May 8, 2024

NLB Group Delivers Solid Results in Q1 with EUR 140.0 Million of Result After Tax

A stable business environment with moderately slowing economic growth in the South-eastern European (SEE) region, and stagnant inflation rates in the first quarter of the year materialized in the solid business results for NLB Group.

The Group's performance in the first quarter that led to **EUR 140.0 million of result after tax** is confirmation that the Group is well on track to bring about the expected results, communicated in the 2024 outlook. Furthermore, for the market participants who are constantly re-assessing the business and market situation, it should come as no surprise that the evolution of the global macroeconomic trends at the beginning of the year have led **NLB Group to increase the outlook for the regular income** for 2024 by approximately **EUR 100 million**. Increased guidance for the revenue, coupled with cost discipline has allowed for sharpened guidance for the cost-to-income ratio. The Bank now expects that CIR will be around 45% in both 2024 and 2025, a substantial improvement from the previous guidance of below 50%.

NLB Group will reveal more about the key performance indicators together with the expected business development in the future, as well as the new business strategy and vision for 2030 at tomorrow's (9 May, 2024) **NLB Investor Day: New Capital Horizons**. Registration for the live event is unfortunately no longer possible. However, the interested public can follow the event online by registering here.

NLB Group

“As NLB team we are honoured and looking forward to the fact that tomorrow we will once again have the opportunity not only to welcome our shareholders, potential investors, analysts, and financial experts from across the globe, as well as representatives of key regional companies, but above all to be able to present to them the ambitious strategy of our NLB Group until 2030,” said NLB’s CEO **Blaž Brodnjak** upon the publication of the results. “With a thorough understanding of the business environment and a careful consideration of the risks, the new business strategy draws a path that will continue to justify the trust of our shareholders with strong dividend payments, while at the same time pursuing long-term development of the Group and indirectly, also the wider economic environment in our home region,” he explained further.

The Supervisory Board’s Chairman **Primož Karpe** also expressed confidence in the future development of the NLB Group. “Our trust is strengthened by the Group’s stable business results and its constant adaptation and response to market conditions,” he said. “At the Supervisory Board, our mindset strongly supports the Bank’s and Group’s future strategy in a way that unlocks shareholder value. The time has come to talk about value creation that a sustainable banking business model can generate going forward,” he added.

Key Highlights of the Q1

The **net interest income (NII) in Q1 constituted 78% of the total net revenues. On QoQ, it remained flat (up by EUR 0.3 million) to reach EUR 232.2 million.** Proactive profitability management is one of the NLB Group’s priorities. Net interest income sensitivity, simulated by a 100-bps immediate parallel downward shift in interest rates, yields a net interest income sensitivity of EUR -87.6 million, mostly driven by the cash and Euribor rate positions. Our focus on stabilising net interest income includes ongoing increased fixed interest rate loan production, active management of funding mix, liabilities hedging activities, and increasing duration and volume of the BB securities portfolio. The **deposit beta** (the cumulative change of the average customer deposit interest rate compared with the change of the average ECB deposit facility rate) remained stable at **10% on the Group level.**

The **net non-interest income (NNII) reached EUR 65.9 million in the first quarter of 2024**, a 9% growth QoQ. The QoQ comparison shows the effect of the accrual of one-off expenses for regulatory costs in NLB, amounting to EUR 10.5 million for DGS. Additionally, positive effects were observed from the non-recurring part due to the early redemption of Tier 2 notes. In contrast, in Q4 2023, non-recurring net non-interest income was negatively impacted by a EUR 15.3 million modification loss for interest rate regulation on housing loans in NLB Komercijalna Banka, Beograd, and EUR 5.0 million in donations paid by the Bank for the post-flood reconstruction effort.

Net fee and commission income (NFCI) in the first quarter reached EUR 71.1 million, a slight decline (2%) from the previous quarter. Such a seasonal soft patch in NFCI is evident from a historical perspective. A remarkable sale of investment funds in NLB Skladi, with gross inflows in mutual funds in the Q1, reached EUR 111.8 million, versus EUR 54.0 million in Q1 2023. This provides for a meaningful and growing revenue pool for the Bank.

