NLB Group

First Quarter 2025 Financial Results Earnings Call

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Conductors:

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Conference Call Conducted by Chorus Call Hellas

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OPERATOR: Ladies and Gentlemen, thank you for standing by. I am Mina, your Chorus call operator. Welcome and thank you for joining the NLB Group conference call and live webcast to present and discuss the First Quarter 2025 Financial Results. At this time, I would like to turn the conference over to Mr. Blaž Brodnjak, CEO, Mr. Archibald Kremser, CFO, Mr Andreas Burkhardt, CRO. Mr. Brodnjak, you may now proceed.

BRODNJAK B: Thank you very much. As always, I'd like to draw your attention to the classical disclaimer. Warm welcome to the regular performance call. It's been another very strong quarter behind us. It is obvious that there has been a stretch, given the rate environment, given certain tensions in the region as a whole. Of course, there's been significant repricing of public sector wages, so there has been quite some high inflation pressure still coming at the tail of previous inflation trends.

But generally, what we can report is a very strong growth of business, and that's the most important message. We have been able to offset the pressure of rates decline by significant growth, be it both organically or, of course, through the M&A, a significant contribution of last year's acquisition of Summit Leasing and its subsidiaries, asset management business. But above all, very strong organic evolution. That's, I think, the most important message.

We've seen, very strong growth in retail and corporate, and more or less universally so across the region.

Slovenia as a home turf. Serbia, more or less, as a very second strong base, the second very strong base. And then, of course, the entire subsidiary landscape. All client segments, all product ranges, very good output in terms of fee income generation, so still this ancillary universe performing very well.

There has been a temporary, I would say temporary, tension in terms of investment. I mentioned, of course, on one side, the tails of inflationary pressures now more or less demonstrated by significant growth of talent remuneration, which is kind of catching up a bit, which is kind of normalisation. But on the other hand, conscious investment.

We have really decided, a couple of months ago, that we want to fast forward and accelerate digitisation efforts. We have communicated within our Strategy 2030 communication that in principle, we aim for more than 80% of new production being conducted end-to-end digitally. But we have now decided, more or less, that the gradual development is maybe of a secondary priority.

We want to see a step change, which means that we really want to now frontload certain investment in this area. You will see some one-off, of course, evidence of that as well, in terms of strategy implementation investment, in terms of clearly adding almost 300 people from leasing and asset management space. So this naturally brings a certain increase of the general cost base.

But on the other hand, as said, there is a recurring evolution which is contained to what we believe is proper remuneration of talent and conscious investments. And this is going to cater for value and originate value in the subsequent periods.

So, the main message is the growth is there. Significant growth of loan book, organically and through the M&A. There is absolutely activity in place on our end to try to understand any actionable assets in the region to grow further through the M&A, both in banking, leasing space, and of course also, eventually, insurance, captive insurance. So, we have been really consciously working on that, and in this respect, trying to build the base for growth also through M&A opportunities.

But when it comes to general performance, we claim it's been a very strong quarter. So, given the fact that the rates decline has been really rapid in the last 12 months, we have more or less been able to be balanced in terms of Net Interest Income evolution, in terms of total income evolution, delivering of what we've been guiding for. And as said, in terms of cost, it is on one side indeed cost, but on the other side, this is really the conscious investment.

And if you look at the cost-to-income ratio, so 46.7%, this is still south of what we have been guiding for, for the whole year. And in the Second Half of the year, of course, there is going to be much more cautious evolution in this respect as well.

When it comes to general performance of asset quality, despite the full turmoil more or less globally, and now recent even incidents we see in South, in Asia, so I'm today consciously wearing a symbol, and that's the Heart of Sarajevo, which is simply a symbol of peace, but above all, resilience.

And this is who we are. NLB is all about resilience. The structure of our books, the diversity of our books, diversification of our business, is so significant that even in such turbulent environments, we can deliver upon key KPIs and in terms of quality of production. So, there is no significant deterioration of loan books, both in corporate or retail. There is indeed a normalisation of cost of risk, which we have been guiding for, for ten years. It just didn’t crystallise so far, since there have been always continuously some writebacks coming from the legacy portfolios.

So, in the First Quarter of this year, they have not been recorded to the material extent. Some. But of course, not so material, that this would then mask what is a normal recurring performance of a universal financial services provider.

So, 37 basis points cost of risk. Andreas will give you more flesh to it. It is on the lower end of the guided range. There are some one-off components into it. Towards the end of the year, I will be talking about the guidance. We would not see this changing materially in the worst way. When it comes to profitability and delivery of, above all, normalised ROEs and RAROCs and RORCs, in this respect, I believe this is a very strong output.

Net Interest margin evolution, of course, is going in a certain direction which was unavoidable, but through a set of various measures, we have addressed this very reasonably. So, we have really been further reducing Net Interest Income sensitivity to now 67 million, let's say, at 100%, 100 basis point shift. And that's, we believe, quite reasonable.

We've had quite a successful issuance in Q1 of further notes at 3.5% yield, which is we believe now a very solid premium. We need to pay still, but generally a very good issuance.

And what is the most important message, I guess, to the stakeholders at this point of time is that the Management Board has suggested to the AGM, together with the Supervisory Board, obviously, to distribute First Half of what is a growing dividend, significantly growing dividend, distributing 50% of last year's profits. Carrying in today's price, it's north of 9% gross dividend yield, which is we believe a very solid promise.

We've been active in various dimensions, besides now finally integrating leasing business. There's going to be some words also dedicated to that, later on. But there have been some add-ons in terms of smaller acquisitions of, let's say, mobile platforms, mobile mobility. Right? Mobility platforms, web solutions in this respect, associated with our leasing business, and by that, addressing entrance mobility and so on.

