



# NLB Group presentation – H1 2018 results

September 2018



# Disclaimer

**IMPORTANT: YOU MUST READ THE FOLLOWING BEFORE CONTINUING.** The following applies to this presentation, the oral presentation of the information in this presentation by Nova Ljubljanska banka d.d., Ljubljana ("NLB") or any person on behalf of NLB, and any question-and-answer session that follows the oral presentation (collectively, the "Information").

**THIS PRESENTATION AND ITS CONTENTS ARE NOT FOR RELEASE, PUBLICATION OR DISTRIBUTION, IN WHOLE OR IN PART, DIRECTLY OR INDIRECTLY, IN OR INTO OR FROM THE UNITED STATES OF AMERICA, CANADA, AUSTRALIA OR JAPAN, OR TO ANY RESIDENT THEREOF, OR ANY JURISDICTION WHERE SUCH DISTRIBUTION IS UNLAWFUL.**

**THIS PRESENTATION IS BEING DELIVERED IN CONNECTION WITH A PROPOSED MEETING WITH NLB AND COPIES OF THE PRESENTATION MUST BE RETURNED AT THE END OF THE MEETING. THIS DOCUMENT MAY NOT BE REMOVED FROM THE PREMISES. BY ATTENDING THE MEETING WHERE THIS PRESENTATION IS MADE, YOU AGREE TO BE BOUND BY THE FORTHCOMING LIMITATIONS.**

This presentation includes forward-looking statements within the meaning of the safe-harbour provisions of the United States Private Securities Litigation Reform Act of 1995. Forward-looking statements typically use terms such as "believes", "targets", "aims", "projects", "anticipates", "expects", "intends", "plans", "may", "will", "would", "could" or "should" or similar terminology. Statements in this presentation that are not historical facts are forward-looking statements, including statements relating to NLB's intentions, beliefs or current expectations and projections about NLB's future results of operations, financial condition, liquidity, performance, prospects, anticipated growth, provisions, impairments, strategies and opportunities, as well as potential developments in the legal and regulatory environment to which NLB is subject and developments in the markets in which NLB operates, including changes in interest rates, inflation, foreign exchange rates, demographics, and any assumptions underlying any such statements. By their nature, forward-looking statements involve risk and uncertainty because they relate to events and depend upon circumstances that will or may occur in the future. These forward-looking statements are based on NLB's beliefs, assumptions and current expectations regarding future events and trends that affect NLB's future performance, taking into account all information currently available to NLB, and are not guarantees of future performance. In particular, this presentation includes forward-looking statements relating but not limited to NLB's potential exposures to various types of operational, credit and market risk, such as counterparty risk, interest rate risk, foreign exchange rate risk and commodity and equity price risk. Such statements are subject to risks and uncertainties. These forward-looking statements are not historical facts and represent only NLB's beliefs regarding future events, many of which by their nature are subject to a number of risks and uncertainties, many of which are beyond NLB's control, that could cause NLB's actual results and performance to differ materially from any expected future results or performance expressed or implied by any forward-looking statements. NLB expressly disclaims any obligation or undertaking to release any updates or revisions to these forward-looking statements to reflect any change in their respective expectations with regard thereto or any change in events, conditions or circumstances on which any statement is based after the date of this presentation or to update or to keep current any other information contained in this presentation. Accordingly, undue reliance should not be placed on the forward-looking statements, which speak only as of the date of this presentation. Past performance should not be taken as an indication or guarantee of future results, and no representation or warranty, express or implied, is made regarding future performance.

The presentation has not been independently verified and no representation or warranty, express or implied, is made or given by or on behalf of NLB or any of their respective parent or subsidiary undertakings or associated companies, or any of such person's respective directors, officers, employees, agents, affiliates or advisers, as to, and no reliance should be placed for any purpose whatsoever on the truth, fullness, accuracy, completeness or fairness of the information or opinions contained in this presentation or any other information relating to NLB, its subsidiary undertakings or, associated companies or affiliates, whether written, oral or in a visual or electronic form, and howsoever transmitted or made available and no responsibility or liability whatsoever is assumed by any such persons for any such information or opinions or for any errors or omissions or for any loss howsoever arising from any use of this presentation or its contents or otherwise arising in connection therewith. The information in this presentation is in draft form and has not been verified. All information presented or contained in this presentation is subject to verification, correction, completion and change without notice. This presentation does not purport to contain all information that may be required to evaluate NLB. In giving this presentation, none of NLB or any of their respective parent or subsidiary undertakings or associated companies, or any of such person's respective directors, officers, employees, agents, affiliates or advisers, or any other party undertakes or is under any obligation to amend, correct or update this presentation or to provide the recipient with access to any additional information that may arise in connection with it. None of the foregoing persons accepts any responsibility whatsoever for the contents of this presentation, and no representation or warranty, express or implied, is made by any such person in relation to the contents of this presentation. To the fullest extent permissible by law, such persons disclaim all and any responsibility or liability, whether arising in tort, contract or otherwise, which they might otherwise have in respect of this presentation. Recipients should not construe the contents of this presentation as legal, tax, regulatory, financial or accounting advice and are urged to consult with their own advisers in relation to such matters.

Certain information in this presentation is based on public data obtained from sources believed by NLB to be reliable and in good faith, but no representations, guarantees or warranties are made by NLB with regard to accuracy, completeness or suitability of such data. NLB has not performed any independent review or due diligence of publicly available information regarding an unaffiliated reference asset or index. The opinions and estimates contained herein reflect the current judgment of the author(s) on the date of this presentation and are subject to change without notice. NLB does not have an obligation to update, modify or amend this presentation or to otherwise notify a reader thereof in the event that any matter stated herein, or any opinion, projection, forecast or estimate set forth herein, changes or subsequently becomes inaccurate.

This presentation has not been approved by any regulatory authority. This presentation does not, and is not intended to, constitute or form part of, and should not be construed as, any offer, invitation, solicitation or recommendation to purchase, sell, subscribe for or otherwise acquire, any securities of NLB in any jurisdiction and neither the issue of the information nor anything contained herein shall form the basis of or be relied upon in connection with, or act as any inducement to enter into, any investment activity. This presentation should not be considered as a recommendation that any recipient of this presentation should purchase or sell any of the NLB financial instruments or groups of financial instruments or assets. This presentation does not include all necessary information, which should be considered by the recipient of this presentation when making a decision on purchasing any of the NLB financial instruments or assets. Each recipient of this presentation contemplating purchasing any of the NLB financial instruments or assets should make its own independent investigation of the financial condition and affairs, and its own appraisal of the NLB creditworthiness.

This presentation is for the use of the addressees only and may not be reproduced, redistributed or passed on to any other person or published, in whole or in part, for any purpose, without the prior, written consent of NLB. The manner of distributing this presentation may be restricted by law or regulation in certain countries, including (but not limited to) the United States. Persons into whose possession this presentation may come are required to inform themselves about and to observe such restrictions. By accepting this presentation, a recipient hereof agrees to be bound by the foregoing limitations.

NLB is regulated by The Bank of Slovenia i.e. "Banka Slovenije, Slovenska 35, 1505 Ljubljana, Slovenia" and by The Securities Market Agency i.e. "Agencija za trg vrednostnih papirjev, Poljanski nasip 6, 1000 Ljubljana, Slovenia.



# Introduction

# NLB's Management Board



**BLAŽ BRODNJAK**



*Chief Executive Officer (CEO)*  
*Chief Marketing Officer (CMO)*

- Led NLB's restructuring since Dec-12
- Over 19 years of experience in financial services, including senior positions at Bawag, Raiffeisen, Triglav and Hypo Alpe Adria



**ARCHIBALD KREMSE**



*Chief Financial Officer (CFO)*

- Led NLB's restructuring since Jul-13
- Over 19 years of experience in financial services, including senior positions at Ernst & Young and Dexia-Kommunalkredit Group



**ANDREAS BURKHARDT**



*Chief Risk Officer (CRO)*

- Led NLB's restructuring since Sep-13
- Over 19 years experience in financial services, including senior positions at Volksbank



**LÁSZLÓ PELLE**



*Chief Operating Officer (COO)*

- Joined NLB in Oct-16
- Over 21 years experience in financial services, including senior positions at Erste, HSBC and Citigroup

✓ *Team has led NLB's restructuring since 2013*

✓ *Over 80 years of combined experience in financial services*

✓ *Proven track record in the CEE banking sector*

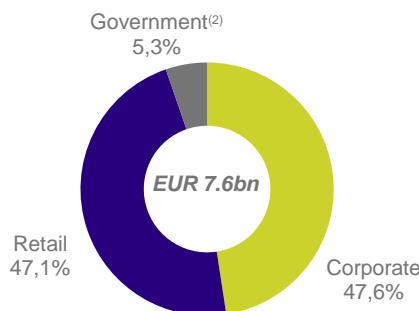
# Overview of NLB Group

- ✓ **The largest banking and financial institution in Slovenia by total assets**
  - ✓ 23.2% market share by total assets (as of Jun-18)
- ✓ **Active in Slovenia and 6 attractive markets<sup>(1)</sup> in South-Eastern Europe with combined population of 15m (combined with Slovenia 17m)**
  - ✓ Top-3 position in 3 markets by total assets
- ✓ **Substantial turnaround in operational profitability and asset quality since 2013**
  - ✓ ~14% reduction in operating costs (FY'13-FY'17)
  - ✓ 8.3% NPL ratio in Jun-18 vs. Dec-12 peak of 28.2%
- ✓ **Attractive dividend payout ratio**
  - ✓ 48% of 2015 NLB Group net profit paid out in 2016
  - ✓ 58% of 2016 NLB Group net profit paid out in 2017
  - ✓ In September 2018, NLB applied to the ECB for formal approval for the distribution of dividends from retained earnings of NLB d.d. from fiscal year 2017 and retained earnings from previous years of NLB d.d. NLB also applied for the inclusion of the NLB's semi-annual profit in its CET1 capital on both the individual and consolidated basis.
- ✓ **Supervisory Board 100% composed of independent board members**

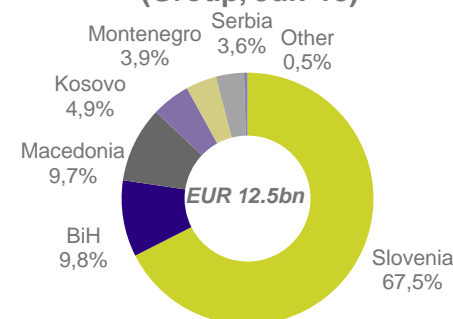
## Key figures

Balance sheet (EURm)	Jun-17	Dec-17	Jun-18	Δ y-o-y
Total assets	12,070	12,238	12,516	+4%
Loans to customers (net)	6,974	6,994	7,059	+1%
Customer deposits	9,491	9,879	10,018	+6%
Attributable equity	1,538	1,654	1,797	+17%
P&L (EURm)	H1'17	FY'17	H1'18	Δ y-o-y
Net interest income	149	309	152	+2%
Pre provision income	102	204	103	+1%
Profit after tax	118	225	105	-11%
Key ratios (%)	H1'17	Dec-17	H1'18	Δ y-o-y
CET1 ratio	16.5%	15.9%	18.7% <sup>(5)</sup>	+2.2pp
NPL ratio	12.6%	9.2%	8.3%	-4.3pp
NPL coverage ratio	76.1%	77.5%	73.7%	-2.4pp
C/I ratio	57.7%	58.3%	57.6%	-0.1pp
RoE after tax <sup>(4)</sup>	15.5%	14.4%	12.1%	-3.4pp

