August 10, 2023

After a strong second quarter, NLB Group confidently enters the rest of the year and continues with its decisive support to the society.

Despite the uncertainties caused by decelerated economic growth, and high inflation, **NLB Group demonstrated its resilience and delivered strong results** in the second quarter of 2023. The successful performance of NLB Group can be attributed to the vigorous emphasis on prudent risk management and unwavering focus on maintaining high asset quality, strong capital base and robust liquidity position, while remaining committed to ever-improving excellent customer services and embracing opportunities for further growth.

The Group **achieved EUR 122.6 million in profit after tax** in the second quarter, a 2% growth rate compared to the first quarter of 2023. The moderate QoQ growth was primarily the result of lower release of impairments and provisions for credit risk and higher income tax related to dividends received from NLB Group members.

Additionally, NLB's **successful issuance of its inaugural green senior preferred 4NC3 bond** in the benchmark size of EUR 500 million is doubtlessly worth highlighting as one of the key achievements of the second quarter. This once again confirmed the Group's commitment to sustainable principles and business operations to improve the quality of life and create a better footprint in its home region of South-eastern Europe.

NLB Group

In addition to improving the quality of life, however, NLB Group also continues to be firmly committed to improving the quality of business environment in the region. “With lending activities, the banks in our Group remain a reliable partner for both households and companies, which is reflected in solid business results in all segments and in all our markets,” commented **NLB’s CEO Blaž Brodnjak** upon the publication of the results. “Besides bringing positive results, understanding and predicting economic cycles together with prudent business operations and responsible lending also maintains the trust of our clients and other key stakeholders. The latter and a socially responsible role of NLB have been significantly challenged by the recent historical weather-related phenomenon in Slovenia, to which the bank reacted very decisively and concretely by defining a clear framework for supporting businesses and households in distress, while also donating EUR 4 million to the most affected municipalities for a sustainable reconstruction of the necessary infrastructure. I am truly proud of my colleagues in the Management Board and Supervisory Board for extending full support to these very meaningful measures.” he added.

Stable operations and results are also strengthening the confidence of the **Supervisory Board**, whose **Chairman Primož Karpe** said: “Reliable and persistent are probably the best descriptions of the first half year of the NLB Group in 2023. In an environment with a plethora of mixed economic signals about the future ahead, all banking members contributed to good business results and to a solid balance sheet that provides a good basis for achieving set goals and addressing future opportunities. But on the other hand, whilst we constantly look into the future, we stand firmly in the present as well, and demonstrating social solidarity by taking actions that support the affected communities and individuals in our home country is something that will always remain part of our corporate DNA.”

Key highlights of the Q2

NLB Group achieved EUR 269.7 million in total net operating income (11% higher QoQ). Excluding non-recurring items, growth in recurring results before impairments and provisions 25% QoQ clearly indicates the **robustness of performance in the second quarter and continues to provide an upward trajectory for the remainder of the year**. The result before impairments and provisions grew by 17% QoQ, reaching EUR 146.1 million.

The **net interest income (NII) in Q2 reached EUR 201.0 million.** Quarterly growth in NII of 12% can be attributed to interest environment evolution, predominantly in corporate loans and balances at the central banks. At the same time, the upswing in interest expenses was primarily linked to the increase in interest rates on deposits and higher expenses for wholesale funding.

The **net non-interest income (NNII) reached EUR 68.7 million in the second quarter of 2023,** a 9% increase QoQ, which can be attributed to EUR 2.4 million higher **net fee and commission income** primarily driven by better results from card operations stemming from increased economic activity in most banking members, and the fact that the recurring net non-interest income was in Q1 notably affected by the expenses for regulatory costs in the Slovenian banks.

Costs remain an important focus for NLB Group, as high inflation rates in the region persisted in Q2. Continuous cost optimisation measures help the NLB Group to balance operational excellence, talent acquisition, and retention, while at the same time allows for the continuation of the path of digital transformation to develop a sustainably resilient business future. **Total costs amounted to EUR 123.6 million (up 6% QoQ)**, in large part related to the inflation headwinds, rising employee costs (up 6% QoQ), and other general and administrative expenses (also up 6% QoQ). The integration process of N Banka, which is proceeding according to the planned timeline and for which NLB recently received the approval of the European Central Bank for the merger, also had some impact on the costs (EUR 4.2 million in H1 2023).

