions, but we might see some provisions actually, in the last quarter. With this, I'm handing back to Blaž, and actually to our newest acquisition. Thank you.

BRODNJAK B: Thanks, Andreas. This is the first, more or less, flash about what this new acquisition means. So, we will come with more detailed numbers with the Annual Report. We just closed on 11th September, so some consolidation effects are just for a short, limited number of days and burdened with some one-offs, which would be confusing in disclosures. So, in this respect, we just guide, in principle, for what this business is, in terms of size, in terms of structure and what it should incrementally bring in mid-term, in terms of contributions.

So, we are talking about 20, growing to 30, million contribution in the mid-term, and that's, of course, material. And if we were talking in the past, that leasing should become a pillar with more than a billion of volume, we are talking, of course, now about rather more than 3 billion until 2030 within the strategic constellation.

So, this has become an important sub-pillar of our business, covering four geographies, and, of course, having ambition to, potentially, look at further acquisition opportunities, be it portfolios, be it fleets, be it businesses as a whole. So, this is going to be another development stream of our banking group.

When it comes to the integration, it is well on the way. So, I'm personally chairing the Supervisory Board of Summit Leasing in this capacity and supervising the integration process. We are aiming to complete it, let's say, until the end of H1 next year, then on having, clearly, one company, one entity, so a legal and operational merger completed. It will be called NLB Lease and Go, of course, operating the entire network of four leasing businesses in four countries.

Then, finishing this presentation with the outlook, we've been pretty consistent with what I've been saying so far. So, of course, 2025, towards the end of this year, we don't expect major negative surprises. Andreas gave you some hints that, of course, the manufacturing in Europe has been under pressure, and there have been some businesses in Steel Processing and Automotive that had challenges. I believe they are all, of course, possible to overcome without major pain for banks and the businesses, but it will require some effort.

So, it's going to be negative cost of risk or not. It's not necessarily yet clear, but for sure, below 20 basis points, as a guidance here. And when it comes to the next year, we are working heavily on keeping the revenue base. So, despite significantly, I would say, accelerated reductions of the rates, we believe we should be offsetting this by growth on one side of business, and on the other side, not only, of course, loan book, but also fee income at high-single-digit rates.

And on the other side, clearly, this has been somehow confronted by, still, attention to invest. So, we are significantly investing and even accelerating investment in digitisation. And we just put in production, for example, self-service, credit card limit management and self-service overdraft. And this is already delivering more than 50%, almost, in some cases, even more than 60%, of people actually doing this themselves. So, in this respect, it pays off to invest into digital.

And there will be this this interim tension, clearly. 2025 is going to be confronted by swift rate reduction and, of course, investment. And in this respect, we are guiding for a bit higher cost of risk, interimistically, as a transition period. But, of course, we don't shy away from keeping saying that, until 2030, it should be, of course, retained below 45%.

Cost of risk is a bit of an enigma. We have been, for ten years now, guiding you to 30 to 50 basis points. But it's really a bit of a function of a health of Central European economy. We see some turbulences now in Germany, premature elections obviously coming somehow. Are there going to be some measures that are going to revamp, revive Central European Industrial Basin, which Slovenia is, of course, heavily dependent on, when it comes to our output? And should, then, this lead to increased order books and so on? Let's see.

So, we are cautiously guiding for these 30 to 50 basis points. They haven't crystallised in the last ten years, and we would hope they would not this year as well. But the situation in Europe is not really rosy. So, let's see what comes, also with the result of American elections, how this will potentially impair a European Union economy, in terms of global competitiveness and so on. And how, of course, a strongly manufacturing-based economy like Slovenian, a bit less regional, might potentially get affected.

But generally, we believe this is something that is finally leading to a kind of normalisation of cost of risk. We would, of course, keep a high promise on dividend payout. I mentioned, if we were to engage in acquisitions, there is a potential that we retain, with capital buffers of up to 4 billion. We would, in any case, if there was a more material acquisition, I would say, supplement that in parallel with an AT1 issuance, so that we would keep the high dividend payouts and bring, then, the rare situation to investors, which would be the best of both worlds. So, value-accretive acquisition in combination with still-solid dividend payout.