NLB Group’s total net operating income in the first quarter amounted to EUR 298.1 million (EUR 5.6 million or 2% higher versus fourth quarter 2023) with Q1 total net operating income affected by the accrual of the one-off expenses for the regulatory costs in NLB, and in contrast with non-recurring NNII items in Q4.

Another seasonal component in the income statement, total costs, decreased by 6% (in **Q1, the total costs amounted to EUR 132.4 million**) on a quarterly basis. This year’s QoQ comparison of other general and administrative costs was additionally influenced by the tax on the balance sheet (EUR 8.1 million attributed to this new levy). The **Cost-to-Income Ratio (CIR) stood at 41.7%** (excluding the tax on balance sheet from the calculation), representing a 6.7 p.p. reduction YoY. This improvement was driven by strong net operating income growth, which outpaced the increase in total costs.

The result before impairments and provisions in the first quarter **was up 9% QoQ,** reaching EUR 165.8 million, versus EUR 152.3 million in the fourth quarter.

Impairments and provisions for credit risk in Q1 were net established in the amount of EUR 4.4 million. In the first three months of 2024, the cost of risk was positive at 10 bps as a result of additional provisions due to portfolio development (EUR 10.7 million), while the repayment of written-off receivables

(EUR 5.6 million) and changes in risk parameters (EUR 0.7 million) contributed positively to its net overall effects. The non-performing credit portfolio stock in the Group slightly increased since the end of 2023 to EUR 306.6 million (compared to EUR 300.5 million on 31 December 2023). However, EUR 133 million of NPLs had no delays. The combined effects of a slight increase in the NPL portfolio and a decrease in the higher quality loan portfolio due to the changed structure of liquid assets resulted in **1.6% of NPLs**. The internationally more comparable NPE ratio, based on the EBA methodology, stood at 1.1%. The Group's indicator gross NPL ratio, defined by the EBA, is stable and amounted to 2.2% at the end of Q1 2024.

in EUR millions/%

	1-3 2024	1-3 2023	Change YoY	Q1 2024	Q4 2023	Q1 2023	Change QoQ
Key Income Statement Data							
Net operating income	**298.1**	**241.9**	**23%**	**298.1**	**292.5**	**241.9**	**2%**
Net interest income	232.2	179.0	30%	232.2	231.9	179.0	0%
Net non-interest income	65.9	63.0	5%	65.9	60.6	63.0	9%
o/w Net fee and commission income	*71.1*	*66.1*	*8%*	71.1	72.4	66.1	*-2%*
Total costs	-132.4	-117.1	-13%	-132.4	-140.2	-117.1	6%
Result before impairments and provisions	**165.8**	**124.8**	**33%**	**165.8**	**152.3**	**124.8**	**9%**
Impairments and provisions	-4.7	12.4	-	-4.7	-28.0	12.4	83%
Impairments and provisions for credit risk	*-4.4*	*18.4*	-	-4.4	-15.0	18.4	*71%*
Other impairments and provisions	*-0.3*	*-6.0*	*95%*	*-0.3*	*-13.0*	*-6.0*	*98%*
Result after tax	**140.0**	**120.1**	**17%**	**140.0**	**163.8**	**120.1**	**-14%**

The lending activity in Q1 was moderate but stable, and the Group's **gross loans to customers increased by a tangible EUR 133.5 million (1%) YtD.** The growth in loan volume has moderated with the rise in interest rates, resulting in an overall modest YtD growth. In Slovenia, the business environment remains less predictable, and corporate clients continue their business activities cautiously, while the increase in individual gross loans has still reflected a healthy demand. In 2023, there was a notable shift from floating to fixed interest rates, which continued in Q1 2024. Approximately 55.1% of the Group corporate and retail loan portfolio is linked to a fixed interest rate, and the rest to a floating rate (mainly the Euribor reference rate). Floating interest rates still dominate the corporate segment. In the retail segment, around 70.1% of the retail loan portfolio is linked to a fixed interest rate. This limits the retail sector's sensitivity to increasing reference rates.

