May 11, 2023

NLB Group: The first quarter of 2023's EUR 120.1 million of Profit after Tax sets a positive tone for the full year and leads to the upward revision for the 2023 guidance.

The beginning of 2023 brought quite a few challenges to the banking sector. Tighter global liquidity on the back of higher global interest rates has taken its toll in the form of increased stress levels in the US regional banking sector and has spilled over into Europe with the further consolidation of Switzerland's banking sector. Despite the global banking sector tremor, however, **NLB Group performed strongly in the first quarter,** with a strong emphasis on prudent risk management.

The Group **achieved EUR 120.1 million in profit after tax** in the first quarter, a growth of 74% QoQ. Profit after tax in the first quarter was 46% lower than in first quarter of 2022 due to the negative goodwill coming from the acquisition of N Banka.

Retail deposits represent a majority of the NLB Group's funding structure and are the most stable funding source with **around 80% being insured by the DGS**. Retail deposits remained stable in Q1, after strong increases throughout 2022 (EUR 1,268.0 million, coming from both M&A and organic growth) and demonstrate continued client confidence in the NLB brand. The Group holds a very strong liquidity position at the Group and individual subsidiary bank levels, which is well above the risk appetite with the **Liquidity Coverage Ratio (LCR) of 231.3%** and **unencumbered eligible reserves in the amount of EUR 9,113.6 million** – mostly in the form of placements at the ECB and prime debt securities.

“It seems that in recent years we were almost unable to avoid mentioning this or that crisis when commenting on business results, whether it was brought on by an epidemic, the outbreak of war, inflationary pressures, or – as is the case now – the challenge of an unstable global financial environment. However, it is a measure of an enterprise in seeing how it addresses these trials. And NLB Group has been addressing them with persistence – the persistence to innovate in the field of digital solutions and products, as well as in the field of middle and back-office processes, the persistence to step out of the ‘doing business as usual’ mentality, and the persistence in the digging deeper into the AI-driven data science, which is why the Supervisory Board is satisfied with the results and fully trusts in the future success of NLB and the NLB Group,” commented its **Chairman Primož Karpe**.

His thoughts were echoed by **NLB’s CEO Blaž Brodnjak**, who expressed the Management Board’s satisfaction with the business results of the Group in the first three months of the year. Above all however, he pointed out the important role that banking members of the NLB Group once again played in all the markets, offering services and stability both to households and businesses. To continue on this path, **NLB Group will accompany good business results with a large-scale regional donation**, he announced.

“We would like to take this opportunity to announce another strong donation of the NLB Group on **all the markets of our operations in our home region**. Namely, in the following weeks, our employees from all our banking members will suggest and then also select **various recipients of donations in the total amount of EUR 1.35 million**. This time our colleagues will route our support to people in need, ones with social, health or other handicaps. We are humbled that we can thus contribute to societies in our home region, and above all, we are proud that our employees are key drivers of these activities,” he said.

Key highlights of the Q1

NLB Group achieved EUR 241.9 million in total net operating income (EUR 77.1 million or 47% higher YoY and 3% higher QoQ). Excluding non-recurring items, growth in recurring results before impairments and provisions of 95% YoY and 25% QoQ clearly indicates the **robustness of performance in the first quarter and provides a strong foundation for the remainder of the year**.

The result before impairments and provisions in the first quarter grew by 101% YoY and 16% QoQ, reaching EUR 124.8 million. The Group **achieved EUR 120.1 million in profit after tax** in the first quarter, a growth of 74% QoQ. Profit after tax in the first quarter was 46% lower than in first quarter of 2022 due to the negative goodwill coming from the acquisition of N Banka.

The **net interest income (NII) in Q1 increased by 66% YoY (up by EUR 71.2 million) to reach EUR 179.0 million.** The YoY growth in NII was driven by the healthy mix of margin expansion and volume growth. The increase of net interest income YoY came mostly from loans to customers (EUR 56.8 of which EUR 23.6 million from individuals and EUR 33.2 million from corporate and state) and balances at banks and central banks (EUR 25.1 million). Quarterly growth in NII of 18% was not deterred by higher interest expenses (EUR 28.0 million, up 51% QoQ) from wholesale funding for mostly MREL purposes.