So, overall, we are bringing, I believe, good news, not deviating from what’s been said so far. It's been a very strong quarter. It's going to be a strong year. It's going to be a bit transitional, demanding 2025 and First Half of 2026. But then on, once we hit the bottom, in terms of the rate environment, I believe the growth, organic plus potential M&A, accompanied by a very conscious investment in digitalisation, which would, at certain stage, then, of course, also lead to significant reduction in headcounts. We are talking about 20% plus within six years.

Of course, we should then also keep the cost-income ratios below the guided-for 45% towards the end of the strategic period. That much from our side, when it comes to the presentation, and by that, we are opening the floor for questions and comments. Thank you.

OPERATOR: There are no audio questions at this time, and we will now move on to our webcast questions. The first webcast question is from Antun from Allianz, and I quote, First question. When is the next issuance of MREL bonds planned?

BRODNJAK B: I mentioned early next year, very likely. It's not yet a firm decision, but we have been planning, originally, mid of next year. But we might accelerate that to the beginning of the year. I can't be more specific, but early in the year is very likely.

OPERATOR: Thank you. Second question, can you tell us about buying the online vehicle sales platform, dobreavto.si, which was owned by the Automobile Association of Slovenia? How much loan generation do you expect from that platform? Thank you.

BRODNJAK B: Well, that's really a small, I would say, entrepreneurial sidestep. So, it is simply adding towards our comprehensive mobility solutions ideas. It is a small portal at this point of time. It is immaterial for the banking Group, and it's too early to tell, in principle, to what extent it would assist us at eventually disintermediating other players in this universe.

So, it's more or less adding to the entire end-to-end business model of mobility providing. And it's too early to tell this concretely, but as said, it's an attempt of building ecosystem solutions, when it comes to mobility. It is immaterial for the banking Group as of today.

OPERATOR: Thank you. The next webcast question is from Jovan from RBI, and I quote, you have kept 2025 ROE unchanged, despite revising CIR upward to 48% at unchanged revenue outlook. Does this 15% ROE for 2025 now look too ambitious? Thank you.

BRODNJAK B: We believe it looks more realistic, because if you look at the 15% of outlook for 24, we say more than 15%, and we tend to deliver more than 15%. So, in this respect, it is to be put in perspective. So, so far, we somehow wanted not to overpromise, but to overdeliver. 2025, okay, can be seen more as a stretch, but we believe 15% is achievable.

OPERATOR: The next question is a follow-up question from Jovan, and I quote, What was the contribution by SLS to the net interest income and fee line in Q3? Thank you very much.

BRODNJAK B: It was immaterial, basically, because it was just these 19 days. So, that's why we said, we are not more specific than that. We will be more specific in the Annual Report, where we will then clearly disclose all of these effects. And the key ambition, obviously, is the midterm, to come to

30 million contribution to the Group's results. But more specifics are coming.

OPERATOR: The next webcast question is from Vladan from Ipopema, and I quote, At what level do you expect net interest margin to stabilise after 2025? Thank you.

BRODNJAK B: It's too early to tell. It's a function of so many moving parts. I can't be concrete in this respect. What we are trying to do is, of course, defend the margin as much as possible with various measures. You see the client-facing rates, which are pretty stable still. So, you didn't see the decline, because this is, of course, now shifting balances from the ECB balances to the corporate client portfolio, part leasing, part corporate growth, part retail growth, to a significant extent, fixed rates and so on.

So, I can’t be really concrete. We will lose some of the margin, clearly, but with various measures, we are trying to defend it, then to lead towards these combined guided-for results. And that was mentioned, where we expect rate environment. We expect it at 200 bps at the end of next year.

OPERATOR: Thank you. The next webcast question is a follow-up question from Jovan with RBI, and I quote, what is the driver behind the cost-income ratio target revision from 45 to 48% for 2025? Thank you.

BRODNJAK B: Well, the driver is obviously keeping revenue stable and still certain investments. There are still tails coming from former inflationary environment, in sense of the wage inflation in the region. If you just are monitoring the legislatively based unilateral increases of minimum wage across the board in the region, this is actually in the ballpark of 20%, in some countries, even and so on. So, there are still tensions here.

