



**NLB Group Full Year Unaudited 2022
Financial Results Conference Call**

Thursday, 23rd February 2023, 16:00 CET

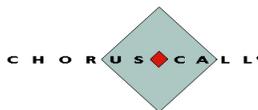
Conductors:

Mr. Blaž Brodnjak, CEO;

Mr. Andreas Burkhardt, CRO;

Mr. Archibald Kremser, CFO

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 2022 Financial Results.

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

BRODNJAK B: Thank you very much. Good afternoon, everyone. Let me first refer to the standard disclaimer and move on to the presentation of what we believe has been the strongest performance of any Slovenian business in history, at least Slovenian headquarters business. I'm really proudly introducing and presenting these result this time around, following an extremely uncertain year, high volatility of expectations. At the end of the day, we can deliver a very robust outcome in terms of financials, but above all, demonstrating the systemic role of NLB Group throughout the entire region. There have been a couple of significant milestones again appearing, so we have really jumped from practically high balance fees and negative rates to the 3.2% EURIBORs in half a year. But, besides that, of course, there was the war outbreak, there was total uncertainty regarding the energy supplies, the pricing of this energy. And Slovenian economy and regional economy, together with the financial system, have overcome all of this turmoil in very good shape.

Looking back, there have been really some strong achievements. Not only talking about the interest income and fee income, so not only coming from recurring business origination, strong growth in terms of volumes, but above all, also our capacity on one side, but then also, delivery of a very significant acquisition in the first half of the year. NLB was in a shape, mentally and in terms of capital and liquidity, to jump in, in a very specific, precarious situation. And by that, stabilise a bank in the country, which is now in the midst of a very intensive integration, finishing presumably until September.

On the other hand, we have been continually improving the asset quality, so despite a couple of really significant crises, supposed to be crises, evolutions after corona, now of course this war outbreak and energy shortage and pricing challenge, already before the war outbreak, we have seen further improvement of asset quality. Which is for us a very strong indication of a very solid underwriting criteria been put in place practically ten years ago. We are now benefiting from very prudent, but of course at the same time, to the balanced extent, ambitious loan growth throughout the region, practically in all client segments. We have seen growth in corporate banking, significant in SME Slovenia, almost 30% growth. We have seen very strong retail growth, especially in housing lending. NLB has managed to grow the market share in housing loans in Slovenia alone by 4 percentage points in two years. Which is an amazing achievement, this is actually growth for the size of the stock of the mid-size

bank in the country when it comes to housing loan portfolio.

On the other hand, there have been significant measures we undertook, not only jumping into this unexpected recovery resolution of the bank we, at the same time, successfully managed to raise capital. Through various issuances, we have been pioneering as NLB in the international financial markets in AT1 placements, so we're really happy about managing the power placement of AT1 in the amount of 82 million. At the same time we, towards the end of the year pulled off the Tier 2 after quite some time, after a couple of years. In a very uncertain environment of 18 months trying to and was not possible, we delivered, we pulled it off. And already in the middle of the year came back to the senior bond market and by that made sure that we are very, very confident at fulfilling and complying with the MREL requirements, one basically tactical senior preferred position to be closed this year and we are done for the 2024 hurdle.

As I mentioned before, integration with N Banka has been well on the go, so we are well advanced in the process, presumably full closing of integration at the end of August, beginning of September this year. In financial terms, this has been a historic result, 447 million is the highest posted profit of any Slovenian headquartered business. In the region, in our home region obviously, you will not find many such performances throughout decades. In this respect, this

is on one side providing a foundation, a very solid basis for future growth, but at the same time, demonstrating us benefiting from structural elements of the balance sheet, from positioning of the balance sheet in terms of client segmentation and, of course, calibrated and well-focussed sales activities, including communication.

Overall, revenue development, very strong, very responsible treatment of the entire cost universe. We continued with our optimisation efforts, continued to optimise brick and mortar network. While focussing on digitisation, we've seen significant progress in penetration of digitised services through M&A across the board, especially trends in more developed markets. We have, as mentioned before, been able to jump into the N Banka integration, today's N Banka's acquisition, while completing the integration of Komercijalna Banka in Serbia. This was a very successful integration pulled off in April last year, practically seamless, providing services continuously to our clients and immediately after that organising a very successful Investorday in Belgrade, simply proving our commitment to the Serbian market but, at the same time, also delivering the results. Very strong already performance coming from Serbia last year, with high hopes to deliver the expected, anticipated and guided for 100 million profits early, and potentially even envisaged at the beginning of the process. We are very happy about the upgrade of the rating that was coming just in time for the Investor day from S&P.

At the same time, we have been continuing our efforts to procure the first-ever ESG rating. NLB has committed to significant scope of activities and deliverables when it comes to the environmental carbon footprint related activities. We have procured the ESG rating that is for the first initiation very solid and we will be building on this, while we have been focussing on other pillars of the sustainability very diligently and with genuine ambition and interest. By that positioning the bank really amongst pioneers of the ESG movement in the entire region.

We've seen the growth of the GDP. Slovenia's last information was around 5.7% last year, real growth in normalised terms, de-seasonalised. Which means that Slovenia has been following the strong growth of 2021 of 8%, continuing at 5.7%. Forecast for this year has been around 1%, but we feel very strong Wipe in the economy, so it might be even more than that. And the entire regions has been growing quicker than the average of European Union, simply demonstrating that this is a good place to be, for a region especially. We will be definitely building on this base. So, 2022, very strong foundation is there to deliver more in the future. And with that, I pass over to Archibald, to give you more details.

KREMSER A:

Thank you, Blaž. I will not dwell too much on our region, you are familiar. In the meantime, presumably two strong pillars Serbia, Slovenia, equally sized with some 60 billion GDP, the rest in smaller markets. All of

which are relevant and of course all of which we service from an increasingly unified platform logic, and all of which in healthy stages.

