August 11, 2022

NLB Group Delivers Robust Business Results in the First Half of 2022

In the first half-year of 2022, marked by the tragic war in Ukraine and its influence on prices, consumer behaviour, and consequentially volatile capital markets, NLB Group delivered strong business results and reached important business milestones – such as the merger of Serbian banking subsidiaries and the acquisition of N Banka in Slovenia. The **Group achieved EUR 287.0 million in profit after tax** (EUR 147.2 million higher YoY) in H1 2022, including the effects related to the acquisition of N Banka. The strong recurring operating performance in H1, with 25% YoY growth in recurring profit before impairments and provisions without N Banka's contribution, confirms the robustness of NLB Group's business model.

NLB Group

Many important milestones marked the first six months of 2022. First, the aforementioned acquisition of N Banka whose integration process is currently in full swing and will be completed in spring 2023, and the merger of NLB banka Beograd and Komercijalna banka Beograd in NLB Komercijalna banka, which was fully completed by the end of April. And those are just a few.

“Among others, we have continued firmly on our path of sustainable business decisions and practices by joining the Net-Zero Banking Alliance, and have committed ourselves to aligning our lending and investment portfolios with net-zero emissions by or before 2050. This is so especially in the light of current events in our immediate vicinity, sustainability is gaining an even more important place in our strategic plans – as does the stability of economies in the region where our banks operate. We therefore continue to provide knowledge, support, financing, and services, thereby ensuring that this region continues to prosper; 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 in 2022, with the first tranche in the amount of EUR 50 million already having been paid in June,” explained NLB’s CEO **Blaž Brodnjak**.

“It is important to note that the Supervisory Board is satisfied not only with Group’s strong business performance, but also with its’ ability to quickly adapt to ever more complex business challenges and opportunities within the financing industry landscape. In this sense, another important milestone the Group achieved in H1 for example, was founding the NLB DigIT company in Belgrade – a company dedicated to finding and designing IT solutions for the entire Group, to leverage the accumulated know-how and deploy the underlying common tech solutions across the Group’s markets. The need for IT specialists, data scientists, data analysts, information systems analysts, software and process developers, and experts who know how to optimise user experience, etc. has been growing globally. NLB Group, which is far more than just a banking group, but more and more an IT company, is no exception. The Group has therefore recognised this gap and decided to address it proactively,” emphasized **Primož Karpe**, Chairman of the Supervisory Board of NLB d.d. upon the publication of the results.

Key highlights in H1 2022

The Group continued its strong, yet sustainable growth in the first half year, with **EUR 358.1 million total net operating income** (up 7% YoY) with the newest group member, N Banka, contributing EUR 14.0 million to this result. The recurring performance (excluding N Banka and other significant (EUR 30.2 million) non-recurring items in H1 2021) was impressive with 25% YoY growth in pre-provision income.

The **net interest income totalled EUR 226.4 million**, of which EUR 9.9 million was a contribution by N Banka. High loan growth across all markets resulted in a higher level of interest income YoY, while interest expenses were lower due to TLTRO (repaid by NLB in June) and lower interest rates for customer deposits in SEE banking members.

The **net non-interest income reached EUR 131.7 million**, of which EUR 4.1 million was contribution by N Banka. **Net fee and commission income** grew 14% YoY (excluding N Banka), mostly in NLB d.d. (due to higher fees from investment funds and bancassurance products, high balance fees, and higher fees from card and payment services) and in NLB Komercijalna banka, Beograd.

Total costs amounted to EUR 218.7 million, of which EUR 10.4 million were from N Banka. Without N Banka, the total costs increased 6% YoY (EUR 11.1 million). Banks in the whole region are affected by inflation and rising labour, material, and energy costs, which caused pressures on the employee costs and general and administrative expenses. Costs of marketing also increased due to the acquisition in Slovenia and merger of the banks in Serbia. Nevertheless, the Group is undertaking several strategic initiatives, such as channel strategy, digitalisation, paperless, lean process, branch network optimisation, etc. to keep costs under control despite the current circumstances and economic situation.

