NLB Group

Q2 2024 and First Half 2024 Financial Results

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Conference Call Conducted by Chorus Call Hellas

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OPERATOR: Ladies and Gentlemen, thank you for standing by. I'm Konstantinos, your Chorus Call operator. Welcome, and thank you for joining the NLB Group conference call and live webcast, to present and discuss the Second Quarter 2024, and First Half 2024 financial results. At this time, I would like to turn the conference over to Mr Blaž Brodnjak, CEO, Mr Andreas Burkhart, CRO, And Mr Archibald Kremser, CFO. Mr Brodnjak, you may now proceed.

BRODNJAK B: Thank you very much. A warm welcome, everyone, good afternoon, to the regular performance call. Let me first direct your attention to the disclaimer, the regular disclaimer, and then move to actually what we believe has been another very strong quarter, delivering as per all dimensions of what we have been guiding for. What is especially encouraging is that we have been growing the business, so of course, there have always been questions about the sensitivity upon the net interest income.

But of course, we have introduced various measures, among which, one of the most important ones has been the actual growth of business. So, in both retail and corporate, we've seen a very solid mid-single digit growth in the First Half of the year, and that's especially encouraging, because it is, of course, signalling the economic activity in the region. And on the other side, the strength of the households of the region.

At the same time, we have successfully issued a couple of notes. By that, of course, delivering as per the MREL requirements on one side, and on the other side, strengthening the capital base, as well, which is, of course, allowing for further growth, both in organic terms, and in M&A terms.

We have, in May communicated the new strategy, addressing the upcoming mid-term period until the end of 2030, which was immediately, more or less, followed by some attempts, obviously, to grow the business also inorganically. So, on top of a very strong First Half, through the organic growth, we have been in the midst of closing activities of the acquisition of Summit Leasing. We expect to actually close the transaction in mid-September.

I'm going to talk about this a bit later on in a bit more detail. And we published the voluntary takeover offer for the Addiko Group, which has been still pending, and the acceptance period has been then, of course, expiring in the middle of August.

In this respect, we have also been following the guidance, when it comes to the dividend payouts, so we have, as at the General Assembly in June, suggested to the General Assembly, and the AGM, then, also approved the payout of 110 million, which is the first tranche, the First Half of the expected payout for this year.

And as I mentioned before, we have been very close to actually obtaining all of the approvals. It is just the ECB approval that is missing for the Summit Leasing acquisition, which will, of course, materially improve our position in the leasing market in Slovenia, becoming the leading provider of leasing services in Slovenia, adding Croatia as a geography. And by that, actually in four geographies, trying, not trying, but actually, intensively building the asset base and leasing services, as well.

The main pillars of the new strategy have been, as mentioned, organic growth, which is high single digit organic growth, accompanied by some tactical M&A, addressing €5 to €6 billion of assets. One of such attempts, immediate attempts, has been, of course, the pending offer for Addiko on one side.

On the other side, clearly, there will be other following in the upcoming years. In terms of numbers, we would want to double the business, exceeding 50 billion, which we see as a critical mass for a standalone, successful development of this business in the mid-term and long-term future.

We would like to actually increase the revenue base to exceed €2 billion, and from this €2 billion, ideally, making also more than €1 billion of net income, which would be, more or less, almost doubling, as well, from today's perspective, and by that, accreting a lot of value to our shareholders.

The macro of the region has been quite favourable. So, there are forecasts from various institutes, regarding Slovenian growth, between 2.5% to 3% this year, somehow 2.5% real growth next year, 2.5% to 3%, depending on whom you ask. And for the region, very comparable numbers.

So, we've seen historically low rates of unemployment, basically, full employment, which is speaking about strength of the households. On the other hand, 2% to 3% growth is also talking about pretty healthy cash flows of the corporates. There has been still a subdued demand for lending, in terms of corporates, but we have been addressing this with high activity of our sales teams, and by that, also growing market shares across geographies in corporate lending, as well.

So, overall, this is a promising environment for the upcoming mid-term period that should cater for and facilitate for delivery of the strategy. And we are looking forward optimistically. With that, I will pass the word to Archibald, to give you more details on actual numbers and developments.

KREMSER A: All right. Welcome from my side, and again, it's a pleasure and an honour to present another strong quarter. You can see that the result is, I'd say, firmly in line with what we expect, actually exceeding, and we'll come to that slightly. You can see revenues and pre-provision trends are positive. Of course, we'll talk about NII, and the fact that basically, it has, for now, peaked.

