August 1, 2024

In the Eventful Second Quarter, NLB Group Reaches EUR 152.0 Million in Result After Tax

The second quarter of 2024 was eventful and successful for NLB Group. Vivid lending dynamics, a stable and improving business environment in the South-eastern European (SEE) region where the Group operates, and strong operational trends were reflected in the **EUR 152.0 million in Result After Tax, a 9% quarterly growth**. Based on successful capital market activity in 2024, and with a focus and attention on prudent management of the NII sensitivity, **the NLB Group remains well positioned for future growth** – an optimistic view further enhanced by some important milestones that marked the past few months.

NLB Group

“Behind us is truly a very dynamic second quarter not only for the NLB Group but also for the markets in our home region that have shown a strengthening of economic activity. This has been especially reflected in the strong lending of the Group, with gross loans to customers growing by 5% year to date, with especially solid developments in the retail segment,” commented NLB’s CEO **Blaž Brodnjak** upon the publication of the results. “Furthermore, in the last couple of months, we have taken some steps that will significantly mark the operations of the NLB Group in the coming medium-term period,” he added.

In the beginning of May 2024, NLB Group introduced its **new Business Strategy until the year 2030.** The strategy stipulates that the Group’s ambition remains to create sustainable growth to support individuals and businesses and foresees a **doubling of the NLB Group balance sheet** (more than EUR 50 billion assets)**, recurring revenues of more than EUR 2 billion, and targeted profit of more than EUR 1 billion by 2030** (combining organic growth with selected M&As).

Shortly after this announcement (on 7 June 2024), NLB took up one of the initial opportunities in line with the new strategy by launching an all-cash **voluntary public takeover offer aimed at acquiring control over Addiko Group** for all issued and outstanding Addiko shares for an initial consideration of EUR 20.00 per Addiko share on a cum dividend basis. On 15 July 2024, NLB Board decided to **increase the Share Offer Price to EUR 22.00 per Addiko share** on a cum dividend basis. The Offer is open for acceptance **until 16 August 2024,** and the Bank encourages all shareholders of Addiko to tender their shares.

Other important milestones were reached in the development of the Group: after obtaining all relevant approvals, **NLB Skladi, Ljubljana successfully completed the acquisition of Generali Investments, Skopje**; while NLB first received **approval from the Croatian Financial Services Supervisory Agency (HANFA) to acquire Mobil Leasing**, a Croatian subsidiary of Summit Leasing on 28 June; and later, on 18 July, also obtained **approval from the Slovenian Competition Protection Agency (AVK) to acquire Summit Leasing Slovenia**. The Bank is now awaiting the final regulatory clearance from the ECB to successfully complete the transaction as expected in mid-September 2024.

“All these events and positive signals only complement the core activity of our Group – providing our customers with services and solutions they need at any given moment, and on the other hand, fill us with energy and motivation to take on the realization of our strategic ambitions and vision even more enthusiastically, decisively, and responsibly,” added NLB’s CEO.

“The Supervisory Board is satisfied with the energy and determination with which the NLB Group has decided to address the changing banking environment, as well as the challenges and opportunities that lie ahead. The Group's ambitious business strategy meets the high expectations of shareholders, while its implementation will strengthen confidence in the development and success of NLB Group, the regional champion,” pointed out the Supervisory Board’s Chairman **Primož Karpe.**

Key Highlights of the Q2

The **net interest income (NII) in Q2 reached EUR 228.3 million, a slight 2% QoQ decline (EUR 3.9 million).** Interest income from loans to customers and securities increased by EUR 4.8 million and EUR 7.1 million, respectively, while income from balances at banks and central banks was lower by EUR 9.3 million (evenly distributed between lower volumes and lower interest rates). A shift from interest income from banks and central bank balances to securities was a result of **deliberate balance sheet measures to reduce NII sensitivity, leading to approximately EUR 2 million lower NII QoQ.** The increase in interest expenses resulted from higher expenses incurred from wholesale funding (EUR 2.8 million) and higher expenses for customer deposits (EUR 1.0 million).