Impairments and provisions for credit risk were net established in the amount of **EUR 2.4 million**. Additional new impairments and provisions, including 12-month expected credit losses recognised at the acquisition date for the performing portfolio of N Banka were almost fully compensated by the positive effects from a successful collection of previously written-off receivables (EUR 19.6 million).

The **cost of risk** remains negative (at **-6 bps**) backed by positive contribution due to successful NPL resolution in most of NLB Group members.

Other impairments and provisions were established in the amount of EUR 5.3 million, of which EUR 4.6 million was for the reorganisation in NLB Komercijalna banka, Beograd.

in EUR millions/%/bps

	1-6 2022	1-6 2021	N Banka contribution	Change YoY	Q2 2022	Q1 2022	Q2 2021	Change QoQ
Key Income Statement Data								
Net operating income	**358.1**	**333.9**	**14.0**	**7%**	**183.6**	**174.5**	**179.9**	**5%**
Net interest income	226.4	198.6	9.9	14%	118.6	107.8	101.1	10%
Net non-interest income	131.7	135.3	4.1	-3%	65.0	66.7	78.7	-3%
w/o Net fee and commission income	*133.7*	*114.1*	*4.0*	*17%*	*69.1*	*64.5*	*59.9*	*7%*
Total costs	-218.7	-197.3	-10.4	-11%	-116.0	-102.7	-100.7	-13%
Result before impairments and provisions	**139.3**	**136.6**	**3.7**	**2%**	**67.6**	**71.8**	**79.1**	**-6%**
Impairments and provisions	-7.7	19.0	-5.9	-	-3.3	-4.4	3.5	25%
Impairments and provisions for credit risk	*-2.4*	*30.7*	*-5.8*	-	*1.6*	*-4.0*	*14.8*	-
Other impairments and provisions	*-5.3*	*-11.8*	*0.0*	*55%*	*-4.9*	*-0.4*	*-11.3*	-
Negative goodwill	172.8	0.0	172.8	-	0.0	172.8	0.0	-
Result after tax	287.0	139.8	169.3	105%	55.5	231.5	75.2	-76%

The Group witnessed a strong **19%** or EUR 2,040.8 million gross **loan growth** YtD and gross loans to customers reached EUR 12,944.2 million (EUR 1,092.8 million due to the acquisition of N Banka). The healthy demand came from both individual and corporate clients. The production of new loans in the Group was high, with almost EUR 600 million of new housing loans and nearly EUR 550 million of new consumer loans approved in H1, while over EUR 1.5 billion of new corporate loans were approved in this period. After a long period of low interest rates, the trend reversed and the interest rates on the new production started to increase.

The deposit base of the Group **increased 9%** or EUR 1,510.3 million YtD, and reached EUR 19,151.1 million, with a majority i.e., EUR 981.4 million due to the acquisition of N Banka. Excluding N Banka deposits increased by EUR 528.9 million YtD, mostly due to seasonality, social transfers, and an increase in pensions. The **LTD ratio (net) was 65.9%** at the Group level, a 5.9 p.p. increase YtD and 7.1 p.p. YoY, as a result of the acquisition of N Banka and strong production of new loans.

The CET1 ratio stood **at 14.4%** (1.1 p.p. lower than as at 31 December 2021) and **TCR at** 16.5% (or 1.3 p.p. lower than as at 31 December 2021), both indicating the strong capital position of the NLB Group. The lower total capital adequacy derives from higher RWA (EUR 1,505.1 million compared to 2021 YE) which was not compensated by higher capital (EUR 83.7 million compared to 2021 YE). 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 -117.1 million compared to the end of 2021). The capital calculation does not include a part of the 2021 result in the amount of EUR 50 million, still envisaged for the second instalment of dividend distribution in 2022. Therefore, there will be no effect on the capital once this second tranche of dividends is paid.

