November 9, 2023

NLB Group Continues to Perform Strongly in Q3, Thus Increasing its Capacity for Responsible Decisions and Operations

In a fragile operating environment with escalating geopolitical tensions, volatile financial conditions, and environmental hazards, an organisation's **business model resilience** remains one of the key distinguishing factors among the market participants. NLB Group is proud to report that its **business results** in the first nine months of 2023 **fully confirm this ambition has been met**.

The Group achieved EUR 144.2 million in profit after tax in the third quarter of 2023**, a growth of 18% QoQ**, providing the Bank and the Group with **comfortable buffers to remain a responsible and trustworthy counterparty for all stakeholders** – as it has been so many times before.

The outlooks for NLB Group for 2023 and 2025 are therefore slightly improved to better reflect the expected performance of the NLB Group in the current environment, which also factors in all of the envisaged regulatory measures. We believe that such transparent communication with all stakeholders sets us apart from many other business entities and helps us build relationships on honesty and trust.

NLB Group

"The strengthened trust of our clients and other stakeholders is one of the achievements that we have really been proud of, especially in these days, when we mark **the fifth anniversary of the listing of NLB's shares** on the Ljubljana Stock Exchange and GDRs on the main market of the London Stock Exchange. It is far from being the only one, though," emphasized **NLB's CEO Blaž Brodnjak** upon the publication of the results. "When we look at the development of overall performance of NLB and NLB Group over the past five years, we can genuinely celebrate it," he added, listing a couple of them to illustrate: **growth of business and talent pool**, successfully **acquiring and merging** Komercijalna Banka, Beograd and Komercijalna Banka, Podgorica, as well as N Banka to NLB Group; **expanding leasing operations** in as many as three markets etc. And we have achieved all of this while **providing clients with reliable and contemporary banking services and solutions**, whenever and wherever they need them, and **added value to shareholders**. He stressed further: "Ever since the listing five years ago, investors drew a total return of more than 93%, comprised of almost 45% valuation appreciation and a 48% dividend return. Moreover, the second tranche of this year's dividend scheduled for payment in December will additionally increase shareholders' total return, and thus exceed our expectations at the time of the IPO."

"Above all, however, we are proud – and continuously motivated – by **the responsible approach to business and all other actions our Group** has undertaken in our ever more connected home region, be it with intensively intertwining sustainability into all our operations, responding preventively and proactively to health and economic challenges such as the COVID pandemic, the continuous decisive support of sports and culture, or compassionate humanitarian donations to various organisations, individuals and communities, such as, for instance, during the recent floods in Slovenia," added NLB's CEO. He also emphasized that: "NLB Group will continue creating better footprints, responding proactively and supportively to help our clients and economies face any challenges, whether they are the result of unpredictable natural or unfavourable economic circumstances. Furthermore, we will also, together with our partners, continue pointing out any systemic decisions that could negatively affect the strength and prosperity of the economy or impairing social or governance pillars of a sustainable development of our society."

Chairman of the Supervisory Board of NLB Primož Karpe also reflected on the past five years of NLB and NLB Group, highlighting above all its vast progress in corporate and strategic management. "The achievements of the Group demonstrate that its focus in the SEE region and its markets is the right one. It is based on a serious consideration of the Group's capabilities and strengths on the one hand, and the opportunities presented to it on the other. However, NLB, its subsidiaries, and other value creating companies of the Group are on the brink of a new strategically important period, which will be marked by a new business strategy that is already being developed and will be presented to stakeholders next year," he said.

Key Highlights of the Q3

NLB Group's total net operating income amounted to EUR 289.2 million in Q3 (EUR 19.4 million or 7% higher QoQ), while in the first nine months it reached EUR 800.8 million (up by 42% YoY). Excluding non-recurring items, growth in the recurring result before impairments and provisions in the third quarter of 18% versus second quarter (to reach EUR 174.1 million) clearly indicates the **robustness of performance in Q3.**

The result before impairments and provisions in the third quarter **grew by 15% QoQ,** reaching EUR 168.2 million. The result before impairments and provisions **in the first nine months reached EUR 439.2 million**. The Group **achieved EUR 144.2 million in profit after tax** in the third quarter, a growth of 18% QoQ.