As a result of the balance sheet measures and a higher pace of fixed-rate lending **NII sensitivity was reduced by 86 bps YtD** (from -3.89% to -3.04% sensitivity relative to T1 capital, or EUR 22.0 million to a level of EUR 79.4 million in case of -100 bps parallel shift). Deliberate balance sheet measures had been taken as a combination of interest rate hedges on issued securities and the investments in securities, each approximately EUR 1.1 billion.

The **net non-interest income (NNII) reached EUR 77.7 million in the second quarter of 2024, an 18% growth QoQ.** The QoQ comparison shows increased **net fee and commission income** due to the renegotiated conditions with the service providers. The recurring net non-interest income in Q1 was notably affected by the accrual of one-off expenses for regulatory costs in NLB.

Net fee and commission income, a significant component of the net non-interest income, **increased by 11% QoQ to EUR 78.9 million.** This growth can be attributed to the improved terms with service providers and to the positive impact of heightened economic activity and consumption. The latter resulted in increased fees across banking members and due to increased activity in investment funds and bancassurance. Notably, NLB Skladi, Ljubljana, recorded an exceptional sale of investment funds, with EUR 190.2 million gross inflows in H1 2024, compared to EUR 114.4 million in the same period last year.

Total costs in the second quarter increased by 8% (to **EUR 142.7 million**) due to higher salaries and other general and administrative costs, mainly deriving from consulting, sponsorships, advertising, and events in NLB. Since the beginning of this year, the cost item line has been higher because of the inclusion of the balance sheet tax on Slovenian assets (EUR 8.1 million in the Q2). The **Cost-to-Income Ratio (CIR) stood at 42.8%** (excluding the tax on the balance sheet from the calculation), representing a 4.2 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 second quarter **was 2% down QoQ,** reaching EUR 163.2 million, versus EUR 165.8 million in the first quarter.

Impairments and provisions for credit risk in Q2 were net released in the amount of EUR 16.0 million. Favourable trends, translating to the negative cost of risk are a consequence of the following drivers:

- Release of impairments and provisions in the amount of EUR 22.5 million related to the *change in models/risk parameters* mostly in subsidiary banks. Overlays connected to the risks of the Russian-Ukrainian conflict and the related electricity crisis, as well as inflationary pressures, are less pronounced, which is the key factor for the release. In addition, improved macroeconomic expectations attributed to an additional impact on the level of impairments and provisions.
- Additional provisions were established for *portfolio development*, mostly in the Retail segment (Stage 2 and Stage 3 exposures).
- *Repayments of written-off receivables* in the amount of EUR 4.5 million due to a favourable environment for NPLs resolution.

In the first six months of 2024, the **cost of risk** was negative at **-18 bps**. Without the annualization of the effect of changes in risk parameters, the CoR for the period 1–6 2024 would stand at -1 bps.

Positive macroeconomic development led to a moderate cumulative new NPL formation of EUR 73.8 million in the first six months, representing 0.4% of the total loan portfolio. The non-performing credit portfolio stock in the Group slightly increased since the end of 2023 to EUR 303.4 million (compared to EUR 300.5 million on 31 December 2023). However, EUR 123.0 million of NPLs have 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 **1.5% 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 2.1% at the end of Q2 2024.

The **effective tax rate** (calculated as income tax divided by profit before tax) for the first half of 2024 **for the NLB Group was 11.87%** and for NLB 7.57%. A global minimum tax for multinationals, first applied in 2024, is included in the income tax. **The contribution rate**, which also includes the tax on the balance sheet (recognised in administrative expenses), for the first half of 2024 **for the NLB Group was 16.62%** and for NLB 15.34%.

in EUR millions/%

	1-6 2024	1-6 2023	Change YoY	Q2 2024	Q1 2024	Q2 2023	Change QoQ
Key Income Statement Data							
Net operating income	**604.0**	**511.7**	**18%**	**305.9**	**298.1**	**269.7**	**3%**
Net interest income	460.4	380.0	21%	228.3	232.2	201.0	-2%
Net non-interest income	143.6	131.7	9%	77.7	65.9	68.7	18%
o/w Net fee and commission income	*150.0*	*134.6*	*11%*	78.9	71.1	68.5	*11%*
Total costs	-275.0	-240.7	-14%	-142.7	-132.4	-123.6	-8%
Result before impairments and provisions	**329.0**	**270.9**	**21%**	**163.2**	**165.8**	**146.1**	**-2%**
Impairments and provisions	10.4	17.8	-41%	15.1	-4.7	5.4	-
Impairments and provisions for credit risk	*11.7*	*29.9*	*-61%*	16.0	-4.4	11.5	-
Other impairments and provisions	*-1.3*	*-12.1*	*90%*	*-1.0*	*-0.3*	*-6.2*	-
Result after tax	**292.0**	**242.7**	**20%**	**152.0**	**140.0**	**122.6**	**9%**