What is the most important message, I guess, at this point of time, one of the most important ones in terms of structure and governance, is that, and I claim this has been very solid proof of who we are and what we stand for, and how attractive we have become as a business as a whole, that's, I'm absolutely glad that Reinhard Höll has decided to join the team as the Chief Transformation Officer, and in the future, COO. And by that, adding real capacity into transition into what is going to be a digital bank.

So, our commitment is to be a digital bank in 2030, with more than 80% of delivery more or less end-to-end digital, and Reinhard is going to help us. And we are happy he'll join the team at the beginning of June, subject obviously to regulatory clearances, which I don't see as being potentially problematised.

So we would welcome him at the beginning of June, and he would immediately jump on and has his hands full. He's been helping us more or less already throughout the strategising period, and preparing the strategy as a senior McKinsey partner. And we are really happy that he's investing his skin in this game, and by that, becoming really a co-contributor to the future success of our bank.

We have opened a new gallery, which is maybe perceived as not very meaningful for outside observers, but it is a very important symbolic message, because NLB has resumed a buyout program of art pieces. We are talking about visual art. We've been, more or less, holding the largest proprietary private collection of contemporary Slovenian art. It contains more than 2,000 pieces.

But we have been now starting adding with this new gallery that we opened, where we opened last in a couple of years ago the Bank Museum of Slovenia, also the gallery, which is contributing every year pieces of contemporary art, visual art from all of the countries of our presence. And we will be adding Albania as well, since this has been one of our target markets for the future as well. So, in 20 to 30 years, I claim this is going to be one of the most relevant intersections of the contemporary art of the region.

By that, I would hand over to Archibald, who will then guide you through more details in financial terms, Andreas will talk about the asset quality, and I will come back with the outlook. Thank you.

KREMSER A: Thank you, Blaž. Very warm welcome from my side. On the macro front, I would say largely a stable environment, despite the noise. And we're actually looking forward to a more stable Europe, in that sense. We all follow the news flow around Germany, which, broadly speaking, is positive for our region. So in that sense, we believe outlooks remain solid and quite visibly above Eurozone.

So, not much has changed here. Here and there, slight shifts, ups or downs, but everything supporting what was mentioned before, the very strong organic growth environment. And that remains to be the case going forward.

You see, the fundamentals remain strong. And look at the loan growth across the region, on the lower parts of the chart. They're all solidly single or even double digit. And this has, of course, helped very much our own portfolio. We'll talk about that.

There is, these days, a lot of talks about trade wars. And we just wanted to re-emphasise our recurring message of, not just the region is fairly well diversified in terms of its exports, but also the mix of the economies is fairly well diversified. And of course us, as a bank serving this region, we are mirroring this picture, more or less. So that's, I think, a solid message, despite all the noise around trade wars. So, this region mostly is servicing into Europe, and of course with Europe getting stronger, that is broadly speaking positive also for us.

On the business performance as such, you've seen the key results. Strong quarter, print of 126 million, give or take. If you look year-on-year, actually slight even increase of revenue, so that’s I think a remarkable achievement, despite a massive, of course, rate evolution that we all follow, from 4% to now to 2.25%. So that's very significant in terms of rate evolution, which is one of our key reference rates.

So, I think we've digested that well. And as Blaž said, it's mostly or it is a function of very strong organic growth. Look at loan growth year-on-year 20%. That is, of course, also including absorbing the acquisition of Summit Leasing. And also deposit growth, which of course is increasingly a matter of attention, of course, is solid I would say.

Quarter-on-quarter you see a fairly normal evolution, I would say, and following more or less the trends. You see, again, very strong year-to-date loan growth. We are very happy to observe gross loans growing 3% year-to-date, so that speaks for very solid foundation for Full Year guidance, which we'll discuss later.

All of this is underpinned by, I would say, more efficient balance sheet management. You see LTV going up before the structurally geared balance sheet, a bit more towards longer durations, more fixed rate lending. We'll talk about that in a minute.

And I think the matter of attention for us certainly is cost, cost dynamics, cost-income, which currently is at an okay level, but below our ambition of going to less than 45%, which I absolutely believe is feasible.

We just today at the Supervisory Board discussed so many positive signals on digital business uptake, which of course will fundamentally release a fairly significant amount of the fixed cost base going forward. And we'll very much get focused on that and expect you to update frequently on efforts in that space.

Of course, the joining of the CTO will help us getting even better organised around this agenda. On the NII, you see that, as I said, solid performance. We digested, of course, yet other rate drops. Our current baseline assumes still a 2% year-end lending rate or deposit rate for ECB. Let's see. We put a 50% or so chance on that scenario, and I think the jury is really out.

Our sensitivity, we'll talk about it, is of course with a significant delay to any such move. If you look at the margin compression over a year, you see some 25 or 30 BPS. That is following an ECB drop of 175 BPS. So there is a factor of one to five or so, between whatever ECB does and however it affects our margins. That's, of course, a system which has lots of latencies. Of course, a function also of very active balance sheet management.

On the evolution of NII, you see in numbers what I was mentioning before. Re-shift of balance sheet from cash to lending, also taking on bigger securities position, all of that structurally improving the balance sheet, and of course placing as much as possible into loan business. I mentioned the very strong loan growth, and that in essence continues in this year. You see

Quarter-on-quarter a slight decline, but that is mostly of technical nature, given the funding operation we undertook in January. And of course, technically speaking, there is less day counts in Q1.