Despite the volatilities we've all experienced and that were mentioned, we still see this region to be growing above trend, relative to Eurozone. This is still growth territory and we're very happy to also see that the macro volatilities have been managed well throughout the region, starting from Slovenia, which of course is Eurozone, ECB territory. But also, in the other markets we've seen relatively stable evolution, given the circumstances.

You see the fundamentals following pretty solid trend rates, from unemployment to fiscal prudence. For us this is an important foundation as much as the currencies, which you see here, which are well managed and rates are rising in line with international trends throughout our region. Frankly speaking, for banks that's broadly speaking a good environment to be in. Given all that, combined with a region that still offers a lot of fundamental growth potential in terms of loan penetrations in both private households and corporate. This is an equation for a lot of growth that we have seen.

I'm really happy to also report that, first and foremost, loan growth was very, very strong. From the added volumes of some 2.5 billion, more than half came from organic growth.

This is, Blaž was talking Slovenia, very strong housing developments, but we've had equally strong dynamics throughout the region, of course, start to catch up also in Serbia with our platform that we had acquired. In that sense, this in combination with the extraordinary rates evolution, which we've always communicated, gears us to immediate and substantial revenue growth, given a 6 billion EURIBOR long position, of course produced stellar results Q4, extraordinary bottom line with some 70 million. That is, in essence, still not yet fully factoring in the EURIBOR movements. It's in essence, factored into some 75%.

On the other side, we still have the costs of Tier 2 to fully digest. In Q1 you'll see the full, combined equation. But basically, we have shown very, very, strong fundamental recurring results development and this is what matters most for us. This, despite the N Banka integration, or excluding N Banka integration, fundamental growth was really extraordinary, this rare combination of enormously rising rates plus strong organic volume growth. Helped by fundamentally healthy businesses and households, so asset quality is firmly in check. You'll hear more about that a bit later here.

The rate environment, you'll see it's almost an explosion of the margin. On quarterly levels we are already on Group level exceeding our target of 2.5% that we have communicated at IPO, admittedly helped by the rate explosion, but still basically taking us back

to much more normal territory from regular, long-term banking point of view. Let's not forget, this is more normal than the seven years behind us, so in that sense, this is really gearing us up strongly for the future, in terms of profit generation capability.

The same story, to some extent, a bit muted on the fee side. Muted because we had been careful to not overstretched pricing, especially to more vulnerable segments of our customer base. Nonetheless, fee, and this is really basic, bread and butter business for us, grows very, very strong. Again, a combination of continued good results in ancillary product sales and, as I mentioned, simple bread and butter. Smart packaging of accounts and services and this supported by increasingly robust modern infrastructure that we provide to our customers, with just, as an example, completely renewed our ATM fleet in Serbia with top-of-the-range ATMs throughout the whole country. This level of excellent service then also has pricing power and that you see translated in fee growth.

On the cost side, you see overall a very, very solid performance, given the first integration efforts that we run in two markets, Serbia and Slovenia. You see 5% result N Banka, but still including restructuring costs of Komercijalna Banka and a not-yet-finished integration process in terms of rationalisation of Komercijalna Banka in Serbia. 5% in an environment that showed really double-digit, at times, inflation is, in our view, a really stellar performance. You see on quarterly level

there is, as usual a bit of Q4 dynamic, that is seasonal to some extent.

On the fundamentals we have seen repricing here and there. Electricity costs went up visibly, we all of a sudden talk millions of euros electricity charges. We basically immediately put attention to savings. We saved last year, in terms of consumption, in the range of 15 to 20% and we will continue to do that next year, so we get much more conscious in our efforts. Then real estate footprint, which is a big topic still for us, you see number of branches going down, as well as numbers of headcount. Headcount here is including the addition of N Banka. So, there is still a long way to go on the cost territory. Digital footprint versus digitalisation is the equation that we're running, I would claim quite successful and with the right pacing, which ultimately should follow our customer needs.

All that results in this extraordinary dynamic, which you see here very nicely on the recurring pre-provision results development. You see here the massive upswing from rates fees, in combination with a disciplined cost dynamic. If you look at it Q4/Q4, 21/22, it's almost doubling the pre-provision result. You also see, Blaž mentioned a quite significant improvement already in Serbia, so we are really starting to deliver here, and solid performance throughout the whole universe. Slovenia d.d. is not normalised by the dividend upstreaming, which last year was a bit muted given the circumstances. But the

underlying recurring performance in Slovenia was as good as in the other markets.

Loan dynamics, I mentioned pretty much all of that already, so I'm not going to dwell on the various numbers and breakstones. Capital, we have added both with the acquisition of N Banka, but equally important with our capital market activities, where we issued 300 million of capital instruments, a combination of Tier 1, Tier 2, one-third, two-thirds, so in a healthy mix. Prices that we would not wanted to see or wanted to pay, but it really puts us in an incredibly good position to see such further growth opportunities, both organic and non-organic, should they occur. In that sense, we feel very, very comfortable that we have done the right thing here.

You see capital ratio very comfortable, above all regulatory and internal targets, which basically sets the stage for growth. As we have claimed and we deliver on that, we would like to see and maintain some 1.5 to 2 billion risk weighted assets M&A capacity, and this is pretty much where we are at the moment. Here again, the funding, as such, as mentioned, we are now ticking comfortably to the 2024 January target, of course are adding up to basically fund the full of 2024. This is about to come. We are setting up an EMTN program and will expect to be in capital markets more frequently. Frankly, that will over time also increase efficiency in that process, pricing, secondary market liquidity. And, by that, we will be pretty much normal

in terms of our balance sheet structure with a very strong retail, corporate deposit franchise and complementary capital markets funding for both long-term funding and capital purposes. By that, I hand over to Andreas for asset quality.

