



# NLB Group presentation

Acquisition of Komercijalna banka a.d. Beograd

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# Transaction **overview**

# Transaction structure and purchase considerations

<p><b>Purchase price</b></p>	<ul style="list-style-type: none"> <li>Nova Ljubljanska banka d.d. ("NLB" or "NLB Group") has agreed to acquire the Republic of Serbia's 83.23% ordinary shareholding in Komercijalna banka a.d. Beograd ("KB") for a consideration of EUR387 million (the "Purchase Price"), payable in cash on completion             <ul style="list-style-type: none"> <li>In accordance with Serbian bank privatisation regulations, NLB is not required to launch a tender offer for minorities' shareholdings in KB</li> <li>NLB's existing operations in Serbia will be merged into KB in the medium-term</li> </ul> </li> </ul>
<p><b>Financial terms</b></p>	<ul style="list-style-type: none"> <li>The Purchase Price constitutes a 100% implied valuation of EUR465 million, representing a multiple of 0.77x KB's IFRS consolidated shareholders' equity as at 30 June 2019             <ul style="list-style-type: none"> <li>The Purchase Price will be subject to a 2% annual interest rate between 1 January 2020 and closing under a "locked-box" mechanism</li> </ul> </li> <li>Subject to the National Bank of Serbia's discretion and approvals:             <ul style="list-style-type: none"> <li>Declared but unpaid dividends and employee benefits for prior financial years will be paid before closing; these will have no impact on KB's shareholders' equity having already been fully provided for</li> <li>A dividend equating to 50% of 2019 net profit (up to a maximum of EUR38 million) will be paid to KB's existing shareholders before closing</li> </ul> </li> </ul>
<p><b>Closing requirements</b></p>	<ul style="list-style-type: none"> <li>Incremental RWA of c.EUR3.5 billion to be financed from existing resources             <ul style="list-style-type: none"> <li>NLB Group reported a CET1 ratio of 15.8% and a total capital ratio of 16.3% (17.7% and 20.8% pro-forma, respectively, for the full recognition of 2019 net income, pending recognition of EUR240 million of Tier 2 instruments issued in Q4 2019 and Q1 2020 and RWA reduction due to third-country equivalence regime with Serbia) at 31 December 2019</li> <li>Anticipated capital accretion stemming from retained earnings and / or ongoing RWA optimisation measures, potential AT1 issuance and non-controlling interest inclusion in the course of 2020 will ensure capital comfortably in excess of OCR + P2G requirements at closing</li> </ul> </li> <li>NLB is striving to maintain a meaningful dividend payment for 2019; timing will be synchronised with regulatory approval processes and the successful implementation of pending capital measures</li> <li>NLB is upholding its current dividend policy which, subject to meeting its target capital ratio (currently 16.25%, review pending due to 50bps lower P2R), envisages a dividend payout ratio of c. 70%</li> <li>Transaction will be EPS accretive from year 2 with run-rate EPS accretion of over 20%</li> <li>One-off pre-tax accounting gain anticipated on closing from negative goodwill, subject to fair value of net assets at that time             <ul style="list-style-type: none"> <li>No assumptions have been made on regulatory capital treatment of negative goodwill</li> </ul> </li> </ul>
<p><b>Transaction timeline</b></p>	<ul style="list-style-type: none"> <li>On 23 December 2019 NLB was invited to exclusive negotiations as the preferred bidder</li> <li>On 26 February 2020, execution of share purchase agreement</li> <li>Completion is expected in Q4 2020 and is subject to approvals from, amongst others, Bank of Slovenia / the European Central Bank and the National Bank of Serbia</li> </ul>



# Transaction **rationale**

# Key investment highlights

The transaction will consolidate NLB's position as the largest banking group in SEE, with an exclusive focus on and headquarters in this region



Given the size of KB relative to NLB's existing foreign subsidiaries, Serbia would become NLB's "second home market" accounting for c.24% of NLB Group's enlarged assets compared to c.4% today