## Gross loans by customer (Group, Jun-18)



## Total assets by country (Group, Jun-18)<sup>(3)</sup>

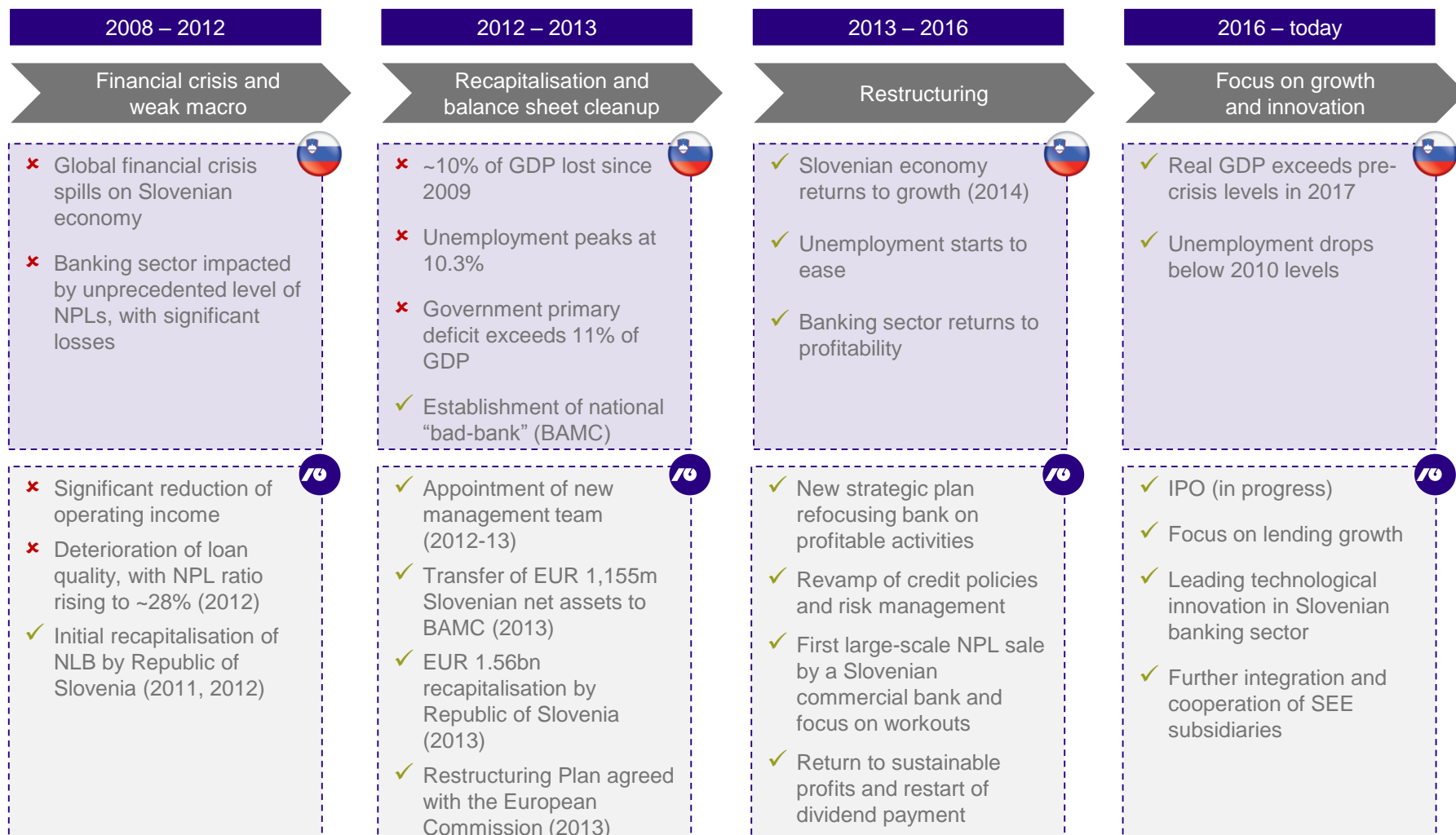


Source: Company information, Bank of Slovenia

Note: (1) Macedonia, The Federation of Bosnia and Herzegovina, Republika Srpska, Kosovo, Montenegro and Serbia; (2) Government departments, municipalities and agencies; (3) Geographical analysis based on location of assets of the NLB Group; (4) H1'17 and H1'18 based on annualised figures; (5) Including undistributed dividend (EUR189.1m), positive effect from implementation of IFRS 9 (EUR 43.8 million for NLB Group) and conclusion of transitional arrangements relevant until the end of 2017



# Demonstrated significant improvement since financial crisis

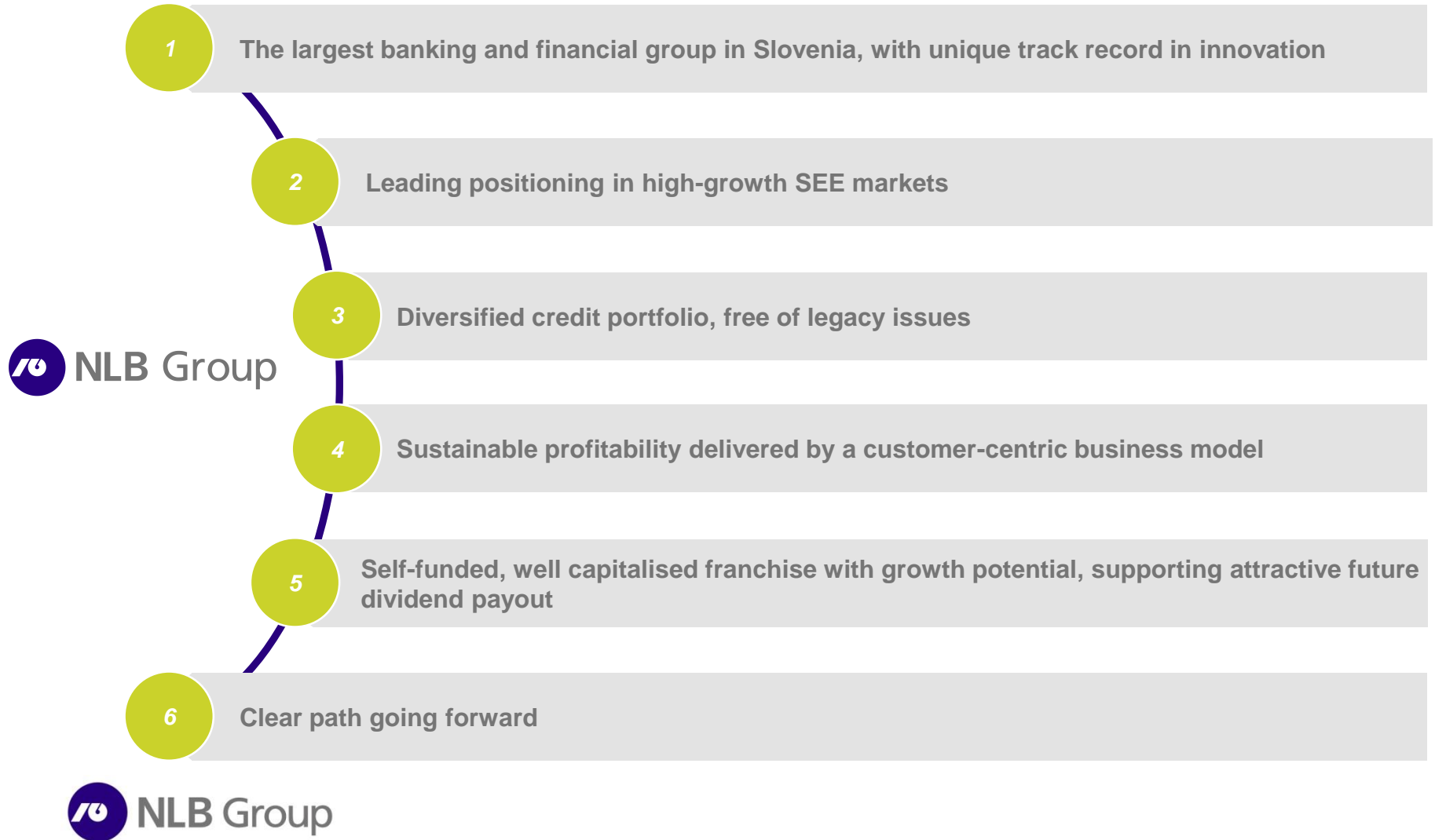




# Investment highlights

# Investment highlights of NLB Group

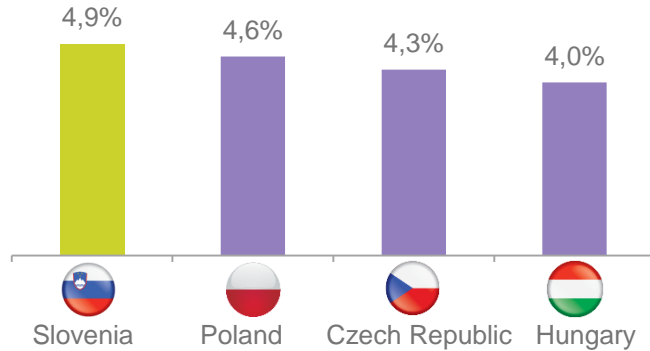
National champion in Slovenia and among top players in selected SEE markets



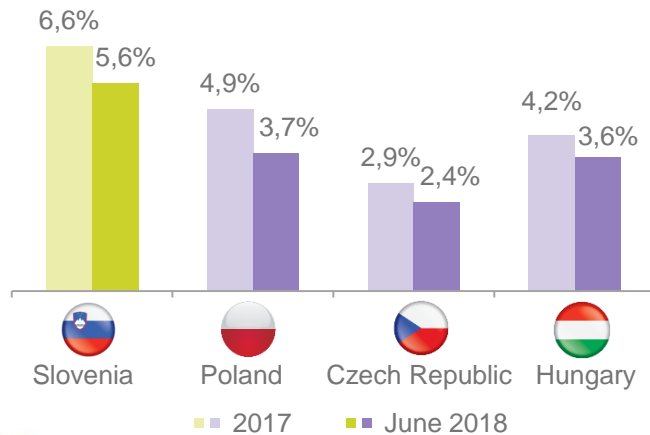


# 1 Slovenian macro environment supporting banking sector

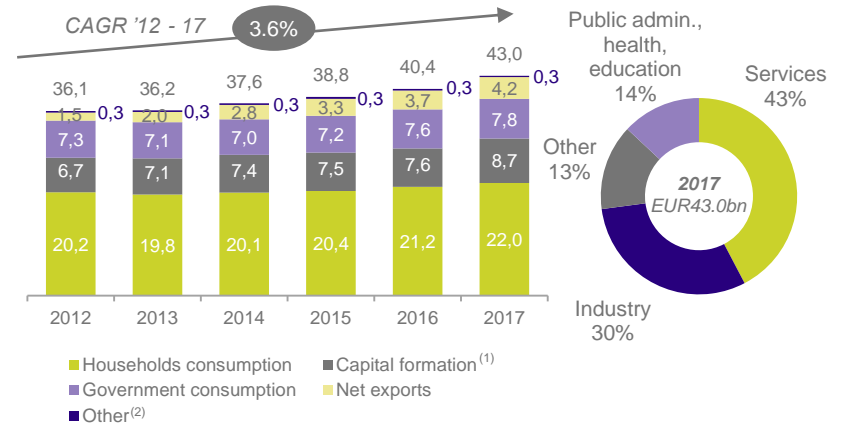
Real GDP growth (2017)