On the other hand, there have been tensions, because, of course, the different profiles of talents that you need for digitalisation are also relatively more expensive. So, we are onboarding people that are not cheap, but of course, are there to deliver, clearly, the digitalisation targets. And this is introducing this interim pressure, as I mentioned. So, there is some tendency to, of course, invest.

On the other hand, clearly, revenue base is more or less stable, is not growing. And this is interimistically introducing this tension.

OPERATOR: Thank you very much. The next question is from Antun with Allianz, and I quote, Regarding Summit Leasing and the number of branches, do you plan to increase the number of branches of Summit Leasing? Are you happy with the current number of bank branches? And can the people working in bank branches be easily moved to work in leasing branches if needed? Thank you.

BURKHARDT A: There is, of course, clear overlapping of leasing branches, so we would rather be closing leasing branches, not adding leasing branches in Slovenia. In other markets, this is a different discussion, because we have just started in Serbia and in North Macedonia. And in Croatia, we have the situation as it is, so we want to grow the business there. But in Slovenia, we don't want to grow the number of branches. We believe we are well covered.

When it comes to general number of branches in the bank’s universe, this is really a function of us successfully digitalising the standardised routine services. And then on the go, on the way, of course, decide whether there are further reduction potentials, and in which geographies. We are down from 158. We, on the go, bought 11 branches from Sberbank. So, in Slovenia, we have 169. We are down to 67-68. So, what is the optimal branch count in the country? I guess, around 60 to 65. The time will tell how many.

The real question is of the format of these branches. How quick is going to be cash transition? Do all the branches need to offer cash? And can we eliminate cash from a number of those branches? Can we downsize them to a couple of advisory positions? Because you want to push all standardised services, such as the entire consumer lending universe, which means credit cards, overdrafts, cash, cash loans, to mobile. And this, we will then be monitoring on the go, analysing, end to end, what, for example, a 65% new production of overdrafts via mobile phone means for end-to-end manual consumption of hands.

If I make it plastic, which means that on the go, we will simply adjust the number of employees, at the end, leading to something we believe is going to be at least 20% less employees at the end of 2030 than today, in standalone terms, so without other acquisitions. So, this is going to be, then, a result.

Less people, not necessarily, of course, a lower cost of employees, because we will have different profiles of people. We will have advisors in branches, and, of course, we will have significantly beefed-up structures when it comes to data universe and IT delivery. So, in this respect, it's going to be a different bank.

We just discussed, today, strategy with our Supervisory Board, strategy implementation, and what we are working on is a framework to become a digital bank with strong asset management/large bank assurance arm. Which means that all standardised services, we aim for 80-90% plus percent being produced in terms of new production via mobile in six years from now, which will, of course, fundamentally change the business model. That's a fundamental transformation of the business model.

And it's difficult to tell you now how many people we will have in ‘27, but the target for 2030, as a derivative of us successfully digitising the services, is at least 20% less. Number of branches is then, to me, a function of tactical analysis on the go. We are managing total cost.

OPERATOR: Thank you. The next question comes from the line of Dodig Mladen with Erste Bank. Please, go ahead.

MLADEN D: Good afternoon, Gentlemen. Thank you for the call, and congratulations on the result. Just one question regarding Serbia for this upcoming regulation on capping the interest rates. First of all, prolongation of the cap on mortgages, but also, now, this potential introduction of capping the interest rates on consumer loans, what are your feelings on this?

How do you expect, whether it will be a huge impact? And considering the fact that the interest rates, as you said, are accelerating downwards, but again, in consumer segments, still lots of fixed arrangements, and then rather slower dynamics of decline?

BRODNJAK B: Current analysis tells us it should not exceed last year's phenomenon, in terms of what was last year's one-off modification loss. So, we hope for it to be retained on this level.

MLADEN D: Okay. I just thought, maybe would the, let's say, competitive room be smaller with this cap on consumer interest rates, or you expect that banks will go faster than this cap is actually limiting?