The **net non-interest income (NNII) reached EUR 63.0 million in the first three months of 2023,** a 10% growth YoY. On a quarterly basis, NNII declined by 24%, strongly affected by the accrual of one-time expenses for regulatory costs in NLB and N Banka in the amount of EUR 8.6 million for DGS and EUR 2.9 million for SRF.

Out of EUR 63.0 million of net non-interest income in Q1, **net fee and commission income contributed EUR 66.1 million.** This component of the income statement increased by 2% YoY and declined by 4% QoQ. The lack of growth momentum in fee and commission income YoY can be explained by the abolishment of high balance deposit fees after the normalisation of the Central bank’s monetary policy, while QoQ performance displays the fact that Q4 is seasonally strong because of holiday spending.

Costs remain an important attention point for NLB Group, as high inflation rates in this region persisted in Q1. Continuous cost optimisation measures help the NLB Group to balance operational excellence, talent acquisition, and retention, while at the same time allowing for the continuation of the path of digital transformation to further develop a sustainably resilient business. **Total costs amounted to EUR 117.1 million (up 14% YoY)**, in large part related to the inflation, as well as cost related to the integration process of N Banka (EUR 2.0 million of integration costs in Q1 2023), and the fact that N Banka’s cost base was only partially included in total costs in Q1 2022 (denominator effect) – neutralising for all cost related to N Banka, cost growth would have been lower, 8% YoY.

Impairments and provisions for credit risk were net released in the amount of EUR 18.4 million, the main factors being positive effects from a successful collection of previously written-off receivables, mainly due to the liquidation of Russian bonds and repayments in the corporate segment. **The cost of risk was negative, -37 bps.**

Other impairments and provisions were net established in the amount of EUR 6.0 million, the main reasons for that being the release of provisions for legal risk in the Bank and the establishment of other provisions for liability in relation to the reimbursement of fees in case of early loan repayment.

in EUR millions/%

	1-3 2023	1-3 2022	Change YoY	Q1 2023	Q4 2022	Q1 2022	Change QoQ
Key Income Statement Data							
Net operating income	**241.9**	**164.8**	**47%**	**241.9**	**234.9**	**164.8**	**3%**
Net interest income	179.0	107.8	66%	179.0	151.8	107.8	18%
Net non-interest income	63.0	57.0	10%	63.0	83.0	57.0	-24%
o/w Net fee and commission income	*66.1*	*64.5*	*2%*	*66.1*	*69.2*	*64.5*	*-4%*
Total costs	-117.1	-102.7	-14%	-117.1	-127.7	-102.7	8%
Result before impairments and provisions	**124.8**	**62.1**	**101%**	**124.8**	**107.2**	**62.1**	**16%**
Impairments and provisions	12.4	-4.4	-	12.4	-31.2	-4.4	-
Impairments and provisions for credit risk	*18.4*	*-4.0*	-	*18.4*	*-25.0*	*-4.0*	-
Other impairments and provisions	*-6.0*	*-0.4*	-	*-6.0*	*-6.3*	*-0.4*	-
Negative goodwill	0.0	172.8	-	0.0	0.1	172.8	-
Result after tax	120.1	221.8	-46%	120.1	69.1	221.8	74%

The Group's **gross loans to customers increased by EUR 1,020.5 million (8%) YoY**, out of which EUR 608.6 million to individuals due to a record high new production of housing loans in Q2 and Q3 of 2022. Growth rates in the first quarter have moderated, leading to an incremental increase of EUR 57.7 million in gross loans to customers. Despite the soft patch in loan growth, **new production remained healthy, with over EUR 180 million in new housing loans, almost EUR 300 million in new consumer loans, and close to EUR 600 million in new corporate loans approved in Q1 2023**. NLB continued to gain market shares both in retail and corporate lending in 2023. The strong underlying dynamics were partially offset by the repayment of approximately EUR 145 million of a syndicate loan from the energy sector provided as extraordinary liquidity financing lines in the emerging energy crisis in H2 2022.