A well-diversified, stable, and robust credit portfolio quality remains a focal point of NLB Group. **Impairments and provisions for credit risk were net released in the amount of EUR 11.5 million in Q2**, the main factors being positive effects from the successful collection of previously written-off receivables due to a favourable environment for NPL resolution, positive portfolio development, repayments in the corporate segment, and the revised risk parameters. **The cost of risk in H1 2023 was negative, -38 bps.**

in EUR millions/%

	1-6 2023	1-6 2022	Yearly H1 Change	Q2 2023	Q1 2023	Q2 2022	QoQ Change
Key Income Statement Data							
Net operating income	511.7	358.1	43%	269.7	241.9	193.3	11%
Net interest income	380.0	226.4	68%	201.0	179.0	118.6	12%
Net non-interest income	131.7	131.7	0%	68.7	63.0	74.7	9%
o/w Net fee and commission income	134.6	133.7	1%	68.5	66.1	69.1	4%
Total costs	-240.7	-218.7	-10%	-123.6	-117.1	-116.0	-6%
Result before impairments and provisions	270.9	139.3	94%	146.1	124.8	77.3	17%
Impairments and provisions	17.8	-7.7	-	5.4	12.4	-3.3	-57%
Impairments and provisions for credit risk	29.9	-2.4	-	11.5	18.4	1.6	-37%
Other impairments and provisions	-12.1	-5.3	-129%	-6.2	-6.0	-4.9	-3%
Negative goodwill	0.0	172.8	-	0.0	0.0	0.0	-
Result after tax	242.7	287.0	-15%	122.6	120.1	65.2	2%

Despite a challenging interest rate environment, the Group's **gross loans to customers increased by EUR 292.3 million (2%) QoQ** with higher growth recorded in SEE banks, in the individual, corporate, and state segment. In Slovenia, the growth of gross loans to corporate and state was negatively affected by the favourable development in the energy sector after the normalisation of the crisis that led to the repayment of syndicated loans in Q1. As expected, the demand for new loans slowed down, with solid results in the segment of private individuals. **The loan demand of the corporate segment was higher in Q2** than in the previous two quarters, with around EUR 250 million in newly approved loans.

The securities portfolio remains diversified with a short duration – FVOCI securities in the amount of EUR 2,283 million have a duration of 2.09 years and securities measured at an amortised cost (AC) in the amount of 2,146 million duration of 3.83 years. The negative valuation of FVOCI Group portfolio as at 30 June 2023 amounted to EUR 123 million (net of hedge accounting effects and related deferred tax), and unrealised losses from AC securities portfolio amounted to EUR 151 million.

Deposits remained the most important, and at the same time, the most stable funding source. Around 80% of individual deposits were insured by DGS, an important consideration in turbulent times in the global banking sector. **The deposit base increased in Q2**, especially deposits from individuals (growth of 2% QoQ or EUR 217.0 million), with some outflows observed in the state segment (decrease of EUR 56.0 million). Retail customers in Slovenia are very favourably accepting the banks "Savings Account" offering – a convenient and attractive option to place short-term funds at more attractive rates, which is already matching the size of the overnight sight deposit base. Compared to the year end, the Bank maintained its market share in deposits from customers of 27.6%. The **LTD ratio (net)** at the Group level was **67.4%**, a 1.5 p.p. increase YoY as loan growth outpaced the deposit increase. The LTD ratio on the Bank level was 57.3%, a 2.4 p.p. increase YoY.

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 244.8%** and **unencumbered eligible reserves in the amount of EUR 9,406.8 million** – mostly in the form of placements at the ECB and prime debt securities.

As of 30 June 2023, the **TCR for the Group stood at 18.7% (or 2.3 p.p. increase YoY and 0.4 p.p. decrease YtD)**, and the **CET1 ratio stood at 14.7% (0.3 p.p. YoY increase and 0.4 p.p. decrease YtD**). Although the overall revaluation adjustments in H1 2023 were positive in the amount of EUR 32.7 million, the total capital decreased by EUR 26.3 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 was no longer applicable in January 2023.

The capital calculation does not include a part of the 2022 result in the amount of EUR 55 million, which is envisaged to be paid as a dividend in 2023 (EUR 55 million were paid as a dividend in June). Therefore, there will be no effect on the capital once the dividends in this amount are paid.