Reduced unemployment rate



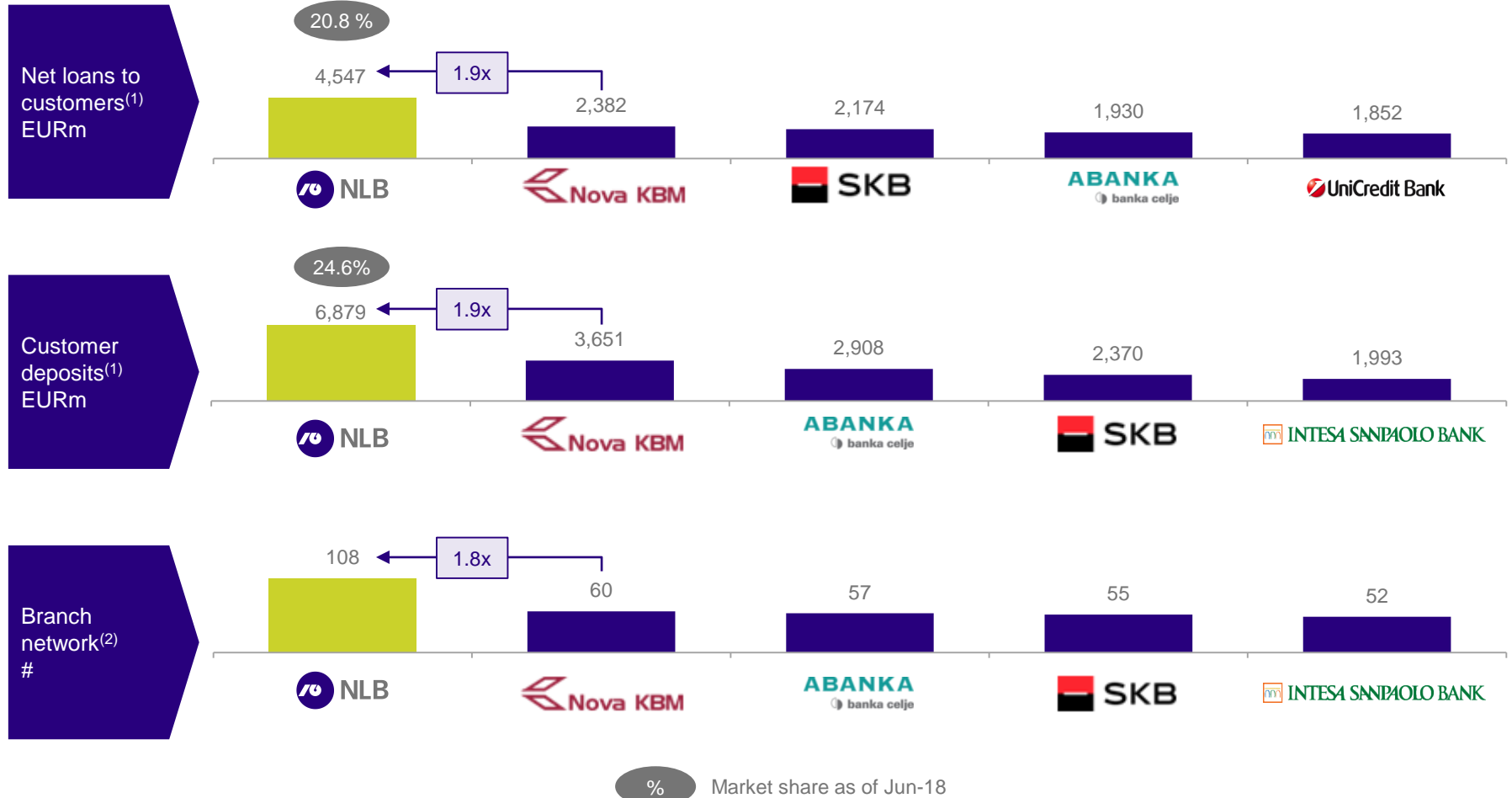
Nominal GDP by source and activities (EURbn)



- Solid real GDP growth achieved in 2017 (+4.9% y-o-y), ahead of other CEE economies
- Y-o-Y growth in 2017 vs 2016 driven by increased gross capital formation (+13.2%) and households consumption (+1.9%), with consistent improvement in net exports (+13%)
- Economic recovery continued to lead reduction in unemployment, reaching its lowest level since 2008

# 1 Dominant player in the Slovenian banking sector

Market leader across products in Slovenia



Source: Net loans, deposits and branches as per Company information; Market shares calculated based on respective aggregates of Bank Of Slovenia

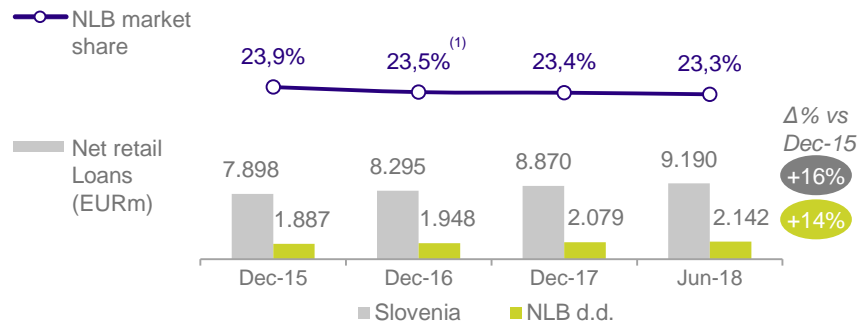
Note: (1) Net loans and deposits from non-banking sector for NLB as at 30 June 2018, other banks as at 31 March 2018 (latest available); (2) Branches: NLB as at 30 June 2018; other banks as at 31 December 2017

# 1 Dominant player in the Slovenian banking sector

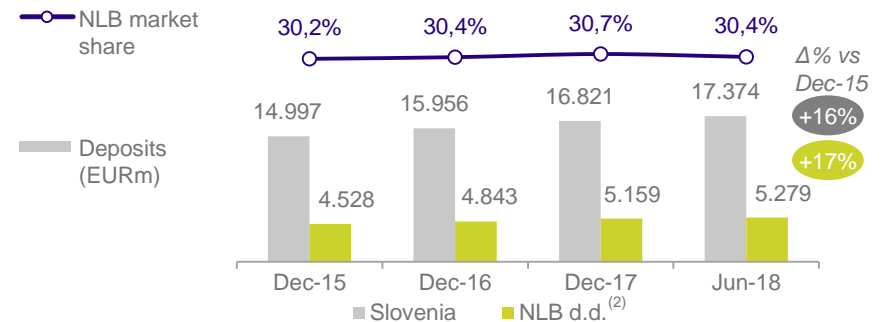
## Retail banking

High and stable market shares across products in Retail segment

Retail net loans in Slovenia

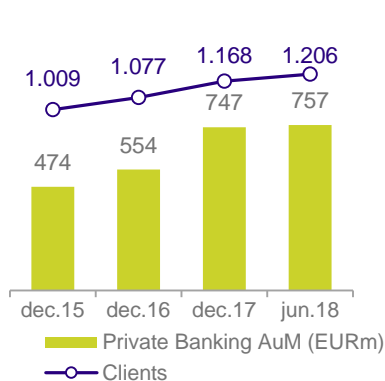


Retail deposits in Slovenia

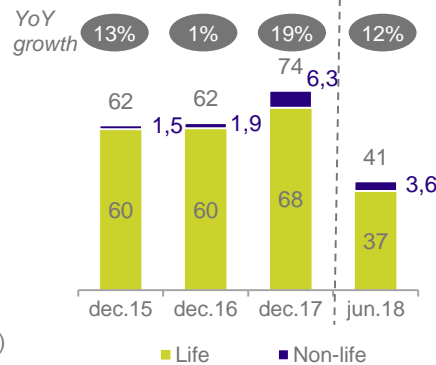


Upside from fee generating products

NLB Private banking offering



NLB bancassurance GWP (EURm)



- Improving macro and low household indebtedness (21% GDP in 2015) driving retail banking growth
- #1 player in Private Banking<sup>(3)</sup>
  - Limited competition and strong cross-selling capabilities with bancassurance and asset management
- #1 player in Slovenian asset management<sup>(4)</sup>
  - AuM of EUR1.25bn as of Jun-2018 including investments in mutual funds and discretionary portfolios
- Growing bancassurance business across products
  - Life: NLB Vita has reached 14.8% market share by GWP, becoming #3 largest player in the Slovenian market as of Jun-18
  - Non-life: Solid growth, in partnership with #3 non-life company (Generali)



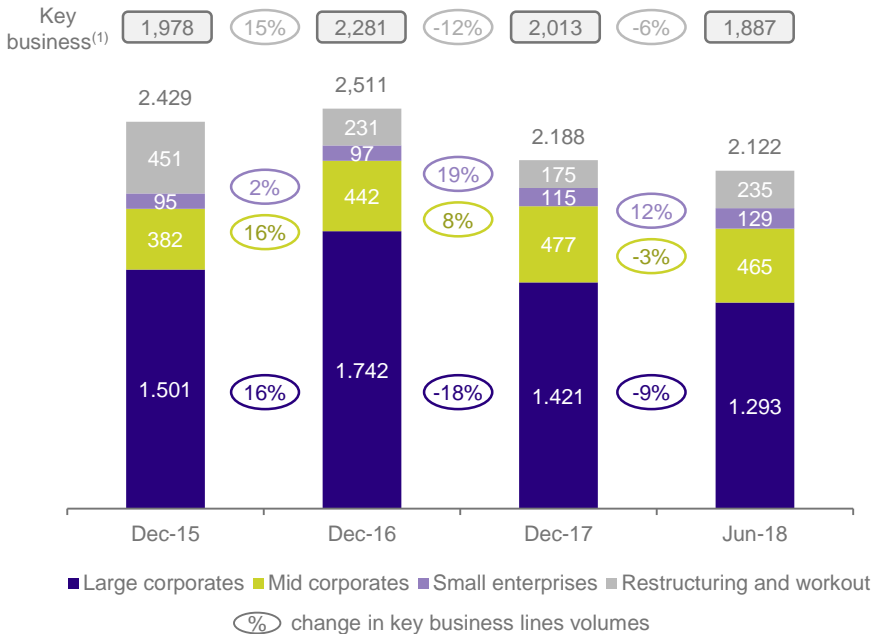
Source: Bank of Slovenia, Company information, Slovenian Fund Management Association

Note: All figures refer to full year ending 31-Dec unless stated otherwise; (1) Excluding the NPL sale effect of EUR27m net; (2) Excludes deposits of foreign persons; (3) Company information; (4) By AuM (Slovenian Fund Management Association)

# 1 Dominant player in the Slovenian banking sector

## Corporate banking

Strong growth in Mid Corporate and Small Enterprise loans (gross loans, EURm)



- Largest bank in the country with the high capacity to lend to and service large clients
  - Serves ~18k corporate clients as of Jun-18
- Competitive advantage in SME market due to largest branch network fueled the growth in Mid Corporate and Small Enterprises
- Large Corporate portfolio has declined since 2016 mainly due to EC commitments that involve:
  - a ban cross-border lending; and
  - impose RoE targets, affecting NLB ability to participate in recent issuance by State-owned enterprises
- Once the restrictions are lifted NLB would be able to explore these and other opportunities to restore a healthy growth in Large Corporate segment

Unparalleled corporate fee business, across merchant acquiring, investment banking and custody services

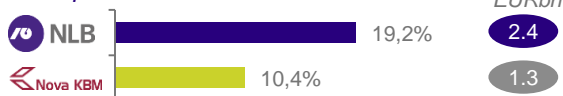
**12.7k<sup>(3)</sup>**  
POS terminals

**36% mkt share<sup>(3)</sup>**  
in merchant acquiring

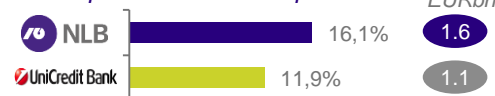
**EUR16.1bn**  
assets under custody<sup>(4)</sup>

Leading market share across products<sup>(2)</sup>

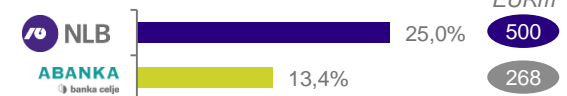
#1 in corporate and state loans



#1 in corporate and state deposits



#1 in guarantees and letters of credit



Source: Bank of Slovenia, Company information

Note: All figures refer to full year ending 31-Dec unless stated otherwise; (1) Key business excludes restructuring and workout; (2) As of Mar-18; (3) As of Jun-18; (4) Investment banking & Custody as of Jun-18