The **deposit base** of the Group **decreased by 1% YtD,** due to a decline in corporate and state deposits, particularly notable in NLB, which experienced an 8% drop in the first quarter of the year. Growth of retail deposits continued in the first quarter, with the deposits from individuals growing by 1% YtD (to EUR 14,554.6 million). Generally noticeable downturn in corporate deposits was observed in the entire Slovenian banking system (a 3.9% drop in Q1 2024). A very comfortable level of **LTD ratio (net)** at 67.7% gives the Group the potential for further customer loan placements.

As at 31 March 2024, the **TCR for the Group stood at 20.7%** (or a 0.5 p.p. increase YtD), and the **CET1 ratio stood at 16.3%**, well above requirements. The higher total capital adequacy derives from higher capital (EUR 90.2 million YtD), which compensated for the increase of the RWA (EUR 90.6 million YtD). The Group increased its capital mainly with an increased volume of Tier 2 instruments (EUR 80.4 million) and EUR 12.7 million in revaluation adjustments.

After having announced a significant increase in dividend payments to a **40% payout ratio** of the previous year's profit after tax, NLB is planning to **pay out EUR 220 million in dividends** in two tranches in 2024. The amount of EUR 220 million represents a 100% increase from dividend payments made in 2023.

Shareholders will vote on the payment of the first tranche at the General Meeting on 17 June. At the same GM, the shareholders will also elect three members to the NLB Supervisory Board and consider the changes to the Remuneration Policy for the members of the Supervisory and Management Boards of NLB d.d., and the Report on Remuneration for the members of the Management Body of NLB d.d. in the 2023 business year. The fourth version of the Remuneration Policy has been updated to reflect shareholders' recommendations, and includes the most recent guidelines and best practices, while the updated Report on Remuneration provides a more in-depth review of the fixed and variable remuneration of the members of the management body.

The Bank was active in capital markets, issuing 10NC5 Subordinated Tier 2 notes in January for MREL purposes and improving the capital position. On 31 March 2024, the **MREL ratio amounted to 41.59% TREA and 20.66% LRE**, which was well above the required level.

in EUR millions/%/bps

	31 Mar 24	31 Dec 23	31 Mar 23	Change YoY	Change QoQ
Key Financial Position Statement Data					
Total assets	**26,025.7**	**25,942.0**	**24,011.8**	**8%**	**0%**
Gross loans to customers	14,197.1	14,063.6	13,455.0	6%	1%
Net loans to customers	13,859.9	13,734.6	13,137.7	5%	1%
Deposits from customers	20,471.5	20,732.7	19,732.0	4%	-1%
Equity (without non-controlling interests)	3,035.6	2,882.9	2,507.6	21%	5%
Other Key Financial Indicators					
LTD	67.7%	66.2%	66.6%	1.1 p.p.	1.5 p.p.
Common Equity Tier 1 Ratio	16.3%	16.4%	14.8%	1.5 p.p.	0.0 p.p.
Total capital ratio	20.7%	20.3%	18.9%	1.8 p.p.	0.5 p.p.
Total risk exposure amount (RWA)	15,427.8	15,337.2	14,622.3	6%	1%
Employees					
Number of employees	7,999	7,982	8,194	-195	17

The cost of funding grew at a much slower pace than interest rates on assets. As a result, the Group's **net interest margin** improved by 0.59 p.p. to **3.73%** YoY. Additionally, the **operational business margin** reached **4.98%,** marking a 0.59 p.p. increase YoY, mainly due to the net interest income growth.

in EUR millions/%/p.p./bps

Key Financial Indicators	1-3 2024	1-3 2023	Change YoY
Return on equity after tax (ROE a.t.)	18.9%	19.7%	-0.8 p.p.
Return on equity after tax (ROE a.t.) normalized (i)	29.2%	25.9%	3.3 p.p.
Return on assets after tax (ROA a.t.)	2.2%	2.0%	0.2 p.p.
Net interest margin (on interest bearing assets)	3.73%	3.14%	0.59 p.p.
Operational business margin	4.98%	4.39%	0.59 p.p.
Cost to income ratio (CIR)(ii)	41.7%	48.4%	-6.7 p.p.
Cost of risk net (bps)	10	-37	47

(i) ROE a.t. normalised = result a.t. divided by the average risk-adjusted capital. An average risk-adjusted capital is calculated as a Tier 1 requirement of average RWA reduced by minority shareholder capital contribution.