But here, the short comment is that we have deliberately invested a bit of tactical NII into NII stabilisation. And I think, most importantly, the highlight, I would say, is stronger than expected loan growth, which really shows through across the region, in particular, in retail. And of course, it’s part of our deliberate attempt to maintain and build market share. We actually increased market share in most geographies and are really very happy about what we see.

As Blaž mentioned, the macro backdrop really provides for good volume and revenue growth opportunities, both in NII and fee. The cost dynamic clearly shows a bit of a lag from the still high inflation environment we have seen last year. We have seen numbers on the previous slide come down already, so in that sense, that that is an expected tail.

And let's not forget, this year, we, of course, have to start showing and accruing the so-called balance sheet tax in Slovenia, which hits the cost base ballpark, as we indicated earlier, with around short of 30 million, or around that number, on an annualised basis. And we have grown this now on a quarterly basis. So, that's a bit of a burden on the cost side.

And subject to your taste, you show it either as cost, which we technically have to, or as a tax burden. But technically, it shows up in cost, just to remind you about that, because clearly, the cost dynamic is something that we watch on a fundamental level, but there are also some technicalities happening here. Otherwise, ROE, 19% on a normalised basis, we are scratching 30%.

So, these are just phenomenal results, of course, with also, the particularity of releasing provisions. Andreas will talk about that in more detail. So, the cost of risk, for the time being, negative, which for sure, is a bit unusual, but we'll come to that.

But, as I said, the highlight is clearly strong loan growth, and we, as a bank, as a Group, I tend to say, operate on all cylinders these days, in all businesses, all geographies, both on the rate revenue, as well as on the fee revenue side.

You have heard me comment a little bit on the peak in the margin, which I think is a fair and anticipated development.

So, we saw rates coming down, both in EU, and also, in the non-EU zone. But this is testament to positive macro developments, so low inflation is, for sure, something we all desire. And in that sense, of course, note that the operating margin has actually slightly gone up. So, this strong revenue environment that I indicated before is still even boosting the overall business margin.

So, in that sense, we are really, I would say, proud and happy to look at these results. And as we said, we deliberately invest a little bit from our rate revenue highs into future stabilisation of NII. So, we have cumulatively booked some €2 billion in balance sheet measures, both on balance and off balance, roughly half, half as hedge, and basically, just extending duration on balance sheet.

And this has, in essence, reduced NII sensitivity by something like 25% or so. So, that's a good, sensible investment, giving up a bit of short term revenue to stabilise mid-term results. And with anticipated ECB movements, that certainly should pay off. Loan dynamics, I mentioned, that's really the highlight, I would claim.

Strong business. And you see 5% year-to-date in retail, 4% in corporate, so that's really stellar. And we are very proud, and grateful, actually, for our business developing in that way. We have continued to, of course, work on the business origination in extending more fixed and higher duration assets. And of course, that is all well in line with our strategy, and should feed future revenue growth.

And in that sense, on the deposit side, that is a flattish development, as you see. Because what we gained in retail, we lost a bit in corporate, but in corporate, we deliberately don't take part in the competitive term deposits market, so in that sense, that's a development we can live with, given our very strong liquidity position.

But for sure, increased focus and attention on the liability side of the balance sheet is more and more of a priority. And we are mindful of that, and working on that, both in terms of offering service, and convenient access to these products, as much as also competitive deals.

In that sense, our beta is still well below, I would say, most banks. We have, as predicted, entered double digits, with a small, still upward trend. But everything absolutely in margin of anticipated development, so in that sense, all solid. I have mentioned that we have reduced NII sensitivity, so we have come down something like 20 million in absolute terms, which of course, serves all the right purposes.

Both regulators like to see lower NII sensitivity, and investors are asking all the time about NII sensitivity. So, to manage this number down a bit, I think, was the right thing, also, done in the right timing. On non-interest income, as said, very good, positive developments across the board. In particular, we'd like to highlight very strong asset inflows into Skladi, our fund management universe.

And you see that this engine is really roaring, so that's fantastic to watch, and of course, we'll continue to work, also expanding the product range here, and making access to this product line more convenient for our customers. Further, of course, we are working very intensely to extend this franchise into other key markets outside Slovenia, that is Serbia and North Macedonia, of course. So, in that sense, good developments.

We've talked about cost. Q2 was a bit cost heavy, as well, with some one-off effects, one of which was variable payments in Slovenia, in particular, on the individual contracts, on the back of strong 23 results. So, the payout effects are now Q2. And in that sense, a bit above trend, I would say, cost growth. And again, be mindful, we show the balance sheet tax in the cost base.

