February 22, 2024

NLB Group Ends 2023 on Strong Footing, Hikes 2024 Dividends to EUR 220 million and Continues to Act Proactively and Responsibly Towards All Stakeholders

NLB Group performed strongly in **the full year 2023** with **EUR 550.7 million of result after tax.** Yet at the same time **the Group continued to take responsible actions** and with its strategic planning and business decisions laid **foundations for stable, growth oriented and profitable operations** also in the years to come. In addition, its donations and sponsorship support to humanitarian, health, cultural, sport and other pillars of society continued to create better footprints and helped **improving the quality of life in our home region**.

The Group's dedication to the social responsibility was especially evident during the August floods in Slovenia: to eliminate the consequences of which **bank donated a total of EUR 9.5 million**. From that amount, EUR 4 million were allocated to the 20 worst-affected municipalities for sustainable reconstruction and investments; a solidarity fund of EUR 0.5 million was established for dozens NLB employees affected by the disaster; and EUR 5 million were allocated to the budget of the Republic of Slovenia, earmarked to addressing the consequences of the floods. Furthermore, under the recently adopted reconstruction law, which also imposes a **tax on banks' total assets** starting with January 1st, 2024, NLB will be paying an additional balance sheet tax in the amount exceeding **EUR 30 million annually for the next five years**. Combining donations and tax on total assets, NLB will contribute over EUR 170 million for the recovery after natural disasters.

Besides **creating value for our shareholders** and **enhancing banking services**, it is in 2023 relevant to highlight **the legal and operational merger of N Banka,** completed in September. The process was accomplished within the envisaged timeframe and budget as yet another indication of the Group's proven capacity to acquire and seamlessly consolidate and integrate businesses. Another significant milestone for the Group was the **signing of sale and purchase agreement for Summit Leasing Slovenia** in November. Subject to regulatory clearance, this transaction will help NLB Group accelerate its ambitions in the strategically important leasing segment and build on the ambition of the Group to add value for the shareholders and provide the clients with additional services and solutions.

In this once more breakthrough year the Group also achieved significant **progress at its ESG endeavours**. At the end of 2023, Sustainalytics recognised notable improvement and awarded NLB a rating of 16.0 (an improvement by 1.7 points), ranking NLB among the top 13 per cent of banks, assessed by the firm.

“Strong business results of NLB Group in 2023 call for a positive reflection on the one hand, and an awareness of even greater responsibility of the hard-working team on the other. They enable us to significantly **increase our dividend payments** to 40% pay-out ratio of previous years’ profit after tax, which **in 2024 translates to EUR 220 million in dividends**. This represents a 100% increase from dividend payments made in 2023 or more than 75% of the so far’s guidance for the cumulative payment until the end of 2025, while at the same time retaining stable organic and/or M&A driven growth capacity,” emphasized NLB’s CEO **Blaž Brodnjak** upon the publications of the results.

As he explained further, NLB Group has been laying very solid foundations for further value accretive growth of the Group in all of existing and potentially some new regional markets. “Details of the new mid-term business strategy of NLB Group will be disclosed at the upcoming Investor Day on May 9th in Ljubljana,” he added.

On behalf of the Supervisory Board, its Chairman **Primož Karpe** also expressed satisfaction with the successful operations of NLB Group in the past year. “The Supervisory Board, however, is particularly pleased with the Groups’ understanding of its role in the economies and societies of the region and the proactive approach it has taken when addressing its challenges and future. The Group is aware of the constant need to invest in talents, underlying future-proof technology, the business environment and identifying future growth opportunities, being organic or inorganic, and is taking action today to be stable and prosperous tomorrow.”

Key Highlights of the Q4 and the full year 2023

NLB Group’s total net operating income amounted to EUR 292.5 million in Q4 (EUR 3.3 million or 1% higher QoQ), while in the full year 2023, it reached EUR 1,093.3 million (up by 37% YoY). Excluding non-recurring items, growth in the recurring net operating income in the fourth quarter of 4% versus the third quarter (to reach EUR 307.0 million) adds to the strong underlying performance in Q4.