BURKHARDT A: Archibald, thank you. As the COO, I have to say that in such vivid times I'm extremely happy that there are no big surprises in risk and in risk management. My main messages are we still have very nicely diversified and nicely growing portfolio. We have, as Blaž mentioned already at the beginning, a very good asset quality and still very low cost of risk. The net interest income is helped by the EURIBOR developments of the last period considerably.

On this slide, you see once again the diversification. On the corporate side, between SME and corporate, and then also mortgage loans and consumer loans on the retail side, all of them nicely growing. If you see through the geographies, not very surprisingly, Slovenia approximately 50% with a hike in March, that's of course the N Banka effect. What you see is that, despite everybody is growing, including Slovenia, the banks outside Slovenia are growing even faster. That is why you see slowly from a trend, the percentage of the portfolio in Slovenia going back.

We are well diversified, you see this again here with the industries. These days we're looking on every client more closely. We're getting a little bit more picky, a

little bit more selective. But what is also important to say is we are still very actively drive the development of our business and of our clients' business. In this year, in 2022, we had in the energy sector some counterparties where we were considerably growing exposure, however, mostly with state backing to the different laws from these, well, without the energy turbulence, so from a risk side for sure, very solidly covered. Here we were growing volumes and if you see the breakout of the two strongest-growing areas, then here you see a good diversification.

What is maybe worth mentioning is Q4, you can see that in the corporate portfolio side we are flat and in these breakout industries we are even shrinking the portfolio. That's not very unusual for our last quarter. We had a lot of repayments of revolving facilities that's in the last quarter, from the side of the companies, also a little bit of balance sheet management. And again, in that sense, nothing unusual. What is important to stress is that the new business is still developing very nicely. Just in the last quarter here in the corporate side we had over-coverage from regular repayments.

If you see NPL ratios, we now have €328 million non-performing loans on the balance sheet, of which almost half is zero delays, so mostly cases which are restructured and not yet through the curing period. We have very solid coverage ratios, clearly above EU leverage. And we, in the meanwhile, as you see on the pie chart on the right bottom, a normal diversification

between the geographies. So you would expect an EU country like Slovenia to have under average part of that NPL portfolio and logically, then the others a little bit over average. That's exactly how the slide looks like.

The last quarter was actually a little bit vivid. You remember Q3, we were still negative on cost of risk. At that time already I told you that I'm expecting this year definitely positive cost of risk at the end of the year and that's what materialised. Final for the entire year is €17.5 million or 14 bps, which for these times actually is great news. And we again had a year where we had excellent repayments of written-off receivables, 33.3 million. But what you can see also in the last quarter, that we had quite a clear impact. On the one side, changed macros contributed 7.2 million and on the other side, approximately 40% coming from retail and the remaining 60% from corporate, we had a 23 million impact on NPL charge for this quarter.

That's, in reality, on the retail side a little bit the winter effect and also usual December effect, which I have to say. On the corporate side, three-quarters of this are authentic, so that's mostly one-time effects, which I'm not expecting to repeat in the next quarter and so far, in this quarter, also doesn't, so I don't see this as a trend. But the last quarter definitely hit higher charge than an average quarter.

Last, but not least, what I mentioned at the beginning, net interest income. Here you see on the one side from our EURIBOR based loan portfolio, we have 60% in six months EURIBOR, and you see the percentages for the rest. The effect from this is because only at the due date in most cases, and just in ones of our smaller banks with certain defined deadlines, the EURIBOR then is really kicking in, so repricing. What you see on the right upper part now is the applied EURIBORs per end of the year, what the EURIBOR was at the end of the year. This tells you that, at the end of the day, part of the good news coming from the net interest income, we will only see in 2023. Because when you have rising interest rates, this increase of the net interest income is running a little bit after, due to the effect which I mentioned. That's why actually we expect even stronger impact still to come.

That's briefly from my side for risk and, with this, I'm handing back over to Archibald.

KREMSER A: Thanks. I'll keep this brief. Not much has changed since the last time we talked about this, the integration is commencing with full force and all hands on deck on business and IT elements of the integration. Maybe I'll remind you that the big benefit of this process is somewhat a pre-test, a trial run on our core system back-end integration process that we have to run in Slovenia to, in essence, get rid of our mainframe infrastructure. This is all going according to plan. On the numbers, not much has changed, the plan is still

same as last time, of course now more advanced on many elements. We are in discussion with the regulator, we have successfully overcome all the hurdles with our compliance elements of this integration process, so in that sense, I would pass back to Blaž, to conclude.

BRODNJAK B: All of what we've said has led us to revise our guidance and ambitions for the upcoming period. Of course, no one six months ago could account such significant hikes, this is a totally different environment. Much more normal environment for banking universe and what we expect then with the inflation coming down a bit, some moderation of the interest environment. But still, normal banking environment with soundly positive rates. This is, for banks, bringing totally different expectations when it comes to revenues. Deposit's pricing will be significantly challenging in this upcoming period, in the sense of introducing measures that will be a balancing act, especially if we don't expect after the significant hike and quick hikes certain moderation. But, generally, this is good news for our revenue side.

And by that, we have significantly revised expectations, both in terms of regular income, also profitability, both in absolute and consequent, in relative terms. We see us now really ready to be talking about further growth in organic and M&A universe Archibald mentioned, up to €2 billion of risk-weighted asset M&A capacity in place via the capital measures

and internally generated capital. We were seek further possibilities eventually for some private placement of AT1. We have not exhausted this territory yet, we have been publicly talking about that for some time. We will be further talking about senior preferred issuances within Q2, as we also announced in public.

