

February 24, 2022



NLB Group: Remarkable business performance led to a record high profit of EUR 236.4 million in 2021

The remarkable performance of NLB Group in 2021 led to a record high **profit of EUR 236.4 million** – a substantial growth from the previous year when excluding the effects from the acquisition of Komercijalna Banka, Beograd (“KB”), unaudited 2021 data shows. **Strong GDP growth** in the region exceeding 6%, backed by the revival in domestic demand, created a supportive environment for NLB Group’s activities. The Group achieved important milestones along the integration process of Komercijalna Banka, Beograd, namely the successful merger of the Komercijalna Banka subsidiary in Montenegro as well as the divestiture of Komercijalna Banka, Banja Luka.



NLB Group

Key highlights in 2021

Revenue growth momentum continued and accelerated in 2021, with **net interest income growing by 37% YoY** (excluding KB 4.0%) as a function of strong loan growth and a meaningful contribution from Komercijalna Banka group (EUR 98.5 million). Amid the continuously challenging margin environment throughout the region, the Group recorded net interest income growth in domestic and foreign markets as volume growth helped to more than offset the impact from lower rates. The contribution to net interest income from liquid assets remains subdued and impacted by (still) low rates in the euro area.

Net non-interest income in 2021 was meaningfully marked with non-recurring items (EUR 26.0 million), but contributions declined when compared to the previous year (EUR 33.7 million). Impressive growth in **net fee and commission income, up 39% YoY**, further added to the NLB Group's remarkable performance in 2021. Strong demand for investment products, such as asset management products and bancassurance, and at the same time strong income generation from activities correlated to general business activity (such as payments), led to an increase in fee and commission income.

The NLB Group managed to keep **costs within the guidance**, importantly impacted by integration costs of Komercijalna Banka group. NLB remains a highly desired employer in the region, and manages to partially mitigate labour cost inflation with sourcing employees from the region and proactive approach to employment.

Key Income Statement Data	in EUR millions/%/bps						
	1-12 2021	1-12 2020	Change YoY	Q4 2021	Q3 2021	Q4 2020	Change QoQ
Net operating income	666.9	504.5	32%	167.0	166.0	121.2	1%
Net interest income	409.4	299.6	37%	107.0	103.7	75.1	3%
Net non-interest income	257.6	204.9	26%	60.0	62.3	46.1	-4%
<i>o/w Net fee and commission income</i>	<i>237.2</i>	<i>170.3</i>	<i>39%</i>	<i>64.6</i>	<i>58.6</i>	<i>45.1</i>	<i>10%</i>
Total costs	-415.4	-293.9	-41%	-118.2	-99.9	-77.7	-18%
Result before impairments and provisions	251.5	210.5	19%	48.8	66.1	43.5	-26%
Impairments and provisions	8.8	-71.4	-	-16.5	6.3	-21.1	-
<i>Impairments and provisions for credit risk</i>	<i>35.8</i>	<i>-62.3</i>	<i>-</i>	<i>1.8</i>	<i>3.3</i>	<i>-13.2</i>	<i>-47%</i>
<i>Other impairments and provisions</i>	<i>-27.1</i>	<i>-9.1</i>	<i>-198%</i>	<i>-18.3</i>	<i>2.9</i>	<i>-7.9</i>	<i>-</i>
Negative goodwill	0.0	137.9	-	0.0	0.0	137.9	-
Result after tax	236.4	269.7	-12%	30.9	65.7	165.1	-53%

The Group recorded **9% loan growth** in 2021, thus exceeding the full year guidance. Loans to individuals recorded double digit growth throughout the group (12%/13% excluding impact of Komercijalna Banka, Banja Luka sale), driven by remarkable production of housing loans in Slovenia and the healthy demand for consumer loans in strategic foreign markets. **Deposits increased by EUR 1,243.6 million** in 2021 on a group level. Deposits from individuals increased by a mere 5%, indicating that individuals migrated part of their savings to alternative investments (e.g., mutual funds and bancassurance).