The **net interest income (NII) in Q3 increased by 10% QoQ (up by EUR 20.5 million) to reach EUR 221.5 million.** The QoQ growth in NII was supported by loan volume growth from healthy loan demand, coupled with prevailing higher interest rates. Interest expenses (EUR 46.2 million), mainly due to higher expenses from the wholesale funding raised for the minimum requirement for own funds and eligible liabilities (MREL) have a growing impact on NII trajectory, as seen both on a quarterly and even more on a yearly comparison. Higher expenses for customer deposits also contributed to elevated interest expenses. The average cost of funding on a Group level was 0.80% in Q3, up by 23 basis points from the previous quarter.

The **net non-interest income (NNII) reached EUR 67.7 million in the third quarter of 2023,** a 2% decline QoQ. In Q3, the Bank donated EUR 4.0 million to 20 municipalities affected by the floods in Slovenia, which, together with exchange rate differences, affected the net non-interest income of the quarter.

Out of EUR 67.7 million of net non-interest income in Q3, **net fee and commission income contributed EUR 70.9 million.** This component of the income statement increased by 3% QoQ. On YoY comparison, the NLB Group effectively and successfully countered the impact of the cancelling of the high balance deposit fees at NLB d.d. and some temporary measures, particularly in Serbia. This resilience on a year-over-year basis can be attributed to the positive impact of increased economic activity and consumption.

On a quarterly basis, the costs decreased by 2% (in **Q3 the total costs amounted to EUR 120.9 million**) due to continuous cost optimisation measures and HR synergies related to the successfully completed merger of NLB and N Banka on September 1, reduced sponsorships, and lower consulting costs. Despite the encouraging quarterly trends, the underlying dynamic remains challenging – inflation in our region remains persistently high with only slow moderation. **Costs in the first nine months were EUR 361.6 EUR,** of which EUR 7.2 million were for the integration of N Banka.

Impairments and provisions for credit risk in Q3 were net established in the amount of EUR 3.1 million. Portfolio development in the Q3 contributed to the increase of provisions by EUR 7.7 million net. The increase is related to the sector of private individuals, also in connection to the merger of N Banka. At the same time, corporate segment recorded net release. Impacts of the floods in Slovenia are estimated as negligible, and only minor client credit quality deteriorations or received collaterals are expected. Cumulatively, **the cost of risk at Q3 was negative, -23 bps**. The credit portfolio quality remains well diversified, stable, and robust. The low **NPEs (EBA def.) of 1.2%** had a very comfortable **NPL coverage ratio 2 of 63.0%.**

in EUR millions/%

	1-9 2023	1-9 2022	Change YoY	Q3 2023	Q2 2023	Q3 2022	Change QoQ
Key Income Statement Data							
Net operating income	**800.8**	**563.7**	**42%**	**289.2**	**269.7**	**205.6**	**7%**
Net interest income	601.5	353.1	70%	221.5	201.0	126.7	10%
Net non-interest income	199.4	210.6	-5%	67.7	68.7	78.9	-2%
o/w Net fee and commission income	*205.6*	*204.2*	*1%*	*70.9*	*68.5*	*70.5*	*3%*
Total costs	-361.6	-332.6	-9%	-120.9	-123.6	-113.9	2%
Result before impairments and provisions	**439.2**	**231.1**	**90%**	**168.2**	**146.1**	**91.7**	**15%**
Impairments and provisions	13.9	2.3	-	-3.8	5.4	10.0	-
Impairments and provisions for credit risk	*26.8*	*7.5*	-	*-3.1*	*11.5*	*9.8*	-
Other impairments and provisions	*-12.8*	*-5.1*	*-151%*	*-0.7*	*-6.2*	*0.2*	*89%*
Negative goodwill	0.0	172.8	-	0.0	0.0	0.0	-
Result after tax	386.9	377.8	2%	144.2	122.6	90.8	18%

The Group's **gross loans to customers increased by EUR 242.9 million (2%) QoQ and 592.9 million (4%) YTD**. Growth in the first nine months came from loans to individuals (EUR 363.7 million), EUR 180.2 million to the corporate segment, and EUR 48.9 million from loans to the state. Growth rates have moderated due to the rise in interest rates, although the new production in individual and corporate segments remains buoyant. **New production in Q3 remained healthy, with over EUR 175 million in new housing loans and over EUR 340 million in new consumer loans. The new production of corporate loans amounted to EUR 725 in Q3 2023**.