The Banking Book portfolio remains diversified with a short duration – FVOCI securities in the amount of EUR 2,469 million have a duration of 2.12 years and securities measured at amortised cost (AC) in the amount of 1,993 million duration of 3.82 years. The negative valuation of FVOCI Group portfolio as at 31 March 2023 amounted to EUR 134 million (net of hedge accounting effects and related deferred tax) and unrealised losses from AC securities portfolio amounted to EUR 152 million.

Deposits remained the most important, and at the same time the most stable funding source. Around 80% of retail deposits were insured by DGS, an important consideration in turbulent times in the global banking sector. Deposit base remained largely stable in Q1, especially from individuals (0% QoQ), with some seasonal outflows observed in corporate and state segment in Q1 (decrease of EUR 298.6 million). YoY the **deposit base has increased by EUR 1,206.3 million YoY**, of which EUR 854.4 million came from individuals. The Bank maintained its market share in deposits from customers of 27.7% and a very strong LTD at 55.6%. The **LTD ratio (net)** at the Group level was **66.6%**, a 1.3 p.p. increase in Q1 2023.

As at 31 March 2023, the **TCR for the Group stood at 18.9% (or 3.1 p.p. increase YoY and 0.2 p.p. decrease YtD)**, and the **CET1 ratio stood at 14.8% (1.1 p.p. YoY increase and 0.3 p.p. decrease YtD)**. The lower total capital adequacy in Q1 derived from lower capital (EUR -41.1 million compared to the end of 2022), which was not compensated by lower RWA (EUR -30.8 million compared to the end of 2022). The capital was lower mainly due to the termination of temporary treatment of FVOCI for sovereign securities (EUR -61.7 million) which was not compensated by the overall positive revaluation adjustments (EUR 21.9 million compared to the end of 2022).

The capital calculation does not include a part of the 2022 result in the amount of EUR 110 million, which is envisaged to be paid as a dividend in 2023. Therefore, there will be no effect on the capital once the dividends in this amount are paid.

The Bank expects to be **active on debt capital markets** with an ambition to issue EUR 300-500 million new senior MREL-eligible notes. This will lead to the Bank comfortably meeting the binding MREL requirement, applicable as of 1 January 2024. The MREL ratio as at 31 March 2023 was 34.15%.

in EUR millions/%/bps

	31 Mar 23	31 Dec 22	31 Mar 22	Change YtD	Change YoY
Key Financial Position Statement Data					
Total assets	**24,011.8**	**24,160.2**	**23,019.1**	**-1%**	**4%**
Gross loans to customers	13,455.0	13,397.3	12,434.6	0%	8%
Net loans to customers	13,137.7	13,073.0	12,108.7	0%	8%
Deposits from customers	19,732.0	20,027.7	18,525.8	-1%	7%
Equity (without non-controlling interests)	2,507.6	2,365.6	2,244.7	6%	12%
Other Key Financial Indicators					
LTD	66.6%	65.3%	65.4%	1.3 p.p.	1.2 p.p.
Total capital ratio	18.9%	19.2%	15.8%	-0.2 p.p.	3.1 p.p.
Common Equity Tier 1 Ratio	14.8%	15.1%	13.7%	-0.3 p.p.	1.1 p.p.
Total risk exposure amount (RWA)	14,622.3	14,653.1	13,843.4	0%	6%
Employees					
Number of employees	8,194	8,228	8,475	-34	-281

The annual **net interest margin** of the Group was **3.14%** (1.07 p.p. increase YoY) and the annual **operational business margin** grew by 1.06 p.p. YoY, **reaching 4.39%,** both driven by the net interest income growth.