NII sensitivity. You see here a quarterly evolution over the last couple of quarters. It's almost cut in half, which I think is really a quite substantial achievement. So here we got the evolution right, in the sense that we took action well on time, reducing NII sensitivity, not just in absolute but also in relative terms. And you see here all the various positions that contribute to that. You see derivatives, of course, substantially improving the NII sensitivity we faced.

On non-interest income, I would say solid continuation of a very successful story, continuing with in particular worthwhile mentioning the continuous improvement on our service range, especially in the payment space. We are now out with more or less customary payment services in all markets, so the Apple Pays and the likes, and of course we'll continue to substantially invest in that space. This is just the beginning. Very much looking forward here to the results of the strategy deployment.

In the meantime, I think a highlight remains our very successful investment fund and bancassurance franchise evolution, which in the meantime contributes really meaningfully and visibly to group. And here again, in markets like Serbia and North Macedonia, we're just at the beginning of that evolution and journey.

On the cost side, if you look at the normalised numbers year-on-year, 9% is rich. We acknowledge that. That is really a function of very much labour cost inflation, but to be honest, this has to come down and will come down. So this dynamic will for sure not continue, and we'll get much more focused also on headcount discipline, because the labour cost per person will continue to go up. And for us, that's a good thing because this region is just growing richer. So for us, that's future revenue. If population earns more, that's good for us.

But of course, in terms of our own cost base, it puts all the more pressure on productivity, which is what we get extremely focused on, going forward. You see efforts ongoing on integrating Summit Leasing, so that will shed a headcount of some 45 people. We will reduce headcount by a-hundred-and-more, headcount in Serbia. And this is basically the beginning of an agenda of capacity adjustments going forward.

And not to forget mentioning, we will consciously but continue to invest in, of course, the digital landscape. So, this is underpinning all the efforts of reducing fixed cost base. As we mentioned earlier, the pickup of digital sales is really quite visible or is starting to get very visible in the meantime in a number of markets, so we certainly want to take advantage of that, also on the fixed cost base reduction.

The balance sheet structure, as I said, I claim more efficient than last year. You see LTD’s now in the mid-70s. That's close to sweet spot, I would say. Has still room to improve. And you see a bit of a higher securities position. Less cash. Cash has gone to loans, which also includes Summit Leasing.

On the deposit side, fairly similar structure. This is evolutionary, not revolutionary, and of course a very valuable part of our franchise. Very keen to continue to develop that. Especially digital services will, of course, be key to maintain and grow this deposit base going forward.

You see here the loan dynamics for this quarter. Fairly strong performance across the range. Not much more to be said about it. It makes us very confident about our current guidance.

You see here again the structure of the loan book in terms of fixed floats and the rate, the asset yields per se. And you see that the asset yields, of course, come down much slower than the base rate. So just to reiterate the point, base rate sensitivity or rate sensitivity is not to be mixed with base rate changes.

On the deposit dynamic, more or less flat around Slovenia and slight growth in our banks. These days, it’s again a slight rebalancing in the markets, from terms to sites in Slovenia, still partially into terms in other markets, simply because there is partially very strong asset growth, which justifies to price up a little bit on the term deposits, to fund the very strong asset growth. And this is still, as you see in the numbers, a very profitable undertaking.

You see that reflected in the deposit yields which come down in Slovenia, given what I mentioned earlier, and continue to slightly go up in SEE banks. So, of course we get ever more focused, especially in our subsidiaries also, on new customer acquisition and account relationships, which cater for the low-cost deposit base.

On capital, again, continued story of fairly strong capital buffers, and that of course fully accounts already for the envisaged dividend of 50% of last year's results. That's fully factored in. And we still run buffer zones of some 300-basis-points-plus. That caters still for, if we were to entertain M&A, something in the ballpark of €3.5 billion, €4 billion, and that is in that sense also unchanged.

We continue to work on efforts to, at some point, enhance our capital structure with AT1s. That's a continued effort. It's more a matter of efficiency than ability. I think, these days, capital markets would be very perceptive for any such undertaking. And we think, at some point, of something in the ballpark of €300 million as a new AT1 instrument.

Not to say too much about our MREL exposure. We are, of course, fully compliant with our funding operation in January. We more than fulfil the requirements. And we think we got this right in terms of pricing spreads, and our reasonable rating is about to improve. So, not much to be said further, and I pass on to Andreas on asset quality. Thank you.

BURKHARDT A: Yes. Archibald, thank you. On asset quality, no revolutions, really. You're pretty much used to the picture on the portfolio distribution. You see, of course, reflected the growth, which the colleagues both were already talking about.

Just as a reminder, last year, of course this was additionally enhanced by the acquisition of Summit Leasing. So, part of that growth from last year, especially retail consumer, is obviously from that part, and that pushed also already also again a little bit up Slovenia from 48% to 49%.

Asset quality remains very strong. What you saw in this quarter now a little bit more is staging in retail, whereas in corporate you see actually fully flat development. You remember last year, especially towards the end of the year, we had some jumps in staging, especially stage two on the corporate side, so here are no new surprises. That is very stable.

In retail, we saw a little bit more inflows. This is already, at that point of time, more levelling out. There was also one special effect, which shall not repeat. Overall, still very good quality, but you see simply a little bit more movement than you saw sometimes in the past.

Portfolio diversification is of course, more or less, unchanged. It's very good. It's very diversified. Just please be a little careful when you compare with the last year. The logic is a little bit changed in the industries. That's coming from a legal regulatory change.

But what you see here on that slide is the Q1 differences, which are very moderate, normal, normally distributed. And especially the few changes which are a little bit bigger in size are, more or less, now the biggest names here inside. This is very good quality, so here really nothing to worry about.