# 1 Unique track record of innovation

The pioneer of banking innovation in Slovenia



First Slovenian bank to launch **contactless cards**



First Slovenian bank to launch **contactless ATMs**



Unique **chat and video call** helpdesk functionalities



Only bank with **omnichannel 24/7 support** (through phone, chat and video call)



Only bank with **fully mobile express loan capabilities** (Consumer & SME)



**Top-ranked financial apps** on App Store and Google Play



4.8 ★★★★★



4.6 ★★★★★

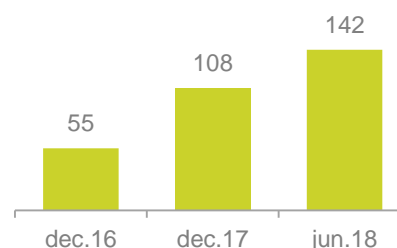


**NLB Group**

Demonstrated success in moving to digital

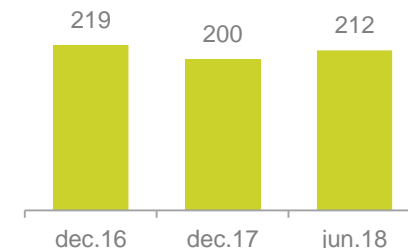
Mobile bank users<sup>(1)</sup> ('000s)

9% 16% 22%



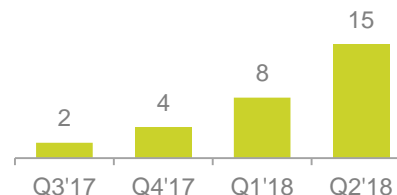
Online bank users<sup>(1)(2)</sup> ('000s)

34% 30% 32%

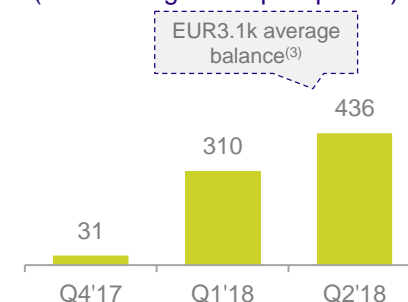


% Penetration of client base

Increased use of chat and video call functionality ('000s of contacts)



Express loans through mobile app (# of loans granted per quarter)



Note: All figures are for Slovenia

(1) Individual users (Klikin and NLB Klik); (2) In Jul-2017 ~30,000 inactive NLB Klik users systematically eliminated; (3) Average for total period of implementation from Dec-17 to Jun-18

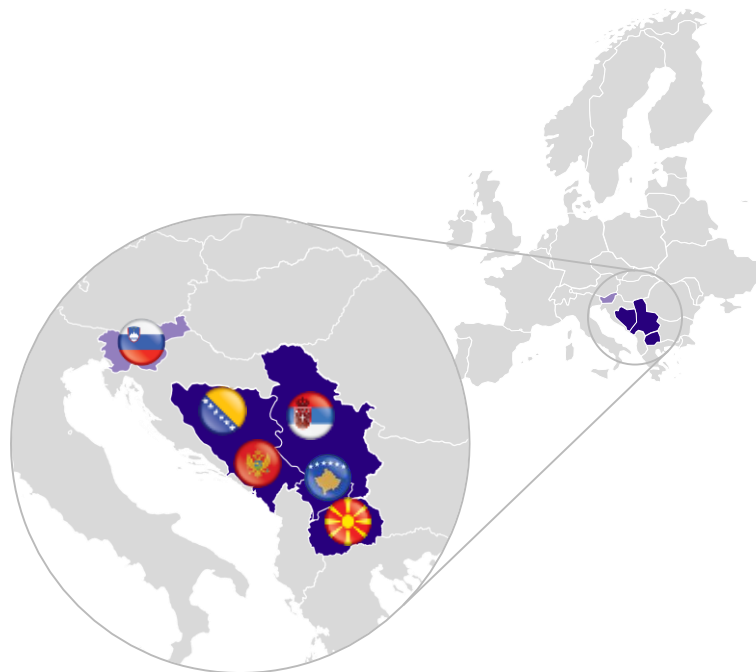


## 2 Present in attractive high-growth markets in SEE, offering significant convergence potential

Slovenia	EUR
GDP (EURbn)	43.0
Real GDP growth (%)	4.9
Population (m)	2.1
Household indebtedness <sup>(4)</sup>	23%

Bosnia and Herzegovina <sup>(2)</sup>	EUR <sup>(3)</sup>
GDP (EURbn) <sup>(1)</sup>	16.0
Real GDP growth (%)	3.1
Population (m)	3.5
Household indebtedness <sup>(4)</sup>	28%

Montenegro	EUR
GDP (EURbn)	4.2
Real GDP growth (%)	4.3
Population (m)	0.6
Household indebtedness <sup>(4)</sup>	27%



### H1'18 PBT contribution (EURm, %)

51% (EUR61m)	49% (EUR59m)	EUR 120m
Slovenia and Non-Core	SEE ex Slovenia	

Serbia	RSD
GDP (EURbn) <sup>(1)</sup>	36.8
Real GDP growth (%)	1.9
Population (m)	7.0
Household indebtedness <sup>(4)</sup>	20%

Kosovo	EUR
GDP (EURbn)	6.3
Real GDP growth (%)	3.7
Population (m)	1.8
Household indebtedness <sup>(4)</sup>	14%

Macedonia	MKD
GDP (EURbn) <sup>(1)</sup>	10.1
Real GDP growth (%)	0.0
Population (m)	2.1
Household indebtedness <sup>(4)</sup>	23%

**Aggregate  
metrics**  
(excl. Slovenia)

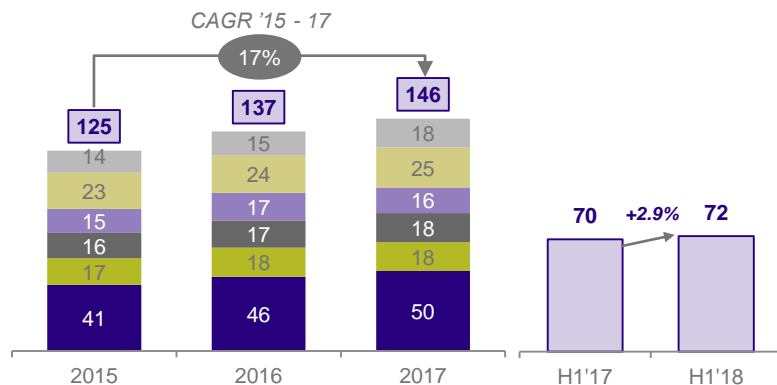
**EUR 73.4bn**  
nominal GDP

**15.0m**  
population

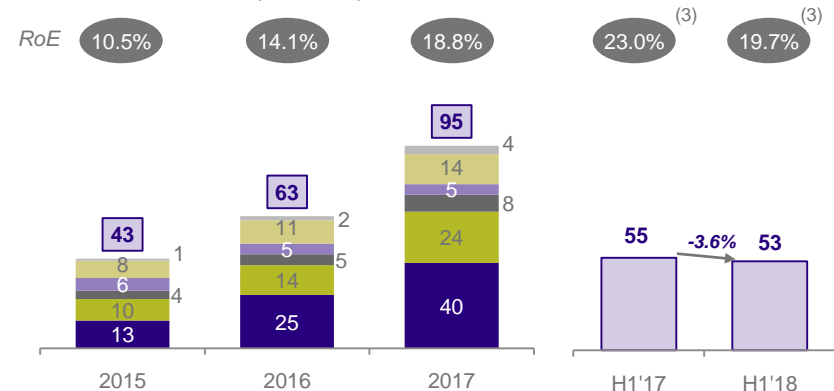
**EUR-denominated**  
3 of 5 countries<sup>(3)</sup>

## 2 Consistent volume and revenue growth in International delivering 20% RoE<sup>(3)</sup> in H1'18

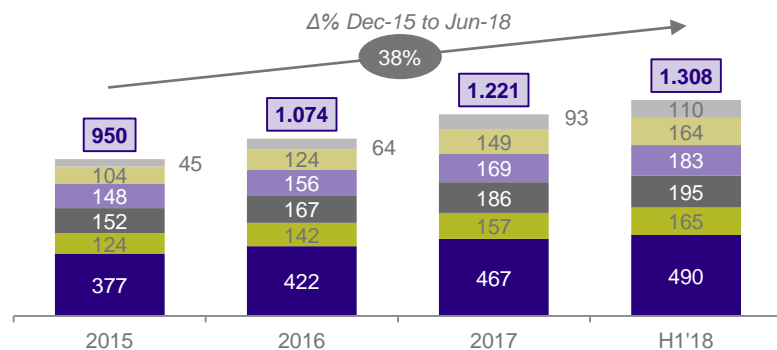
Net interest income (EURm)



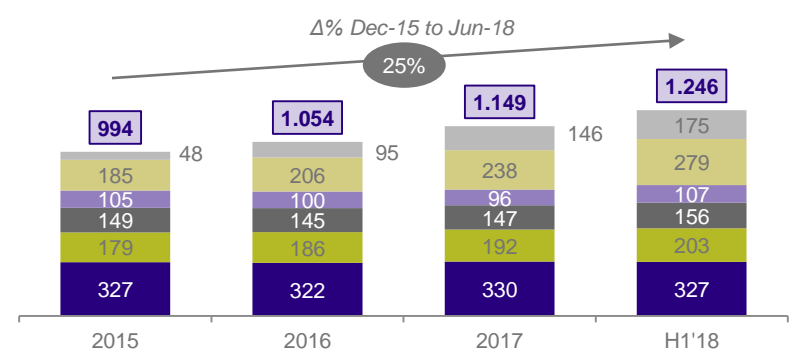
Profit after tax (EURm)



Net retail loans (EURm)



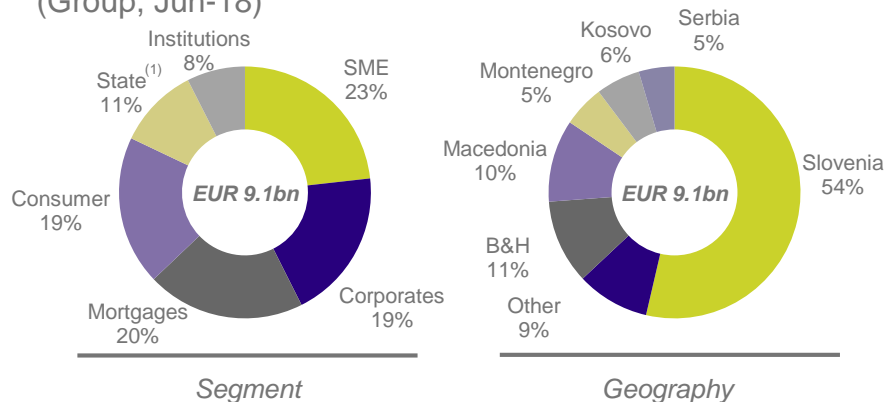
Net corporate loans<sup>(4)</sup> (EURm)



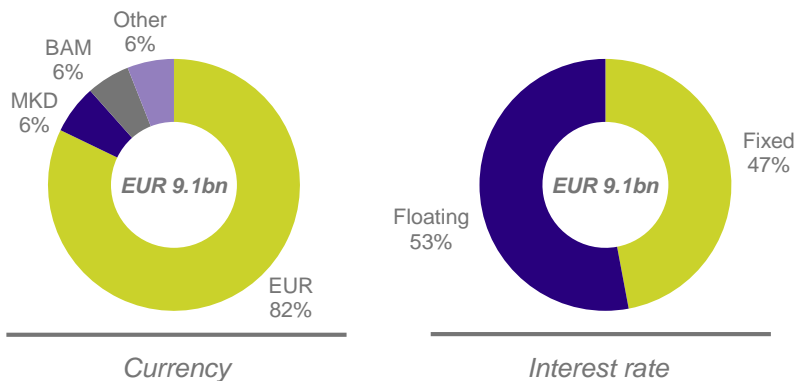
### 3 Diversified loan portfolio

Focused on its core markets and cautious risk taking

Credit portfolio by segment and geography  
(Group, Jun-18)