in EUR millions/%/bps

Key Financial Indicators	1-3 2023	1-3 2022	Change YoY
Return on equity after tax (ROE a.t.)	19.7%	10.3%	9.5 p.p.
Return on assets after tax (ROA a.t.)	2.0%	1.0%	1.0 p.p.
Net interest margin (on interest bearing assets)	3.14%	2.07%	1.07 p.p.
Operational business margin	4.39%	3.32%	1.06 p.p.
Cost to income ratio (CIR)	48.4%	62.3%	-13.9 p.p.
Cost of risk net (bps)	-37	-17	-20

Outlook[1]

Based on current and expected rates environment, growth outlook, strict costs control supported by IT/digital solutions, and successful implementation of the Group's strategy and initiatives, the 2023 outlook and guidance for 2025 have been revised and further improved.

The Group is further **revising upwards guidance for the regular income in 2023** as a consequence of changed interest rate environment. It is expected that **regular income would be around EUR 1,000 million** (increase by ~ EUR 100 million versus previous guidance). Based on the rather low realised cost of risk in the first quarter and analysis of underlying dynamics in the asset quality and collection process, **the Group expects cost of risk to be between 30 bps and 40 bps** in the full year 2023, a slight improvement to the previous guidance. Accounting for higher expected regular income, stable cost guidance, and slightly lower CoR guidance, the Group also **raised guidance for ROE a.t. to above 14%** (from previous around 11%) and similarly **ROE normalised is expected to exceed 18%** (from previous indication of ROE normalised at 14%).

During the inaugural Investor Day which took place in May 2022, the Group communicated several KPIs for the year 2025, i.e., regular profit will exceed EUR 300 million, a EUR 100 million contribution from the Serbian market, EUR 500 million total capital return through cash dividends between 2022 and 2025, tactical M&A capacity of EUR 1.5 billion RWA, and ROE a.t. will exceed 12%. The Group remains committed to deliver on these KPIs, moreover, it improved the outlook already in its Annual Report 2022 (for the regular profit to be around EUR 400 million, tactical M&A capacity to EUR 2 billion RWA, and ROE to exceed 13%) and based on market rate expectations it is improving it further (for **regular profit to exceed EUR 400 million and ROE a.t. to be around 14%**). Despite indicating significantly increased tactical M&A capacity from EUR 2 to around 4 billion RWA, the outlook does not include any potential inorganic growth component.

The measures and potentials outlined in the above strategy are reflected in the Group's outlook for the 2023–2025 period.

KPI	Last Outlook for 2023	Revised Outlook for 2023	Last outlook for 2025	Revised Outlook For 2025
Regular income	~ EUR 900 million	**~ EUR 1,000 million**	> EUR 1,000 million	> EUR 1,000 million
Costs	~ EUR 490 million	~ EUR 490 million	Flat on 2023 level or below	**Flat on 2023 level**
Cost of risk	30-50 bps	**30-40 bps**	30-50 bps	30-50 bps
Loan growth	Mid-single digit	Mid-single digit	High single digit	High single digit
Dividend	EUR 110 million	EUR 110 million	EUR 500 million (2022-2025)	EUR 500 million (2022-2025)
ROE a.t.	~11%	**>14%**	> 13%	**~ 14%**
ROE normalised[(i)]	~14%	**>18%**	> 17%	**~ 20%**
Regular profit			~ EUR 400 million	**> EUR 400 million**
Contribution from Serbian market			> EUR 100 million	> EUR 100 million
M&A potential			Tactical M&A capacity of EUR 2 billion RWA	**Tactical M&A capacity of ~EUR 4 billion RWA**

(i) ROE normalised = Result a.t. divided by average risk adjusted capital. Average risk adjusted capital calculated as Tier 1 requirement of average RWA reduced for minority shareholder capital contribution.

Invitation to the webcast presentation

We kindly invite all interested stakeholders to the presentation of the NLB Group Interim Results Q1 2023, hosted by the Management Board of NLB, that will take place on Thursday, May 11, 2023, at 16:00 CEST/14.00 GMT and will be available here: https://www.nlb.si/ir-events.

[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.

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

NLB Group