But, generally, NLB is moving the bar in 2025 to 400 million in five to six years from now, with a bit of luck, potentially even half a billion. We are sticking to the dividend promise. We have consciously not yet been increasing dividends because we believe there will be opportunities coming our way in the upcoming 12 to 18 months. That's why we have beefed up capital as well, to be on the safe side, given the uncertainties and turmoil in the environment. But now, when this is settling in, in a much more controlled way, energy pricing is reasonable, energy is available, so there is stability of supply. The winter was helping out, obviously. The mild winter helped out significantly and for the next winter there are high hopes we will be sitting on significant storage of gas and with normal production mix, also electricity. In this respect, we look forward very confident and we feel very strong, that's why we felt confident enough to actually start talking about 14% ROEs normalised for this year and more than 17% for 2025.

Serbia is on a good track. We specifically highlight Serbia because this is for the first major acquisition after the restructuring of the banking group. And there

is very strong performance in Serbia, actually a bit ahead of time, potentially delivering 100 million, so we feel confident about that as well. We will not shy away from analysing and engaging at actionable M&A opportunities. There might be a leasing opportunity in Slovenia, potentially, in the market in a couple of weeks. There might be opportunities towards the second half of the year in other countries. We are specifically interested in Serbia.

And we firmly believe that the time has come that Slovenia and Croatia put history aside and reach an agreement and settle on the past legacy issues when it comes to former Ljubljanska Banka. And, by that, NLB is acknowledged as a welcome contributor to improvement of the business environment and welfare of households in Croatia, by entering the market as well. We have capital, we have liquidity to be able to start initiating operations in Croatia cross-border. Once allowed, if there were actionable assets, of course we would analyse them, but currently we have not yet been engaged in any way in this respect because we are still banned, have straight bans, to enter the market.

Overall, good prospects and high hopes for this year and the upcoming mid-term period. Building this group, moving this group to a different ballpark of total assets, of absolute profitability, also relative profitability. Finally getting back to something we believe is appealing and attractive to the investors.

Especially if inflation is moving down to something much more reasonable, we see forecast market expectations of 2.5% maybe already in the next year. Delivering 14%, 17% ROEs in a normal inflationary environment is, we believe, something very attractive if you look at it dynamically, from today's perspective. Thank you for being with us, trusting us, and building this success story together. Now we will be gladly responding to any questions. You know the contents of our investor relations team, but now we are all yours for the eventual dilemmas raised or questions. Thank you.

Q&A

OPERATOR: The first question is from the line of Nellis, Simon with Citibank. Please go ahead.

NELLIS S: Hi. Thanks very much for the opportunity. I guess, my first question would be on the cost guidance for 2025, it seems quite ambitious to keep costs at the 2023 level, which is now guided at 490, so unchanged versus your last update. Can you just walk through how you get there and what kind of employee numbers you're factoring in and what kind of employee cost growth you're looking at? Because it looked like this year you had something like 16% growth in labour cost per employee, so I'm just wondering how you keep costs flat in the outer years, what are you factoring in? That'll be my first question.

Second question is really about funding. Can you give us an indication of what kind of a deposit growth you're expecting, what you're seeing in terms of deposit pricing and deposit data? Those would be my two main questions, but well done on the results, it's quite impressive.

BRODNJAK B: Thank you, sir. I will begin and then Archibald will, for sure, add some thoughts. When it comes to costs, we are still in the midst of two integrations. There is still a tail to be delivered from Serbia. We told everyone that the target headcount in Serbia is around 2,000, 2,100 and we still have a couple of hundred to go there. On the other hand, N Banka will end up with significantly lower count. We just got 385 people in March last year, we're already below, around 200 there as well. This is coming from the successful integrations finally delivering synergies.

The other of course that I mentioned is the digitalization. We have very ambitious targets in place through the KPIs in all subsidiaries and also Slovenia, for mobile and digital penetration of the client base, which is driving down the general cost of the branch network we have been reducing significantly. Slovenia will be continuing by some additional branches closed this year, some potentially in the upcoming couple of years, but in Serbia still some to come, and this is a general trend. We believe we will be able to offset inflationary pressures, especially if we see inflation

normalising, by completing simply a couple of integrations still pending.

When it comes to deposits, we do see cooling down of demand for especially housing loans. The interest hike has delivered this restriction, at least mentally. Psychologically, people are now looking at 5% rates versus 1.5% rates for a 30-year housing loan. They have crunched a bit, so there is a bit slower demand. We, nevertheless, expect that this year we will see mid-single-digit growth if we have real growth of 1.5% in the economy with 6% or 7% inflation, this is still 8% nominal growth. Coming from a very low base of 14 to 15% housing loan debt to GDP, there is still significant potential. Once people understand that 5% for a 30-year loan is still not totally ridiculous, in historical perspective, so let's see.

There will be by that naturally, given the increase in salaries, on average we expect some 5% increase of wages in the country, we would expect nominally influx of deposits. We see still strong consumer confidence, so people are still spending money. There is solid demand for half of consumer loans, a bit lower for housing loans, so we will see here a bit more balanced evolution. But these days deposits are no longer a drag because now they have become again a treasure.

We are a strong retail franchise, we see it on 60% a bit more loan-to-deposit ratio, and this is mainly sight deposits, we still pay practically zero rates to the sight

deposits and today you can place liquidity to serve either government or central bank bonds, of course new loan origination at normal rates. No longer at totally discounted rates, so normal rates. This is in principle good news. Even if you would have solid development on deposits, you will see incrementally a positive contribution.