BRODNJAK B: I believe, it's my personal view, new production should always be at reasonable rates. Now, we can be discussing what was happening in the past, and the new production, anyhow, will be happening with reasonable rates. And what is then, of course, one-off effect for the stock, this is a different story. So, on one side, a bit lower capacity to generate revenues, but I believe that, with more reasonable rates, you can create more volume.

So, at the end of the day, it's more or less, an equation with more variables than just one. You cannot look at it, c.p., so because of low rates, you might be able to generate more volume. On the other hand, when it comes to stock, one-off modification losses should not exceed last year's amount. This is how my team is assessing the situation.

MLADEN D: I understand. Thank you very much.

OPERATOR: The next question is from our webcast participant, Ronak with Dunross and I quote, How do you explain the strong organic growth in Slovenia, despite the relatively modest GDP growth and our uncertainty about the automotive industry in Germany? Thank you.

BRODNJAK B: Yes, but if you look at it realistically, we are talking about 1.5% real growth, which is, let's say, 4% nominal or something, and then 6% YTD growth of retail book in the economy, with full employment, with household debt, GDP at 21-22%, and so on. So, housing loan rates are at 3% fixed for ten years, which is, in historical terms, solid and attractive already for clients. And that's why they simply are back to the real estate market.

The same is true for cash loans. People can afford durable goods, and cash loan pricing was, in any case, not too volatile because it was always predominantly fixed rates around this 5.5% to 6.5%. People have money. People still are consuming. People are still travelling. People are refurbishing their houses and so on, buying equipment. And 6% growth, annualised 8% growth in the nominal economy growth of, let's say, 4% or 3 to 4%.

In such an under-penetrated and shallow financial market, it’s, to me, not a surprise. It's actually an expected and desired evolution. So, the sentiment is pretty OK-ish, and people simply do use that.

OPERATOR: Thank you. Next question is a follow-up question from Ronak with Danross, and I quote, what is the guidance for effective tax rate guidance for Full Year 2024 and Full Year 2025? Thank you.

BURKHARDT A: Well, it should not materially change from, what, some 14-15%. So, it's difficult to be more precise. It should be on that level. So, there is, I would say, a one-off tax normalisation in Slovenia, which is, of course, the balance sheet tax, which is to be with us for five years, which is, more or less, a kind of normalised corporate income taxation expectation. But we are, in general, operating with, let's say, 15% plus, give or take, a percentage point.

OPERATOR: Thank you. Next question is a follow up question, again from Ronak with Dunross, and I quote, is there more scope to reduce the amount of cash equivalents on the balance sheet and correspondingly increase the loans-deposits ratio? Thank you.

BRODNJAK B: Sorry, I'm not sure I understood the question. Which equivalents?

OPERATOR: So, is there more scope to reduce the amount of cash equivalents on the balance sheet and correspondingly increase the loans-deposits ratio?

BRODNJAK B: Well, we are reducing loan-deposit ratio by various measures, and one was, for example, the acquisition of Summit, which is directly translating what was 800 million, approximately, with the ECB, now in the client business. The other is significant growth. So, you see growth of loans is higher than growth of deposits, in aggregate terms. So, this is what we have been focusing on.

Would there be more acquisitions? If possible, Yes. And depending on the target, of course, then the groupwide loan/deposit ratio might look this or other the way. Of course, we can fuel growth additionally by focusing on attracting more deposits. We have consciously not been doing this because, of course, we have these loan/deposit ratios that we have. And in this respect, we are working on efficiency of the balance sheet.

So, there is a set of measures predominantly focusing, clearly, on client-relevant production, which means, of course, we don't want to buy bonds all over the place. We want to do lending business with corporate clients and predominantly, of course, retail clients, households. And these are the main measures. There is nothing immediately different. We did take some, of course, money from the ECB balances and place it into, let's say, longer-duration securities. But this is not loans directly.

We did hedge some of the positions, when it comes to loan-deposit ratio, specifically. As said, it's simply rerouting money into client business, and we do it organically and through M&A.

OPERATOR: Thank you. The next webcast question is from Ian with EIB, and I quote, with the outlook for the steel industry worsening, do you anticipate increasing loan loss provisions in 2024 for clients in still-dependent industries? And could you provide some insight into the bank's approach to stress testing for clients in Construction and Automotive, given their correlation to the steel market? Thank you.