in EUR millions/%/bps					
	30 Jun 2022	31 Dec 2021	30 Jun 2021	Change YtD	Change YoY
Key Financial Position Statement Data					
Total assets	**22,730.3**	**21,577.5**	**21,187.3**	**5%**	**7%**
Gross loans to customers	12,944,2	10,903.5	10,421.8	19%	24%
Net loans to customers	12,620.2	10,587.1	10,017.4	19%	25%
Deposits from customers	19,151.1	17,640.8	17,143.0	9%	12%
Equity (without non-controlling interests)	2,195.6	2,078.7	2,091.4	6%	5%
Other Key Financial Indicators					
LTD[1]	65.9%	60.0%	58.7%	5.9 p.p.	7.1 p.p.
Total capital ratio	16.5%	17.8%	17.0%	-1.3 p.p.	-0.5 p.p.
Common Equity Tier 1 Ratio	14.4%	15.5%	14.7%	-1.1 p.p.	-0.3 p.p.
Total risk exposure amount (RWA)	14,172.5	12,667.4	12,755.6	12%	11%
Employees					
Number of employees	8,394	8,185	8,455	209	-61

[1] LTD = Net loans to customers/deposits from customers.

The **net interest margin of 2.12%** was 0.04 p.p. higher YoY, while the **operational business margin of 3.40%** increased 0.11 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. Due to the inflation in Europe further growth of interest rates is expected.

The credit portfolio remains very stable with increasing Stage 1 exposures and a relatively low percentage of NPLs. Direct and indirect exposure of the Group toward Russia and the Ukraine is limited and carefully monitored. The portfolio is well diversified, without concentration in any specific industry or client segment and with a high level of provisioning.

In light of the war in Ukraine, the Group has thoroughly analysed the potential impact on the credit portfolio. The direct exposure to counterparties is limited and predominantly refers to Russian government bonds, which were partially repaid, while the remaining instrument maturing in September 2023 was appropriately provisioned to reflect its fair value of EUR 1.8 million. The Group may be affected by the secondary effect of the crisis, where increasing prices of raw materials, commodities, and energy may represent an important factor for certain corporate clients. An additional effect can be related to potential gas shortages for certain corporate clients with a high dependency on the production cycle mainly from steel, aluminium, glass, mineral, stone, chemicals, and the paper industry.

The Group is closely monitoring the circumstances of other potentially affected industries (i.e., energy, transport, automotive, construction, and food production) and has a close communication with key clients to identify any changes in the business circumstances. The loan exposures related to potential impacts stemming from the conflict in Ukraine, which are deriving primarily from potential gas shortage, amount to less than EUR 500 million. These exposures are located mainly in Slovenia. In contrast, the inflation pressure and prices of energy sources may limit the credit capabilities in the retail segment. The Group has performed stress testing by applying adverse and severe scenarios, and the potential estimated losses are perceived as sustainable.

in EUR millions/%/bps

Key Financial Indicators	1-6 2022	1-6 2021	Change YoY
Return on equity after tax (ROE a.t.)[(4)]	10.8%	13.8%	-3.0 p.p.
Return on assets after tax (ROA a.t.)[(4)]	1.0%	1.4%	-0.3 p.p.
Net interest margin (on interest bearing assets)	2.12%	2.09%	0.04 p.p.
Operational business margin[(2)]	3.40%	3.29%	0.11 p.p.
Cost-to-income ratio (CIR)	61.1%	59.1%	2.0 p.p.
Cost of risk net (bps)[(3,4)]	-6	-68	62

[(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.

Outlook

in EUR millions/%/bps

KPI	H1 2022 Performance	2022[(i)]	2023
Regular Income	EUR 354.1 million	~ EUR 730 million	~ EUR 800 million
Costs[(v)]	EUR 218.7 million	below EUR 460 million	in the range of 2022
Cost of Risk	-6 bps	below 30 bps[(ii)]	30-50 bps
Loan Growth	19% (9% w/o N Banka)	Low double-digit organic growth	High single-digit loan growth
ROE a.t.	10.8%	~ 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 of H1 business results

More information about the NLB Group business results in H1 2022 will be presented during a **webcast**, hosted by the Management Board of NLB d.d., **on Thursday, 11 August 2022, at 16.00 CEST/14.00 GMT,** available **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.