The result before impairments and provisions in the fourth quarter **was up 42% YoY,** reaching EUR 152.3 million (QoQ results are down 9% due to seasonal effects on costs and voluntary contributions). On an annual basis, the result before impairments and provisions finished the year at EUR 591.4 million, up 75% YoY. Excluding the non-recurring items, the quarterly result before impairments and provisions **in the last quarter reached EUR 166.8 million**. The Group **achieved EUR 163.8 million in profit after tax** in the fourth quarter, a growth of 14% QoQ, positively impacted by the EUR 61.9 million increase of the deferred tax assets in Slovenia.

The **net interest income (NII) in Q4 increased by 5% QoQ (up by EUR 10.4 million) to reach EUR 231.9 million.** The healthy loan volume growth and interest environment supported the QoQ growth in NII. Interest expenses increased from EUR 46.2 million to EUR 53.5 million, incurred by wholesale funding and higher expenses for customer deposits. The **deposit beta** (the cumulative change of the average customer deposit interest rate compared with the change of the average ECB deposit facility rate) remained stable at **8% on the Group level**.

On an annual basis, NII reached **EUR 833.3 million** (growth of 65%) in 2023. Key drivers of the annual growth of EUR 328.4 million were on the interest income side loans to customers (EUR 253.7 million, of which EUR 98.3 million to individuals and EUR 155.4 million to corporate and state) and balances at banks and central banks (EUR 127.7 million). Interest expenses increased primarily due to expenses for wholesale funding raised for MREL and capital requirement (EUR 58.6 million) and expenses for customer deposits (EUR 49.3 million). The average **cost of funding** on a Group level was **0.88%** in Q4, up by eight basis points from the previous quarter.

The **net non-interest income (NNII) reached EUR 60.6 million in the fourth quarter of 2023,** a 10% decline QoQ due to non-recurring items in the amount of approximately EUR 20 million (EUR 15.3 million modification loss for interest rate regulation on housing loans in NLB Komercijalna Banka Beograd and EUR 5.0 million for the post-flood donations).

Out of EUR 60.6 million of net non-interest income in Q4, **net fee and commission income contributed EUR 72.4 million.** This component of the income statement increased by 2% QoQ. On YoY comparison, NFCI growth of 2% confirms that the NLB Group effectively and successfully countered the impact of cancelling of high balance deposit fees at NLB d.d. and some temporary measures, particularly in Serbia.

This resilience on a YoY basis can be attributed to the positive impact of still solid economic activity and consumption, as well as to an increased business focus on the off-balance sheet driven growth drivers, namely investment funds, bancassurance, and the guarantee business.

On a quarterly basis, costs increased by 16% (in **Q4, the total costs amounted to EUR 140.2 million**) due to year-end bonus payments and higher IT and marketing expenses (sponsorships). **The total costs in 2023** amounted to **EUR 501.9 million.** They were 9% higher than in the previous year, owing to several factors, namely, general inflationary trends within the region, investments in technology enhancements across the Group, the expansion of the leasing and asset management activities, the intensive integration process in Slovenia (involving EUR 9.2 million of integration costs in 2023), and costs related to the new acquisition. The increase was observed in all banks of the NLB Group. It was primarily driven by a EUR 24.5 million rise in employee costs (emphasizing our talent-focused strategy) and a EUR 15.2 million increase in other general and administrative expenses. The CIR stood at 45.9%, representing a significant 11.7 p.p. improvement YoY, driven by net operating income growth and an increase in total costs.

Impairments and provisions for credit risk in Q4 were net established in the amount of EUR 15.0 million. The most material part of established provisions relates to portfolio development (EUR 23.1 million), specifically to exposures in Stage 3. Retail and Corporate segments developed similarly. Repayments of written-off receivables in the amount of EUR 6.4 million (due to a favourable environment for NPL resolution) and the release of EUR 1.7 million resulting from changes in models/risk parameters positively impacted impairments and provisions for credit risk in the fourth quarter.

