November 10, 2022

NLB Group Achieved EUR 90.8 Million Profit After Tax in Q3 to Generate EUR 377.8 Million PAT in the First Nine Months

The remarkable performance of NLB Group in year 2022 continued in the third quarter, by achieving **EUR 91.7 million of pre-provision result, the highest since the IPO in 2018.** Perilous times, marked with geopolitical tensions and increasing prices are having direct and indirect impact on the performance of the leading financial institution in South-eastern Europe. With growth rates in our home region expected to moderate yet remaining positive in 2023, and inflation forcing central banks to react by increasing interest rates, the economic climate remains challenging. Nevertheless, with **profit after tax in the first nine months of the year totalling EUR 377.8 million** (including one-off effects from the acquisition of N Banka) **and the total capital ratio at 16.6% – well above the regulatory requirement**, the Group stands confidently prepared for any potential incremental worsening of the business environment.

NLB Group

“NLB Group business results in the first nine months are excellent and do not yet show the level of stress that the market expects,” emphasized NLB’s CEO **Blaž Brodnjak** upon the publication of the results. “We are confident that they should translate into added value for our shareholders with the expected payment of dividends, firstly as this year’s second tranche in the total amount of EUR 50 million, which is EUR 2.50 per share [this will amount to promised EUR 100 million in dividends in 2022] expected to be paid out after the General Meeting in December, and then with all subsequent pay-outs. By 2025, we project a total capital return through solid cash dividends in the cumulative amount of EUR 500 million (including 2022 pay-outs), which would on the one hand ensure a stable dividend increase, and on the other provide room for incremental organic growth and tactical M&A opportunities,” he added.

New opportunities, however, are “precisely the thing that NLB Group successfully addresses as it strives to constantly pursue its’ path of value accretion,” emphasized **Primož Karpe**, Chairman of the Supervisory Board of NLB d.d, and also cited the increased importance of leasing within the Group. “After entering the Slovenian market with NLB Lease&Go in the spring of 2020, leasing operations have been gaining momentum so much so that a new leasing company was recently established in North Macedonia, and all regulatory approvals for the purchase of a leasing entity in Serbia were obtained. All this gives us confidence that leasing will once again become a significant part of the Group. It is planned that in its mature phase, leasing will contribute more than EUR 1 billion to the total assets of the Group, through organic and potentially also inorganic growth,” he explained.

Key highlights in the first nine months of 2022 and in Q3

The strong performance of the Group did not moderate in the third quarter of 2022 – as shown by the EUR 205.6 million total net operating income (up 12% QoQ), leading to **EUR 563.7 million total net operating income in 1–9**, up EUR 63.8 million YoY (of which EUR 23.9 million came from N Banka). Recurring profit before impairments and provisions in the first nine months grew 28% YoY to EUR 219.3 million, excluding the N Banka contribution.

The **net interest income in the first nine months increased by 17% YoY (up EUR 50.8 million) to EUR 353.1 million.** Growth in NII, excluding N Banka’s contribution, came in at EUR 33.3 million YoY (11% YoY), mostly due to higher loan volumes. Interest rates on loans and on central bank balances are also gradually starting to have a positive impact on interest income. The increase of net interest income was recorded in all banks. The quarterly dynamic was also favourable, with EUR 126.7 million in net interest income (up 7% QoQ).

The **net non-interest income reached EUR 210.6 million**, of which EUR 6.5 million was contributed by N Banka. **Net fee and commission income growth continued with strong momentum – 14% YoY growth excluding N Banka**’s contribution, predominantly due to outstanding results in payment transactions and related services, investment funds, and bancassurance products. Quarterly dynamics remained positive, with net fee and commission income reaching EUR 70.5 million (up 2% QoQ). This achievement is even more noteworthy, given two important headwinds for the net fee and commission income which emerged in Q3, namely the cancellation of the high balance deposit fees and the Serbian central bank initiative to contain retail fees for a limited period.