On capital, not much to report. Of course, we continue to run our fortress balance sheet with strong capital ratios. As you know, we have basically solidified our position with a capital instrument issued earlier in the year, that was the 300 million benchmark, and at very reasonable rates. So, the capital markets franchise is solid, and the ratios, of course, are continuing to be strong, and substantially above any regulatory threshold.

Which gives us the, of course, desired capacity for both dividend payments and M&A, as we have mentioned. So, on the funding side, again, nothing to add. Just that we also, of course, have issued 500 million on the senior preferred dimension. That is all in anticipation of, of course, the upcoming integration of Summit Leasing, which will eat into our surplus that we currently show.

And just to reiterate, the capital markets franchise and footprint is now really well established, and we run our liability now on fairly competitive terms, which is also shown by the secondary market performance of our outstanding new issuances. With that, I will pass over to Andreas on asset quality.

BURKHARDT A: Thank you. Welcome, also, from my side. As you have heard already from Archibald, growth in all segments of loans is very good. Here, you see it a little bit more differentiated, and maybe to stress consumer retail, with the strongest growth that's actually desired. So, we are very happy about that.

Of course, on the midterm, you will see a little bit higher cost on risk from that, which, however, is far overcompensated by better margins. So, that's good. And if you see the comparison on the geographies, obviously, no surprises. No big developments, but overall, what you can see over time is that still, the markets outside Slovenia are growing a little bit faster.

The portfolio, you're used to that now, is quite diversified, so no dramas. In the Second Quarter, we had quite some increases in the construction industry. That is, to a good extent, project financing. It's actually rather granular, so there are quite some cases, mostly with rather short tenures. So, here you will see some fluctuation up and down, but actually, also good development.

On the staging, the most striking one, the most easily visible, is obviously retail. Here, you see another, well, jump in stage two in this year. This is primarily an improvement in methodology. So, we are getting more granular. We are having better weighting scales. We are having more parameters. And what you see is that we are now simply approaching much closer to European averages, which, to an extent, is a normalisation.

On the other side, as I have been saying for two years, with higher inflation, which we had for a while, and higher interest rates, you can, of course, also see a little bit of pressure on the retail side. This is in relative numbers, negligible, but you can that in stage three, that now we are very slightly increasing, so €5 million.

That is, obviously, on the portfolio, negligible, but you can see it. On the other side, we are still improving stage three with corporate. It's slight, but still. You can see a certain move now also in this year on stage two of corporate. These are, in reality, three bigger cases, two of them with some delays in the project, but not in loan repayments or zero delay.

And one case, where with a little bit of a weaker client, we saw some changes in the management. So, three cases unrelated, nothing that will repeat, by our understanding, in future quarters. And all of them, with zero delay. And by the way, because I omitted saying this before, in retail, from the stage two cases, 72% also have 0% delays. So, that's really more on the methodological side, what we are working on here.

If you see NPLs in volumes and in percentages, we have increased now €2 million this year, €2 million in absolute terms. So, what I've already been saying for a while is that we are now, of course, on absolute terms, netting out. We are growing, and nevertheless, we stay stable with NPLs.

From these NPLs, still approximately a third have zero delays, and the ratio is 1.5%, so I think that's very good.

And also, of course, the coverage ratios stay very, very solid. On geographies, we are, in the meanwhile, also normalised. Slovenia is below 50%, below our overall share in the portfolio. I think that's also natural. That was quite different a few years ago, so here, we are also, in the meantime, normalised.

Cost of risk. Archibald mentioned before what we have done now in the context of the IFRS 9 review, is that also here, we have improved methodology, and especially, we were also looking closely on overlays, and to what extent we still feel them to be necessary or not. And that actually, in the Second Quarter, triggered some €22 million release of provisions.

And that's why, overall, at the moment, we see negative cost of risk. The other portfolio development is very solid, nothing special. Also, what we have to say is that we see still from off balance sheet, quite some releases, or €10 million in the First Half of the year. That's above our expectations, honestly. So, overall, of course, this gives you a very good picture by Half Year, and release of provisions.

Since in the Second Half of the year, we don't see any dramas coming, and overall, the development is very solid and very stable. We have also now revised the outlook. You will hear later on, also, from Blaž, to below 20 bps cost of risk by the end of the year. With this, I will hand back to Blaž.

BRODNJAK B: Thank you, Andreas. So, I was talking at the beginning on closing activities of Summit Leasing. So, we actually expect to finally close the transaction in the middle of September. Then we have already, more or less, defined the integration roadmap, which would be finished towards, let's say, the Second Quarter of next year. And with that, operate the leasing business in Slovenia with one entity.

