May 11, 2022

NLB Group in Q1 2022 Continues to Grow and Build on Its Strong Market Position

The first quarter of 2022 was another eventful period globally, which actually **turned out to be very successful for the NLB Group.** As the impact of the COVID-19 pandemic slowly abated and boosted optimistic expectations about the normalization and growth of the economy, the tragic war in Ukraine erupted. However, the situation impacted NLB Group and countries where it operates mostly indirectly with rising raw material and energy prices, interrupted and occasionally severed supply chains, caused higher inflation, and by consequence increased volatility on the capital markets. In this environment, NLB Group acted responsibly, continued to grow, and built on its strong market position, most notably with NLB's acquisition of Sberbank Banka d.d. in Slovenia. **In the first three months of the year, NLB Group achieved EUR 231.5 million of profit after tax**, impacted by the acquisition, positively by the negative goodwill and negatively by the recognition of the 12-month expected credit losses for the performing portfolio.

NLB Group

“The Supervisory Board is satisfied with the Group’s business results in Q1 2022, especially with the positive effects of the NLB’s acquisition of the former Sberbank Banka in Slovenia [the bank has since been renamed ‘N Banka’]. Furthermore, it is especially proud of NLB’s responsible actions with respect to the difficult situation that this bank, its clients, and employees found themselves in at the end of February because of the measures against their Russian parent bank. The swift and efficient NLB response has stabilized N Banka’s operations and the entire Slovenian banking system,” emphasized **Primož Karpe**, Chairman of the Supervisory Board of NLB d.d. upon the publication of the results. “Another important milestone that calls for special recognition, however, is also the recent smooth and efficient integration of NLB Group’s banks in Serbia, working now as one, systemically important bank – NLB Komercijalna banka,” he added.

This acquisition was yet another step proving how much the complexity of the NLB Group's tasks has grown in recent years – not only in Slovenia, but in all the markets in South-Eastern Europe where the Group operates. That is why the Supervisory Board has appointed three additional members of the NLB Management Board in Q1 2022, Hedvika Usenik, Antonio Argir, and Andrej Lasič, so that the team will continue to manage the Group in the future as efficiently as we have so far, to continue to operate successfully, and to meet strategic commitments to our stakeholders.

“One of our key commitments remains putting clients first by understanding them and enhancing their customer experience. We plan to monetize opportunities and synergies within the Group, thereby becoming a regional champion. The commitment we hold especially close to our hearts however, is, of course, the sustainability of businesses we support with our services, as well as the sustainability of our own activities. In 2022, we intend to make this even more tangible throughout the Group. For example, to support the shift towards a low-carbon economy and finance the transition, we plan to expand the product portfolio with loans dedicated to supporting energy efficiency and renewable energy production. We also plan to make required steps in the direction of obtaining our first ESG rating. All of this while remaining true to the commitment of creating added value to our stakeholders and to a dividend payout of EUR 100 million, albeit in two tranches,” explained NLB’s CEO **Blaž Brodnjak**.

Key highlights in Q1 2022

The first quarter laid strong foundations for the Group’s full-year ambitions, with **EUR 174.5 million total net operating income** achieved (up 13% YoY). NLB d.d. acquired Slovenian Sberbank banka on 1 March and on 11 April renamed it ‘N Banka.’ The acquisition importantly impacted Q1 business results, most meaningfully positively through negative goodwill in the amount of EUR 172.8 million, and additionally negatively with EUR 8.9 million of recognised 12-month expected credit losses for the performing portfolio of N Banka at the acquisition date. With this acquisition, the bank strengthened its position on the domestic market by 3.6 percentage points (market share of acquired bank as at 31 Dec 2021).

Net interest income grew by 11% YoY (by EUR 10.3 million **to EUR 107.8 million** with EUR 2.6 million contribution from N Banka) as a function of strong loan growth, that helped offset the compression of interest rates. Lower interest expenses are related to TLTRO financing with the ECB at a very favourable interest rate of -1% p.a. and lower interest rates for customer deposits in SEE banking members. Customers in SEE banking members, to some extent, reacted conservatively to the war in Ukraine with outflows of deposits.

The **net non-interest income reached EUR 66.7 million**, with EUR 1.3 million contribution from N Banka. A major part of the net non-interest income has been derived from the **net fee and commission income**, which **grew by 19%** YoY (EUR 64.5 million, of which EUR 1.1 million contribution for N Banka), assisted by outstanding results in payment transactions and related services, investment funds, and bancassurance.