Overall, NPL increased in the First Quarter by actually €3 million. Obviously on the portfolio, this means still slightly shrinking NPL ratio, so also here you can obviously see that there are no dramas from this NPL.

Still one third is with zero delays, so basically mostly in a healing phase, and the coverage stays very solid and obviously above average.

And geographically, the distribution remains as you would expect it. Slovenia approximately half, and then the rest distributed through our network, roughly in a percentage as you would expect to see it, given the size of these businesses.

What we see, Blaž mentioned it, is actually on the NPL formation, very moderate. On the cost of risk, a little bit of a normalisation. It's simply true that we see a little bit more smoke than when times were perfect. And we see, on the other side, less coming back from highly or fully provisioned items. So that gives you now a little bit of a cost-of-risk charge. We are currently at 37 BPS.

I told you, in retail, there's a little bit of a one-time effect. If you sterilise it for that, we are around 30 BPS, normalised. So that's on the lower end of the guidance, and I'm actually very confident that we will solidly stay also this year within the guidance. With this, I'm handing back over to Blaž for the outlook. Thank you.

BRODNJAK B: Thanks, Andreas. So, the main message here is that we have not changed that. I was mentioning the Heart of Sarajevo being a symbol of resilience. Obviously, given the turbulence in economic environment and given the rate adjustments by the regulators, we are keeping the pace in terms of revenue. So this is really resilient operation.

We are able to grow the business in terms of volumes, and by that, offset the pressure on economics of the business. But on the other hand, clearly, the quality of this business is not suffering with this quick growth, so the asset quality remains more or less impeccable.

Talking about cost of risk, we will try to see it towards the lower end of the range than the upper end of the range. But this is a normal cost of risk. High single digit might as well be double digits, so we don't change this right now. But if you look at the Q1 growth, if this were to stay, we would see even stronger performance in this respect.

There is clearly an ambition to pay out 50% of last year's profits in two payments. The first tranche has already been convoked by the AGM, and hopefully then of course the stakeholders will support it at the AGM.

On the other hand, clearly, as I said, we are not shying away from analysing and eventually jumping on opportunities, if they were to come our way, which of course then might determine what would be happening with the second tranche, or what would be happening clearly with AT1 issuances, which we would not be issuing just for the sake of issuing, but would be of course supporting the growth of business. And in this respect, that's something that eventually might come.

The profitability is around this 15%, and this is from today's perspective, but it's at the same time really a function of further moves and further measures of the ECB. So we are operating, as Archibald said, with the assumption that 200 basis points, which might come quite soon, in a matter of weeks, is here to stay.

Towards the year end. And this is somehow, in our assumption, set a lending rate.

So if this was to change, if it was more aggressive decline, of course there are sensitivities which we explain, and would require further measures. It's never ceteris paribus. It's never just a vertical shift means 67 million automatically by 100 BPS. But of course, it's something you need to actively embrace in your set of assumptions as an objective circumstance, which you have to deal with.

So, we are here showing this profitability metric with the assumption of 200 basis points being real and true in a matter of weeks, and then staying at that level. And that's true also for the 26 outlook, for the upcoming year.

So, overall, the story of resilience. Overall, the story of a robust output in a much less predictable and, I would say, much more adverse environment in terms of the rates. But at the same time, very clear focus. Very clear focus, on the one side, on territory of growth, clearly identified revenue pools, acceleration of strategic efforts towards digitisation, leading then to efficiency improvements and cost containment.

We will not be able to, of course, reduce costs quickly, but we believe we can contain eventual growth. We will have less talents, different profiles of these talents, and of course better paid talents. But much less, of course, manual interventions in the upcoming years. And that's exactly the debates we've been having also today at the Supervisory Board meeting, very I would say intensively.

So, overall, a good message. Overall, a good value proposition. We're still trading at below six times earnings, so a pretty interesting opportunity still to invest. I cordially invite everyone to still reconsider more investment.

At the same time, the Management Board has chipped in a bit in this quarter. So we have invested at the dip, and of course we will be further supporting the growth of the share price. Not only the share price.

Clearly, we believe in this story, that this is a story of future success. It's been traditionally a successful story, but we believe the future in front of us is even brighter. I would stop here. Thank you very much for hanging in there. And of course, now opening floors for any questions and comments. Thank you.

OPERATOR: The first question is from the line of Dias Miguel with Wood & Co. Please go ahead.

DIAS M: Hi. Hi, everyone. Thank you for the presentation, and welcome to Reinhard. Good to have you on the team. I would like to better understand the underlying dynamics behind the Net Interest margin evolution this quarter, if that's possible. So, you had 100 BPS contraction Euribor in the Second Half of 24, plus two rate cuts in Serbia in the Third Quarter, and still remain solid, presumably supported by higher share of fixed rate loans and the hedges and so on.

So, now we see Euribor decline 38 BPS in the First Quarter of 2025, 30 flat, and yet we see Net Interest margin declining 15 BPS. Right? I see that there was a 36 BPS drop in yields of the loan book in the First Quarter.

So, yes, I would just like to understand why that was. Why now? While throughout the last year, the yields remain flat. Can you please help me understand the underlying dynamics? What is it? Somehow just some lag effect? And if so, should we expect Net Interest margin to continue to compress in the coming quarters? Yes, that's the first question.

KREMSER A: It’s the mother of all questions. Thank you. There is so much going into this, and you mentioned a lot of these factors. It is, of course, as we said, we put lots of effort to improve the structure of the balance sheet so that it is less sensitive, and we've outlined how and to which extent.

Then of course, we continue to encourage fixed rate lending. You've seen a much higher level of fixed rate lending. And retail lending in particular, especially in our subsidiaries, is anyways much higher levels than if you look at, let's say, an ECB base rate.