Total costs amounted to EUR 332.6 million, of which EUR 17.6 million were from N Banka. Without N Banka’s contribution, total costs increased YoY by 6%, due to an increase in the Bank and in most of the SEE banking members. The Group is affected by inflation and rising employee, material, and energy costs, but has successfully kept them under control. The largest YoY increases were recorded in employee costs (EUR 8.0 million without the N Banka contribution) and general and administrative expenses (EUR 10.9 million without N Banka contribution) with increasing marketing costs – especially in the Bank due to the acquisition of N Banka in Slovenia and merger of the Group banks in Serbia (NLB Banka, Beograd, and Komercijalna Banka, Beograd), electricity costs (EUR 2.9 million higher YoY), and software maintenance (mostly due to the N Banka acquisition). QoQ dynamics was positive with 2% lower costs.

Net impairments and provisions for credit risk were released in the amount of EUR 7.5 million, with the successful collection of previously written-off receivables (EUR 28.1 million) mostly in the corporate segment, and the asset quality at N Banka being better than expected at the acquisition. In Q3, less favourable macroeconomic forecasts for Slovenia led to the deterioration of risk parameters and to additional provisioning. Overall, third quarter dynamics were favourable with a net release of EUR 9.8 million provisions, predominantly caused by releases at N Banka.

The **cost of risk at -13 bps** remains negative, **backed by the positive contribution of successful NPL resolution** in most of the NLB Group members. The current economic situation led to sluggish growth projections for the Slovenian economy in 2023. On this basis, the Bank formed additional credit impairments and provisions in Q3 2022. A similar approach has been followed by other NLB Group members.

Other impairments and provisions were established in the amount of EUR 5.1 million, of which EUR 4.6 million for reorganisation in NLB Komercijalna Banka, Beograd.

in EUR millions/%/bps

	1-9 2022	1-9 2021	Change YoY	Q3 2022	Q2 2022	Q3 2021	Change QoQ
Key Income Statement Data							
Net operating income	**563.7**	**499.9**	**13%**	**205.6**	**183.6**	**166.0**	**12%**
Net interest income	353.1	302.3	17%	126.7	118.6	103.7	7%
Net non-interest income	210.6	197.5	7%	78.9	65.0	62.3	21%
w/o Net fee and commission income	*204.2*	*172.6*	*18%*	*70.5*	*69.1*	*58.6*	*2%*
Total costs	-332.6	-297.2	-12%	-113.9	-116.0	-99.9	2%
Result before impairments and provisions	**231.1**	**202.7**	**14%**	**91.7**	**67.6**	**66.1**	**36%**
Impairments and provisions	2.3	25.2	-91%	10.0	-3.3	6.3	-
Impairments and provisions for credit risk	*7.5*	*34.1*	*-78%*	*9.8*	*1.6*	*3.3*	-
Other impairments and provisions	*-5.1*	*-8.8*	*42%*	*0.2*	*-4.9*	*2.9*	-
Negative goodwill	172.8	0.0	-	0.0	0.0	0.0	-
Result after tax	377.8	205.5	84%	90.8	55.5	65.7	64%

The Group's **gross loans to customers increased by EUR 2,340.5 million YtD**, with a EUR 1,077.6 million increase due to the acquisition of N Banka. Without N Banka, a EUR 1,262.9 million YtD growth (12%) in gross loans to customers was recorded, EUR 636.1 million to individuals (11%), and EUR 657.0 million (13%) to corporate.

The **production of new loans** in the Group was high, with almost **EUR 880 million in new housing loans and over EUR 820 million in new consumer loans approved in 1–9**, while over EUR 2.6 billion in new corporate loans were approved in this period. After a long period of low interest rates, the interest rates on the new production started to increase.

A strong deposit base demonstrates client confidence in the Group and translates to relatively low average funding cost for the NLB Group. Sight customer deposits, which account for 72.2% of the total assets (31 December 2021: 71.0%), and 87.0% of all deposits remain the key funding base. The **deposit base of the Group YtD increased by EUR 1,932.3 million**, of which EUR 976.6 million due to the acquisition of N Banka. In Q3, the growth of deposits from individuals with only 1% QoQ was seasonally weak, while the substantial inflow of corporate and state deposits in August was recorded. **LTD ratio (net) was 66.0%** at the Group level, a 6.0 p.p. increase YtD.