As said, this is becoming now a significant pillar of the banking Group, covering four geographies, potentially, of course, adding geographies in the upcoming years. We have clearly expressed ambitions to further grow the business, potentially, also through buyouts of either portfolios, assets, individual assets, or obviously, further entities. So, this is this has not ended.

However, at this point of time, of course, we are focusing on closing this specific, and integrate this specific opportunity. This will, of course, bring immediate funding synergies, once closed, because we will replace funding that is currently coming to Summit Leasing from other banking Groups. But, of course, the cost synergies are more moderate, and would come, then, later on throughout the process.

In any case, by this, we will become the leader of leasing services in Slovenia. And as said, of course, would want to get to this position, also in a couple of other markets, predominantly. Serbia, North Macedonia, and of course, now also Croatia, which is a new market for us. And by that, we basically round up as the only, and the first, financial institution operations in the entire region of former Yugoslavia.

This is leading, of course, then, to another opportunity, which is the potential acquisition of Addiko Group. We have published the voluntary takeover offer, and it has been amids of, more or less, progress. So, we believe that this offer is a transparent, equally treating all shareholders, attractive offer, which allows efficient and favourable access to all shareholders.

And by that, of course, these highly complementary assets would enable NLB to further strengthen its position in the existing home markets, and adding, clearly, also, potentially, subject to regulatory approvals, the banking business in Croatia, by which, we will also become a universal distributor of financial services in Croatia, as well, the largest country in the region, as per the GDP currently.

And potentially becoming, then, of course, the fourth pillar of NLB Group, besides core Slovenia, large Serbia, potentially large Croatia, and then, of course, other countries of southeastern Europe, contributing comparable size, let's say, in terms of the pillars of the Group. We have high hopes that this, of course, will crystallise, yet it is far from certain.

So, we know the complexities, we are aware of the complexities. We are not the only bidder. As said, I will just reiterate, this is the transparent, equally treating all shareholders, and, we believe, attractively priced offer. And of course, we cordially invite all shareholders to tend to their shares into this offer by 16th August.

In saying that, I will move to the outlook. Andreas has already mentioned the improvement in the guidance of the cost of risk. So, yes, it is end of July. We have seen various very promising developments, also now in July, which is somehow giving us confidence that we believe that the cost of risk towards the end of the year actually will not adversely develop, in the sense that, of course, we will see what we have been guiding for.

So, in this respect, we believe that this should remain below 20 basis points. We have already generated mid-single digit growth of loan volume, which means that, of course, it would be now not really serious, so still guiding for the mid-single digit growth, so we expect that this will now be, of course, a high single digit growth.

And this is, of course, very good news, because this means that yes, we are addressing net interest income sensitivity, also by volume growth, and rerouting, of course, the liquidity reserves, and optimising the balance sheet from the very low LTDs towards a bit higher LTDs, engaging, obviously, in client business, which is consumer lending, which is leasing, which is carrying, of course, prices, nominal rates that are even north of what ECB rates are.

I.e., we are, by that, obviously compensating for the loss of liquidity reserve placements and Euribor repricing, predominantly, coming from the corporates. And we have also improved the return on equity guidance from around 15% to higher than 15%. Of course, we also have to understand the normalised levels. We are still operating with quite some capital buffer, which is, of course, meant to address the M&A opportunities.

And as I just was reporting, we have been in an advanced stage of eventual acquisition, that would exactly address this level of available buffers, and by that, more or less, optimise the capital structure on one side or the other side. We would address this capital structure, in case of, of course, these developing further, eventual AT1 issuance, by which we want to retain capital strength, and at the same time, retain high payout of dividends.

Both are good news, we believe, for all stakeholders, shareholders, and regulators, and of course, clients of the banking Group. This is all, we believe, good news, very good news. And in terms of the strategy context, we have communicated these figures. So, this is the North Star aspiration for the period until end of 2030.

So, we really would want to become, and aspire to become, a sizeable business Group for this part of the world, reaching, tapping €50 billion of size, in terms of total assets. But furthermore, focusing on profitability, retaining pretty high return on assets, generally, overall. Of course, on the go, also return on equity, and by that, sharing this success with the significant dividend payouts on the go.

So, we believe that this business, if we were able to deliver the strategy, would be worth multiples of what it is worth today. And this is not only through the capital gain, in terms of market capitalisation, but of course, also through significant cash payouts in the form of dividends. It has been addressed by very solid, organic developments, as we are reporting them, but at the same time, innovative thinking, entrepreneurial spirit, in the sense of how we can understand the payment opportunities, and eventual other ancillary services.