Source: Company information

Notes: (1) Assuming Soci ete G n rale Srbija, OTP Vojvodanska banka and OTP banka Srbija merged into a single entity  
(2) Active clients include (a) all clients with loans, (b) clients with overdrafts and credit cards with at least one transaction in the last three months, (c) clients with current accounts with at least one transaction in the last three months, (d) clients with RSD and FX savings with amount higher than the RSD 1,000

# Financial rationale

The transaction will create attractive shareholder returns with a manageable capital consumption

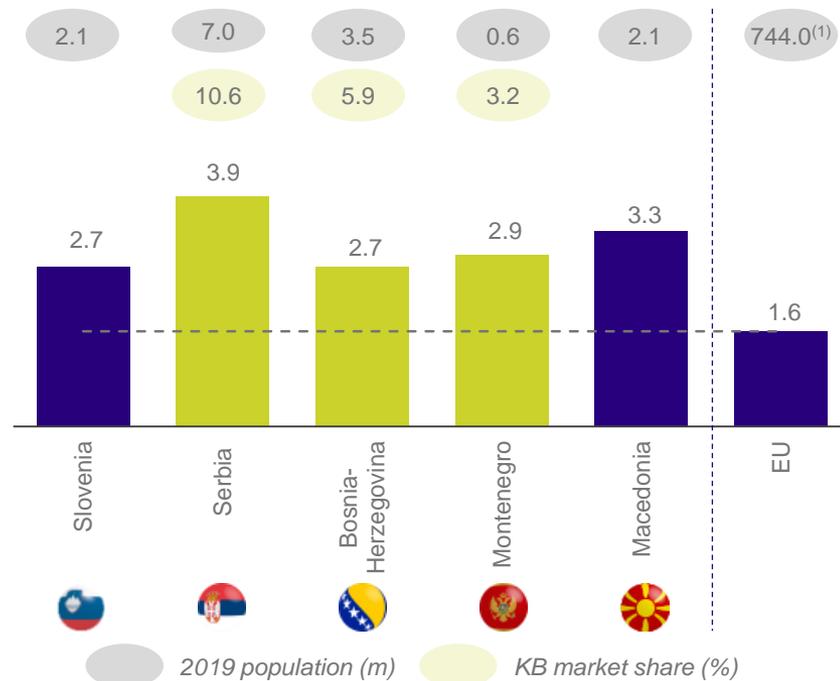


# Strategic rationale

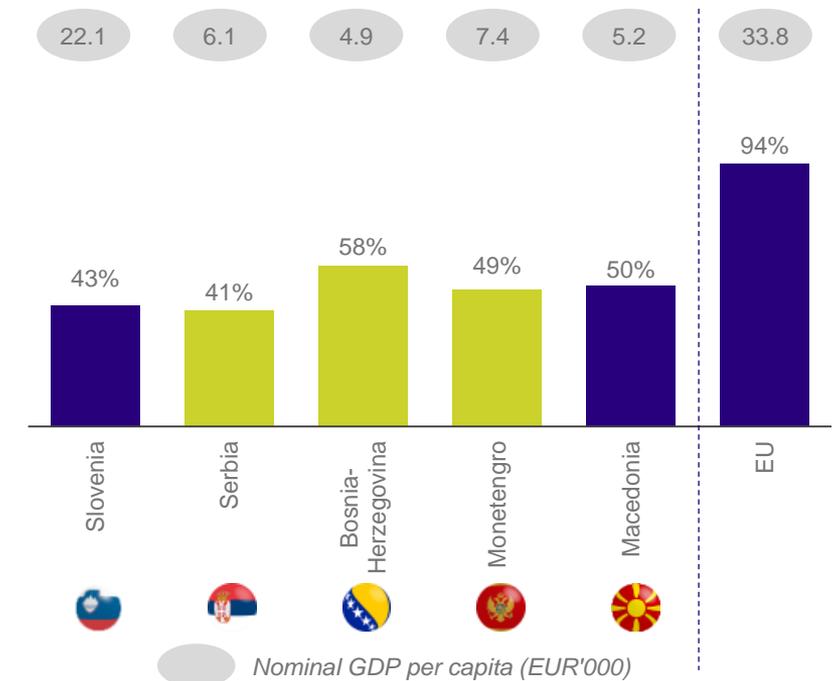
## Enlarged presence in Serbia and two other core foreign growth markets