Total costs amounted to EUR 102.7 million, of which EUR 2.5 million from N Banka. Without N Banka’s contribution the costs increased EUR 3.6 million YoY due to the increase in the Bank (and in most of the Group SEE banking members). The increase in costs can be attributable to higher employee costs, costs of marketing (elevated because of the acquisition in Slovenia and merger in Serbia), costs of services, and operating costs (higher energy prices).

in EUR millions/%/bps

	1-3 2022	1-3 2021	N Banka contribution	Change YoY	Q1 2022	Q4 2021	Q1 2021	Change QoQ
Key Income Statement Data								
Net operating income	**174.5**	**154.0**	**3.9**	**13%**	**174.5**	**167.0**	**154.0**	**4%**
Net interest income	107.8	97.5	2.6	11%	107.8	107.0	97.5	1%
Net non-interest income	66.7	56.5	1.3	18%	66.7	60.0	56.5	11%
w/o Net fee and commission income	*64.5*	*54.1*	*1.1*	*19%*	*64.5*	*64.6*	*54.1*	*0%*
Total costs	-102.7	-96.6	-2.5	-6%	-102.7	-118.2	-96.6	13%
Result before impairments and provisions	**71.8**	**57.5**	**1.4**	**25%**	**71.8**	**48.8**	**57.5**	**47%**
Impairments and provisions	-4.4	15.5	-9.3	-	-4.4	-16.5	15.5	73%
Impairments and provisions for credit risk	*-4.0*	*16.0*	*-9.3*	-	*-4.0*	*1.8*	*16.0*	-
Other impairments and provisions	*-0.4*	*-0.5*	*0.0*	-	*-0.4*	*-18.3*	*-0.5*	*98%*
Negative goodwill	172.8	0.0	172.8	-	172.8	0.0	0.0	-
Result after tax	231.5	64.6	164.6	-	231.5	30.9	64.6	-

The Group witnessed a strong **14%** or EUR 1,531.1 million gross **loan growth** YtD and reached EUR 12,434.6 million (EUR 1,132.7 million due to the acquisition of N Banka). The healthy demand came from both individual and corporate clients. Impressive production of new housing loans (EUR 179.6 million in NLB d.d) compensated reduction in interest rates and supported the growth of net interest income.

The deposit base of the Group **increased 5%,** or EUR 885.0 million YtD, and reached EUR 18,525.8 million, of which the majority of EUR 844.4 million is due to the acquisition of N Banka. We have observed a decrease of deposits from individuals as a reaction to the war in Ukraine on all strategic foreign markets and quarterly moderate growth in Slovenia (excluding the N Banka contribution). The LTD ratio (net) came at 65.4%, an increase of 5.3 p.p. YtD.

Capital ratios, with a **CET1 ratio at 13.7%** (1.7 p.p. lower than as on 31 December 2021) and **TCR at 15.8%** (1.9 p.p. lower) successfully absorbed higher RWA (EUR 1,176.0 million), coming mainly from the acquisition of N Banka, but also from organic growth. Capital decreased by EUR 55.5 million due to negative revaluation adjustments on FVOCI. The capital position will be further strengthened by the inclusion of negative goodwill from N Banka acquisition, when the approval from the ECB is obtained. The capital calculation does not include a part of the 2021 result in the amount of EUR 100 million, envisaged for dividend distribution in 2022. Therefore, there will be no effect on the capital in case dividends are paid.

in EUR millions/%/bps

	31 Mar 2022	31 Dec 2021	31 Mar 2021	Change YtD	Change YoY
Key Financial Position Statement Data					
Total assets	**23,019.1**	**21,577.5**	**19,959.0**	**7%**	**15%**
Gross loans to customers	12,434.6	10,903.5	10,208.2	14%	22%
Net loans to customers	12,108.7	10,587.1	9,824.5	14%	23%
Deposits from customers	18,525.8	17,640.8	16,732.1	5%	11%
Equity (without non-controlling interests)	2,254.4	2,078.7	2,014.1	8%	12%
Other Key Financial Indicators					
LTD[(1)]	65.4%	60.0%	58.7%	5.3 p.p.	6.6 p.p.
Total capital ratio	15.8%	17.8%	16.1%	-1.9 p.p.	-0.2 p.p.

Common Equity Tier 1 Ratio	13.7%	15.5%	13.7%	-1.7 p.p.	0.0 p.p.
Total risk exposure amount (RWA)	13,843.4	12,667.4	12,615.1	9%	10%
Employees					
Number of employees	8,475	8,185	8,725	290	-250

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

The **net interest margin of 2.07%** was 0.02 p.p. lower YoY, while the **operational business margin of 3.32%** increased 0.07 p.p. YoY, due to higher operating business net income growth (backed by the net fee and commission growth) compared to the net interest income growth. The cost-to-income ratio improved by 3.8 percentage points YoY (to 58.9%) including the effects of the KB integration process.