We have been talking about eventual proprietary entries into life insurance, insurance business, which we have been doing very, very well in, in Slovenia. So, there is a couple of strategic plays, potentially, at hand, and there is a couple of still unknown, uncharted eventual opportunities coming our way. So, overall, organic, high single digit growth should cater for, let's say, 44 or 45 billion, and the rest should come from the M&A, in terms of assets.

But as I said, we would not be compromising on the quality of underwriting criteria and principles. And if we were able to deliver this growth, of course, following and sticking to these principles, profitability should be a part of it, as well. That much from our side, as the presentation. Thank you very much for listening, and we are, of course, gladly responding to any questions or comments you might have. Thank you.

OPERATOR: The first question comes from the line of Simon Nellis with Citi. Please go ahead.

NELLIS S: Hi. Thanks very much for the opportunity. I have two questions. My first one is on fee income. So, you had a very nice increase, quarter-on-quarter, and I see it's driven by payments and cards. I'm just wondering what's really behind that, and how sustainable that growth is. And my second question is just if you could, on the new leasing M&A, if you could indicate whether the margin that you'll generate on those assets will be accretive or dilutive to Group NIM. Thank you.

KREMSER A: So, thanks for the question. On fee income, indeed, I actually should have mentioned, we have very successfully, let's say, revisited some of our arrangements with the providers we work. And this has shown quite visible upticks that, indeed, are sustainable. So, we booked the uptick in Q2, accruing for all of H1, but H2 is going to show pretty much a comparable number.

So, indeed, that was a structural improvement. And congrats to the colleagues that worked on that. The second question, I think it was on further leasing M&A, if I understood the question.

NELLIS S: Yes. It’s on the new leasing acquisition, whether the NII that you'll give the margin on that.

KREMSER A: The Summit Leasing. So, Summit Leasing, of course, as we call it, technically, a bit funding synergy. But of course, it's nothing else than placing roughly close to €1 billion in higher yield assets. And that, in itself, should, by the way, show up both in loan growth, and to some extent, in next year’s revenue growth.

But for sure, this year, in loan growth, you’ll see a higher number than even what we have just presented, if we close, and conclude, and consolidate Summit Leasing this year. And that, of course, next year, translates into, at least on that balance sheet size, something in the ballpark of 100, 200 pips, at least, in incremental revenues.

To be fair, there is also a cost base that we absorb. So, that is still a bit of a piece of work. Blaž talked about the integration process, etc. There will be some costs associated to restructuring. But this is all business, as we understand it very well. We're very excited about welcoming Summit Leasing to our Group.

And we really look forward to hitting the ground running, and to explore all the business and market opportunities that present themselves in traditional, and also, in non-traditional ways. We have just today, discussed at the board, also opportunities in online distribution, etc. So, yes, leasing is a core part of our franchise, and as you know, we have also very successfully expanded into Serbia and North Macedonia.

And of course, we are very excited to have now a footprint in Croatia. So, plenty of opportunities in leasing. We have always claimed that €2 billion is the ambition. We will probably revisit that ambition upwards in our next strategic outline.

NELLIS S: I'm sorry. If I could just have one follow-up. Your outlook for 2025, those financial targets do not include Summit Leasing, is that right?

KREMSER A: 25 includes. Just 24, 25, of course, includes Summit Leasing. 24, frankly, the high single digit, the loan growth is not really accommodating for Summit Leasing, because technically, we will, in all likelihood, start to consolidate at the end of the year, and that is everything, excluding Summit Leasing. If you include Summit Leasing, you run the numbers, but it probably adds some 600 or 800 million in leasing assets.

BRODNJAK B: Instead of ECB analysis, yes.

NELLIS S: Thank you so much.

BRODNJAK B: We are replacing ECB balances, obviously, with leasing assets. And these leasing assets have been carrying five, six, 7% nominal rates. So, this is also one of the measures addressing NII sensitivity, because we are replacing something that should drop significantly with something that will not drop to these levels.

NELLIS S: So, the loan balance will increase, but the assets will grow.

BRODNJAK B: Not necessarily much, but the structure will change.

NELLIS S: The structure will change. Super. Thank you.

OPERATOR: Ladies and Gentlemen, we will now move on to our webcast questions. The first webcast question comes from Anton with Allianz, and I quote, two questions regarding Addiko. In Republika Srpska, your current market share stands at 20%, while Addiko Bank holds 10%. If the acquisition of Addiko goes through, this would elevate your combined market share to nearly match that of the market leader, Nova Banca, both at roughly 30%.