- Present in **fast-growing economies** (3.3% expected average real GDP growth in 2019–22 vs 1.6% for EU)
- **Large addressable customer base** with population of 11.1 million in KB's three operating markets
- **Underpenetrated and fragmented markets** poised for growth

2019–22 expected real GDP growth (%)



2018 banking sector penetration – loans / GDP



Source: IMF, World Economic Outlook as of October 2019  
 Notes: (1) Population of Europe as per IMF

Source: World Bank, Domestic credit to private sector (% of GDP)  
 IMF, World Economic Outlook as of October 2019

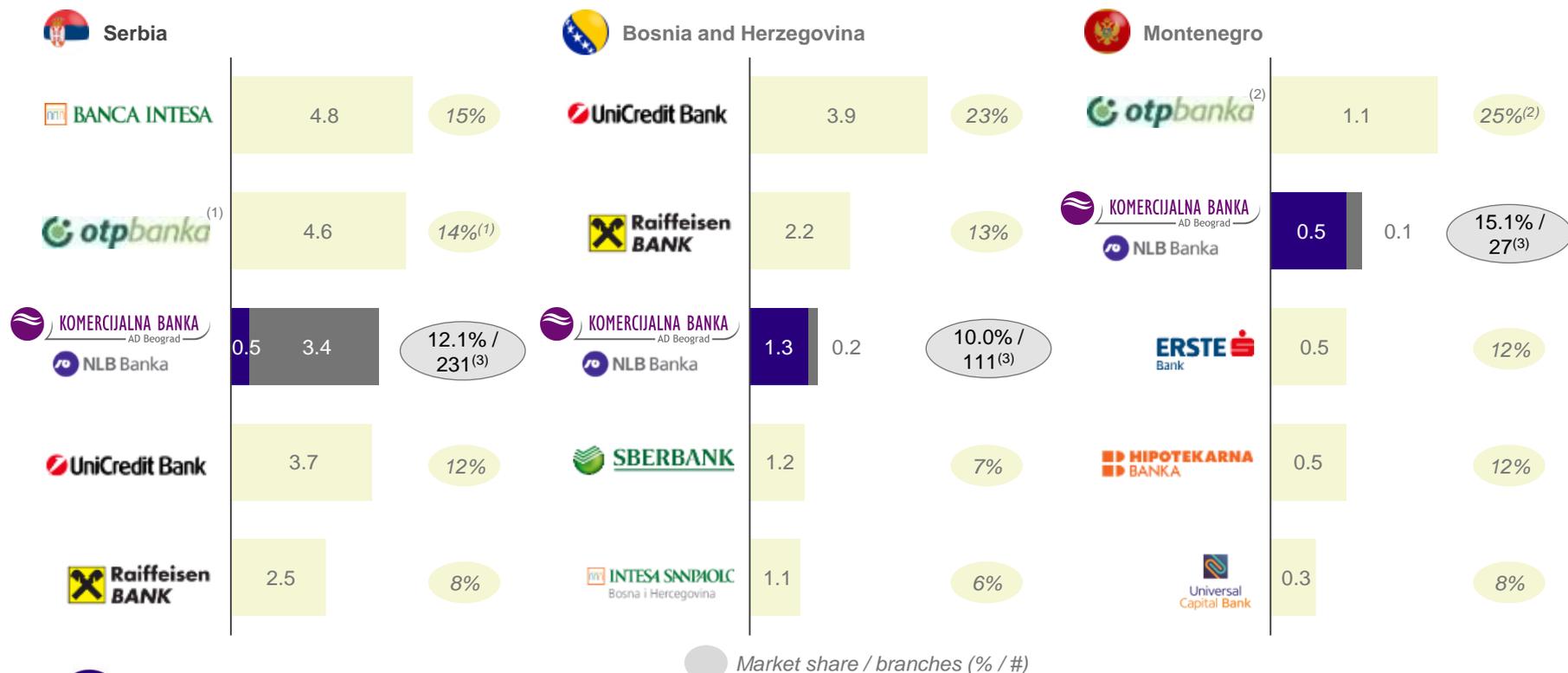
# Strategic rationale

## Creating a meaningful presence in Serbia

- KB's strong position in Serbia allows NLB to achieve "critical mass" in Serbia
- Addition of the largest network of 203 branches in Serbia (as at 30 June 2019), consolidated with NLB banka a.d. Beograd's network of 28 branches

### Strengthening NLB's position in the region

(Total assets, EURbn, as at 31 December 2018)



Source: Company information, SNL  
 Notes: (1) Pro-forma for the acquisition of Soci t  G n rale Srbija and merger of OTP Vojvođanska banka and OTP banka Srbija;  
 (2) Crnogorska Komercijalna banka is a unit of OTP Bank; adjusted for the acquisition of Montenegrin unit of Soci t  G n rale  
 (3) As at 30 June 2019, including agencies and outlets