Positive trends in asset quality continued, resulting in a further decline of the NPL ratio and negative cost of risk (w/o N Banka). **EUR 4.9 million net released impairments and provisions for credit risk** were scattered across markets without material concentration in any member. In contrast, EUR 8.9 million of 12-month expected credit losses were recognised at acquisition date for the performing portfolio for N Banka.

The realised **cost of risk** in Q1 2022 at **-17 bps** was impacted by acquisition of N Banka, due to recognition of 12-month expected credit losses for the performing portfolio. Otherwise, other members of the Group faced a favourable development in NPL resolution in Q1 2022, positively contributing to the Group's cost of risk.

Based on assessed environment the expected cost of risk will be 30 bps (includes 8 bps of technical adjustment due to N Banka and excludes potential incremental major disruption(s)), and therefore on the lower end of the 2023 outlook range (30-50 bps).

Direct and indirect exposure of NLB Group toward Russia and Ukraine is moderate. The direct exposure to counterparties refers to Russian government bonds as of 31 March 2022, the NLB Group held EUR 20 million of Russian government bonds maturing in April 2022 and in September 2023. Bonds maturing in April 2022 in the amount of EUR 13.3 million were fully repaid on 2 May 2022, which decreased exposure towards Russian government to EUR 7.6 million.

in EUR millions/%/bps

Key Financial Indicators	**1-3 2022**	**1-3 2021**	**Change YoY**
Return on equity after tax (ROE a.t.)[4]	12.0%	13.0%	-1.0 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)	2.07%	2.09%	-0.02 p.p.
Operational business margin[2]	3.32%	3.25%	0.07 p.p.
Cost-to-income ratio (CIR)	58.9%	62.7%	-3.8 p.p.
Cost of risk net (bps)[3,4]	-17	-78	61

(2) Operational business net income annualized/average assets.
(3) Cost of risk = credit impairments and provisions (annualized level)/average net loans to customers.
(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.

On 2 February, the Slovenian National Assembly adopted the Law on Limitation and Distribution of Foreign Exchange Risk Between Creditors and Borrowers Concerning Loan Agreements in Swiss Francs (CHF Law). The CHF Law affects all loan agreements denominated in Swiss francs (regardless of whether the agreements are still in force) concluded between banks operating in Slovenia (including NLB) as lenders and individuals as borrowers in the period from 28 June 2004 to 31 December 2010. **The Constitutional Court of the RoS on 10 March adopted a decision to suspend in whole the implementation of the CHF Law until the final decision of the Constitutional Court on the conformity of the CHF Law with the Constitution.** During this time the deadlines set for individual liabilities of the banks do not apply. Until the final decision of the Constitutional Court on the constitutionality of the CHF Law is made, NLB will act in accordance with the applicable legislation and courts' decisions, and will, at the same time, exercise all legal remedies at its disposal.

Outlook*

in EUR millions/%/bps

KPI	Q1 2022 Performance	2022[7]	2023
Regular Income	EUR 173.0 million	~ EUR 690 million	> EUR 700 million
Costs	EUR 102.7 million [5]	Costs in the range of 2021 level	~ EUR 400 million
Cost of Risk	- 17 bps	30 bps [8]	30-50 bps
Loan Growth	14% (4% w/o N Banka)	High single digit loan growth	High single-digit loan growth
Dividend	/	EUR 100 million [9]	EUR 110 million
ROE a.t. (%)	12.0%	~ 10%, (ROE normalized [6] 12%)	> 10% (ROE normalized [6] > 12%)

*Outlook does not include N Banka (except for the CoR). The Bank is improving the regular income guidance for 2022 to approximately EUR 690 million on the back of stronger loan growth and rising rates environment, given no further material disruption.

(5) Including integration costs.
(6) 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.
(7) 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 and NLB Group should not exceed EUR 70 - 75 million (not more than EUR 100 million if N Banka is included).
(8) Includes 8 bps of technical adjustment due to N Banka and excludes potential incremental major disruption(s).
(9) The Management and Supervisory Board of NLB d.d. will propose at the Shareholders meeting on June 20th, 2022 that EUR 50 million shall be paid out to the shareholders as dividend, which amounts to EUR 2.50 gross per share.

Kindly invited to follow the first NLB Investor Day with the accompanying webcast presentation of Q1 business results

More information about the NLB Group business results in Q1 2022 will be presented during a webcast, hosted by the Management Board of NLB d.d., **on Thursday, 12 May 2022, at 15.25 CET/13.25 GMT**. This time, the webcast will be hosted live during the **NLB Investor Day**, however, all interested stakeholder will, as usual, also be available to follow it online here. Members of the Management Board will receive and address your questions. You may post them live, via web app available on the link above, or you may simply send them to the email address IR@nlb.si.