November 7, 2024

NLB Group’s Strong Performance Continued in the Third Quarter, Adding EUR 135.5 Million to the Result After Tax

The third quarter of 2024 has added **EUR 135.5 million to NLB Group’s EUR 427.5 million profit after tax in the first nine months of this year**. The Group continues to grow by 8% organic loan growth YtD and adds another leg to the growth potential with the acquisition of SLS Group, including its leasing subsidiaries in Slovenia (Summit Leasing Slovenija, Ljubljana) and Croatia (Mobil Leasing, Zagreb), successfully completed in September.

Leasing however is not the only pillar with growing importance within NLB Group, as asset management and bancassurance services also continue to gain momentum. Yet, even more important in both, the result contribution and the impact, are Group’s banking members from South-eastern European (SEE) markets, with all banks recording healthy profits and positively **contributing 57% to the Group's overall result**.

Successful capital market activity in the first half of the year has also allowed for the unhindered evolution of the **NLB Group to one of the regional financial powerhouses**. The profits of all banks increased YoY, supported by strong loan growth and fee origination.

"Both, our business results in the last three months with SEE markets gaining momentum, as well as broader economic developments, indicate what we at the NLB Group have been aware of for some time now: changes are on the horizon. However, in the NLB Group we not only keep up with them – we often drive some of the trends," commented **NLB's CEO Blaž Brodnjak** upon publication of the results. "While continuing to safeguard the financial welfare of the Group and economies of our home region by prudent risk management and strategic investments, our focus in the upcoming period will be on enhancing our customers' user experience across all channels, ensuring best possible support, products and solutions in housing, asset management and bancassurance, combined by increased digital penetration, thereby providing our clients and broader economy in the region with a comprehensive financial and transactional support. All this is securing a very solid foundation for eventual more turbulent times," he added.

The chairman of the Supervisory Board, Primož Karpe also reflected on the upcoming period and the challenges it brings, expressing the Board's confidence in the Group's plans and vision. "At the Supervisory Board, our mindset strongly supports the Group's future strategy in a way that unlocks shareholder value. The transition of the banking model is an undisputed fact of the present and the future, and the Board is confident that NLB Group will make it happen."

Key Highlights of the Q3

Net interest income (NII) in Q3 reached EUR 233.7 million, a 2% increase (EUR 5.5 million) from the second quarter. Interest income from loans to customers increased by EUR 10.9 million due to higher volumes, while on the other hand, income from balances at banks and central banks decreased by EUR 4.7 million, both driven by the effects of the SLS Group acquisition. The rise in interest expenses was driven by higher expenses from financing of the SLS Group prior to the acquisition (EUR 1.5 million) and higher expenses for customer deposits (EUR 1.0 million).

The **net interest income sensitivity**, simulated by a 100-bps immediate parallel downward shift in interest rates, yields a net interest income sensitivity **of EUR -73.9 million or -2.81% of T1 capital**, driven mainly by the cash (EUR -22.0 million) and floating rate loan positions (EUR -64.3 million). The focus on stabilising the net interest income includes ongoing increased fixed interest rate loan stock, active management of funding mix, liabilities hedging activities, and increasing duration and volume of the banking book securities portfolio. **NII sensitivity YtD improved by EUR 27.6 million or 111 bps of T1 capital**, mainly as a result of the increased volume of fixed interest rate loans (EUR 1,943 million), interest rate hedges (EUR 1,070 million), reduction in central bank balances (EUR 1,966 million) and increase of investments in high-quality debt securities (EUR 1,308 million).

Net non-interest income (NNII) reached EUR 86.2 million in the third quarter of 2024, an 11% growth QoQ. Net fee and commission income, a significant component of the net non-interest income, increased by 4% QoQ to EUR 81.9 million. This growth comes from the smarter pricing and an even stronger focus on new production.