(ii) Tax on balance sheet excluded from the calculation for the year 2024.

Outlook[1]

The Group is herewith presenting the guidance for the full year 2024 and 2025. The outlook for 2024 does not include effects from the announced acquisition of Summit Leasing, which is expected to close before the end of 2024, and is thus without material effects for 2024. The Group will announce its new business strategy and a vision for 2030, as well as dividend ambitions and expectations for other key performance indicators at the **NLB Investor Day: New Capital Horizons,** tomorrow, on May 9 (learn more about the event and how you can follow it below); with strategy, among others, outlining shareholders' returns going forward in line with the improved earnings outlook.

The previous outlook for 2024 incorporated a reasonable amount of prudence, most notable on the still prevailing market view that interest rates by the end of 2024 will be lowered by some 150 bps. As those market expectations at the beginning of this year materially shifted (to a less rapid and smaller decline of interest rates), this has led the Bank to **increase Regular Income guidance by** approximately **EUR 100 million, to around EUR 1,200 million**. The Bank is reaffirming other publicly communicated key performance indicators with an increased level of confidence.

Increased guidance for the revenue, coupled with cost discipline has allowed for sharpened guidance for the cost-to-income ratio. The Bank now expects that CIR will be around 45% in both 2024 and 2025, a substantial improvement from the previous guidance of below 50%.

In 2024, the Bank is considering issuing senior preferred notes in the benchmark size, subject to market conditions. The issuance will enable the Bank to meet MREL requirements comfortably.

Strong capital ratios (factoring in also preliminary and still unconfirmed calculation of capital consumption due to 'Basel III Endgame') with substantial buffers to the requirements and expectations that the business performance will continue with the same trends form a solid foundation for attractive shareholder returns, coupled with a conservative risk approach.

KPI	Last Outlook for 2024	Revised Outlook for 2024	Revised Outlook for 2025
Regular income	> EUR 1,100 million	**~ EUR 1,200 million**	~ EUR 1,200 million
CIR	< 50%	**~ 45%**	**~ 45%**
Cost of risk	20-40 bps	20-40 bps	30-50 bps
Loan growth	Mid-single-digit	Mid-single-digit	High single-digit
Dividends	EUR 220 million (40% of 2023 profit)	EUR 220 million (40% of 2023 profit)	More than 40% of 2024 profit
ROE a.t. ROE normalised(i)	~ 15% > 20%	~ 15% > 20%	~ 15% > 20%
M&A potential			M&A capacity of up to EUR 4 billion RWA(ii)

(i) ROE a.t. normalised = result a.t. divided by the average risk-adjusted capital. An average risk-adjusted capital is calculated as a Tier 1 requirement of average RWA reduced by minority shareholder capital contribution.
(ii) possibly assisted with the capital from issuing AT1 notes and/or modifications to the dividend guidance

[1] The indicated outlook constitutes forward-looking statements which are subject to a number of risk factors and are not a guarantee of future financial performance. The interest rate outlook is uncertain given the adaptive monetary policy of the ECB and local central banks to the general economic sentiment.

You are Kindly Invited to Follow NLB Investor Day: New Capital Horizons

The second **NLB Investor Day: New Capital Horizons** will be held tomorrow, **on Thursday, 9 May, 2024**, at the Grand Hotel Union Eurostars in Ljubljana, Slovenia, and will be focusing on presenting **NLB and NLB Group's new business strategy** and a vision for 2030. The registration for the event live is no longer possible. However, the interested public can **follow the event online by registering here**. A recording of the event will later also be available on demand.

A day later, on Friday, May 10, 2024, NLB Investor Day will be followed by the **Slovenian and Croatian Investor Conference**, powered by NLB, which will offer an opportunity to interested investors to meet some of the top listed companies from those two markets.

NLB Group