As of 30 September 2022, the **TCR for the Group stood at 16.6%** (or 1.2 p.p. lower YtD), and the **CET1 ratio for the Group stood at 14.5%** (0.9 p.p. lower YtD). The lower total capital adequacy derives from higher RWA (EUR 1,616.3 million YtD), which was not compensated by higher capital (EUR 117.1 million YtD). The capital is higher mainly due to the inclusion of negative goodwill from the acquisition of N Banka in retained earnings in the amount of EUR 172.8 million and a partial inclusion of Q1 2022 profit in the amount of EUR 32.2 million, which compensated the negative revaluation adjustments on FVOCI securities (EUR -96.3 million YtD). In accordance with CRR 'Quick fix' from June 2020, temporary treatment of FVOCI for sovereign securities was implemented by the Group in September 2022, which increased the capital by EUR 60.6 million (i.e., accumulated other comprehensive income amounted EUR -106.4 million, instead of EUR -167.0 million).

In September 2022, the Bank issued Additional Tier 1 notes in the amount of EUR 82 million which will improve regulatory capital and the total capital ratio by approximately 50 bps after receiving the ECB approval.

A second dividend distribution is envisaged for December 2022, still subject to a General Meeting of Shareholders decision on 12 December. This envisaged dividend is already excluded from capital.

in EUR millions/%/bps

	30 Sep 2022	31 Dec 2021	30 Sep 2021	Change YtD	Change YoY
Key Financial Position Statement Data					
Total assets	**23,497.8**	**21,577.5**	**21,296.9**	**9%**	**10%**
Gross loans to customers	13,244.0	10,903.5	10,593.7	21%	25%
Net loans to customers	12,925.3	10,587.1	10,267.0	22%	26%
Deposits from customers	19,573.1	17,640.8	17,248.6	11%	13%
Equity (without non-controlling interests)	2,339.8	2,078.7	2,140.5	13%	9%
Other Key Financial Indicators					
LTD[1]	66.0%	60.0%	59.5%	6.0 p.p.	6.5 p.p.
Total capital ratio	16.6%	17.8%	17.2%	-1.2 p.p.	-0.6 p.p.
Common Equity Tier 1 Ratio	14.5%	15.5%	14.7%	-0.9 p.p.	-0.2 p.p.
Total risk exposure amount (RWA)	14,283.7	12,667.4	12,824.4	13%	11%
Employees					
Number of employees	8,265	8,185	8,359	80	-94

(1) LTD = Net loans to customers/deposits from customers.

The **net interest margin of the Group was 2.17% in 1–9 and reached 2.27% in Q3** (0.11 p.p. higher QoQ and 0.24 p.p. YoY for the same quarter), due to a combination of higher volumes and gradual repricing of the new loan production. The **operational business margin in 1–9 was 3.46% and quarterly 3.60%,** up 0.15 p.p. QoQ and 0.42 p.p. YoY for the same quarter.

in EUR millions/%/bps

Key Financial Indicators	1-9 2022	1-9 2021	Change YoY
Return on equity after tax (ROE a.t.)[4]	12.5%	13.3%	-0.9 p.p.
Return on assets after tax (ROA a.t.)[4]	1.2%	1.3%	-0.1 p.p.
Net interest margin (on interest bearing assets)	2.17%	2.07%	0.10 p.p.
Operational business margin[2]	3.46%	3.25%	0.21 p.p.
Cost to income ratio (CIR)	59.0%	59.4%	-0.4 p.p.
Cost of risk net (bps)[3,4]	-13	-50	37

(2) Operational business margin = net income annualized/average assets.
(3) Cost of risk = credit impairments and provisions (annualized level)/average net loans to customers. Credit impairments and provisions include impairments on loans from customers and provisions for off balance.
(4) ROE and ROA for 2022 calculated without negative goodwill from acquisition of N Banka and effects of EUR 8.9 million of 12-month expected credit losses recognised at acquisition date for performing portfolio for N Banka not annualized; for CoR 2022 calculation effects of EUR 8.9 million of 12-month expected credit losses recognised at acquisition date for performing portfolio for N Banka not annualized.