You will see a bit of a lack in a repricing of deposit base because we are sitting on very low loan-to-deposit ratios. We are not forced by any means, actually, via MREL we are rather de-stimulated to reprice deposits because we have to take on still expensive MREL funding. Which is requiring for every single incremental risk-weighted asset, you will build up 35 cents of this very expensive means. This is discouraging us to reprice deposits significantly, but there will be certain movement. We see other banks in the market, smaller banks with significantly higher LTDs already offering more than a year deposit, 2 even 3% rate. But the condition then, salaries movement, this is limited to certain amounts of deposits and so on. It is difficult to say where this would end. It's going to be a bit of an art, how to price these deposits, but generally, the hike is still coming. You'll see another 50 bps of ECB coming in March, this is announced basically. This is by any means not yet fully factored in, in the assets. You saw 6 billion still coming to be fully repriced in this respect. I would see this a very solid year of performance. This 14% that we are signalling, we believe is achievable.

KREMSER A: Not much to add, other than don't forget, this last year was a bit burdened with restructuring charges, so costs of one-off nature. Then of course, the other thing I would add is we are very focused on real estate footprint, as I mentioned, and getting efficiencies there. The whole energy crisis has made us very focused on energy consumption, electricity, so kind of on our things if you want, but this will give us the savings. And the synergies mentioned will also give us capacity to keep investing in matters that we believe are important, that is of course the whole brand, customer experience and the whole internal digitalisation process. It's not going to be easy. Inflation is, to some extent, still a bit unpredictable how it's going to play out, but for now, that's the ambition and we want to remain ambitious.

NELLIS S: Thanks very much. Just on the deposits, it sounds like deposit growth might be a bit lower than loan growth. Is that a fair assumption?

BRODNJAK B: Actually, it's hard to say. It might be the other way around. People are full of money, the public sector is repricing salaries like hell so it's not private sector that's following, so there will be a lot of household money. What I said, it might be that growth of deposits might actually be higher than the growth of loans, but these days, deposits are no longer a problem. That's the message. Incrementally, you actually benefit.

NELLIS S: Just maybe one more. You said that you've got 2 billion RWA M&A potential. If you don't see targets, when would you consider upping the dividend pay-outs back to your IPO target of around 70%?

BRODNJAK B: We consciously moved away from percentages in terms of pay-outs and we moved to absolute amounts. We, at this point in time, do believe that within 12 to 18 months there will be a potential, we want to acquire potentially up to €2 billion of risk-weighted assets. That's why we stick to the guided-for dividend plan. If we in 12 months see there's nothing that crystalised, then of course it will be a different debate. But from today's perspective, we do believe there will be an M&A opportunity.

NELLIS S: Understood. Thanks so much.

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

SIKIMIC J: Good afternoon. Congrats on the numbers, or maybe better to say on the guidance. I also have a follow-up on M&A. If you combined it or if you consider it together with the guidance, guidance was hiked, profit was hiked, cumulative dividend assumption was kept at 500 million. M&A capacity, I think you mentioned that you are already there in terms of your capitalisation. Can you maybe just explain how you calculate M&A capacity and maybe what's behind the capital targets that you imply? It looks at first sight to

me a bit, let's say, being cautious on the capital side going forward, is it?

KREMSER A: Maybe to qualify this, 2 billion is not measured by linear, this is a range. It just indicates that we upped the game a bit. We believe growth is important, scale is important in banking. Banking gets more complexly regulated. The whole rate hike has also told us that as a relatively small player, funding is expensive. In this sense, the signal is we want to be scaling more than what we do organically. The numbers are not to be taken literally and religiously, it's an indication that our appetite is rather growing a bit. It relates to the previous question, we keep the dividend promised and we add a bit of M&A capacity.

BRODNJAK B: We really believe that there is value. Not only value, we believe it's a necessity to grow. And it's not only from regulatory, it's from all other dimensions, to weather the crisis in a more confident shape. We believe we could be moving quickly towards 30 billion and then in mid-to-long term 50 billion balance sheet. Which is then potentially even sufficient in this highly strictly regulated territory, having a critical mass. This is possible only with strong growth, organically, and to eventual M&A, maybe even tactically at a certain point asking stakeholders, shareholders for trust and going for the recap. Hopefully, finally gaining enough trust and ambition for the Republic of Slovenia to play along in this respect and to provide capital. If this was a sizeable opportunity, in terms of 5 to 6 billion balance

sheet in Croatia, Serbia, you name it, this will require some 400 million or 500 million of capital from our side, we would go for it, hopefully being able to count on the support of the Republic of Slovenia, as well. We think in terms of ambition, how to position this business in let's say, ten years from now, to 50 billion total asset base, hopefully delivering then 700 to a billion of profits. This is from today's perspective totally in the clouds, but if you don't think Olympic, you will never enter Olympics, right?

SIKIMIC J: Of course, yes.

KREMSER A: There was no change from our side on capital targets, you asked, but bear in mind, that's a regulated business, so regulators could have ideas here and there. In this sense, you always have to keep it in mind.

SIKIMIC J: But you don't fear anything, right?

KREMSER A: No.

SIKIMIC J: Okay, fair enough. Second question, on provisioning, I think if I understood the numbers correctly, you set aside a bit of provisioning on Stage 1 and Stage 3. On Stage 2, despite going up in nominal terms quarter to quarter in both segments, retail and corporate, the coverage declined a bit. Did I understand it correctly?

BURKHARDT A: This is pretty much of mechanics, it's depending on the concrete cases which are flowing in and out. Generally speaking, I have to say we are pretty happy with the percentages of Stage 2. Regulator sometimes is asking us whether we are here too low, I strongly believe we are not, so I think the staging here shouldn't be some kind of building buffers, but it should reflect reality. Here I have to say that our portfolio simply reacts very, very solidly, I have to say, very robust. And generally speaking, our coverage ratios are more than solid and clearly over EU average, so I think we are here, for sure, on the safe side.