And so, that's simply a function of very strong loan growth, structural shift in the balance sheet, and of course there's also a bit of a time lag element in it. And I think the best way, if you really want to get a sense, is look at our group NIMs. They have compressed by, as I indicated before, sometimes 30 BPS over a year, and ECB has dropped by 175. So that is a ratio of one to five, and that's a combination of all these measures.

So, going forward, that's why we encourage readers of our balance sheet not to immediately take our NII sensitivity as a good handle of what's happening in the P&L. It's giving you a basic sense, but of course reality is more complex. And of course, we work very hard to keep this NII sensitivity as low as possible these days.

BRODNJAK B: And there's an automatic lag, sorry, because you have three months, six months, 12 months Euribor, depending on the structure of the assets. This is, of course, some reprice only in 12 months, some in three months, some in a month. And that's a structure that really we're communicating, also a table with the structure of Euribor sets. How much of it was six months, three months, 12 months Euribor? And this is in fact very natural.

BURKHARDT A: Exactly.

DIAS M: Yes, understood. So, just maybe if you could give us guidance. Where do you see Net Interest margin at the end of the year? Assuming that ECB doesn't drop below the 2%.

KREMSER A: We don't tie it specifically for NIM, but I guess we gave now quite specific handles on how you could think about it. I mentioned the ratio, one to five, as a very simplistic handle that has applied in the past, so it's for

sure not the worst handle to use as a guess for the future. But there's a lot going on, that it would exceed, let's say, this call to go into all details.
As we mentioned, subsidiary markets play a key role. They run partially different rate regimes. Base rate inflation levels are still different, Serbia in particular. So, there's too much going on to just give you one magic formula.

DIAS M: Yes, sure. Appreciate it, yes.

KREMSER A: A basic handle, I think, is looking into the past. It's not the worst predictor of the future.

DIAS M: Okay, got it. And just to follow up on this. Does the income guidance stand if the ECB cuts below 2%? What is your generalistic comment on that?

BRODNJAK B: This is something we implicitly said, right? So, we are saying we would be around 1.2 billion, if you look where we were last year and what was the output of Net operating income in the First Quarter. If we are remaining at 200 BPS as the lending rate, we should be easily delivering the revenue guidance.
So, that is a function of how deep the ECB would cut, and then you combine this sensitivity and this one-to-five rule and so on, and then you do your own math. If it's 25 BPS, we should be somehow close to. Easily,

right? If it's 75 BPS or 100 BPS, then we are talking about a different ballgame. And this, we don't have a crystal ball.

KREMSER A: And of course, there are mitigants on the liability side. The second best, more technical handle, you'll find on the balance sheet metrics that we gave and disclose. So because you've seen liabilities in Slovenia reprice to quite an extent, right? So, it’s if Euribors and the ECB rates go down, cost of liabilities go down too.

DIAS M: Okay, maybe a question for Andreas. If we look at the cost of risk for the First Quarter, it implies more needs than lower range of the guidance. Should we think of this as run rate for the next quarters? Or are you still confident that you could deliver the lower end of the guidance, or closer to 30 BPS then?

BURKHARDT A: So, look, first of all, to give that answer, I am confident that we will be at the lower end of the guidance. And from the today's perspective, first of all, for the First Quarter, I mentioned it, there was one technical error, not on our side, but on the side of a partner, which increased a little bit the cost of risk on the retail side. If you sterilise for that, we are actually close to 30 BPS cost of risk for the First Quarter.

And nevertheless, I have to say that in the First Quarter, especially in January, we saw a little bit more than usual inflow in retail, especially here in Slovenia.

And this is currently stabilising, and that has a little bit of seasonal effects, if you ask me. But at the same time, it has, of course, also to do with the fact that we are trying hard to optimise it.

So, we also here did some measures, both structurally how we approach overdue clients, but also simply in the parameters according to which we give loans. So in retail, I would expect that the trend is flattening. And in corporate, what we see is that times are more rough than they were, so you see surprises, but you see pretty much balanced, positive and negative surprises.

So this year, we didn't have any big or major topic which would be in my head, which I would be worried about. We had one, two negative surprises. We had one, two positive surprises. That's actually very much normal course of business. So, also here, I don't see that we would overshoot what we were planning.

Of course, it's a little bit early in the year, and you never know what comes tomorrow in this macro environment, but for what we can see, I'm feeling comfortable. Also, what you have to see is that this region, especially Slovenia, is to the US very moderately exposed, especially our client base. So, also from that perspective, we don't see any bigger shocks.

It will be an interesting year, so I think I'm watching even more closely than in a regular year. And that's why I will feel even more comfortable later in the year, if I can say the same. But for the time being, I don't have an indication that we would go up in cost of risk.

DIAS M: Thanks. Thanks a lot. Appreciate it. Just a final question, if I may. I seem to remember being said that we would converge towards 15% effective tax rate. Yet, if I look at tax rates in the First Quarter, it's still the same as it was in the First Quarter, 2024. So, how should I think about this moving forward? What is the guidance for effective tax rate in 2025? And please exclude the tax on Slovenian assets from the calculations. What would you guide for?

KREMSER A: Unchanged for something a little bit less than 15, given technically the DTA utilisation in Slovenia, because otherwise, it'll be pretty much 15. Yes.

DIAS M: Okay, understood. Clear. Thank you so much.

KREMSER A: Thank you.

BURKHARDT A: Welcome.

OPERATOR: Ladies and gentlemen, there are no further audio questions at this time. We will resume for some webcast participant questions. Apologies, we do have an audio question. It's from the line of Dodig Mladen with Erste Group. Please go ahead, sir.