Given this significant increase, do you anticipate any demands from local regulators in Republika Srpska, before the approval is granted? Also, if the Addiko acquisition goes through, is there any point in continuing to list Addiko on the Vienna Stock Exchange, since the NLB Group is already listed on two exchanges? Thank you.

BRODNJAK B: Well, these are very specific questions to something that is part of a strictly regulated formal process. So, we can't speculate on what regulators would or would not do. Simply coming at par with other competitors, signals that there should not be problems, I guess, from regulators, but I can't speculate on that, clearly. The other part of the question, I missed, what was it?

KREMSER A: The listing in Vienna.

BRODNJAK B: The listing, It's premature. It depends on the outcome. We have offered 200% of shareholders. We will see where this ends up. There is, of course, a critical element of it, at least for us, and of course, the success of the of this offer, which is a success threshold of acceptance of 75%, at least. Which means a minimum of 75% of voting rights need to be obtained. And this could be then 75% plus one share, or this could be 100%.

And depending on the outcome, this would determine, then, what is the follow-up. We have had a good experience with minorities, for example, in North Macedonia. We have a listed bank in North Macedonia with some 83% ownership, and 17% is listed. And there is a very nice co-existence.

In the Komercijalna banka case, where we successfully, of course, signed more than 90%, and then performed the squeeze-out, we have then, of course, retreated from the stock exchange, because this would be ineffective, just listing a couple of percent. So, it really is depending on the outcome of this offer.

OPERATOR: The next webcast question is a follow-up question from Anton with Allianz, and I quote, I have a question regarding the issuance of MREL debt in countries outside of Slovenia. Who is expected to be the primary buyer of these bonds? Will they primarily be absorbed by NLB Slovenia, or by high net worth individuals, who are already clients of the private banking department? Or will the MREL bonds be offered through public issuance on local stock exchanges? Thank you.

BRODNJAK B: Well, that's a very interesting question, whereby, of course, the regulatory purpose of MREL is pretty clear. So, it is to be sold to qualified investors. This is not to end up in the hands of private individuals as a basic principle of the instrument. So, it's going to be a combination of various possibilities. First are the intra group lines, which we can always provide. The other is supranational, which usually, are participating in such issuances.

There are some other institutional investors that have been investing in our notes and might have interest to also invest on the subsidiary level. So, it is difficult to say right now, what would be the form and shape of each individual issuance of individual entities. It's going to be a combination of all, of course, to the possible extent we want to keep these flows within the Group.

It is economically sensible and logical, for whatever is required, to be then actually sold in the market, or obtained from the market, would follow the logical chain. So, supranationals are the usual suspects, and then, of course, qualified international financial investors. Archie, will you add anything?

KREMSER A: No. Just that we will never compromise on our multiple entry point approach. Otherwise, it really depends on market to market. They are not at the same level of development. In some markets, we see a potential to do a local issuance, because there is an institutional investor base, in other markets It's going to be more relying on let's say, IFIs, for example.

But indeed, it's a fair question, and a fair challenge, because frankly, this instrument was conceptualised for Europe, with a fairly well-developed capital market. And now applying the same to converging markets is going to be more of a challenge. But we look forward to it, and we think we'll be well equipped.

And in some markets, it might even accelerate a bit of a, let's say, capital market readiness. So, in that sense, we want to be part of that in a positive way and look forward to it.

BRODNJAK B: That's a very important point Archibald has raised and has the multiple point of entry. So, in terms of an MREL context, we want to keep our subs self-funded, right? So, we will never expose the parent institute, to the extent that this might jeopardise the logic of this.

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

DODIG M: Good afternoon, Gentlemen. Thank you for the call and opportunity, and congratulations on another strong quarter. I have two questions. So, the first one is regarding the takeover of Addiko. I don't know if you can answer, but I must ask, is there any scenario, in which you would drop your 75% condition at the last moment, depending on how many shares will be deposited on August 16th, or will you stick firmly to that condition?

And the second question is, yesterday, in the parliament here, in Serbia, the third time governor said that there will be, during the fall, they will implement some limits on the interest rates now, besides mortgages, also, on cash loans. I don't know if you have any details on this, and if you have, please share. If not, then we will just wait and see what will happen. Thank you.

BRODNJAK B: Thank you, Mladen, for the questions. The success threshold of 75% is here to stay. We will not compromise on this condition, because of course, we want to, effectively, then engage in meaningfully integrating Addiko Group into the NLB Group, and this, of course, requires decisions, such as of potential listing, delisting, such as of potential mergers, no mergers, such as of dual brands, no dual brands.

And you have to have effective powers in your hands to actually execute this, without…

KREMSER A: Capital measures.