SIKIMIC J: If I may just add another one. There was recently on this Swiss-Franc issue, maybe it's not imminent that much, but experienced by some neighbouring markets, or CE markets. There was an unfavourable Supreme Court judgement on one of the cases in Slovenia. How do you read this? We had before the Constitutional Court cancelling this kind of controversial law, which was adopted earlier last year. Is the topic going to come back again or how do you assess it?

BRODNJAK B: We assess it as normal evolution and development because there were banks that in individual contracts didn't necessarily perform the duty of information, informing the clients properly and making sure that there are proper documents that has been signed. This is a normal practice. The court has an individual case assessed, that the bank didn't perform all the duties, so this is not typical, specific judgement for NLB. In our

cases, we had separate statements signed and so on, so this is to be seen as normal, individual court practice.

KREMSER A: And NLB has won the individual court cases so far.

BRODNJAK B: We have won all of our cases.

SIKIMIC J: Okay, so it's kind of moderate risk or very low risk from your side at this stage. Legal risk, when judges take the control of the sector, then it's not good, but I hope not.

BRODNJAK B: We've seen this in some case. In Slovenia, luckily the Constitutional Court was judging on this one soundly, eliminating the retroactivity entirely, there was no higher public interest for retroactivity to be applied, so that's it. From now on, it's individual cases, judging whether the bank did perform the duty, the client was properly informed, properly acknowledging the risk taken over by signing a deck of explanation and so on.

SIKIMIC J: Perfect, thank you. I'm done.

OPERATOR: The next question is from the line of Ronak with EFG Hermes. Please go ahead.

GADHIA R: Can you hear me?

KREMSER A: Yes.

GADHIA R: Firstly, congratulations on the good numbers, fantastic set of results. My first question is on NIM. If I understood Archibald correctly, he was indicating that the increase in EURIBOR rates haven't been fully priced in, only about 75% has been priced in and there's more to come. With the expected increase in ECB rates, should we expect your NIM to be above your target of around 2.5% in the short term before then normalised in the medium term? That would be the first question.

The second question is can you talk a bit about competition. OTP recently completed an acquisition in Slovenia, should we expect increased competition within the banking system and what potential impact could that have on your Slovenian business? Thank you.

BRODNJAK B: Maybe I first touch on the OTP's closing. We, above all, congratulate our esteemed colleagues from Hungary closing the deal. We believe it's good, it really finally that Slovenia has proven that international capital is welcome because it was dragging for almost 20 months, the decisions that were needed for vetting this deal. We see OTP Group as a real strategic investor. We have high appreciation and we don't expect them to introduce ridiculous market practices. They will have critical mass, they will introduce, of course, sound approaches in terms of product positioning in pricing, in collateralisation and so on. We take them as an extremely credible counterparty. If you ask me, is this

then good for NLB or not good for NLB? We were competing until recently with three or four very strong brands, now we will have one counterpart our size and of course qualified. If you ask me, that's very good for not only NLB, but the economics of the entire sector.

On the other hand, still keeping the competitive edge, that the clients would not be deprived because of eventually some other trends in the industry, in terms of antitrust protection and so on. That's all good news, OTP is all good news. This is how we assess the situation. Come to drivers on this slide, more or less you see where we were. We cannot be more exact at this point and you can talk to our team for more details, what we can disclose. But January, it's by no means yet fully repriced. If you see then February coming in 50 bps, you can see March coming in at 50 bps. EURIBOR's today, six months, EURIBOR at 3.2%. We are by no means there yet. It's going to be for six to nine more months or even the entire year for some of the exposure of the portfolio, where you would still see repricing come in.

The margin of NIM of last quarter was already above 2.5%, it would be significantly above in this year. What's then a new normal level? You rightfully somehow try to understand where this 2.5% in a normalised mid-term environment, very likely, yes. It's too early to say, but we now feel confident that we will have normal margin for banking business because seven years in a row, it was not a normal banking

environment. We're finally back to a normal banking environment.

OPERATOR: Mr Ronak, have you finished with your questions?

GADHIA R: Yes, that's fine. Thank you. Thanks for your time and response to the questions.

OPERATOR: Ladies and gentlemen, we will now move on to our webcast questions. The first webcast question comes from Damian from Slovenia. And I quote, the first question, will there be any extra dividend for year 2022? Second question, are there any acquisitions taking place, especially in Croatia? Thank you.

BRODNJAK B: I believe we have more or less explained that. There is not supposed to be an extra dividend. Shareholders can also have a contra-proposal or suggestions. We actively will not suggest more than 110 million from the last year's result because we believe there will be acquisition opportunities that we can address. Whether this will be in Croatia, it's too early. Currently it's not allowed, so currently we cannot enter the Croatian market yet. This is subject to a political agreement between Slovenia and Croatia. There might be, though, opportunities in Slovenia, leasing territory, or in Serbia, potentially in the second half of the year or early next year. Also, in the banking universe.

Nothing is concretely happening as we speak, but might be evolving pretty soon. We are already almost now in the end of Q1 of this year, so towards the second half of this year, which is practically in business terms tomorrow, there might be concrete movement in this direction. And we are equipped with capital, to be able to address this in an agile and effective way. Not then going for capital because we have paid out too much of a dividend, and this would not be rational, simply.

OPERATOR: The next webcast question comes from Robert from Poland. I quote, what makes you so confident on timing of the Croatian opportunity just now?

BRODNJAK B: We're not confident, we believe the time is right because Slovenia has just supported fully, genuinely, entry of Croatia in euro adoption territory, on one side. Croatia has become an EMU member, European Monetary Unit member, Slovenia strongly supported that. The second one was allowing and supporting shift of the Schengen border regime to Bosnian border, by which there is no border between Slovenia and Croatia anymore, which has eased the life of Croatian businesses, citizens, and Slovenians on the other side, significantly. We believe there is a positive sentiment right now, as long as people still feel this as an additional benefit, it's not something they're used to. Whether of course politicians see it the same way, we frankly don't know. We feel this sentiment among the

population and businesses and we hope that the politicians would and will ride this wave of opportunity.