Deposits remained the most important, and at the same time, the most stable funding source. The **deposit base of the Group increased by 1% YtD (to reach EUR 20,289.1 million)** and was marked by a substantial 13% growth in corporate and state deposits in SEE banks, particularly during a strong Q3. In contrast, an 8% decline in corporate and state deposits was recorded in the Bank due to significant outflows in the first half of the year, similar to the entire Slovenian banking system. However, the trend reversed in Q3, showing a considerable rebound. The Bank responded to the competitive pressures by offering attractive pricing for term deposits. Consequently, the share of term and savings accounts in the total deposits from individuals has gradually risen to 46% at the end of September (compared to 43% at the end of September 2022). The **LTD ratio (net)** at the Group level was **67.4%**, a 2.1 p.p. increase in YTD.

As at 30 September 2023, the **total capital ratio (TCR) for the Group stood at 18.7%, and the CET1 ratio for the Group stood at 14.7%, decreasing by 0.4 p.p. YtD due to lower total capital and higher RWA.** Although the overall revaluation adjustments in 2023, until the end of September, were positive in the amount of EUR 45.2 million, the total capital decreased by EUR 15.0 million YtD since the temporary treatment of fair value through other comprehensive income (FVOCI) valuations for sovereign securities with the positive effect of EUR 61.7 million as at 31 December 2022 ceased to apply in January 2023.

Dividends in the amount of EUR 55 million were already paid in June 2023, while EUR 55 million is envisaged to be paid in December 2023. The capital calculation does not include this part of the 2022 result, and so there will be no effect on the capital once the dividends are paid.

In June 2023, **the Bank issued green senior preferred notes of EUR 500 million**, further strengthening the MREL buffer, ensuring that the Bank can comfortably meet the higher MREL requirement from 1 January 2024 onwards. On 30 September 2023, the **MREL ratio was 39.17%,** well above the regulatory requirements.

in EUR millions/%/bps

	30 Sep 23	31 Dec 22	30 Sep 22	Change YtD	Change YoY
Key Financial Position Statement Data					
Total assets	25,278.0	24,160.2	23,497.8	5%	8%
Gross loans to customers	13,990.2	13,397.3	13,244.0	4%	6%
Net loans to customers	13,666.1	13,073.0	12,925.3	5%	6%
Deposits from customers	20,289.1	20,027.7	19,573.1	1%	4%
Equity (without non-controlling interests)	2,734.9	2,365.6	2,339.8	16%	17%
Other Key Financial Indicators					
LTD	67.4%	65.3%	66.0%	2.1 p.p.	1.3 p.p.
Total capital ratio	18.7%	19.2%	16.6%	-0.4 p.p.	2.1 p.p.
Common Equity Tier 1 Ratio	14.7%	15.1%	14.5%	-0.4 p.p.	0.2 p.p.
Total risk exposure amount (RWA)	14,919.0	14,653.1	14,283.7	2%	4%
Employees					
Number of employees	8,078	8,228	8,265	-150	-187

The high-interest rate environment resulted in annual **net interest margin** of the Group of **3.42%** (1.25 p.p. increase YoY) and simultaneously the annual **operational business margin** grew by 1.21 p.p. YoY, **reaching 4.67%.** Both margins continue to grow, although quarterly data already exhibits growth moderation, an indication that peak margins in 2024 remain probable scenario.

in EUR millions/%/pps/bps

Key Financial Indicators	1-9 2023	1-9 2022	Change YoY
Return on equity after tax (ROE a.t.)	20.2%	12.5%	7.7 p.p.
Return on assets after tax (ROA a.t.)	2.1%	1.2%	0.9 p.p.
Net interest margin (on interest bearing assets)	3.42%	2.17%	1.25 p.p.
Operational business margin	4.67%	3.46%	1.21 p.p.
Cost to income ratio (CIR)	45.2%	59.0%	-13.8 p.p.
Cost of risk net (bps)	-23	-13	-11

Outlook[1]

The evolution in the first nine months and expected trends in the remainder of the year warrant fine-tuning our guidance compared to the last communicated outlook. It is now expected that **regular income should exceed EUR 1,000 million**, compared to previous guidance, which was around EUR 1,000 million. Persistent and high inflationary rates in the region throughout 2023 had impacted higher than previously envisaged cost dynamics, therefore we are **increasing cost guidance for 2025 from around EUR 490 million to around EUR 530 million** however remain committed to a CIR target of <50%. We are simultaneously refining our CoR guidance to reflect still better solid underlying trends in the asset quality and favourable environment enabling a successful NPL resolution. Previously, **we guided for 2023 CoR under 15 bps and are now expecting to come at around 0**.