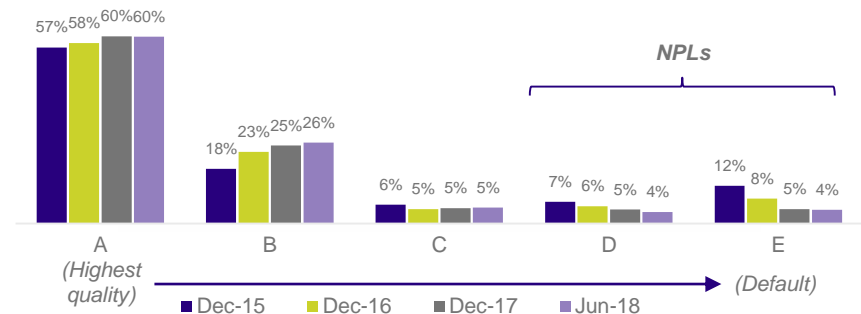


Credit portfolio by currency and rate type  
(Group, Jun -18)



- **No large concentration** in any specific industry or client segment
- **NLB's lending strategy** focuses on its core markets of retail, SME and selected corporate business activities
- **Credit business** restricted for certain business sectors as part of DG Comp commitments (construction, transport and financial holdings)
- Great emphasis is also placed on **further improvement of credit portfolio**
  - Intensive and proactive handling of problematic customers
  - Changes in the credit process
  - Early warning system for detecting increased credit risk

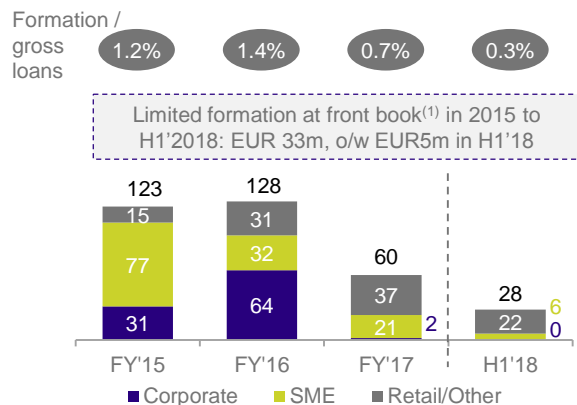
Improving structure of credit portfolio by client credit ratings (Group)<sup>(2)</sup>



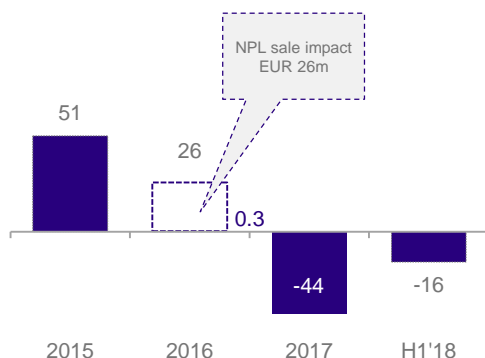
### 3 NLB has achieved a **turnaround in asset quality**

Further improvements driven by active NPL management and economic recovery

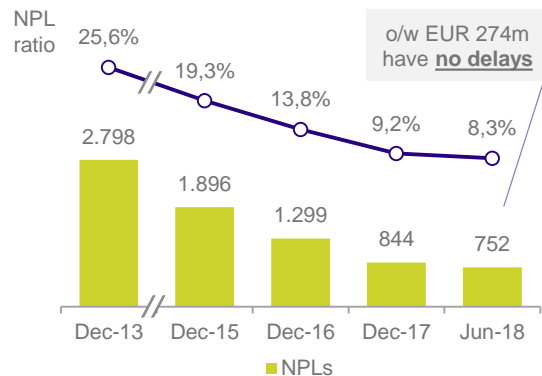
Gross NPL formation has been low since 2014 (Group, EURm)



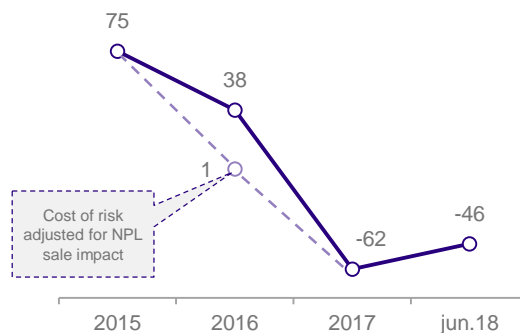
Low NPL formation drove normalisation of loan provisions (Group, EURm)<sup>(2)</sup>



Active workout drove gross NPL ratio down despite falling loan volumes (Group, EURm)



Record low cost of risk (Group, %)



**Reduction of NPLs remains a key focus**

- Gross NPLs at Group level reduced by EUR 93m in H1'18
- Positive momentum expected through active portfolio management and macro recovery

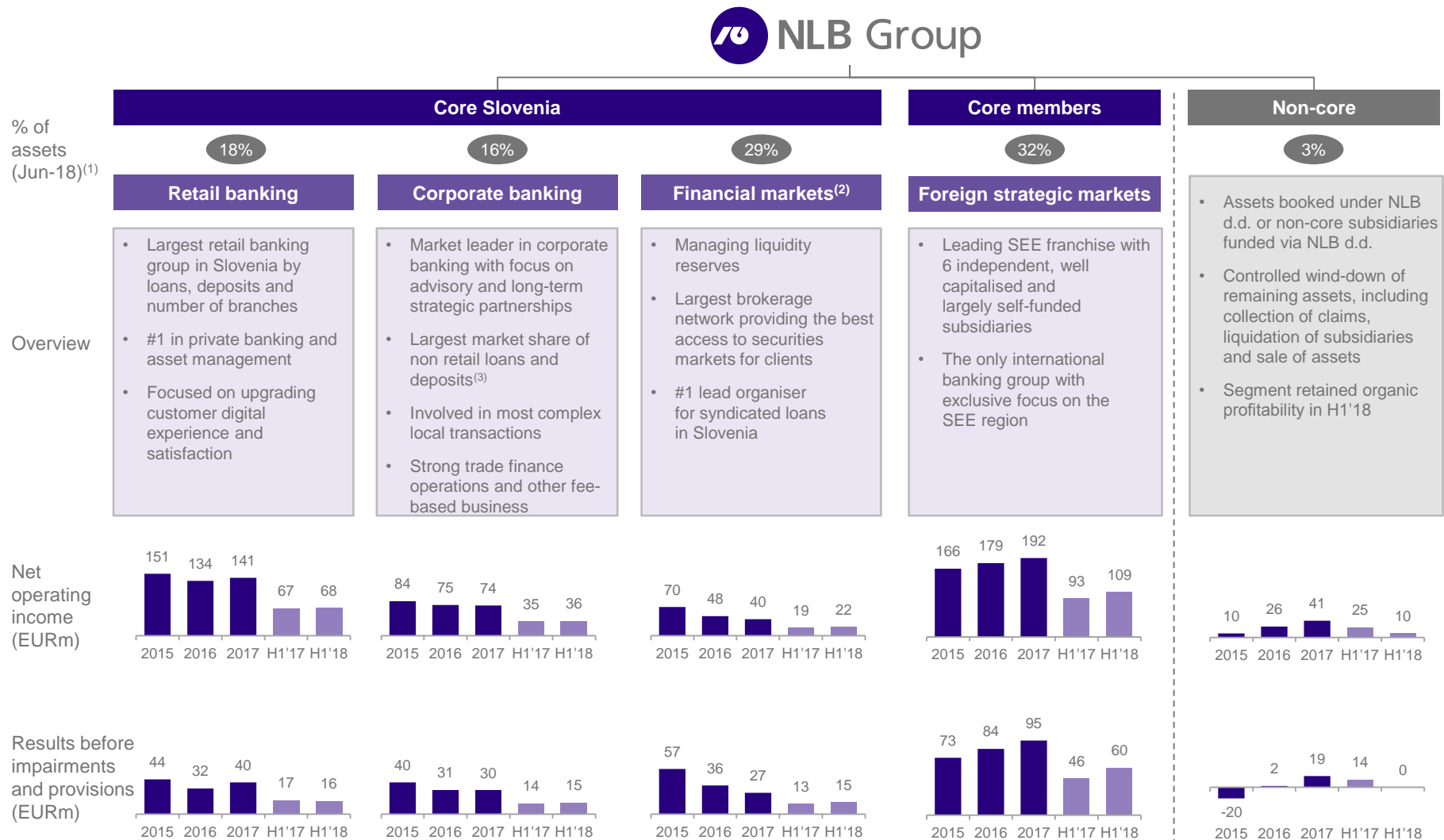
**High coverage of NPLs**

- Coverage ratio remained high in Jun-18 at 74% despite release of pool provisions in H1'17 and YE'17 post IFRS9 implementation
- Total coverage ratio (cash and collateral) remained high in Jun-18 at 141%

**Active approach to NPL management**

- Strong emphasis on restructuring (over 61% of NPLs in restructuring process), with increasing use of other active NPL management tools (foreclosure of collateral, sale of claims, active marketing and sale of pledged assets)

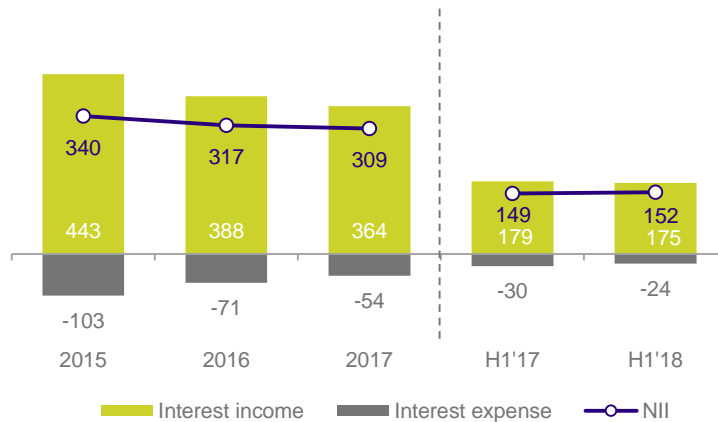
## 4 Group refocused on profitable activities



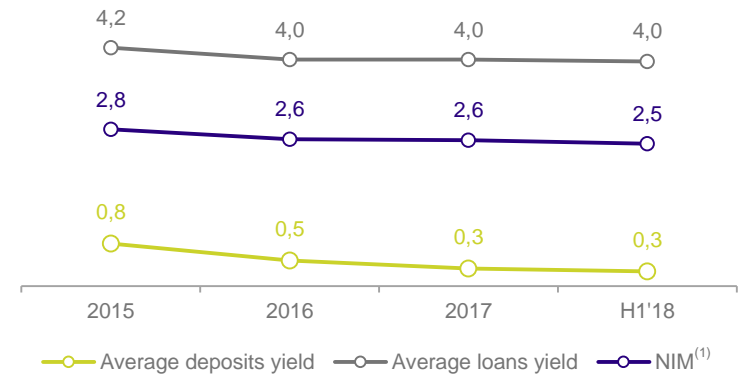


## 4 Strong revenue performance driven by stable NIM and resilient fee income

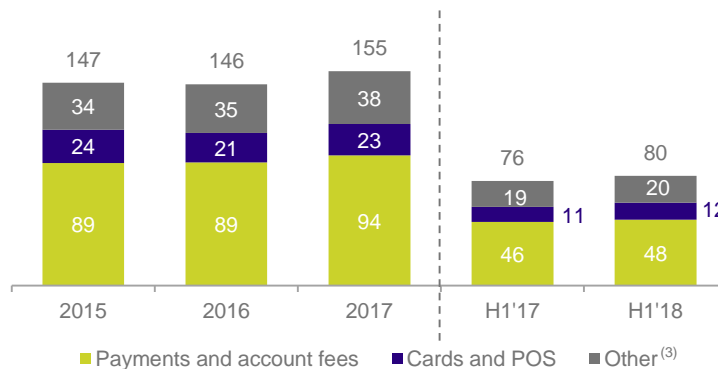
Lower reinvestment rate compared to assets maturing resulting in decreasing net interest income (Group, EURm)