OPERATOR: The next webcast question comes from Antun from Croatia. I quote, congratulations on record results. What are your thoughts about NPLs in 2023? What are your expectations regarding mortgage loans in Slovenia and Serbia in 2023? Thank you.

BURKHARDT A: On NPLs, I'm expecting moderate development. It might not be as moderate anymore, as we saw it in the previous years. As you know, we are guiding to 30 to 50 bps cost of risk. I strongly believe that we will not exceed these costs. What is true and what we saw in the last quarters, and I think this year we'll see a little bit more, in 2023, is more movement in the background if you want. We are still very successful in resolution of NPLs and also off-balance items. I'm expecting to a certain extent this to continue also this year. On the other side, we have more cases seeing moving in, no dramas, especially no big or critical cases. That trend will probably accelerate a little bit this year. I think I told you already in the last one or two webcasts that I'm expecting that on the retail side some people will simply feel prices going up and salaries maybe not always following suite or fast enough, so we will see some impact here.

We might see within corporate clients also some impact. Whereas I have to say, so far, the only thing we see is what is very natural, the less good managed

companies have the problems first. Here we are anyhow pretty strict from our side in the loan approval process, so I'm not expecting any dramas here in 2023. And I'm very firm that we will stay within this guidance, for sure not exceeding it. But these days are for risk management a little bit more vivid times than in fully regular times, but we are on very strong feet. We have very high-quality portfolio and that's why I'm also expecting for 2023 no real surprises.

BRODNJAK B: We are getting back to normal in this respect. We've been writing back, having negative cost of risk for years and at a certain point in time, you exhaust the NPL book from which you can actually be reaping these benefits, that is provisioned to liquidation values. In highly liquid markets you have market values, not liquidation values, and that's where you're benefiting in terms of cost of risk positive contribution to the P&L. This has more or less been exhausted. There might be some pockets still in Serbia, there might be some pockets here and there, but not many are left. That's why we are talking about 30 to 50 bps, which is more or less normalisation of the cost of risk. When you have broad consumer loan book, when you have regular underwriting capacity fully in place, if you have a margin of 2.5 to 3%, of course having 50 basis points of cost of risk is something absolutely acceptable. This is, in terms of business progress, something you do. Banking is risk management, not risk avoidance, so that's good for us as well. Is it going to be 50 or 30? Time will tell. The year has begun well, so we don't see

significant movements into migrations in the portfolios, let's see.

The other question was housing loan development. We see significant cooling down in the last period, of the last weeks. As I mentioned within the presentation, people are a bit in a shock because we've actually come from 1.5% fixed mortgage for 30 years in June to 5-plus percent practically now in February. People now are deciding more on a floating rate and are not yet sure whether inflation and where the floaters will be moving in the upcoming mid-term, so they now want to wait a bit. That's why the demand is lower.

But, at the end of the day, there will be accommodation, a period at which people will understand, they still want an apartment, they still can afford a 4.5, 5% rate, and they will resume purchasing. This might be then at a significantly lower level, that's why we said this year we are not talking about double-digit growth rates, we are talking about mid-single-digit rates. Is it going to be 4 or 6? Time will tell, but overall, retail growth will be somewhere there, we believe. Consumer loan book is developing, finally moving a bit because it was stagnating for years, now we see this one moving and housing going a bit down.

Overall, on average, it could be this mid-single-digit growth within, in nominal terms, still 7 to 8% growing economy, with very low base. If you look at the housing loans to GDP or total retail loans to GDP or

corporate debt to GDP, we're at very low levels. A certain convergence here still would be happening as soon as a bit confidence is back, both for consumers and businesses. We believe those will resume, but not to the last year's level. If you look at the mid-term, we believe it's going to come back because from the low base, we have quickly reached significant growth rates.

The Slovenian economy, the regional economy, is in relative terms, lowly indebted, lowly leveraged, and we are at one-half or even one-third of developed markets. Which speaks about our incremental opportunities and potential, but also about the quality of our loan books because the business is deleveraged significantly. Overall, lower growth rates, but in principle, sound production with it at much higher rates, at point of origination. Even if we now grow with by 3 to 4%, we would be growing by this 2.5 to 3 or even more percent margins, which is totally different to growing by 12% at a 1.3% margin.

OPERATOR: The next webcast question is from Beidi USA. I quote, what's the assumption on interest rate environment behind your 2025 targets?

KREMSER A: That's anyone's guess. It's already brave to talk about 2025, but from what we see, that's a zone we can reasonably estimate. Beyond '25, I wouldn't dare to give predictions. The ideal case would be that inflation will have normalised, rates will settle at some normal level, quantitative easing programs will have largely

diminished and we're back to a half-way normal situation, both on monetary policy, rates, environment and by that, also for banks a good environment where you can earn good money in an environment that we describe. But for '25 and beyond this is speculation, but that would be, let's say, a base case.

OPERATOR: The next webcast question is a follow-up question from Beidi, USA. And I quote, could you describe the depositor behaviour so far? How fast are depositors moving to time deposit and what's the marginal time deposit rates you are offering? Thank you.

BRODNJAK B: There is not yet really a huge shift. We have been offering some saving accounts, schemes, a kind of hybrid between the sights and the classic, transactional account and a deposit, which is linked a bit to the drivers and so on. They can use such products. People are not yet inclined to now deposit money for two to five years in massive chunks because there is still significant uncertainty and they are waiting, what will be happening. We don't see yet massive demand. We see pickup in public, also by media. You are not benefiting from the rate hikes in assets, when will deposits follow? Then we have to explain our LTDs and cost of MREL and everything else.