# Strategic rationale

## Significant opportunity for value creation

### Sources of value creation

#### Optimisation

# 01



- Head office functions in Belgrade, as well as operations in BiH and Montenegro
- Harmonisation of information technology platforms
- Overlapping real estate
- Integration and renewal of alternative distribution channels

#### Funding synergies

# 02



- Leveraging KB's local currency deposit funding base
- Integration of deposits and current accounts
- Better pricing and higher liquidity

#### Revenue synergies

# 03



- Increase share of active clients
- Increase penetration and cross-sell cards, cash loans and mortgages
- Increase penetration of digital

#### Restructuring charges

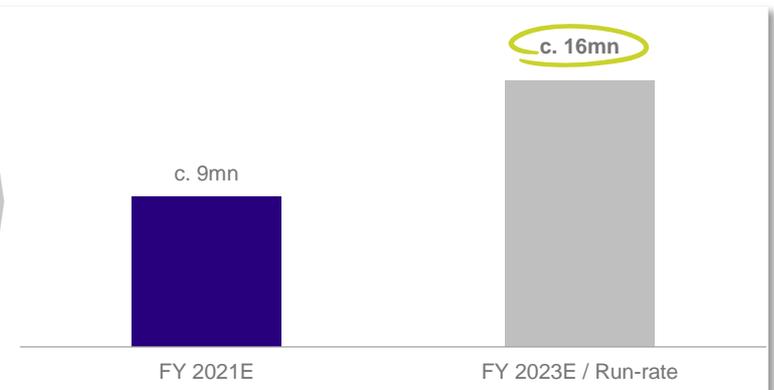
# 04



- Total restructuring charge of EUR21mn in the first two years of the transaction
- 75% of charges phased in 2021 and the remaining in 2022

### Transaction synergies

(EURmn pre-tax)



Not included in the base business case





# Highlights of acquired entity

# Overview of acquired entity

KB has leading market shares in both retail and corporate with c.0.8mn active customers

## Overview

### History:

- Established as Komercijalna banka a.d. Beograd ("KB") in 1970 and transformed into a shareholding company as of 6 May 1992
- Offers banking products and services to retail and corporate customers
  - Headquartered in Belgrade