Total costs in the third quarter increased by 4% (to EUR 148.7 million) to some extent, driven by costs related to the SLS Group acquisition. The acquisition of SLS Group contributed approximately EUR 6.5 million to total costs, with roughly one-third of that attributed to one-off costs. The Bank continues to accrue tax on the balance sheet in the cost item line, a EUR 8.3 million in the third quarter. **The Cost-to-Income Ratio (CIR - excluding the tax on the balance sheet from the calculation) stood at 43.2%,** representing a 2.0 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 third quarter increased by 5% QoQ, reaching EUR 171.3 million**, versus EUR 163.2 million in the second quarter. In the first nine months the Group recorded EUR 500.3 million in pre-provision income.

Impairments and provisions for credit risk in Q3 were net released in the amount of EUR 0.6 million. This is a result of repayments of written-off receivables in the amount of EUR 4.1 million and the release of impairments and provisions in the amount of EUR 1.4 million related to the change in models/risk parameters in subsidiary banks. On the other hand, additional provisions of EUR 4.8 million were established for portfolio development, mostly in the Retail segment. Other impairments and provisions in the third quarter were established in the amount of EUR 3.2 million, mostly due to the impairment of the real estate in Serbia. **The cost of risk in the first nine months was negative (-12 bps cumulatively).**

The Group's credit portfolio remains of a very high quality due to prudent lending standards and effective early warning systems. In 2024, due to accelerated loan growth, the multi-year declining trend of the non-performing credit portfolio stock stopped, primarily for retail clients, as the growth of new NPLs exceeded repayments and recovery of existing NPLs. The acquisition of the SLS Group also contributed to the NPL increase in September. The non-performing credit portfolio stock in the Group moderately increased since the end of 2023 to EUR 321.3 million (compared to EUR 300.5 million on 31 December 2023). However, EUR 124.6 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 a minor increase in the **NPL ratio to 1.6%.** Based on the EBA methodology, the internationally more comparable NPE ratio stood at a very healthy 1.1%. The Group's indicator gross NPL ratio, defined by the EBA, is stable and amounted to 2.0% at the end of Q3 2024.

The **effective tax rate** (calculated as income tax divided by profit before tax) **for the first nine months of 2024 for the NLB Group was 13.83%,** and for NLB, 8.95%. A global minimum tax for multinationals, first applied in 2024, is included in the income tax. The **contribution rate,** which also includes the newly introduced tax on the balance sheet (recognised in other general and administrative expenses), for the first nine months of 2024 **for the NLB Group was 18.64%** and for NLB, 14.92%.

in EUR millions/%

	1-9 2024	1-9 2023	Change YoY	Q3 2024	Q2 2024	Q3 2023	Change QoQ
Key Income Statement Data							
Net operating income	**924.0**	**800.8**	**15%**	**320.0**	**305.9**	**289.2**	**5%**
Net interest income	694.2	601.5	15%	233.7	228.3	221.5	2%
Net non-interest income	229.8	199.4	15%	86.2	77.7	67.7	11%
o/w Net fee and commission income	*231.9*	*205.6*	*13%*	*81.9*	*78.9*	*70.9*	*4%*
Total costs	-423.7	-361.6	-17%	-148.7	-142.7	-120.9	-4%
Result before impairments and provisions	**500.3**	**439.2**	**14%**	**171.3**	**163.2**	**168.2**	**5%**
Impairments and provisions	7.8	13.9	-44%	-2.6	15.1	-3.8	-
Impairments and provisions for credit risk	*12.3*	*26.8*	*-54%*	*0.6*	*16.0*	*-3.1*	*-96%*
Other impairments and provisions	*-4.5*	*-12.8*	*65%*	*-3.2*	*-1.0*	*-0.7*	*-*
Result after tax	**427.5**	**386.9**	**10%**	**135.5**	**152.0**	**144.2**	**-11%**

In Q3, **loan volume continued to grow to reach EUR 16,071.4 million of gross loans to customers (14% YtD growth, including SLS and 8% excluding contribution from the acquisition**). The acquisition of SLS Group added EUR 876.1 million to the Group's gross loan portfolio, with EUR 573.1 million in loans to individuals.

In Slovenia, business activity picked up strongly in Q2 and continued to grow in Q3, with strong new production of loans. Excluding the intragroup loan to the newly acquired SLS Group, NLB achieved an impressive 7% YtD growth in gross loans to corporate and state. A similar increase was observed in loans to individuals, driven by revived new production of housing and consumer loans.