DODIG M: Good afternoon, gentlemen. Thank you for the call. And congratulations on the First Quarter solid results. Maybe just one follow-up question on the interest rates. I would not expect that you could pinpoint the exact measure, but how much competitors are influencing the now already visible reduction in the lending rates? Could that be observed in some way?

BRODNJAK B: Yes, in some way, it is outside of the Slovenia. To a certain extent, we were showing the deposit pricing, for example, which is a bit of a counterintuitive thing. Rates declining, but you see still some uptick in what you have to pay for deposits. So there's quite some fight for deposits out of Slovenia.

In Slovenia, it is more or less normal competitive pressure. I just got the data on market share evolution in the last 12 months, and in Slovenia, we have been gaining in all market segments without having to eat too much into the price, clearly. And we have power. We have pricing power on one side, and we have the maturity power, so we can extend long-term financing at reasonable terms, sitting on almost 90% against sites, which we pay practically zero in Slovenia.

So, very strong position in Slovenia. We are now north of 30% in market shares in retail and corporate lending. Also in terms of total assets, we are now 4% almost ahead of the second player. So, these differences now really become obvious, us being a clearly leading provider of universal financial services.

In other countries, of course it depends a bit on your market position. So, in Serbia, in Bosnia and Herzegovina Federation, for example, we are an obvious price taker because in this respect, we are not big enough, right? And we are also not sitting on the optimised portfolio structure on the liability side, whereby in some other countries where of course we are much stronger in terms of deposit-gathering franchises, we are in better shape.

So, it really a bit depends on the specific position in a specific market, but generally overall, we are more or less following the curve. You saw that the actual decline of the margin is not that dramatic, given how dramatic actually the rate decline was. 175 points, is what, 40% lower than it used to be? It's almost half that, and that's material. Very material. And we, of course, then address this by replacing certain asset positions, acquiring some businesses, and growing organically at fixed terms.

But, yes, there is fight. But depending on our market position, we can fend it off better or a bit worse. But in Slovenia, we're coping very well. In Serbia, obviously there are some pockets where of course you are fighting, but we have a very strong production, and our last ones have been very good production as well, so we are happy with it.

And overall, now what we are aiming at is actually improving the accessibility and ease of use and convenience of use of financial services, in the sense of consumer loan accessibility via mobile app and so on, which of course is much less price sensitive when clients take the service.

And in this respect, self-service format at a high level of convenience is much less price sensitive. And in this respect, you do it much more, and then you focus on consumer loans and then you focus on leasing, which naturally carry higher nominal rates.

So it's, again, a mixed bag of various measures to actually introduce, and how you position the balance sheet, and by that, address the margin as a whole. It's a complex answer. There is no one simple answer.

DODIG M: Understood, yes. Thank you very much. Thank you.

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

SIKIMIC J: Yes, hi. Good afternoon, everyone. I have a minor one on capital. The CRR adjustment has been already digested in Q1, because there was some moves on op risk side and credit risk side, which cancelled out each other.

KREMSER A: Yes, so it's what you said. I think going forward, what we're still monitoring is the developments on market risk, and when final implementation of so-called Basel Four is to be expected. That, as you may have followed, was shifted for a year. Now let's see when it comes to play. But that would still be a fairly significant, much less than a billion, but still significant RWA burden.

SIKIMIC J: Once it is implemented, right? So it's not yet any proforma.

KREMSER A: No, it's not yet. Yes.

SIKIMIC J: Okay. So, net one billion on risk-weighted assets, more or less?

KREMSER A: Yes, a little bit less. And we, of course, are scrapping every reserves together, because there's still stuff to be done in collateral recognition. That could be worse. 100, 200 million. So we're getting very, of course, conscious on capital consumption, capital deployment, and also waste, simple waste, by not cleaning up collaterals, etc.

SIKIMIC J: But this should not change or impact somehow your M&A appetite, right?

KREMSER A: No, it doesn't. The basic headlines aren’t changed by any of that.

SIKIMIC J: Okay, appreciate it. Thank you.

KREMSER A: Thank you.

BRODNJAK B: Thank you.

OPERATOR: Ladies and gentlemen, we will now proceed to webcast questions. The first webcast question is from Robert Brzoza with PKO BP Securities. And I quote. I have spotted that the average deposit costs in the Southeastern Europe are going up, whereas deposit base increased year-to-date. Is there higher competition for deposits in the Southeastern Europe, despite rate cuts in Serbia? Thank you.

BRODNJAK B: Yes, I mentioned this before. It's really market specific. We've got a credit loan growth, a loan growth of, what, north of 25% in Kosovo, for example. And you have to fund this growth. And in order to grow 25% of the asset side, of course you need to adjust the liability side. And if you're able to sell at nominal rate of 5% to 6% on the assets, of course it makes sense to still pay 1% for the deposit.

And here you see this. Very strong growth in Kosovo on the asset side, of course. Cries for, somehow, a bit more an uptick in what you pay for the deposits. But it's worthwhile paying for. And there are some pockets in other subsidiaries as well that exactly address that.

So, in order to have lucrative growth, you of course go for deposits. And if you have a weaker position, then in Slovenia and in Serbia, then of course you pay up a bit. Otherwise, it's not any specific deviation from what would be logical to expect.

OPERATOR: Thank you, sir. The next webcast question is from Antun Horvatić with Allianz. And I quote. Your 2025 outlook stays the same. Does that mean that your estimates regarding NII and Net Interest Income or ECB rate didn't change, or did some offsetting take place? Thank you.

BRODNJAK B: Maybe for the third time, the same attempt to explaining. We operate with the assumption that the rate will remain at 200 BPS and will not go below 200 BPS. Under these circumstances, the guided-for level of revenue should not be in jeopardy in any way. It would have to be comfortably achieved.