New business opportunity: Expansion of the Group's leasing activities

In the **Group Strategy**, leasing activities represent a significant part of the Group's business mix. **As leasing operations in Slovenia (NLB Lease&Go, Ljubljana) are gaining momentum** with increasing total assets, a new leasing company was established in North Macedonia (NLB Lease&Go, Skopje) and all regulatory approvals for the purchase of the leasing entity in Serbia were obtained. Management and governance structures are being set up in new leasing members, with full implementation of the Group's corporate governance principles and two members of the NLB Management Board being Chair and Co-chair of NLB Lease&Go, Ljubljana Supervisory Board.

All activities carried out in the last few months gave us confidence that leasing will once again become a significant part of the Group. It is planned that **in its mature phase, leasing will contribute more than EUR 1 billion to the total assets of the Group**, through organic and potentially also inorganic growth.

Outlook

The outlook for 2022 and 2023 has been updated based on strong performance in the first nine months of 2022 in the following item lines:

- Regular income in 2022 should be around EUR 750 million (previously around EUR 730 million), respectively above EUR 850 million in 2023 (6% up from previous guidance of EUR 800 million).
- Costs are expected to be around EUR 460 million with stable dynamic in 2022 despite increasing inflationary pressures. For 2023 costs are expected at around EUR 490 million, higher than previously planned as a result of slightly later finalisation of integration of N Banka, inflationary pressures in several cost categories and higher investment in IT and real estate. 2024 will see cost pressures easing off with finalisation of integration processes in Serbia and Slovenia.
- Guidance for normalized ROE in the year 2023 was increased to above 12% (from the previous guidance of around 12%)
- Based on strong loan performance in 2022, loan growth in 2023 might turn out mid-single-digit (from previously guided high-single-digit loan growth)

in EUR millions/%/bps

KPI	Performance in 1-9 2022	2022(i)	2023
Regular Income	EUR 557.2 million	~ EUR 750 million	> EUR 850 million
Costs(v)	EUR 332.6 million	~ EUR 460 million	~ EUR 490 million
Cost of Risk	-13 bps	< 30 bps(ii)	30-50 bps
Loan Growth	21% (12% w/o N Banka)	Low double-digit organic growth	Mid single-digit loan growth
ROE a.t.	12.5%	~ 10% (ROE normalized(iii): 12%)	> 10% (ROE normalized(iii) > 12%)
Dividend	EUR 50 million	EUR 100 million(iv)	EUR 110 million

(i) If legal remedies against the adopted law in February 2022 concerning loan agreements in Swiss francs concluded by banks operating in Slovenia (including NLB) and individuals are unsuccessful, the Bank estimated a negative pre-tax effect on the operations of NLB Group should not exceed EUR 100 million (N Banka included).
(ii) Includes 8 bps of technical adjustment due to N Banka and excludes potential incremental major disruption(s).
(iii) ROE normalized = Result a.t. w/o minority shareholder profit divided by consumed capital. Consumed capital computed as 13.06% of average RWA reduced for minority shareholder capital contribution.
(iv) EUR 50 million already paid-out; the second instalment expected to be paid-out by the end of the year.
(v) Costs including N Banka/restructuring.

You are kindly invited to follow the webcast presentation

More information about the NLB Group business results in Q3 and the first nine months of 2022 will be presented during a **webcast**, hosted by the Management Board of NLB d.d. **on Thursday, 10 November 2022, at 16:00 CEST/15:00 GMT**. The webcast will be available **here.** Members of the Management Board will receive and address your questions. You may post them live, via web app, or you may simply send them to the email address IR@nlb.si.