In SEE banks, the growth of gross loans continued, with considerable YtD growth achieved in loans to individuals (EUR 398.4 million or 11% YtD), as well as in loans to corporate and state (EUR 243.6 million or 8% YtD).

The Group's **deposit base increased YtD by EUR 641.2 million to reach EUR 21,373.9 million**. This growth was driven by growth in deposits from individuals, while deposits from corporate and state remained stable YtD. After a decline in corporate and state deposits in NLB during the first half of the year, a rebound occurred in Q3, with 10% growth recorded in the last quarter. Similarly, the corporate and state deposit base in SEE banks also increased by 9% in Q3, with growth observed across all banking members.

Deposits from individuals increased YtD, with steady growth in all three quarters in all banks. In NLB, higher interest rates for term deposits led to growth in term deposit volume during 1-9 2024, amounting to EUR 228.0 million, as clients shifted from sight to term deposits. Consequently, the share of term and savings accounts in total deposits from individuals gradually rose to 50% at the end of September, compared to 46% on 30 September 2023.

The Group's **total assets amounted to EUR 27,243.4 million**, reflecting an increase of EUR 1,301.4 million YtD and EUR 1,965.3 million YoY. In the last quarter, there was a noticeable shift from balances at central banks to loans due to the acquisition of SLS Group. Consequently, the Group's **LTD ratio (net)** increased by 7.4 p.p. YtD to a more efficient **73.6%.**

As at 30 September 2024, the Group's **total capital ratio (TCR) stood at 18.6%** (or 1.7 p.p. decrease YtD), and the **CET1 ratio stood at 14.9%,** well above requirements. The lower total capital adequacy resulted from solid growth of the loan book, resulting in higher RWA (EUR 1,726.9 million YtD), although capital increased by EUR 59.5 million YtD. The Group increased its capital mainly through revaluation adjustments (EUR 49.6 million) and an increased volume of T2 instruments (EUR 35.8 million).

The NLB announced in the convocation of the 43rd General meeting of Shareholders, which will be held on 9 December this year, the proposal **to pay-out the second tranche of EUR 110 million of dividends**. This will follow the pay-out of dividends in the same total amount of EUR 110 million or 5.5 gross per share on 26 June 2024. Together, both pay-outs will amount to EUR 220 million from the profit generated in 2023, which represents a 100% increase from dividend payments made that year. The proposed EUR 110 million for the second tranche of a dividend payment from the profit generated in 2023 is not included in the capital base. Therefore, the payment will not affect the NLB Group capital ratios and will remain stable and high above the regulatory requirement after the dividend distribution.

The Bank was active in capital markets in 2024, issuing 10NC5 subordinated Tier 2 notes in January to improve its the capital position and 6NC5 senior preferred notes in May for MREL purposes. On 30 September 2024, the MREL ratio amounted to 37.44% TREA and 20.39% LRE, which was well above the required level.

	30 Sep 24	30 Jun 24	31 Dec 23	30 Sep 23	Change YoY	Change YtD	Change QoQ
							in EUR millions/%/bps
Key Financial Position Statement Data							
Total assets	**27,243.4**	**26,613.7**	**25,942.0**	**25,278.0**	**8%**	**5%**	**2%**
Gross loans to customers	16,071.4	14,726.7	14,063.6	13,990.2	15%	14%	9%
Net loans to customers	15,739.3	14,399.3	13,734.6	13,666.1	15%	15%	9%
Deposits from customers	21,373.9	20,693.8	20,732.7	20,289.1	5%	3%	3%
Equity (without non-controlling interests)	3,242.1	3,081.3	2,882.9	2,734.9	19%	12%	5%
Other Key Financial Indicators							
LTD	73.6%	69.6%	66.2%	67.4%	6.3 p.p.	7.4 p.p.	4.1 p.p.
Common Equity Tier 1 Ratio	14.9%	15.8%	16.4%	14.7%	0.2 p.p.	-1.5 p.p.	-0.9 p.p.
Tier 1 Ratio	15.4%	16.3%	16.9%	15.3%	0.1 p.p.	-1.6 p.p.	-0.9 p.p.
Total capital Ratio	18.6%	19.7%	20.3%	18.7%	-0.1 p.p.	-1.7 p.p.	-1.1 p.p.
Total risk exposure amount (RWA)	17,064.0	16,017.2	15,337.2	14,919.0	14%	11%	7%
Employees							
Number of employees	8,343	8,049	7,982	8,078	265	361	294