BRODNJAK B: Capital measures, for example. You need 75% power at the AGM, simply to be actually agile enough, and actually, run the business safely enough, also in a regulatory context, predictably enough. So, this is not to be compromised. 75% success threshold is here to stay, and it will not be dropped in the last second.

Regarding the measures in Serbia, we've seen, of course, various restrictions in the last year. So, it was first, the fees, than it was the housing rates. Now, potentially, consumer rates. We are simply closely monitoring and respecting this. And of course, this has, more or less, a material effect on our financials. We understand these measures, of course, as measures that go in favour strictly of clients of the banks.

So, we've seen some other measures that we're trying to more benefit the budgets of the countries, which is a bit of different logic. Introducing taxes, interpreting certain products differently. In this case, what the National Bank of

Serbia is doing, and above all, congratulations to Ms Tabaković for the third mandate, and from the bottom of our hearts, we believe she's running, excellently, the monetary policy of Serbia throughout the last years.

So, with this, we will simply sit and wait to see what's going to happen, and how this is going to impact. We would believe that it would not be too material of an impact, but let's see.

DODIG M: Thank you very much.

OPERATOR: The next question comes from the line of Robert Brzoza PKO BP Securities. Please go ahead.

BRZOZA R: Good afternoon, everyone, and thank you for taking my questions. Excuse me, if this was already discussed during the call. I couldn't fully participate. It's about the processes that you have changed, regarding the identification of stage two exposures, namely, is the result of this revision more concentrated in other localities than Slovenia, or is it more or less evenly spread throughout the geographies where we operate? And also, which types of loans have been affected mostly by these developments? Thank you.

BURKHARDT A: First of all, what we are doing, we are introducing a vital rating scale. That means we differentiate more detail between clients. This has many advantages, but of course, it also differentiates more, or earlier, in when you see a stage two. Then we have included additional criteria. Just to give you one example, if we see gambling habits, that's an early warning sign.

And on geographies, the rating scales, that's primarily a topic for subsidiaries. The additional early warning signals, well, it's basically distributed throughout the Group. So, I would say that overall, relatively equally spread improvements. But that also means that you shouldn't see now another spike in a short period.

And one indication of that is also, as I said, that simply, this is now coming much closer to European averages. So, what we simply see is that, obviously, now the way we are looking at staging of retail clients is more compatible. And that should help us, of course, in the mid one, even more to limit NPLs, because the earlier we recognise a stage two, the earlier we will intervene, and eventually, also change some parameters.

So, on the mid one, that should help us actually to even better manage risks. Of course, on the short one, you simply see this spike in stage two. But what you can also see is that it's not spiking, then in stage three, which is logical given, given what I explained.

BRODNJAK B: It is actually us consciously working more on soft collection and earlier restructuring, as well. So, it is enabling us to actually move earlier and more relevantly. But yes, as Andreas says, there is no historical evidence that no staging three and actual defaults would be a problem for this banking Group.

It is rather, actually, guiding us towards us being even more conservative and proactive in understanding our portfolios, which have, so far, not caused significant damage. But of course, since we are moving more aggressively, in brackets, intensively focusing on consumer lending, we want to be, of course, much more cautious about when and how to intervene, if needed.

BRZOZA M: Clear. Are you going to expand this grading system to cover, for example, the needs, which stand between the retail and the proper corporate segment later in the year, for example?

BURKHARDT A: I'm not sure that I copied your question.

BRZOZA M: Are you going to apply the same process that yielded those increases in stage two retail exposures to SME, small and medium enterprises, as well?

BURKHARDT A: No, actually, in the corporate area, we have this wider rating scale, So, you will not see a comparable move on the corporate side, no.

BRZOZA M: Thank you.

OPERATOR: The next question is a webcast question from our participant, Anton from Allianz, and I quote, regarding your securities portfolio, can you disclose the primary countries whose government securities you are mostly invested in? Additionally, with 60% of your securities portfolio currently classified as held to maturity, do you anticipate this percentage to increase in the coming quarters? Thank you.

KREMSER A: Thank you for the question. We talk, and it's well disclosed in our detailed accounts, we talk, basically, European Union, we talk a little bit on the US, and of course, we talk, to some extent, home sovereigns. This has come down over the last, I would say, two or three years. But of course, the region is something we care about, and want to remain invested in, or the belief in the credit quality.

But what you see as below investment grade is, in essence, our own home region. On the HTM I think we have, I'd say, a well-defined process and policy. So, things where we take a longer duration are typically, in HTM securities, where we take shorter duration, typically, in fair value, and that follows a pretty logical conception. And in that sense, I see this ratio to remain rather stable.