The issuance of **EUR 500 million green senior preferred bond** further strengthened the MREL buffer. On 30 June 2023, the MREL ratio was 39.31%, well above the new regulatory capital requirement set by the BoS that will become applicable as at 1 January 2024, and will amount to 30.99% of TREA plus applicable CBR (currently 3.87%).

in EUR millions/%/bps

	30 Jun 2023	31 Mar 2023	30 Jun 2022	Yearly Change	Quarterly Change
Key Financial Position Statement Data					
Total assets	24,701.5	24,011.8	22,730.3	9%	3%
Gross loans to customers	13,747.3	13,455.0	12,944.2	6%	2%
Net loans to customers	13,431.8	13,137.7	12,620.2	6%	2%
Deposits from customers	19,924.9	19,732.0	19,151.1	4%	1%
Equity (without non-controlling interests)	2,586.1	2,507.6	2,195.6	18%	3%
Other Key Financial Indicators					
LTD	67.4%	66.6%	65.9%	1.5 p.p.	0.8 p.p.
Total capital ratio	18.7%	18.9%	16.5%	2.3 p.p.	-0.2 p.p.
Common Equity Tier 1 Ratio	14.7%	14.8%	14.4%	0.3 p.p.	-0.1 p.p.
Total risk exposure amount (RWA)	14,838.4	14,622.3	14,172.5	5 %	1%
Employees					
Number of employees	8,154	8,194	8,394	-240	-40

The annual **net interest margin** of the Group was **3.30%,** while in Slovenia the net interest margin amounted to 2.53% and the annual **operational business margin reached 4.56%,** all driven by the current macro-economic environment and therefore rapidly evolving interest environment.

in EUR millions/%/bps

Key Financial Indicators	1-6 2023	1-6 2022	Change
Return on equity after tax (ROE a.t.)	19.4%	10.8%	8.6 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)	3.30%	2.12%	1.18 p.p.
Operational business margin	4.56%	3.40%	1.16 p.p.
Cost to income ratio (CIR)	47.0%	61.1%	-14.0 p.p.
Cost of risk net (bps)	-38	-6	-32

Outlook[1]

Minor adjustments to the previously communicated 2023 Outlook and Guidance for 2025 exhibit strong asset quality prospects for the whole 2023 and **an improved expected capital generation** leading to an increase in tactical M&A capacity.

The Group is **improving Cost of Risk outlook for 2023 to below 15 basis points** (from previously announced expectations, CoR would come between 30 and 40 basis points) as a function of strong underlying trends, and despite the recent floods in Slovenia that have significantly impacted public infrastructure as well as numerous households and businesses. The Group's current evaluation indicates the impact on its business operations as moderate, however this assessment is preliminary and will develop further as more comprehensive analyses and client feedback are gathered. NLB Group is proactively working with its customers and if necessary, offering financial (liquidity) assistance in addition to the commitment of EUR 4 million in humanitarian and financial aid. Better than previously expected asset quality also leads to ROE a.t. and ROE normalised upward revision. **ROE a.t. in 2023 is expected to be above 15%** (previously above 14%), and **ROE normalised above 20%** (previously 18%).

During the inaugural Investor Day in May 2022, the Group communicated several KPIs for the year 2025, i.e., regular profit to exceed EUR 300 million, with a EUR 100 million contribution from the Serbian market, EUR 500 million of total capital return through cash dividends between 2022 and 2025, tactical M&A capacity of EUR 1.5 billion RWA, and ROE a.t. to exceed 12%. Based on the evolution of a supportive business environment and several key initiatives being successfully implemented, the Group has further refined 2025 targets for stated KPIs. Strong income-generating capacity, coupled with a decisive cost containment ambition and strong asset quality prospects, mirrors the **regular profit exceeding EUR 400 million**. Capital return remains anchored to the nominal dividend payment, increasing the tactical M&A capacity (from around EUR 4 billion RWA to **above EUR 4 billion RWA**).

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

	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 1,000 million
Costs	~ EUR 490 million	~ EUR 490 million	Flat on 2023 level	Flat on 2023 level
Cost of risk	30-40 bps	**<15 bps**	30-50 bps	30-50 bps
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)
ROE a.t. ROE normalised(i)	>14% >18%	**>15%** **>20%**	~ 14% ~ 20%	~ 14% ~ 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 4 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

[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 Group is pursuing a range of strategic activities to enhance its business performance. The interest rate outlook is uncertain given the adaptive monetary policy of the ECB and local central banks to the general economic sentiment.

Invitation to the webcast presentation

We kindly invite all interested stakeholders to the presentation of the NLB Group Q2 and H1 2023 Results, hosted by the Management Board of NLB, that will take place on Thursday, August 10, 2023, at 16:00 CEST/14.00 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.

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