The cost of funding grew at a slower pace than interest rates on assets, resulting in an improvement in the Group's **net interest margin** by 0.24 p.p. to **3.65%** YoY. However, the quarterly interest margin continued to decline, mainly due to the ECB's key interest rate cuts in June and September. The impact from the cuts was **almost entirely offset** by replacing less profitable central bank balances with a loan portfolio acquired from the SLS Group. Similarly, the **operational business margin** reached **4.98%,** marking a 0.31 p.p. increase YoY, and a quarterly decrease was observed for the same reasons as have affected the net interest margin.

Key Financial Indicators	1-9 2024	1-9 2023	Change YoY
			in EUR millions/%/p.p./bps
Return on equity after tax (ROE a.t.)	18.6%	20.2%	-1.6 p.p.
Return on equity after tax (ROE a.t.) normalized (i)	29.0%	27.6%	1.4 p.p.
Return on assets after tax (ROA a.t.)	2.2%	2.1%	0.1 p.p.
Net interest margin (on interest bearing assets)	3.65%	3.42%	0.24 p.p.
Operational business margin	4.98%	4.67%	0.31 p.p.
Cost to income ratio (CIR)(ii)	43.2%	45.2%	-2.0 p.p.
Cost of risk net (bps)	-12	-23	12

(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 first nine months of 2024 have laid the foundation for a strong finish of the year, which will allow for the previously revised outlook to be delivered in full and, in some KPIs, even exceeded. **Strong loan growth in 2024 might materialise in low double-digit organic** (excluding the contribution from the SLS Group) growth, higher than the "high single-digit" loan growth guidance. Envisaging regular seasonality in the Q4 cost, attributable to year-end bonuses and other costs, **CIR in 2024 should end up at around the guided level**.

The Bank is maintaining its revenue guidance for both 2024 and 2025. The market expectations for the interest rates in the Eurozone have recently trended lower, leading **the Bank to adjust its yield curve forecast downwards**.

In May, the Bank announced the Strategy 2030, which, on a high level, introduced the aspiration to deliver more than EUR 1 billion in recurring profits, more than EUR 2 billion in recurring revenues and more than EUR 50 billion in total assets. On a more granular level, many required enhancements and improvements to the existing operating model were identified. On top of this, the Bank identified several strategic plays that should enhance revenue in the strategic timeframe. The latter can be labelled as "change the bank" and the former as "run the bank" initiatives and should lead to higher profitability in subsequent periods.

Including the cost base of the SLS Group, the newest addition to the NLB Group, coupled with the adjusted interest rate forecast and digital transformation, the CIR in 2025 is transitionally expected to be around 48%.

In 2025, the Bank is considering issuing senior preferred notes in the benchmark size, subject to market conditions. The issuance will enable the Bank to meet its MREL regular requirements including pre-funding of our ambitious growth plan into 2025.

The Bank expects that all other targets for 2025 from the announced KPIs will be met.

	Outlook for 2024	Revised Outlook for 2025
Regular income	~ EUR 1,200 million	~ EUR 1,200 million
CIR	~ 45%	~ 48%
Cost of risk	Below 20 bps	30-50 bps
Loan growth	High single-digit	High single-digit
Dividends	EUR 220 million (40% of 2023 profit)	More than 40% of 2024 profit
ROE a.t. ROE a.t. normalised(i)	> 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.

You are Kindly Invited to the Webcast Presentation

We kindly invite all interested stakeholders to the presentation of the NLB Group's Third Quarter 2024 results, hosted by the NLB Management Board. The call will take place on **Thursday, 7 November, 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.**

[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.