For the full year 2023, the NLB Group net released impairments and provisions for credit risk in the amount of EUR 11.8 million. The established impairments derive from portfolio development, new financing and immaterial portfolio deterioration. In contrast, material repayments of written-off receivables (EUR 24.2 million) and changes in models (EUR 10.4 million) contributed to a lower total impact and **negative Cost of Risk of -7 bps in the financial year**. The credit portfolio is well-diversified and the quality of it remains stable **and** robust. The low **NPEs (EBA def.) of 1.1%** had a very comfortable direct **coverage ratio (NPL Coverage ratio 2) of 64.6%.**

Other impairments and provisions were net established in the amount of **EUR 25.9 million**, mainly due to pending fee repayments in the Slovenian banks and HR restructuring provisions in the Bank.

Based on **substantially increased profit projections** for the upcoming five years (2024 onwards) and the higher corporate income tax rate (nominal rates increased from 19% to 22%), the Bank **increased the recognised part of the deferred tax assets by EUR 61.9 million** (EUR 48.4 million recognised income due to profit projections and EUR 13.5 million due to increase of tax rate). The unrecognised deferred tax assets amount to EUR 127.7 million. Additionally, the deferred tax liability for withholding tax on dividends, which are projected to be paid in the foreseeable future in the amount of EUR 9.6 million, was recorded on NLB Group.

The **effective tax rate of NLB**, excluding deferred tax assets revaluation, non-taxable dividends, and non-taxable reversal of equity investments, amounts **to 11% at NLB d.d., on group level 12%** (excluding also non-taxable interest from state bonds, according to the local tax legislations). Including voluntary contributions paid in Slovenia to Republic of Slovenia and Slovene municipalities the equivalent rate amounts to 14% at the NLB d.d.

in EUR millions/%

	1-12 2023	1-12 2022	Change YoY	Q4 2023	Q3 2023	Q4 2022	Change QoQ
Key Income Statement Data							
Net operating income	**1,093.3**	**798.5**	**37%**	**292.5**	**289.2**	**234.9**	**1%**
Net interest income	833.3	504.9	65%	231.9	221.5	151.8	5%
Net non-interest income	260.0	293.6	-11%	60.6	67.7	83.0	-10%
o/w Net fee and commission income	*278.0*	*273.4*	*2%*	*72.4*	*70.9*	*69.2*	*2%*
Total costs	-501.9	-460.3	-9%	-140.2	-120.9	-127.7	-16%
Result before impairments and provisions	**591.4**	**338.3**	**75%**	**152.3**	**168.2**	**107.2**	**-9%**
Impairments and provisions	-14.1	-28.9	51%	-28.0	-3.8	-31.2	-
Impairments and provisions for credit risk	*11.8*	*-17.5*	*-*	*-15.0*	*-3.1*	*-25.0*	*-*
Other impairments and provisions	*-25.9*	*-11.4*	*-128%*	*-13.0*	*-0.7*	*-6.3*	*-*
Negative goodwill	0.0	172.9	-	0.0	0.0	0.1	-
Result after tax	**550.7**	**446.9**	**23%**	**163.8**	**144.2**	**69.1**	**14%**

The lending activity in 2023 was moderate but stable, and the Group's **gross loans to customers increased by a tangible EUR 666.2 million (5%) YoY**. Growth came predominantly from loans to private individuals (EUR 491.9 million or 7%), whereas modest EUR 92.1 million (1%) from the corporate segment, and EUR 82.3 million from loans to the state. The loan portfolio remained well-diversified, and there was no large concentration in any specific industry or client segment. In the retail portfolio, the volume of housing loans is still prevailing and remains in the focus. Most (82%) of the loan portfolio refers to the euro currency, while the rest originates from the local currencies of the Group banking members. As far as the interest rate type, almost 66% of the loan portfolio was linked to a fixed interest rate, and the rest mainly to the Euribor reference rate.