### Foreign regulated banking subsidiaries:

- Bosnia and Herzegovina (FY2018: EUR236mn total assets) and Montenegro (FY18: EUR139mn total assets)

### Market position:

- #4 by assets with a market share of 10.6% in Serbia as of 31 December 2018
  - 9.5% / 8.3% market share in corporate and micro segment loans / deposits
  - 18.5% market share in FX deposits
- c.0.8mn active retail customers
- Employed 2,757 FTEs and operated 203 branches in Serbia as at 30 June 2019

### Non-banking operations:

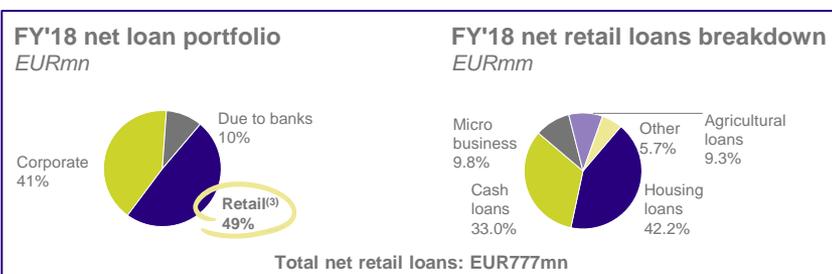
- Provides investment fund management services through KomBank Invest a.d. Beograd

### Ownership:

- As at 30 November 2019, the main shareholder of ordinary share capital is Republic of Serbia (83.23%) and the residual (16.77%) owned by minority shareholders
- Listed on the Belgrade Stock Exchange since 9 August 2006

## Key financial information

(EURmn)	2016	2017	2018	1H'19
<b>Income statement</b>				
Net interest income	117	111	118	58
Net F&C income	41	45	47	24
Other income	8	9	8	1
<b>Total income</b>	<b>166</b>	<b>165</b>	<b>176</b>	<b>83</b>
Operating expenses	(113)	(105)	(106)	(60)
<b>Pre-provision income</b>	<b>53</b>	<b>60</b>	<b>70</b>	<b>24</b>
Loan loss provision	(106)	0	0	7
Profit before tax	(53)	60	71	31
<b>Net income</b>	<b>(51)</b>	<b>68</b>	<b>71</b>	<b>31</b>
<b>Balance sheet</b>				
Net customer loans	1,348	1,471	1,620	1,684
Total assets	3,473	3,377	3,736	3,846
Customer deposits	2,797	2,664	2,970	3,007
Shareholders' equity	480	566	605	613
<b>Ratios (%)</b>				
Net interest margin <sup>(1)</sup>	3.40	3.26	3.31	3.08
Cost-to-income ratio <sup>(2)</sup>	64.5	60.5	57.0	65.6
Return on average equity	nm	11.6	12.1	10.1
NPL ratio (Serbia only)	19.4	13.8	9.5	9.1
Net loan-to-deposit ratio	48.2	54.9	54.6	56.0
Tier 1 ratio (NBS standard)	26.2	24.6	25.2	26.4



Source: Komercijalna banka a.d. Beograd

Note: Average exchange rate as per National Bank of Serbia for the period used for income statement items, period year end exchange rate used for balance sheet items

(1) Calculated as net interest income / average assets

(2) Operating expenses less Depreciation and Amortisation divided by total income

(3) Incl. micro clients

# Geographical presence

KB is present in NLB's core foreign markets, with operations in BiH and Montenegro

 Serbia (EURmn)	1H'19 <sup>1</sup>
Profit before tax	36.7
Operating expenses	(43.8)
Cost-to-income ratio (%)	58.1
Profit before tax / total assets (%)	1.0
Total assets	3,496
Net customer loans	1,463
Customer deposits	2,729
NPL ratio (%)	9.1
# branches	203