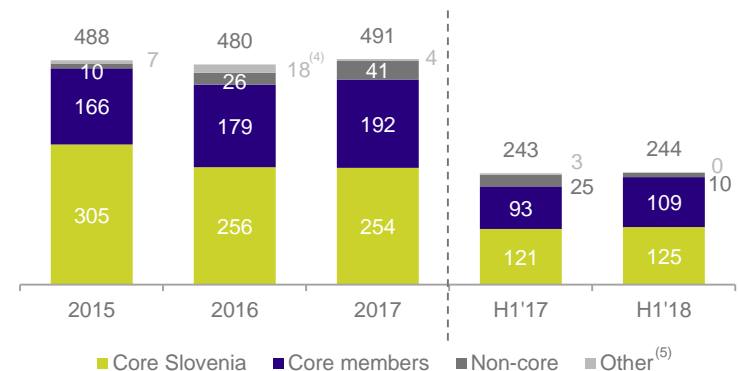
Stable NIM (Group, %)



Net fee income growing y-o-y supported by improvement in ancillary products and payments (Group, EURm)

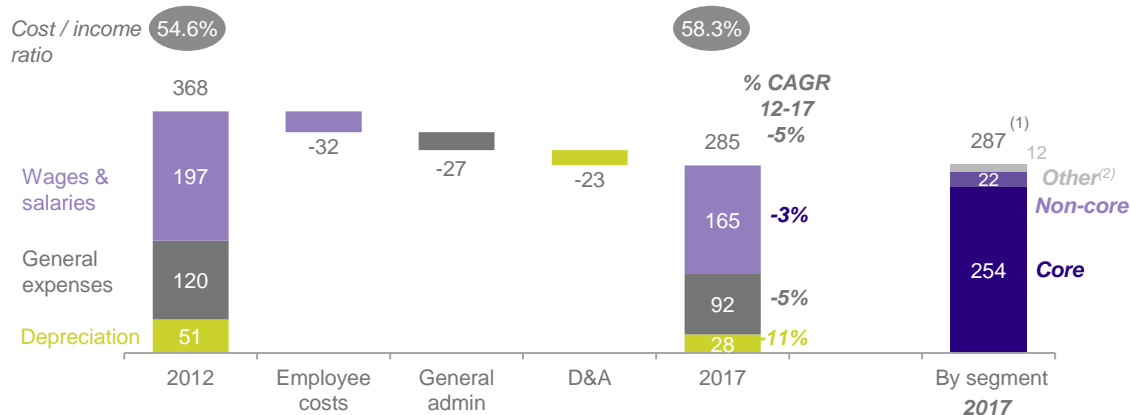


International supporting revenue in the core operations (Group, EURm)<sup>(2)</sup>

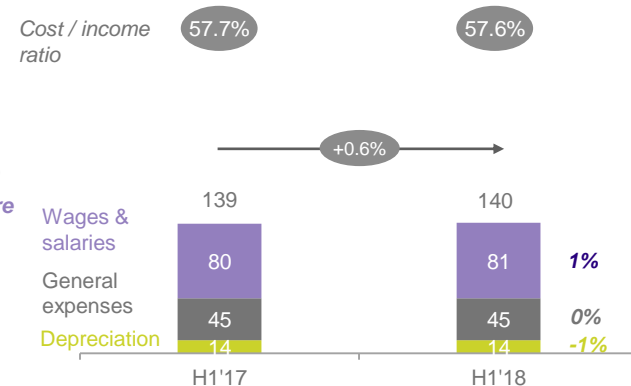


## 4 Continuous cost reduction since 2012

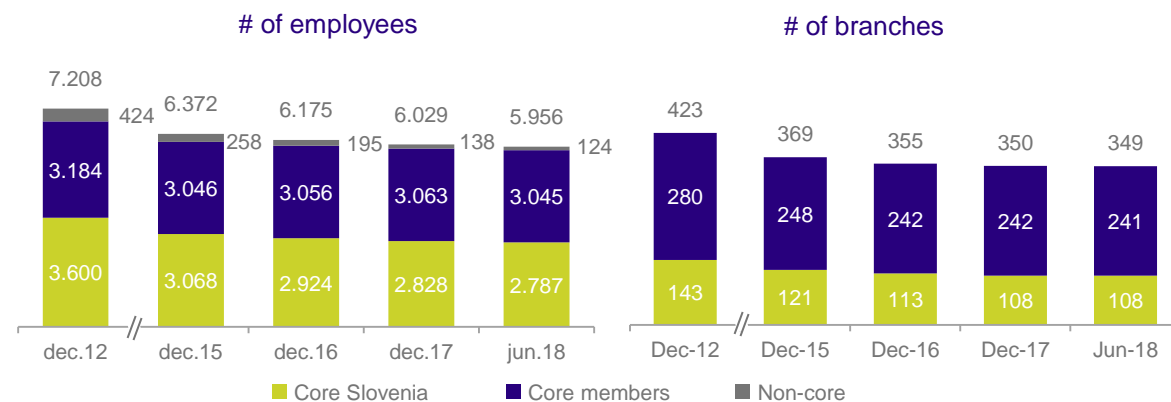
### Operating expenses reduction (Group, EURm)



### ...with stable costs in H1'18 (Group, EURm)



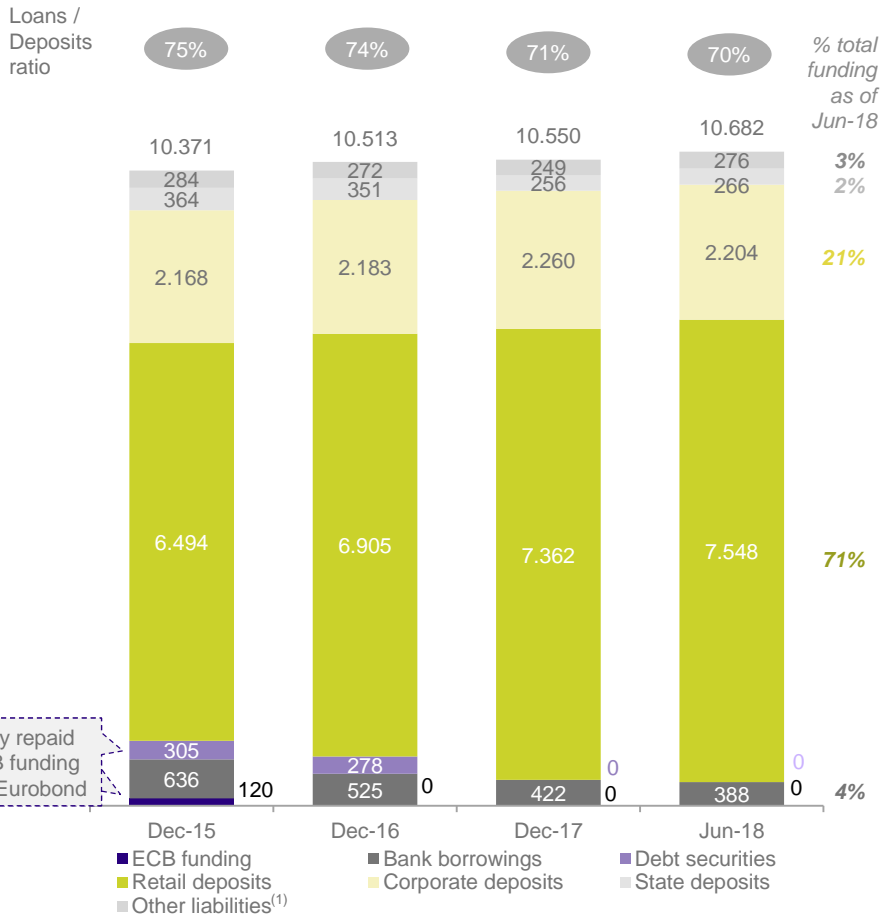
### Employees and branches evolution – stronger rationalisation in tougher Slovenia market (#)



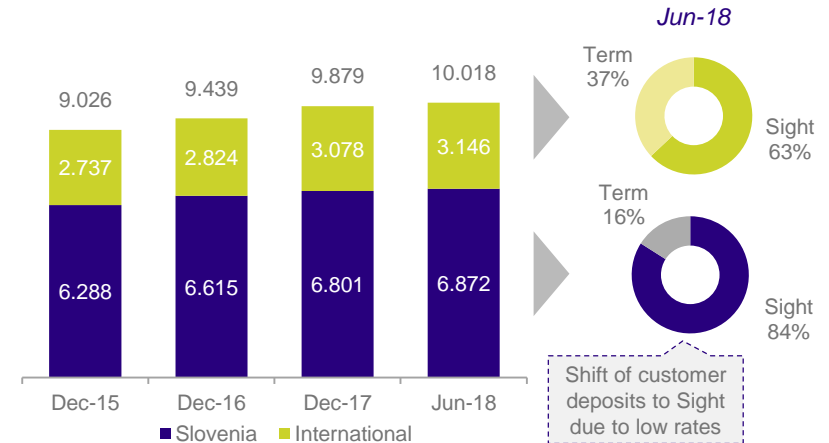
- Headcount dropped by 17% over 2012-H1'18 driven primarily by Slovenia core & non-core
- Ongoing closures of unprofitable branches
- Ongoing initiatives to retain customers from closed branches by offering relocation at attractive terms to next closest branch
  - In 2016 client departures from closed offices amounted to 5.3%, only slightly surpassing 4.8% NLB average churn
- Non-staff expenses decreased by 30% (e.g. optimisation of procurement management, optimisation of premises, decrease of non-core cost base due to divestments)

## 5 Funding structure driven by stable and price insensitive deposit base

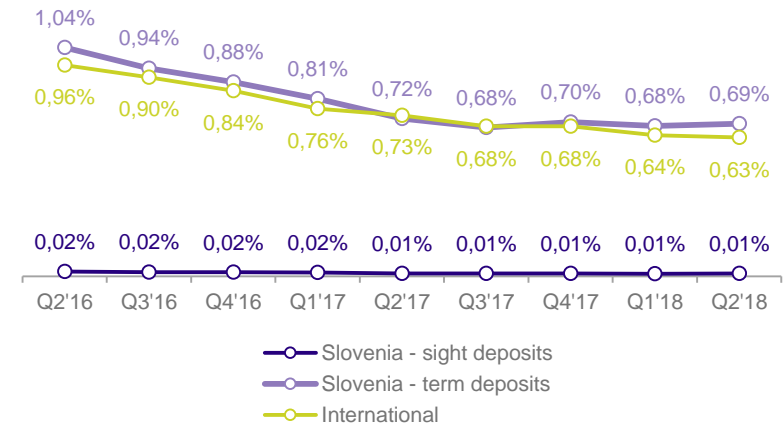
Deposits accounting for 94% of funding (Group, EURm)



Deposit split (Group, EURm)

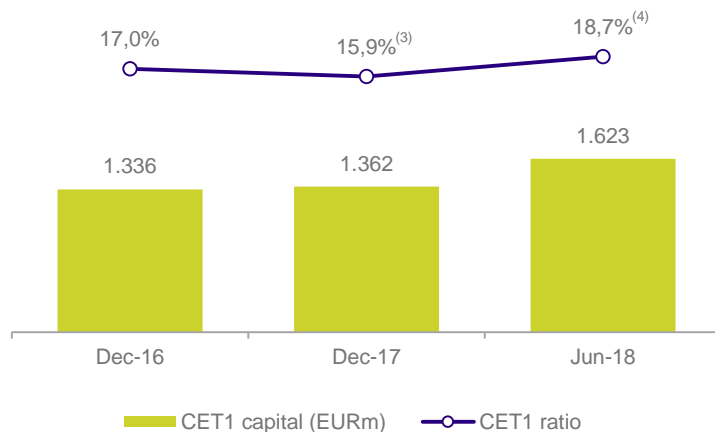


Focus on decreasing deposit yields in the region (%)



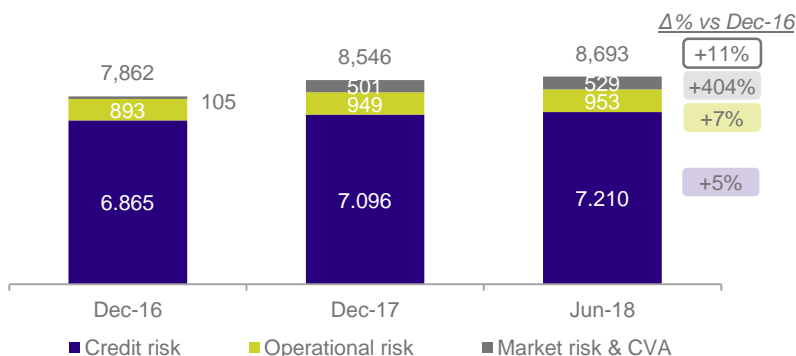
## 5 Well capitalised franchise with solid capital position...