The Group's funding base was dominated by customer deposits, accounting for 80% of the balance sheet. Sight deposits prevailed; however, due to increased interest rates and attractive offers on term deposits, the share of term deposits increased by three p.p. in 2023 and accounted for 16% (13% at the end of 2022). Most customer deposits came from private individuals (70%, the same as at the end of 2022). The **deposit base of the Group increased by 4% YoY (to reach EUR 20,732.7 million).** The **LTD ratio (net)** at the Group level amounted to **66.2%**, a 1.0 p.p. increase in YoY.

As at 31 December 2023, the **total capital ratio (TCR) for the Group stood at 20.3%, and the CET1 ratio at 16.4%, increasing by 1.3 p.p. YoY.** The higher total capital adequacy derives from higher capital (EUR 302.8 million YoY), which compensated for the increase of the RWA (EUR 684.1 million YoY). The Group increased its capital with a partial inclusion of 2023 profit (EUR 327.4 million). Enhanced overall corporate governance in recent years led to a lower P2R, which decreased from 2.40% applicable in 2023 to 2.12% applicable from 1 January 2024, while Pillar 2 Guidance remains at the low level of 1%.

The **dividend pay-out in 2023 was split into two tranches**. The first instalment of EUR 55.0 million was paid in June 2023, while the second was paid in the same amount of EUR 55.0 million in December 2023, contributing to **the 2023 cumulative pay-out of EUR 110.0 million. For the dividend pay-out in 2024, the Bank intends to pay EUR 220.0 million, a 100% growth in dividends YoY, of which EUR 55.0 million to the benefit of the Republic of Slovenia as a shareholder.**

On 31 December 2023, the MREL ratio amounted to 40.24%, which was well above the required level.

in EUR millions/%/bps					
	31 Dec 23	**30 Sep 23**	**31 Dec 22**	**Change YoY**	**Change QoQ**
Key Financial Position Statement Data					
Total assets	**25,942.0**	**25,278.0**	**24,160.2**	**7%**	**3%**
Gross loans to customers	14,063.6	13,990.2	13,397.3	5%	1%
Net loans to customers	13,734.6	13,666.1	13,073.0	5%	1%
Deposits from customers	20,732.7	20,289.1	20,027.7	4%	2%
Equity (without non-controlling interests)	2,882.9	2,734.9	2,365.6	22%	5%
Other Key Financial Indicators					
LTD	66.2%	67.4%	65.3%	1.0 p.p.	-1.1 p.p.
Common Equity Tier 1 Ratio	16.4%	15.1%	15.1%	1.3 p.p.	1.3 p.p.
Total capital ratio	20.3%	18.7%	19.2%	1.1 p.p.	1.6 p.p.
Total risk exposure amount (RWA)	15,337.2	14,919.0	14,653.1	5%	3%
Employees					
Number of employees	7,982	8,078	8,228	-246	-96

The funding costs grew at a lower pace than interest rates on assets, and consequently, the Group's annual **net interest margin** improved by 1.21 p.p. to **3.50%** in 2023. The annual **operational business margin** was **4.75%,** 1.19 p.p. higher YoY, mainly due to the net interest income growth.

Enhanced financial performance resulted in **ROE a.t. at 21.0%,** which was 8.8 p.p. higher YoY (compared to 12.2% in 2022 without the inclusion of negative goodwill).

in EUR millions/%/p.p./bps			
Key Financial Indicators	**1-12 2023**	**1-12 2022**	**Change YoY**
Return on equity after tax (ROE a.t.)	21.0%	12.2%	8.8 p.p.
Return on assets after tax (ROA a.t.)	2.2%	1.2%	1.0 p.p.
Net interest margin (on interest bearing assets)	3.50%	2.30%	1.21 p.p.
Operational business margin	4.75%	3.57%	1.19 p.p.
Cost to income ratio (CIR)	45.9%	57.6%	-11.7 p.p.
Cost of risk net (bps)	-7	14	-21

Outlook[1]

The position of the Group is strong and the performance for the full year 2023 in many of the item lines exceeded the plans and previous guidance. The NLB Group is herewith presenting the guidance for the full year 2024 and 2025. The outlook for the year 2024 does not include the effects from the announced acquisition of SLS, expected to close before the end of 2024 and thus without material effects for 2024. **The Group is preparing a new business strategy and vision for 2030**, that will among others, also outline shareholders' return going forward in line with the improved earnings outlook. Announcement of the key strategic directions for the NLB Group is planned for the **Investor Day on 9th of May in Ljubljana**, Slovenia.