BURKHARDT A: So, steel industry, I think I mentioned before, we see here, of course, some stress. The stress is, however, not dramatic, really. And it's a little bit current situation, and it's a little bit how much homework that the concrete customers did in the recent years. We might see some loan loss provisioning here. If you ask me, if everybody stays focused on managing the situation, I wouldn't even expect that. But this is what we will have to see.

Related industries, honestly speaking, for the time being, no real impact, and construction industry, here, I have to say that what we have in our portfolio looks very, very solid. We even showed you, for some quarters, some slides on that, and that the portfolio quality is very stable. And this is not really, we don't see that changing. And you see, or you saw, in one of my slides today, that we are also still active here. We are more selective than we have been some years ago, but we are active, and we have a very solid portfolio, to which extent we might see some other side effects.

Well, will be seen. If you ask me, it looks all very controlled, all very limited. So, I'm not expecting, here, really big side effects. But it's a little bit of a question, of course, now, if certain industries are laying off people, how fast will these people find other jobs or are willing to find other jobs? Will we see here something on retail? The effect, if any, will be, for sure, very, very limited.

And overall, it keeps us very solidly in what you see here, actually, still on the screen, so below 20 bps cost of risk this year. Otherwise, times at the moment are vivid. So, I don't want to, now, in detail, try to envision what we will see in the next two months, because there are some uncertainties. But in the best case, we will see nothing. In a little bit worse case, you might see some provision, but very controlled, very limited.

OPERATOR: Thank you. The next webcast question comes from Tomaž from Slovenia, and I quote, Congratulations for delivering solid Third Quarter results. Obviously, European automotive industry is facing serious headwinds, especially the German one, as you have already touched upon in the presentation. Since Slovenian contractors are fully embedded into the European automotive supply chain, to name a few with business related challenges, and please excuse my pronunciation, Mahle Nova Gorica, Agis, Unior Zreče, SIJ gave out grim outlook), have you detected any other negative spillover effects into the local economies in the region?

Thank you.

BURKHARDT A: Well, I guess I was trying to answer the question before. Of course, I will not single out, now, certain clients here. I mean, the automotive industry directly, we see here a very wide range, in reality, in Slovenia. You see companies, which are in troubles for 15 years, and they are still in troubles. You see brilliant companies, which are also, to an extent, diversified, and which don't seem to have any serious impact. And you see the ones in the middle somehow.

And depending on how they are on their feet so far, how good or less good they are, they feel this impact stronger or less strong. And we are dealing with this very proactively. They are single clients also, but rather not so big clients, which simply don't have the capacity to sustain too much. And here, we might see this or that negative surprise, but this is not something that you will really see in our figures.

So, the times are getting more vivid, and as I was trying to explain before, there are, of course, also then some spillover effects. But to the extent we are looking on our figures, as a bank, both in Corporate and Retail, that's all very controlled. And as I said, we will stay, as I see it, clearly, within the guidance, both for this year, and, of course, next year.

OPERATOR: Thank you. Next webcast question is a follow-up question from Tomaž from Slovenia, and I quote, do you expect a materially important uptick in loan provisions in the Automotive or Manufacturing segment in the mid-term period? Thank you.

BURKHARDT A: So, look, I don't know in how many more colours to say that. So, it may be a little bit new element here, is mentioned mid-term. Not really, to be honest. We have many producers here in Slovenia, especially in Slovenia. That's where we see most of automotive, which are very specialised in a positive way. So, they have niches, which also, with a changing automotive industry and also with changing success of certain carmakers, will always have their place. And that's, if you ask me, a strength of automotive industry there.

And then, of course, you have a few players, which did not fully do their homework, which are a little bit weaker. And here we might, on the short term, especially, see some impact. But on the midterm, I think this will clear out this or that way rather swiftly. So, on the midterm, I still see automotive industry here in the country as, actually, pretty solid. And if any impact, then I would rather see it short term, but less midterm or long term.