With this outlook, we are introducing the new KPI – namely, **cost-to-income ratio (CIR) as an important indication of the bank's operating efficiency**. For 2023, we envisage delivering **CIR around 46%** and 2025 below 50%. It is expected that inflation, should determine the cost outlook for 2025 for the Group. **The revised cost outlook of around EUR 530 million for 2025** clearly reflects this reality. However, cost containment initiatives throughout the Group, focused on structural shifts towards increasingly digital production should keep cost inflation below the blended regional headline inflation growth over the upcoming period.

The outlook for 2025 remains an integral part of the published Outlook. This is a direct consequence of the communicated set of KPIs at the NLB's first Investor Day, held in Belgrade in May 2022. Throughout 2023, we have revised the outlook mainly for the running year due to the ongoing solid performance, while leaving the 2025 outlook essentially unchanged. Such a conservative communication approach has led to specific KPI targets already achieved or exceeded. Despite this, we maintain the 2025 targets broadly unchanged with the clear indication that **the risk in delivering 2025 numbers is to the upside**. The **adjustment in the regular income target for the year 2025 from over EUR 1,000 million to around EUR 1,100 million** displays optimism around the strength of underlying trends regardless of expected lower average interest rates.

When the Bank acquired Komercijalna Banka, Beograd in Serbia in 2020, this transformational acquisition presented an opportunity in one of the key regional markets. Yet, simultaneously, it required much work to deliver on expectations. At the first Investor Day in May 2022, we announced the guidance that the merged bank in Serbia should contribute EUR 100 million already in the year 2025. The performance of the merged entity has been remarkable. **NLB Komercijalna Banka, Beograd contributed EUR 114.5 million in the first nine months of this year, comfortably surpassing the target set for 2025 and leading us to omit this item line from the outlook(s).** The disclosure of the performance of this subsidiary and all others will remain part of our regular reports and presentations.

During the period of the COVID pandemic, the visibility of the business environment and the operating performance of banks reduced significantly. To overcome this hindrance, the Group issued forward guidance for the capital return. For the period between 2022 and 2025, we communicated our commitment to return EUR 500 million to the shareholders. Since then, the performance of the Group excelled, allowing for increased resilience of the banking group and maintaining a decent amount of capital buffer for tactical M&As. **The process of setting the new 2030 strategy is underway, and it is expected to outline key decisions around capital management going forward, including capital returns.**

Furthermore, the outlook already includes the expected, but not yet implemented impact from the Slovenian government's tax measures, directed towards reconstruction efforts following the floods over the summer. **The Bank expects that the Tax on the total balance sheets of Slovenian banking assets will lead to in excess of EUR 30 million negative impact on P&L in the year 2024**. It is expected that it will be applied in 2024 and is understood that tax measures will be in force for five years.

[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.

In Serbia, National bank of Serbia already enforced interest rate regulation on housing loans leading to the so-called modification loss of around EUR 16 million, affecting already the 2023 result. Both impacts are already factored in this outlook.

KPI	Last Outlook for 2023	Revised Outlook for 2023	Last outlook for 2025	Revised Outlook for 2025
Regular income	~ EUR 1,000 million	**> EUR 1,000 million**	> EUR 1,000 million	**~ EUR 1,100 million**
Costs	~ EUR 490 million	**~ EUR 500 million**	Flat on 2023 level	**~ EUR 530 million**
Cost of risk	< 15 bps	**~ 0 bps**	30-50 bps	30-50 bps
CIR		**~ 46%**		**< 50%**
Loan growth	Mid single-digit	Mid single-digit	High single-digit	High single-digit
Dividends	EUR 110 million	EUR 110 million	EUR 500 million (2022-2025)	EUR 500 million (2022-2025)(i)
ROE a.t. ROE normalised(ii)	>15% >20%	>15% >20%	~ 14% ~ 20%	~ 14% ~ 20%
Regular profit			> EUR 400 million	> EUR 400 million
Contribution from Serbian market		> EUR 100 million	> EUR 100 million	**-(iii)**

(i) Future capital returns will be revised during the new 2030 strategy process.
(ii) ROE normalised = result a.t. divided by average risk-adjusted capital. Average risk-adjusted capital is calculated as a Tier 1 requirement of average RWA reduced for minority shareholder capital contribution.
(iii) This item line will be omitted from further announcements.

Invitation to the Webcast Presentation

We kindly invite all interested stakeholders to the Third Quarter 2023 Financial Results Earnings Call, hosted by the Management Board of NLB, that will take place on Thursday, November 9, 2023, at 16:00 CET/15.00 GMT and will be available here: https://www.nlb.si/ir-events.

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.