The **outlook for 2024** incorporates a reasonable amount of prudence, most notable on the still prevailing market view that interest rates by the end of 2024 will be lower by some 150bps. Despite this assumption, **the Group is expected to achieve more than EUR 1,100 million in regular income**. The **cost to income ratio is expected to stay below 50%**, a clear indication that cost inflation should be reasonably

[1] The indicated outlook constitutes forward-looking statements which are subject to a number of risk factors and are not a guarantee of future financial performance. The interest rate outlook is uncertain given the adaptive monetary policy of the ECB and local central banks to the general economic sentiment.

contained. With the mid-single digit loan growth and still solid trends in asset quality expected in all segments and geographies, the **cost of risk is expected to be between 20 and 40 basis points**.

The operating environment, coupled with an appropriate tactical and strategic positioning of the Group, has led the NLB Group to achieve strong running results. Previously indicated guidance on nominal dividend payment has materialised in increasing dividend payments and, at the same time, meaningful build-up of the capital buffers, allowing for a potential M&A. The Bank is with this Outlook communicating **its intention to pay EUR 220 million dividends in 2024**, translating to **a 40% pay-out ratio out of 2023 profit after tax**. Such capital return will not impede the Bank's capacity to grow, either organically or through M&A, while at the same time avoiding the capital to build excessively.

The **outlook for the 2025** (i.e., the outlook for the mid-term targets within the final year of the current strategy) will be subject to revision at the upcoming Investor Day in May. On "as is" presumption, the guidance for 2025 indicates the continuation of the current trends with stable and growing results for the NLB Group. **Increased regular income** by EUR 100 million, to around **EUR 1,200 million** and higher dividend distribution translates also to 1 percentage point increase of ROE a.t. (from around 14% to 15%) and ROE normalised expected to exceed 20% (previously around 20%). **The intended pay-out ratio for the 2025 from the 2024 results exceeds 40%**, still retaining up to EUR 4 billion RWA M&A capacity.

KPI	Outlook for 2024	Last Outlook for 2025	Revised Outlook for 2025
Regular income	**> EUR 1,100 million**	~ EUR 1,100 million	**~ EUR 1,200 million**
Cost of risk	**20-40 bps**	30-50 bps	30-50 bps
CIR	**< 50%**	**< 50%**	**< 50%**
Loan growth	**Mid single-digit**	High single-digit	High single-digit
Dividends	**EUR 220 million (40% of 2023 profit)**	EUR 500 million (2022-2025)(i)	**More than 40% of 2024 profit(i)**
ROE a.t. ROE normalised(ii)	**~ 15% > 20%**	~ 14% ~ 20%	~ 15% > 20%
M&A potential		Tactical M&A capacity of > EUR 4 billion RWA	**M&A capacity of up to EUR 4 billion RWA**

(i) Future capital returns will be revised during the new 2030 strategy process.
(ii) ROE normalised = result a.t. divided by average risk-adjusted capital. Average risk-adjusted capital is calculated as a Tier 1 requirement of average RWA reduced for minority shareholder capital contribution.

Invitation to the Earnings Call

We kindly invite all interested stakeholders to the Fourth Quarter 2023 and Full Year 2023 Financial Results Earnings Call, hosted by the Management Board of NLB, that will take place on Thursday, 22nd February, 2024, at 16:00 CET/15.00 GMT and will be available here: https://www.nlb.si/ir-events.

Members of the Management Board will, as usual, receive and address your questions live during the webcast, however, if you already know what you wish to ask them, you may submit your questions now. If you register for the event, you will be able to send them via the web app, or you may simply send them to the email address IR@nlb.si.