 Bosnia & Herzegovina (EURmn)	1H'19 <sup>1</sup>
Profit before tax	0.5
Operating expenses	(2.5)
Cost-to-income ratio (%)	75.0
Profit before tax / total assets (%)	0.2
Total assets	240
Net customer loans	136
Customer deposits	162
# branches / agencies	9 / 9



 Montenegro (EURmn)	1H'19 <sup>1</sup>
Profit before tax	0.5
Operating expenses	(2.3)
Cost-to-income ratio (%)	75.4
Profit before tax / total assets (%)	0.3
Total assets	138
Net customer loans	85
Customer deposits	116
# branches / outlets	9 / 1



Acquisition of KB would increase the proportion of NLB Group assets in core foreign markets from c.34% to c.49%



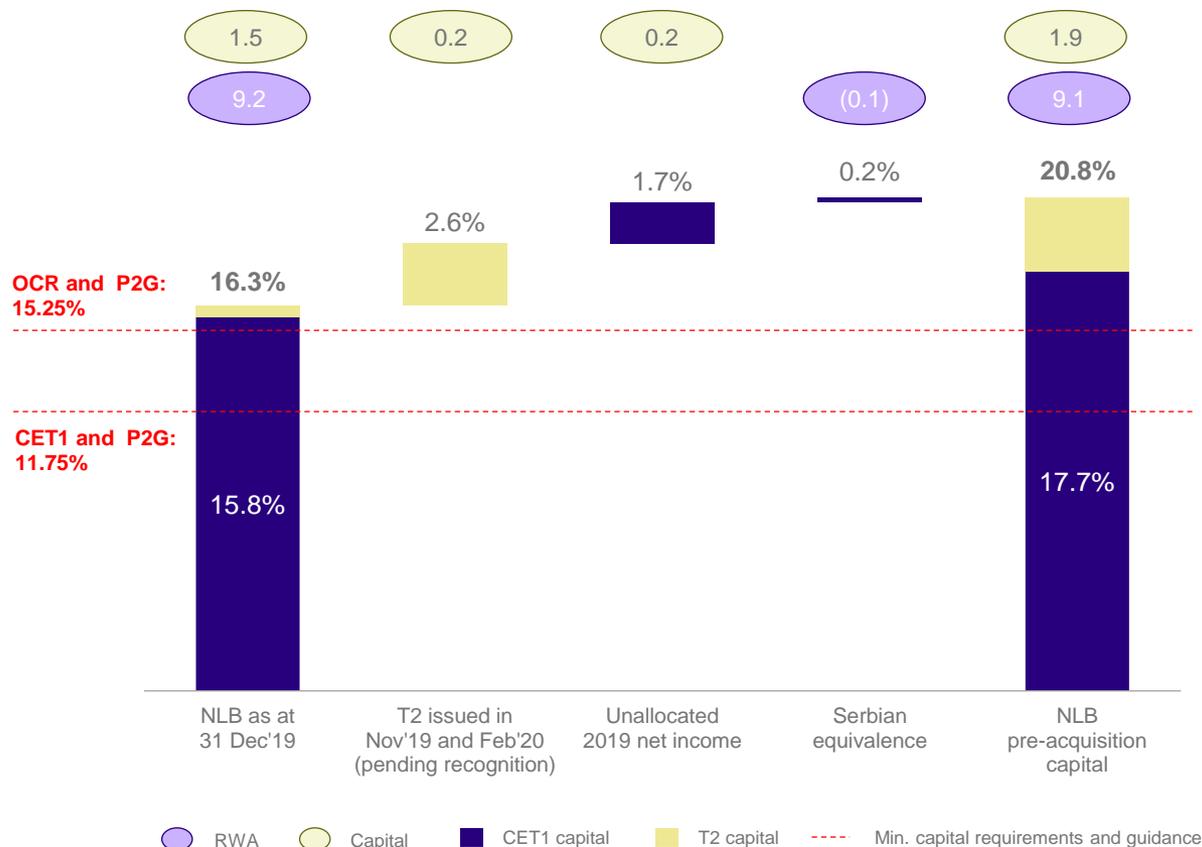
# Financial **impact**

# Capital impact from the acquisition

## Transaction to result in a manageable incremental of c.EUR3.5bn of RWA

### NLB Group pro-forma capital position pre-acquisition (31 Dec 2019)

Total capital and RWA (EURbn)