Then, if it’s then 25 BPS lower, should still not be a big problem. If it's 100 BPS lower, then of course it's a struggle. That's why we have been already now starting working proactively on various measures, including cost management, really consciously taking into our hands every single hire in the parent bank, for example, having to heed the management board and so on.

So, it is much more conscious cost containment, on one side, and much more conscious decision-making of what investment we will take and what we will skip for the time being. But overall, assuming 200 basis points, assuming relatively the unstable environment, let's say, until the end of the year, it should be carefully meeting these metrics in terms of revenue, in terms of cost-to-income ratio, in terms of the final output.

And then, of course margin is a combination of various, mixed bag of whatever effects and phenomena in this, what you originate, how you position the balance sheet. There is, of course, liquidity in those placements. There is how much of fixed production is with cash loans. Then, of course there is the housing loans, which where you cross-sell five other products, which is then booked under the fee income as well.

So, it’s a combination of various stuff. It's not only Net Interest Income, it's also fee income. That's we also show total operating margin and not only interest margin, because of course you can also reprice some packages. Of course, there is payments. Of course, there are other services, asset management services, insurance business, where you make also income.

So it's not only Net Interest Income, it's total operating income, significantly driven by fee income as well. And that's what we've been doing as well. Successfully originating fee income. That's also one of the very important measures to address pressure in Net Interest Income as well.

OPERATOR: Thank you. We have a follow up from Mr Antun Horvatić, and I quote. How will the digitisation impact the number of your branches? Do you have any quantitative targets? Do you expect rather equal effects across all countries, or will some countries be more impacted?

BRODNJAK B: This is going to be a journey. What we have been guiding for is that until 2030, we would see ourselves reducing total headcount in the banking group by some 20% to 25%, and that should come from all of the corners.

How many branches we will have? It's premature to say. A bit premature. But at the end of the day, we might have different formats of branches, and not necessarily fewer branches. Not necessarily much less branches, but there will be potentially an office with two advisors instead of three tellers and ten advisors, as of today.

So, it might be totally different, your position. And the aspiration of originating more than 80% end-to-end digitally, will naturally of course reduce a need for classical setup, for classical brick-and mortar-setup.

We are already somehow trying to test cashless branches for some specific period of time. Not necessarily fully cashless, but there are hours in the day where you can't do cash, and then people start learning and start simply not being surprised that there is no cash service. And they seem to start using ATMs more, generally for cash transition towards, of course, instant payments, card payments, other digitised payments, forms of payments, and so on.

It's a combination of various phenomena that we will be simply developing in front of our eyes. Whatever we put in production and we set some KPI, it has so far positively surprised. So, whenever we have really enabled end-to-end digitally, it’s after a couple of months in production delivering better results that we have been actually expecting.

And that's why when we saw how this actually helps, that's why we decided to fast-forward and accelerate a bit of investment, to simply enable whatever is of a standardised, repetitive nature, transactional nature, be enabled end-to-end digitally.

And then comes the entire CRM space, where you of course want to capture all of this data and then become much more relevant and meaningful, in the sense that you anticipate the future needs. That you are really relevant, in the sense that you are at the right time, at the right place, with the right solution. And in this respect, of course you fuel then the entire sales engine, which is reactively 24/7 available, with relevant digital push.

So, it's going to be this combination that should drive the entire FTE requirement, groupwide, down by at least 20%. How much this year? It's tough. And Archibald was mentioning, okay, 100-plus Serbia, 40-plus leasing here, a couple of ten here, couple of ten there.

But then, real effect should come in 27 and on, because, as I said, majority of this fast-forwarding will be happening this year and next year. I'm talking about mobile apps for retail, I'm talking about mobile apps for SMEs, and then of course, group rollout of those, more or less digitising it and all standardised services.

So, you can now already get 24/7 cash loan, up to 40K credit card limit, overdraft limit, savings deposit, savings accounts, deposits, some basic insurance, asset management, end-to-end digital already now, 24/7, assisted by contact centre. Digitally signed. No single sheet of paper.

And no need for interaction for majority of these services already. If there is a need of interaction, 24/7 happening through the contact centre at two o'clock at night. So, no need for classical branch at all, already.

And now, of course this is going to be monitored, more or less, on a daily basis. And then adjustments will be following in the sense of, how many branches do we really need? How many of these branches actually need to offer the entire portfolio of services? And ideally, how many?

Ideally, most of them or even all of them become asset management offices, and the transactions are performed in self-service format by clients themselves. So that's the ideal outcome.

There will still be cash. Cash will not fully disappear. But it might be down, driven down to 10% or 20% of today's volume. There will still be, of course, visiting of branches, but this might be reduced to 10% of today's volume, but then being much more meaningful. Because then you would want to sell, of course, the entire asset management insurance portfolio services, long-term savings plans and so on, instead of just paying, instead of people that can do this by simply taking a photo or ideally through direct debits, not requiring anything from anyone, not even themselves.

OPERATOR: Thank you. The next webcast question is from Will Kelly with Frontaura Capital, and I quote. Amid trade uncertainty, what have you observed in terms of demand for CapEx and working capital demand from clients? Do you anticipate any deterioration in asset quality, particularly in terms of working capital financing? Thank you.

BRODNJAK B: Andreas will give you details, but generally, what we have been observing is that people that have had challenges and we've been dealing with them, are reporting now there is improving order books, there is visible more activity.

If you look at the production output in Germany and firsthand reports on confidence on production, and also Slovenia, which is, as you saw the chart, predominantly exporting to European Union, 80% of exports is more or less European Union. There are some signals and signs of revival in Europe now.