We are not really interested, there is no real possibility to move quick, but that would be a bad balancing act, so it's hard to tell. We will have to move up gradually, but the asset side is still moving up, as well. We had,

ten years ago, prior to the financial crisis of 2007, 2008, that was a normal structure of the balance sheet. We had 50% term deposit, but now we have 90% sights.

There will be definitely a process, a development, towards something that is in terms of long-term prospect normal banking business. How quickly this will be happening, it would be, you know, a crystal ball. This year is going to be a balancing act. We will be moving on the go and I guess towards the end of the year, once we have more clarity on target inflation rates, upcoming inflation rate then from the year to come and the year after, if this is then starting moderating, there would be less pressure on significant hikes on the deposit side. But it's too early to tell.

OPERATOR: The next webcast question is from Antun from Croatia. I quote, everyone is talking about ChatGPT nowadays. Could ChatGPT and similar artificial intelligence tools be used in banking? Thank you.

BRODNJAK B: That's a philosophical question. Of course they can be along the way, as long as regulation is not prohibiting them. Because the copyright, the authorship, how this is going to work out in the entire educational system, this is going to be a big challenge at the end of the day. It's not ChatGPTs, it's artificial intelligence, it's mastering your data. It's actually, in simplified terms, how we look at it is capturing your data from your clients on a sectional level, transforming this data into

information and then productively feed the sales process with this information. In this respect, this is to me a CRM universe. We have to get more literate, we have to become much more modelling skilled, to be using these artificial intelligence-based decisions in the future. I would not refer not to a concrete app or a concrete solution. This is one of the focus points. Archibald will give you more detail. The entire data management universe is for us really, one of the hot topics, besides introducing common platforms when it comes to client interfacing and client interactions, the entire internal literacy on how to conduct business in a profitable and calibrated way is the entire pillar of our activities. But Archie, maybe you had some thoughts here?

KREMSER A: Actually, we signed yesterday an agreement with Microsoft to start using ChatGPT. I'm very happy to say that we look forward to using all these different means. Of course, there'll be a gradual process of picking up on these technologies, but absolutely, we are using them. We have a competent centre in Serbia with some natural language experts that will help us. For example, go through contact centre, email language patterns and then help us understand whether or not our customers are broadly, more or less happy. So, absolutely, we are going in this direction. As I said before, we will release funds and keep investing in new technologies, from data to AI. We use that already in underwriting, to some extent, and this technology is here for us to be used. As Blaž mentioned, this is regulated territory. The use of AI is regulated by EU

directives, so banks are here of course, as usual, in a bit of a tight spot. We will use these technologies responsibly, but to the benefit of our customers, ultimately. Yes.

OPERATOR: The next webcast question comes from Victor from UK. And I quote, congratulations on fantastic numbers and sharing your detailed outlook. Could you please elaborate on where we stand with regards to the Slovenian CHF mortgage law? Constitutional Courts threw it out, but where do we stand today? Thank you.

BRODNJAK B: It was annulled. The law was annulled by the Constitutional Court, meaning it's not enforced. It was first suspended, as you know, and then annulled, so it has never come to life. What we are left with is now individual cases in a court process, which means that at first clients, that have suit, have to wait for the outcome by the relevant courts. There was one Supreme Court ruling going in favour of the client. NLB so far has not lost a single case in the courts. There are different banks that have conducted different practices more or less in the period of 2004-2009/2010. The ones that have totally respected the duty of explanation and by that, simply familiarising clients with the associated and underlying risks, clients acknowledging this risk by signing a relevant pack of papers. In principle, this is a normal arms length relationship between the lender and the borrower and you cannot totally waive any liability as a borrower, as well. So, the Constitutional Court has ruled clearly,

there is no high public interest to allow richer activity. That's the most important outcome of the decision, which means that any potential settlements would be first talking about significantly lower volume because this will be only live contracts. Secondly, this is actually for the NLB immaterial. So, in total terms, we don't see the Swiss-Franc issue any longer a systemic issue for the banking system, nor for the NLB Group.

OPERATOR: The next webcast question comes from Jan from Czech Republic. And I quote, what is the situation on the wholesale funding? More interest, better rates than end of last year or still the same or even more deteriorating? There is still €375 million to be issued, if I'm correct, by end of this year. Thank you.

KREMSER A: The rate environment has somewhat normalised. We are following this very closely. Spreads have tightened for banks, in particular, so the situation is good. Q1 is actually quite a busy season for banks, a lot of banks are issuing. We are, as we speak, preparing our own program, as mentioned before. And indeed, we are looking forward to some 300 million senior preferred issuance, and that would fully accommodate for all of '24 needs, actually create some buffers already. If needed, we might tactically size up. The idea is to go green for the first time, so to issue a green bond instrument. We see the environment much more accommodating for a BBB-rated name like ourselves. I have to say in the meantime, the name is a bit more public, ratings are solid, and we hit the road. Next

week we'll be spending time with fixed-income investors. We also will make our way to an equity conference in Dubai, where we will also talk about fixed-income opportunities. For us, it's important to be in the market and speak to investors on a continuous basis, and that's what we do.

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

BRODNJAK B: Thank you very much, the relevant questions. Thank you for the interest. Thank you for being with us on this exciting journey. As said, we feel stronger and more confident than ever in the history of this banking group. We believe in a sound future, not only for this banking group, but the entire region. That's why we believe it is worthwhile further investing. Investing both inorganic growth and M&A growth. We are equipped with capital and liquidity to be able to afford that, and we might add additional capacity and fire power. We believe there will be actionable opportunities in a 12- to 18-month window, while we stick to a very solid dividend pay-out. By that, of course sharing our success with you. Thank you very much for being with us also today, afternoon, and until a further occasion, which is coming in mid-May, stay safe, stay positive, and let's do a lot of good business in this region. Thank you.