### Comments

- Estimated c.EUR3.5bn RWA, excluding any potential regulatory benefits of negative goodwill
- 2019 reported year-end capital does not include unallocated net income (EUR157 million), Tier 2 instruments (EUR240 million, pending regulatory recognition), and the implementation of third country equivalence for Serbia<sup>(1)</sup>
- Anticipated capital accretion stemming from retained earnings and / or ongoing RWA optimisation measures, potential AT1 issuance and non-controlling interest inclusion in the course of 2020 will ensure capital comfortably in excess of OCR + P2G requirements at closing
- NLB is striving to maintain a meaningful dividend payment for 2019; timing will be synchronised with regulatory approval processes and the successful implementation of pending capital measures
- NLB is upholding its current dividend policy which, subject to meeting its target capital ratio (currently 16.25%, review pending due to 50bps lower P2R), envisages a dividend payout ratio of c. 70%

# Combined Group key financials

## Transformational transaction creating a regional powerhouse

Financials as at 30 June 2019, in EURmn, unless otherwise stated



NLB Group



KOMERCIJALNA BANKA

Pro-forma

Balance sheet	Net loans	7,281	1,684	8,965
	Total assets	13,164	3,846	17,010
	Deposits	10,754	3,007	13,761
Income statement	Net interest income	159	58	217
	Total income	257	83	341
	Operating expenses	(141)	(60)	(201)
	Loan loss provisions	(6)	7	1
	Net income to common	94	26 <sup>(1)</sup>	120
Other metrics (%)	Net loan-to-deposits ratio	67.7	56.0	65.1
	Cost-to-income ratio <sup>(2)</sup>	49.0	65.6	53.0
	Employees (#)	5,823	3,064	8,887
	Branches (#)	320	232 <sup>(3)</sup>	552
	Active clients (million)	1.8	0.8 <sup>(4)</sup>	2.6



Source: Komercijalna banka a.d., Beograd

Notes: (1) Adjusted for 83.23% ordinary shareholding NLB to acquire

(2) Operating expenses less Depreciation and Amortisation divided by total income

(3) Including agencies and outlets

(4) Comprise active retail clients in Serbia as at 31 December 2018

# Combined Serbian entity key financials

## Creating the third largest banking institution in the country

Financials as at 30 June 2019, in EURmn, unless otherwise stated



Pro-forma

Balance sheet	Net loans	363	1,463	1,826
	Total assets	527	3,467	4,023
	Deposits	370	2,729	3,099
Income statement	Net interest income	10	53 <sup>(1)</sup>	63
	Total income	11	67 <sup>(1)</sup>	78
	Operating expenses	(9)	(44) <sup>(1)</sup>	(53)
	Loan loss provisions	(1)	14 <sup>(1)</sup>	13
	Net income to common	1	31 <sup>(1),(2)</sup>	32
Other metrics (%)	Net loan-to-deposits ratio	98.3	53.6	58.9
	Cost-to-income ratio <sup>(3)</sup>	74.3	59.4	61.5
	Employees (#)	466	2,757	3,223
	Branches (#)	28	203	231
	Active clients (million)	0.1	0.8 <sup>(4)</sup>	0.9



Source: Komercijalna banka a.d. Beograd

Notes: (1) Standalone figures prior to consolidation and intragroup movements  
 (2) Adjusted for 83.23% ordinary shareholding NLB to acquire  
 (3) Operating expenses less Depreciation and Amortisation divided by total income  
 (4) Comprise active retail clients in Serbia as at 31 December 2018