NLB Group CET1 capital and CET1 ratio (Group, EURm)

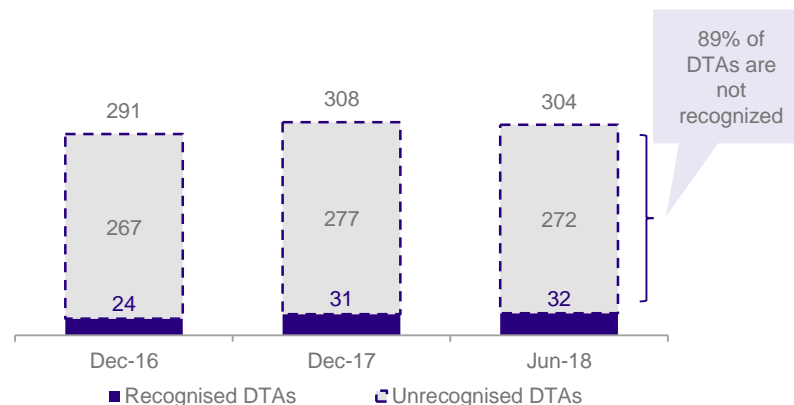


- Highest quality capital (CET1) at Group and NLB d.d.<sup>(1)</sup>, reaching 18.7% in Jun-18
- Increase in credit RWAs in H1 2018 is mainly due to lower coverage by impairments and provisions resulting from transition to IFRS 9 and due to consumer and housing loans growth . Increase in market RWAs is mainly due to opening positions in domestic currencies of non-euro subsidiary banks
- In June 2018, the overall capital requirement (OCR) amounted to 13.375% for the Bank on the consolidated level, consisting of:
  - 11.50% total SREP capital requirement (TSCR) (8% Pillar 1 requirement and 3.50% Pillar 2 requirement) and
  - 1.875% CBR (1.875% Capital conservation buffer and 0% Countercyclical buffer)

RWA increase driven by retail lending and regulatory adjustments for SEE subsidiaries placements (Group, EURm)



Upside from DTAs<sup>(2)</sup> (Group, EURm)



## 6 Clear strategy to address current challenges

### Key challenges

Sector and regulation	Macro
<ul style="list-style-type: none"><li>• Regulatory interventions</li><li>• Further complexity through new regulations (MREL, Basel IV)</li><li>• Market consolidation</li></ul>	<ul style="list-style-type: none"><li>• Low interest rate environment</li><li>• Potential political and geopolitical risks</li></ul>
Social and consumer	Products and technology
<ul style="list-style-type: none"><li>• More demanding and knowledgeable clients</li><li>• Preference for digital channels</li></ul>	<ul style="list-style-type: none"><li>• Product competition from new, lower-cost entrants</li><li>• Enhanced customer insights through sophisticated data management</li><li>• Impact of social media</li></ul>

### Key priorities

#### Focus on customer experience

- ✓ Omni-channel product distribution
- ✓ Partnership programmes
- ✓ End-to-end customer solutions



#### Optimised product offering

- ✓ Pricing optimisation
- ✓ Simplified product offering
- ✓ Further focus on fee-based products



#### Simplicity champion

- ✓ Operational optimisation
- ✓ Right sizing workforce
- ✓ IT transformation



#### Enhanced distribution

- ✓ Migration to digital channels
- ✓ Sales process optimisation
- ✓ Improved customer insight



#### Improved risk management

- ✓ Optimised risk processes
- ✓ Improved risk modelling
- ✓ Streamlined risk governance



#### Regional specialist

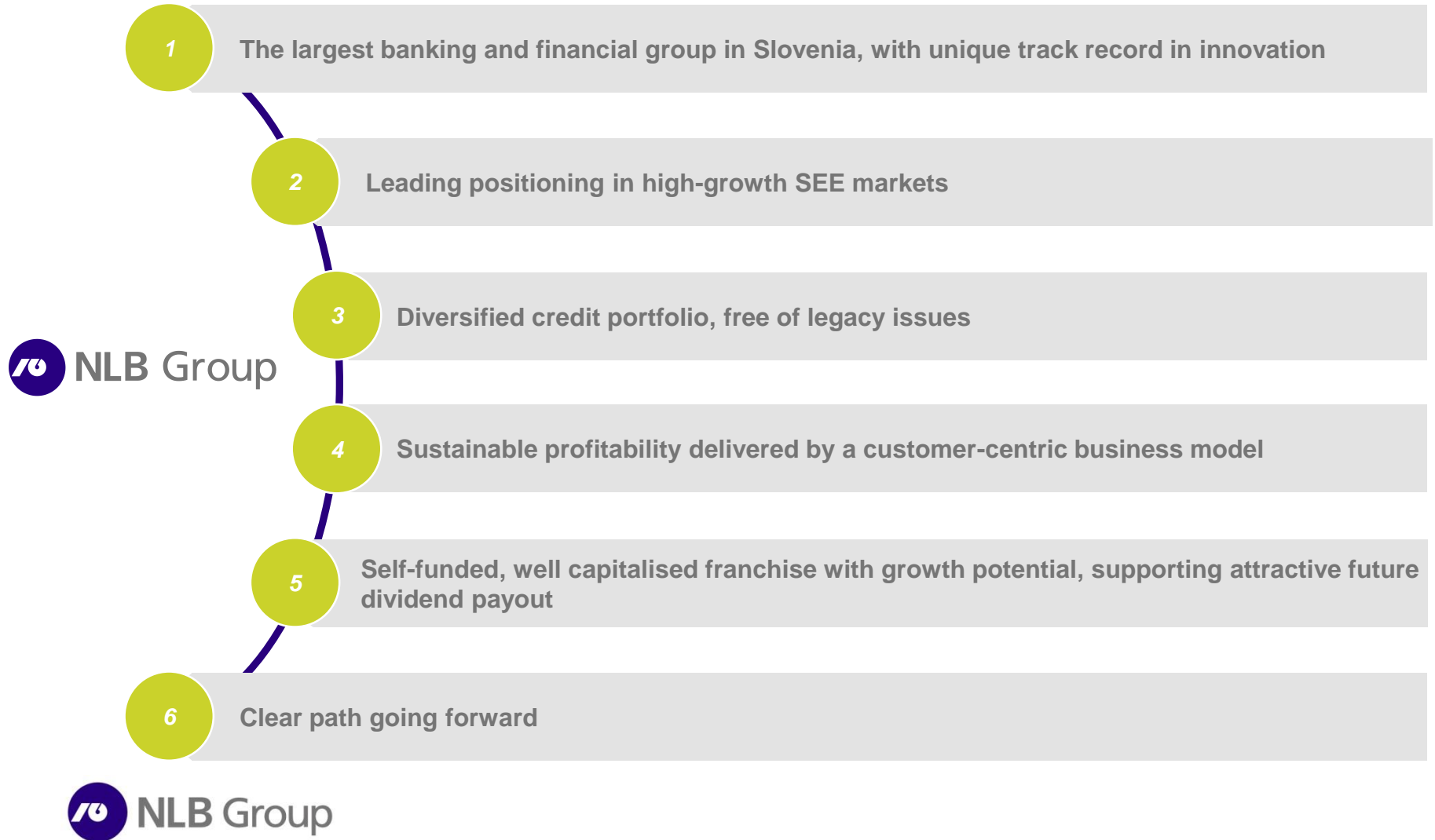
- ✓ Exclusive strategic interest in and unique understanding of the region
- ✓ Consistent strategy across markets





# Investment highlights of NLB Group

National champion in Slovenia and among top players in selected SEE markets









# Appendix A

## Additional materials

# SEE banks continuing solid performance in H1'18

- ✓ Profitability improvement across all markets in SEE, with 23% pre-provision income growth y-o-y
- ✓ Growing credit portfolio in all markets, with aggregate deposits balance marginally up q-o-q
- ✓ Reversal of pool provisions represents EUR12m of total PBT increase

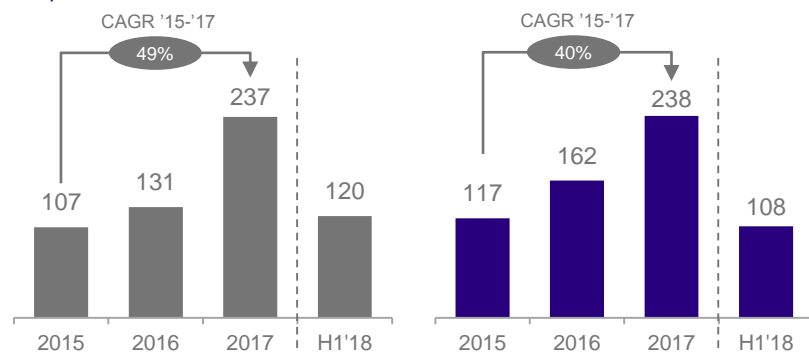
	NLB Banka Skopje 		NLB Banka Banja Luka 		NLB Banka Sarajevo 		NLB Banka Prishtina 		NLB Banka Podgorica 		NLB Banka Beograd 		Total core members <sup>(1)</sup>		
Ownership	87.0%		99.9%		97.0%		81.0%		99.0%		100%				
B/S (EURm)	Dec-17	Jun-18	Dec-17	Jun-18	Dec-17	Jun-18	Dec-17	Jun-18	Dec-17	Jun-18	Dec-17	Jun-18	Dec-17	Jun-18	Δ
Total assets	1,236	1,231	670	693	531	548	584	616	457	469	371	417	3,849	3,974	3%
Net loans	797	817	349	368	333	351	387	444	265	290	239	284	2,370	2,554	8%
Deposits	1,005	982	533	557	428	436	507	531	360	367	260	287	3,093	3,160	2%
P&L (EURm)	H1'17	H1'18	H1'17	H1'18	H1'17	H1'18	H1'17	H1'18	H1'17	H1'18	H1'17	H1'18	H1'17	H1'18	Δ
NII <sup>(2)</sup>	23.9	23.7	9.2	8.8	9.0	8.7	12.0	12.9	7.8	8.5	8.4	9.6	70.3	72.2	3%
NNII <sup>(2)</sup>	6.2	16.1	4.6	5.3	3.6	4.1	2.1	2.3	2.6	2.7	1.7	1.7	20.8	32.2	55%
OpEx	-11.3	-12.2	-6.2	-6.5	-6.8	-7.0	-5.5	-6.0	-6.2	-5.9	-7.7	-8.7	-43.7	-46.3	6%
PPI	18.8	27.7	7.6	7.6	5.8	5.8	8.7	9.3	4.2	5.2	2.4	2.6	47.5	58.1	23%
PAT	20.7	22.6	15.7	9.8	4.0	5.5	7.9	7.4	2.4	5.5	4.2	2.5	55.0	53.2	-3%
Ratios	H1'17	H1'18	H1'17	H1'18	H1'17	H1'18	H1'17	H1'18	H1'17	H1'18	H1'17	H1'18	H1'17	H1'18	Δ
L/D	81%	83%	67%	66%	78%	80%	82%	84%	78%	79%	94%	99%	77%	81%	n/m
NIM	4.7%	3.9%	2.9%	2.6%	3.5%	3.2%	4.9%	4.3%	3.9%	3.9%	6.2%	5.1%	n/a	n/a	n/m
C/I	37%	30%	45%	46%	54%	55%	39%	39%	60%	53%	76%	77%	47%	45%	n/m
RoE <sup>(3)</sup>	30%	25%	39%	22%	13%	15%	25%	22%	6%	16%	17%	8%	23%	20%	n/m