OPERATOR: Thank you. Next follow-up question is from Tomaž again from Slovenia, and I quote, also, in post-pandemic recovery period, you have been vocal about the opportunities offered by the nearshoring in the region. Did nearshoring materialise in terms you expected? And how will it be affected if Chinese automotive brands incrementally obtain the market share of the European legacy brands? Thank you.

BRODNJAK B: It seems, Tomaž, you're sticking to automotive industry. We can have, now, a workshop on the automotive industry. No one has a crystal ball. Slovenian producers are pretty specialised and are quite universal as well. So, there is quite significant return to internal combustion engines as well at the same time. So, one aspect of the story is that there was a shift towards, of course, e-vehicles.

But on the other hand, European producers are again investing a bit more back into internal combustion, hybrid technologies and so on. And Slovenian suppliers are well positioned for this as well. They are small, in terms of global size, very flexible, can adapt quickly, and this is exactly the name of the game.

Nearshoring, of course, was very, very relevant. It is going to be, now, of utmost relevance how European Union, European Commission and Slovenian and regional governments will address global competitiveness. And that's not just talking about mobility. Talking about, on one side, the structure of the energy supplies and mobility concepts, but as well, general competitiveness.

And in Slovenia, for example, of course, we need to work on much more competitive tax environment to attract foreign investment, to attract, of course, also talents globally, and so on and so on. And that's not entirely in the hands of producers, nor the banks. The European governments finally have to return Europe's hope to start building value again, to resume to work, simply and be competitive.

And it's not going to be helped by talking about rights, rights, and rights and freedom. We need to start working again, and you see the sentiment in Germany currently.

Let's return, guys, to work, and let's return to value creation, to innovation. I'm absolutely positive that German economy and German engineering capacity is going to bring something that is going to revive Europe's competitiveness. If we didn't believe that we should leave Europe.

OPERATOR: Thank you. The next webcast question is from Krešimir and I quote, can you, please, explain the reasons behind the relatively strong growth in operating costs in the Third Quarter of 2024? Thank you.

BRODNJAK B: Well, we explained what the reasons are. Partly, it is coming, of course, 10% combined, actually, is coming from the wage inflation on one side, investment into digital, which is significant. And on the other hand, clearly, there is, in the upcoming trend, these are still tails, more or less, from the past. So, we try to, of course, still invest in the upcoming two years. We have frontloaded, more or less, majority of digitalisation investments for the strategic six-year period into these first two to three years.

And that's naturally, of course, introducing attention here. So, in this respect, this is expected, was planned. And at the end of the day, we also guided for it, in terms of cost/income ratio, which is going to be on that level and profits that are going to be on that level. I mentioned, consciously, what is attention for the next year, because, of course, we will have swift reduction of rates, and we will still consciously be investing in talents and people and digitalisation.

And in this respect, this is simply inevitable, is the case. So, Q3 specifically is not standing out necessarily in any unexpected way from our side.

OPERATOR: Thank you. The next webcast question is a follow-up question from Krešimir, and I quote, do you think it is possible to achieve €600 million in net profit by the end of the year, 30 per share? Thank you.

BRODNJAK B: Well, this is a pretty specific question I can't respond to. Usually, Q4 is never linear to other quarters, so I wouldn't say that 600 million is something that is rational and reasonable to expect. But I can't be more specific than that. So, we are looking forward to last quarter to be solid within the parameters of the guidance, but 600 million is an overstretch.

OPERATOR: Thank you. 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: Just to thank everyone again, for devoting your time, hanging in there and being with us on this journey. A bit more turbulent times ahead of us but controlled. We believe NLB has what it takes to weather through the uncertain periods. I think Europe generally has to get back to senses and back to work, and I think this is happening as we speak. We will see German election. We will see Slovenian election in a year and a half.

And NLB definitely is here to assist productive investment in infrastructure of corporates and households. And we are basing this on solid trends, in terms of new production. There is more to come. This is a growth region. You saw the macro expectations for the upcoming years, and from this growth region, as a regional specialist, in the environment of, I would say, very limited interest of global players, NLB will be on the winning side.

There are going to be interim pressures, but once we see the bottom, we plan solid growth and delivery of the midterm strategy, which is going to be significantly accretive to our stakeholders. Thank you again for being part of our journey and see you soon for the annual results.