OPERATOR: The next question is a follow-up question from Anton with Allianz, and I quote, regarding Mobile Leasing in Croatia, do you plan to rename it after the acquisition is complete? What are your plans for its organic growth? In which direction do you want it to grow? Thank you.

BRODNJAK B: We like the name. Mobile Leasing is a very universal name, and in the short term, we don't intend to change it. It's simply a good name, and we will open it up. So, so far, it has been, more or less, focusing on Mercedes vehicles, and we will simply open it up to become a universal provider of leasing services, and in the future, mobility services. So, we have high hopes for this business to become, of course, one of the meaningful businesses in the Croatian market.

We understand it is a competitive market, but we also see ourselves with our adjacent regional presence, the one that can accompany Slovenian, Bosnian, Serbian, and other businesses, also with their subsidiaries in Croatia, as well. So, we believe we can leverage this business significantly. I wouldn't now operate with concrete numbers, but of course, multiplying it in multiple terms, it should be the normal level of ambition.

OPERATOR: The next question is a webcast question from Nikolai with Morgan Stanley, and I quote, do you have an idea about the timeline for the AT1 issuance? Thank you.

BRODNJAK B: Well it’s July, so autumn.

KREMSER A: We have indicated that we are open minded. AT1, as you know, is, of course, a higher risk instrument. Capital markets have been very perceptive to our name. So, I really appreciate, also, the trust of all our investors in our fixed income space. We have done a lot of work in expanding that investor base. So, we are confident that if we were to access the market, it will be perceptive.

And indeed, it is, of course, a bit of a function of what happens on the M&A on one side. On the other side, we'd like AT1 as a capital market instrument in Slovenia, to be not disadvantaged as it currently is. So, it's withholding tax, there is a positive development in this direction, so we hope that takes place. I think it would be important for the Slovene banking space, and further development of Slovene capital markets.

So, we would very much appreciate that withholding tax restrictions, or costs that are currently in place, are falling, because that would, indeed, substantially increase our incentives to tap the market here.

BRODNJAK B: It is obviously a subject of us progressing with Addiko. Because if there is, of course, not a successful outcome, there is absolutely no fantasy in issuing AT1, at this point.

OPERATOR: The next question is a webcast question from Jovan Sikimic with RBI, and I quote, why have you have not upgraded the revenue outlook after notably lifting the loan growth outlook for both 2024 and 2025, having in mind reduced NII sensitivity? Thank you.

BRODNJAK B: Well, we just overshoot 600 million, and we say we will have more than 1.2 billion. So, it is, in principle, somehow halfway consistent. You have pressures on one side, and you try to offset these pressures on the other. So, we say more than the 1.2, should we do more?

KREMSER A: We'd like to beat consensus. So, as you know, us a rather conservative forecaster or outlook publisher, we'd like to keep it that way. Because there are, indeed, tensions in this system. The ECB rate functions can go faster or slower, we don't know for sure.

BRODNJAK B: And when they do, they do it immediately.

KREMSER A: Yes. So, in this sense, if you've seen that the Fed has put it on pause. So, if rates stay higher for longer, of course, revenues will... You've seen the sensitivities, revenue will follow. But for now, we will stay rather conservative, also, in that projection.

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

BRODNJAK B: Thank you very much for hanging in there and listening to us, and above all, trusting our journey. After communicating the strategy, we have immediately undergone the first steps of actually proving that we are living it already, both in terms of organic evolution, and in terms of clearly, also M&A ambitions. We have published concrete transactions, potentially crystallising.

So, we are, again, cordially inviting all shareholders of Addiko Group to consider tendering their shares into our offer. We believe it's fully transparent, equally treating everyone, and is, of course, also lucrative, and a favourable exit situation. We believe there is also a bright future for the Addiko Group within the NLB Group.

We believe we can test some experimental potential, dual branding approaches, and some other stuff, which is also giving future to the talents of Addiko Group. We have really realised that there is a significant value, not only in the business, itself, but above all, in the talents of this business, and that's why we believe our offer is also attractive for, more or less, all major stakeholders, including regulators, who would by that, get, of course, the predictable, stable, strong outcome of how this Group could evolve further.

Otherwise, we're looking forward, really, to the upcoming five, six years, within which, we believe we would double this business, and we would, of course, also come very close to or exceed a billion of annual profits, which is, of course, at the end of the day, would also show its value in your pockets, being investors.

Thank you very much, again, for your trust so far, and already in advance for the one in the future. Take care, and all success.