# Double-digit increase in profit before tax since 2015

## Normalising NLB Group profit before tax (Group, EURm)

Reported PBT

Normalised PBT



	2015	2016	2017	H1'18
<b>Profit before tax</b>	<b>106.8</b>	<b>130.6</b>	<b>237.3</b>	<b>120.0</b>

1	Exceptional items	-7.1	13.2	12.3	12.2
2	NPL Sale		-29.9		
	Restructuring provisions		-10.6	-8.6	
	Performance rewards			-3.0	
3	Restructuring expenses	-3.5	-3.8	-1.8	-0.1
	<b>Total one-off items</b>	<b>-10.6</b>	<b>-31.2</b>	<b>-1.1</b>	<b>12.1</b>

<b>Profit before tax - normalised</b>	<b>117.3</b>	<b>161.8</b>	<b>238.4</b>	<b>107.9</b>
<b>Pre-provision profit</b>	<b>185.6</b>	<b>186.2</b>	<b>203.9</b>	<b>103.1</b>
<b>Pre-provision profit – normalised</b>	<b>196.2</b>	<b>217.4</b>	<b>205.0</b>	<b>91.0</b>

### One-off items

#### 1 Exceptional items:

2018:

- EUR 12.2m gain on sale of the NLB Nov penziski fond, Skopje

2017:

- EUR 9.5m sale of non-core equity participation
- EUR 1.2m a court settlement with Zavarovalnica Triglav
- EUR 1.6m the sale of Czech factoring company

2016:

- EUR 7.8m gain on sale of Visa Europe to Visa Inc.
- EUR 5.5m success fee and gain on sale of equity investments

2015:

- EUR -10.6m exchange difference on CHF
- EUR 5.2m gain on sale of Republic on Slovenia bonds
- EUR -1.7m other items

#### 2 Other items:

2017:

- EUR -3.0m performance rewards in NLB d.d.
- EUR -8.6m restructuring provisions

2016:

- EUR -10.6m restructuring provisions
- EUR -29.9m NPL sale impact: EUR -4.1m reduction of net interest income and EUR -25.8m additional loan loss provisions following the NPL portfolio sale

#### 3 Restructuring expenses:

- Expenses related to fulfillment of commitments towards EC (non-core disposal, compliance, EC procedures, NPL wind-down, cost reduction program)



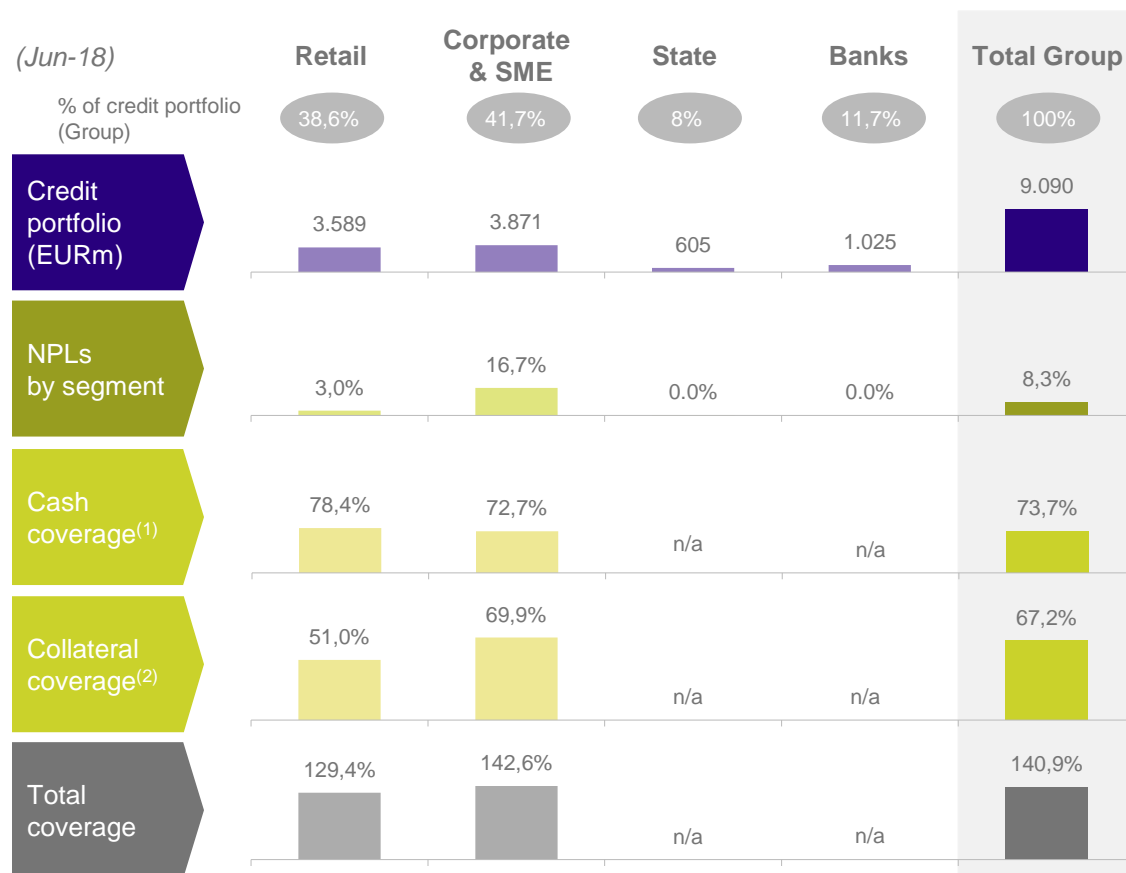
# Appendix B

## Asset quality



# NPLs adequately covered by provisions and collateral, with limited off balance sheet non-performing exposures

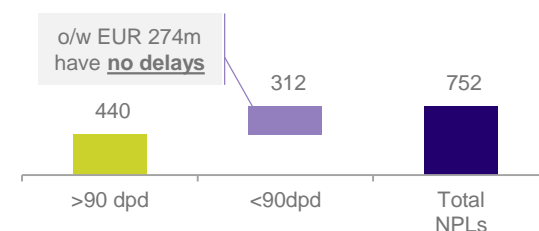
- ✓ Total coverage exceeds 100% across segments
- ✓ Limited non-performing exposures from off-balance sheet items (~EUR87m)



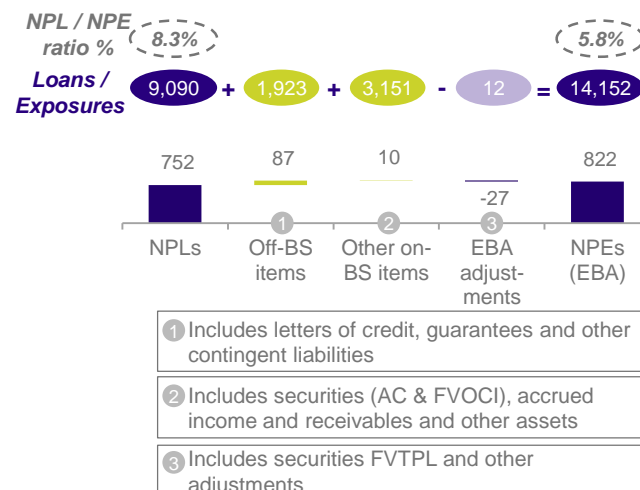
Source: Company information

Note: (1) Cash coverage calculated including both individual and pool provisions; (2) Calculated based on collateral capped at NPL exposure

Group NPL structure (Jun-18, EURm)

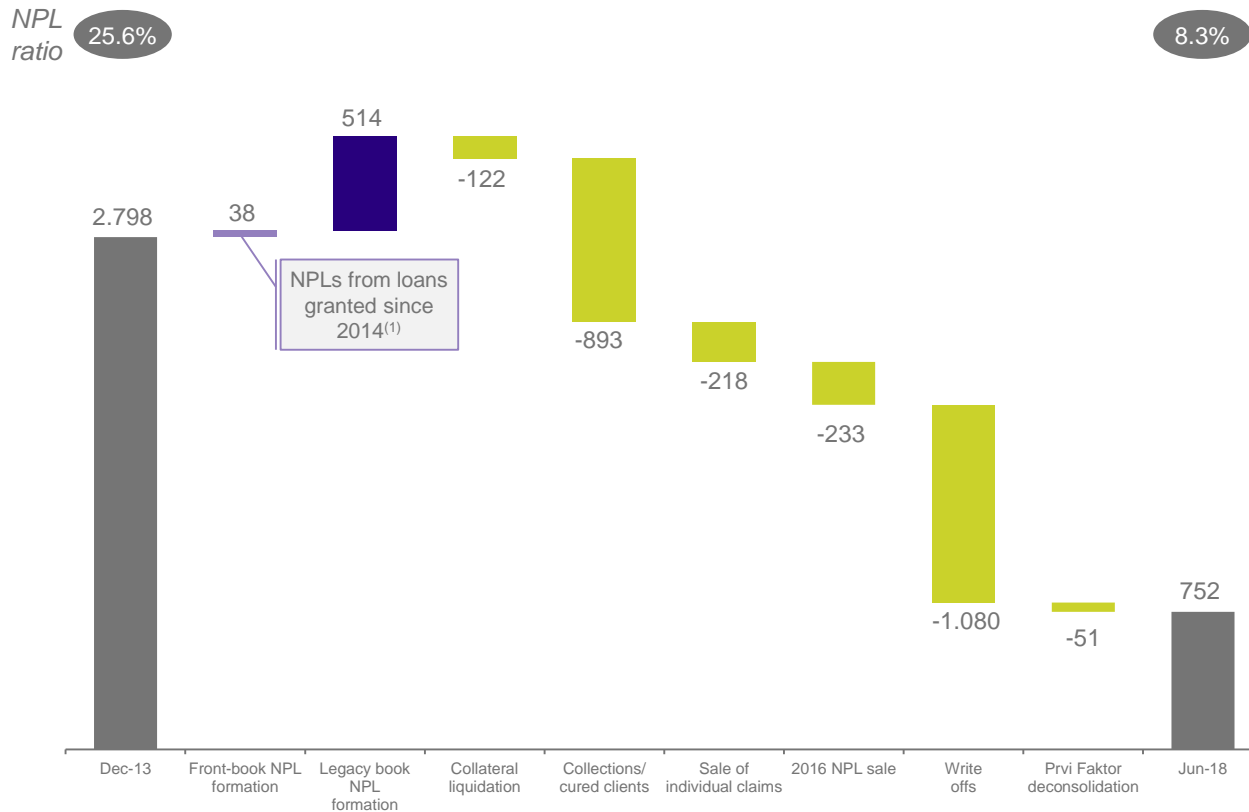


Group NPL to NPE bridge (Jun-18, EURm)



# Demonstrated impact to asset quality

Impact on NPL ratio (Dec-13 to Jun-18, Group, EURm)



## Comments

- Cured clients, collections and collateral liquidation contributed 39% of NPL stock reduction since Dec-13
- Sale of NPL portfolio in Q2'16 contributed 9% of this reduction
- Write-off following strict restructuring and workout process
- Besides NPL resolution, NLB Group has demonstrated solid progress with resolving off-balance exposures, resulting in sizeable P&L gains in 2016, 2017 and H1'18