Of course, all of these billions invested into either defence or resilience are of course going to, for sure, increase the general economic activity in Central Europe, which is our main basin. So, I wouldn't observe deterioration. I would rather observe quite some revival of activity. But I would ask Andreas to give you more flesh.

BURKHARDT A: Yes, not too much to add. Indeed, compared to last year, actually we see at the moment more positive signs. Last year, at one point of time, we indeed also saw a fallout with a couple of clients. But here, it's a lot also the structural preparedness.

So, it's not that the situation last year became so severe anywhere that a well-prepared client would have had problems, but clients which had structural problems already for a while and didn't work on them, they saw more impact last year. So that's also why you saw, on the corporate side, more staging. This has not only flattened out, as you saw in the First Quarter, but we also see more positive signs, actually

Of course, it's never a unique picture. Interestingly enough, despite the turbulences on the political side in Serbia, we don't really see much impact there. Where we see more impact on the corporate side, in the sense of the businesses are slowing down, is at the moment in Republika Srpska, so in the Serbian part of Bosnia-Herzegovina. Let's see what impact that will show.

So far, on the NPL side or staging, we don't really see impact, but that part of course at the moment is slower, is showing some slowdown. This is for sure a point which I'm watching closely, but globally, I can just reconfirm what Blaž just said.

BRODNJAK B: On the other hand, there is a household situation, and Slovenia is reporting an historic low on unemployment. And all over the region, we see very low unemployment rates, so whoever is really willing to work can find jobs easily. So there is practically now very low delinquencies.

There are some issues with the parameterisation of certain portfolios, which you test out, but then we quickly adjust and calibrate in retail pockets right here and there, where you test cash lending a bit.

But this is all within totally palatable territory, right? So, 30 basis points cost of risk, for a universal financial services provider, it's totally reasonable. And it's normal and expected in normal times and normal cycle. Finally, it’s there. And as I said, it was a bit masked for a decade with writebacks, which is not a normal situation, that you have continuous high writebacks.

OPERATOR: Thank you. The next question is from Ronak Gadhia with Dunross, and I quote. Question number one. Is there any upside risk to your estimates due to the recent stimulus introduced by Germany? And question number two. What is your expectation for wage inflation over the next 12 to 24 months?

BRODNJAK B: I was somehow indirectly mentioning the boost to the economy of the region, if there was significantly higher investment obviously in production, in manufacturing, be it defence related or whatever related, with multiplication effect on other industries. So, it is very difficult to judge. But as said, Slovenia and the region is strongly embedded into Central European Industrial Basin, and we should be somehow, of course, benefiting from it.

If we are now at 1.5% growth when Germany was stagnating, and the region is at 3% growth whilst Germany was stagnating, if Germany shows some signs of growth, this can only be beneficial for the region, right?

It is from here, where we sit, it's 35-minute drive to Austria and 45 to Italy. This is the heart of Europe, and this is the industrial basin of Europe. Northern Italy, Switzerland, Southern Germany, and Austria. So, if these guys pick up, then we should pick up even faster. And usually there is a multiplication effect.

So, in this respect, I am absolutely, yes. If you asked me if there is an upside potential, for sure there is an upside potential for the recovery of the economy, going back to 2%, 2.5% growth rates for Slovenia, and 3% to 4% growth rates for Western Balkans countries.

What I am more banking on is actually, hopefully, European Commission realising that there is simply no alternative to acceleration of accession of Western Balkans countries to European Union. We cannot again be all philosophising about rule of law and other aspects of life. We have a war in Europe.

So I would really be surprised if Ukraine has a fast track to European Union and Western Balkans is missed out. This would be the biggest possible strategic mistake ever, even someone can consider. What we really, as people from Western Balkans carrying the Heart of Sarajevo, preach for and promote for, is, for crying out loud, let's embrace Western Balkans, European Union.

This will be the real acceleration of our business. This would mean explosion of our business. And in this respect, that's something we hope for. Of course, who are we to say? But we are counting on it, and that's why we are firm believers that this region has very high prospect.

If now we grow at 3% from very low base or lower base, relative lower base, once we have all structural funds coming for the infrastructure buildup of the region, during the accession and immediately after, you could see double-digit growth heights. You could see high-single-digit growth for quite some time, for the whole region, basically. And that's definitely something that is the space to be.

KREMSER A: On labour cost inflation, going forward, this should for sure slow down. Our ambition is to moderate this to maximum global inflation levels, and that frankly will have to also be paired with the measures on productivity that we mentioned now several times.

BRODNJAK B: Yes, there is a tension coming from public sector, because there have been populistic measures in form of, for example, even up to 20% one-off hikes of minimum wage, in form of 11% repricing of public sector wages, more or less, pre-elections and so on. So, for quite some time there might be some stretch, but mid-single digit, let's say, is somehow reasonable expectation. And then of course, then after, somehow, following the inflation rate.

OPERATOR: Thank you, sir. Ladies and gentlemen, in the interest of time, all other questions will be answered in writing.

At this time, I would like to turn the conference over to Management for any closing comments. Thank you.

BRODNJAK B: Thank you very much. There's not much to add. In principle, I believe we have addressed almost all of the upsides. I just had a meeting with a colleague of mine coming from another bank, a very interesting operation, and he said there are no problems or challenges. There are just upsides. So, this I took as a very strong lesson.

There are many upsides in front of us, and we are going to address them. Thanks for hanging in there with us and trusting in us, so far. We are firmly convinced that this is going to be a continuous success story. We are coping well. We are resilient. We are strong. We are connecting the region. And we believe in peace. Thank you.