The lending activity in Q2 was vivid on the back of declining interest rates and the favourable macroeconomic environment. YtD loan growth was higher in SEE banks compared to NLB, especially in loans to individuals. In Slovenia, business activity picked up strongly in the second quarter, with notably high new production in both short and long-term loans. A similar but less noticeable increase was observed in the new production of housing and consumer loans to individuals. In SEE banks, the growth of gross loans continued, with YtD growth achieved in loans to individuals, as well as loans to corporate and state across all bank members. The **YtD increase in the Group's gross loans to customers by 5% (EUR 663.1 million)** was distributed between individuals (EUR 397.2 million or 5% YtD) and corporate (EUR 265.8 million or 4% YtD) clients.

The decrease in the **deposit base** of EUR 39.0 million YtD was marked by a reduction in the balance of corporate deposits (EUR 502.4 million or 9%). After the substantial decrease in deposits from corporates in Q1, the decline in Q2 was less pronounced, amounting to EUR 147.5 million. In contrast, the deposit base from individuals rose in both quarters, with a strong seasonal growth of EUR 345.2 million recorded in Q2. A very comfortable level of **LTD ratio (net) at 69.6%** gives the Group the potential for further customer loan placements.

As at 30 June 2024, the **total capital ratio (TCR) for the NLB Group stood at 19.7%** (or 0.6% p.p. decrease compared to the end of 2023), and the **CET1 ratio** for the NLB Group stood at **15.8%** (or 0.6% p.p. decrease compared to the end of 2023) – well above requirements. The lower total capital adequacy derives from higher RWA (EUR 680.0 million compared to the end of 2023), although capital increased by EUR 49.3 million compared to the end of 2023. The Group increased its capital mainly with an increased volume of T2 instruments (EUR 35.8 million) and EUR 16.3 million in revaluation adjustments.

The total capital does not include a part of the 2023 result in the amount of EUR 110 million, which is still envisaged to be paid as a dividend in 2024.

NLB has in the past years opted for semi-annual dividend payments, with the second tranche usually being confirmed and paid out towards the end of the year, allowing for a frequent dialogue with all shareholders, among others, regarding the appropriate management of the capital. At the beginning of the year NLB announced once again an intention to pay two tranches of dividends in the same amount, bringing the total dividend payout in 2024 to EUR 220 million. The first tranche was paid out in June, with the second, as previously mentioned, being envisaged to be paid out towards the end of the year.

Given the recently announced voluntary public takeover offer to acquire up to 100% of Addiko Bank AG, we have updated our capital projections. This includes all previously envisaged dividends for 2024 and 2025 and have communicated the intention to maintain target capital levels (Tier 1 at 15% given current regulatory levels) also with the support of AT1 as a preferred option (more details on the link).

NLB was in the first half of the year active in capital markets, issuing 10NC5 subordinated Tier 2 notes (EUR 300 million) in January to optimise and strengthen its capital position and 6NC5 senior preferred notes (EUR 500 million) in May for MREL purposes. On 30 June 2024, the **MREL ratio amounted to 44.62% TREA and 22.47% LRE**, which was well above the required level.

in EUR millions/%/bps

	30 Jun 24	31 Mar 24	31 Dec 23	30 Jun 23	Change YoY	Change YtD	Change QoQ
Key Financial Position Statement Data							
Total assets	**26,613.7**	**26,025.7**	**25,942.0**	**24,701.5**	**8%**	**3%**	**2%**
Gross loans to customers	14,726.7	14,197.1	14,063.6	13,747.3	7%	5%	4%
Net loans to customers	14,399.3	13,859.9	13,734.6	13,431.8	7%	5%	4%
Deposits from customers	20,693.8	20,471.5	20,732.7	19,924.9	4%	0%	1%
Equity (without non-controlling interests)	3,081.3	3,035.6	2,882.9	2,586.1	19%	7%	2%
Other Key Financial Indicators							
LTD	69.6%	67.7%	66.2%	67.4%	2.2 p.p.	3.3 p.p.	1.9 p.p.
Common Equity Tier 1 Ratio	15.8%	16.3%	16.4%	14.7%	1.1 p.p.	1.1 p.p.	-0.6 p.p.
Tier 1 Ratio	16.3%	16.9%	19.9%	15.3%	1.0 p.p.	-0.6 p.p.	-0.6 p.p.
Total capital Ratio	19.7%	20.7%	20.3%	18.7%	1.0 p.p.	-0.6 p.p.	-1.0 p.p.
Total risk exposure amount (RWA)	16,017.2	15,427.8	15,337.2	14,838.4	8%	4%	4%
Employees							
Number of employees	8,049	7,999	7,982	8,154	-105	67	50

The cost of funding grew at a much slower pace than interest rates on assets, and as a result, the Group's **net interest margin** improved by 0.38 p.p. to **3.68%** YoY. However, the quarterly interest margin decreased following the ECB's key interest rate cut by 25 bps at the beginning of June, which was the first reduction in the last five years. In contrast, the **operational business margin** reached **4.99%,** marking a 0.43 p.p. increase YoY, with an increase also recorded quarterly due to a rise in net fee and commission income in Q2.

in EUR millions/%/p.p./bps			
Key Financial Indicators	**1-6 2024**	**1-6 2023**	**Change YoY**
Return on equity after tax (ROE a.t.)	19.4%	19.4%	-0.1 p.p.
Return on equity after tax (ROE a.t.) normalized (i)	30.1%	26.0%	4.1 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)	3.68%	3.30%	0.38 p.p.
Operational business margin	4.99%	4.56%	0.43 p.p.
Cost to income ratio (CIR)(ii)	42.8%	47.0%	-4.2 p.p.
Cost of risk net (bps)	-18	-38	20

(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 strong performance of the NLB Group in the second quarter, namely on the cost of risk and loan growth and consequently on ROE a.t., justifies revision of the previously communicated outlook for 2024.

In the first half of 2024, the Group recorded a 5% growth in gross loans to customers. The Bank previously communicated expectations that loan growth in 2024 would be at around mid-single-digit levels. A pick-up in economic growth momentum supports expectations for the continuation of loan growth. Strong private consumption due to the growth of real wages, near or at record-low unemployment and healthy corporate fundamentals should support healthy loan production both in retail and corporate and state segments. Thus, the new guidance for loan growth is high single-digit growth in 2024.

In Q2, changes in models/risk parameters importantly impacted the net impairments and provisions in the first half of the year. The cost of risk in the same period was negative, standing at -18 bps. This gives the bank comfort that with expected asset quality trends in the second half of the year, the cost of risk should not exceed 20 bps.

Improved CoR guidance and increased confidence in the underlying business momentum support revised ROE a.t. expectations. The Bank now expects ROE a.t. to exceed 15%.

Other KPIs are reaffirmed at the previous level, and the Bank shall closely monitor business trends, monetary policies, risks, and opportunities, among others; apply a healthy level of conservativism within the forecasting process and, on an ongoing basis, guide investors and analysts of what the Bank expects short- and near-term for the key selected KPIs.

KPI	Last Outlook for 2024	Revised Outlook for 2024	Revised Outlook for 2025
Regular income	~ EUR 1,200 million	~ EUR 1,200 million	~ EUR 1,200 million
CIR	~ 45%	~ 45%	~ 45%
Cost of risk	20-40 bps	**Below 20 bps**	30-50 bps
Loan growth	Mid-single-digit	**High 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 a.t. normalised(ii)	~ 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 the Webcast Presentation

We kindly invite all interested stakeholders to the presentation of the NLB Group's second quarter and first half year 2024 results, hosted by the NLB Management Board. The call will take place on Thursday, 1 August, 2024, at 16:00 CEST/15.00 UK and will be available at https://www.nlb.si/ir-events.

Members of the Management Board will, as usual, receive and address your questions live during the webcast. If you already know what you wish to ask them, you may submit your questions in advance. If you register for the event, you will be able to send them via the web app, or you may simply send them to the email address IR@nlb.si.

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