Strengthened liquidity and **capital position, with a CET1 ratio at 15.5% and TCR at 17.8%** ensure a comfortable capacity for an ambitious shareholder pay-out and continued drive for growth opportunities. Despite substantial growth, the Group has managed to maintain RWA close to 2020 levels, helped by EBA's third party equivalent list for Northern Macedonia and BiH, and by two MIGA guarantees.

Key Financial Position Statement Data	in EUR millions/%/bps				
	31 Dec 2021	30 Sep 2021	31 Dec 2020	Change YoY	Change QoQ
Total assets	21,577.5	21,296.9	19,565.9	10%	1%
Gross loans to customers	10,903.5	10,593.7	10,033.3	9%	3%
Net loans to customers	10,587.1	10,267.0	9,644.9	10%	3%
Deposits from customers	17,640.8	17,248.6	16,397.2	8%	2%
Equity (without non-controlling interests)	2,078.7	2,140.5	1,952.8	6%	-3%
Other Key Financial Indicators					
LTD ⁽¹⁾	60.0%	59.5%	58.8%	1,2 p.p.	0,5 p.p.
Total capital ratio	17.8%	17.2%	16.6%	1,2 p.p.	0,6 p.p.
Total risk exposure amount (RWA)	12,667.4	12,824.4	12,421.0	2%	-1%
Employees					
Number of employees	8,185	8,359	8,792	-607	-174

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

Net interest (2.07%) and operational business margin (3.28%) have stabilised with TLTRO recognition of interest income in Q4 having a marginal positive impact in the last quarter. The cost-to-income ratio increased by four percentage points YoY (to 62.3%) including the effects of the KB integration process.

Extraordinary results from workout of the legacy NPL book including material contributions from KB on top of a benign credit environment led to a **EUR 35.8 million net release of impairments and provisions for credit risk** – ending the year at minus 41 bps cost of risk. The Group **established EUR 27.1 million of other impairments and provisions**, of which EUR 14.8 million for HR restructuring charges in Serbia and the rest mostly from litigation charges in Serbia (although the recent dynamic is much more favourable).

Key Financial indicators	in EUR millions/%/bps		
	1-12 2021	1-12 2020	Change YoY
Return on equity after tax (ROE a.t.) ⁽⁴⁾	11.4%	8.1%	3.3 p.p.
Return on assets after tax (ROA a.t.) ⁽⁴⁾	1.1%	1.0%	0.2 p.p.
Net interest margin (on interest bearing assets) ⁽⁴⁾	2.07%	2.11%	-0.04 p.p.
Operational business margin ^(2,4)	3.28%	3.32%	-0.04 p.p.
Cost-to-income ratio (CIR)	62.3%	58.3%	4.0 p.p.
Cost of risk net (bps) ^(3,4)	-41	62	-102

⁽²⁾ Operational business net income annualized/average assets.

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

⁽⁴⁾ KB not included in the calculation of ratio in 2020.

Key highlights in Q4 2021

The last quarter of the 2021 contributed EUR 30.9 million to the full year result after tax, with strong net interest income (EUR 107.0 million, up 3% QoQ) assisted by TLTRO interest income recognition and the 10% QoQ net fee and commission income growth. Seasonal (year-end bonuses) and non-recurring items, such as Komercijalna Banka group integration (disposition of Komercijalna Banka, Banja Luka negatively impacting other income by EUR 8.1 million, EUR 7.1 million of HR provisions in Serbia, and other integration costs), and other non-recurring items, such as EUR 9.0 million of legal provisions impacted business results in Q4.

The quality of Credit/Asset portfolio remained stable and well-diversified in Q4, leading to a EUR 1.8 million release of credit impairments and provisions.

Outlook for 2022

KPI	in EUR millions/%/bps			
	2021 Guidance	2021 Actual	2022 ⁽⁷⁾	2023
Regular Income	Exceeding EUR 600 million	EUR 640.9 million	~ EUR 670 million	> EUR 700 million
Costs	Initial increase in cost base in the year 2021, costs projected around EUR 430 million including integration costs	EUR 421.4 million ⁽⁵⁾	Costs at 2021 level	~ EUR 400 million
Cost of Risk	Around -20 bps	- 41 bps	20-30 bps	30-50 bps
Loan Growth	Mid-single digit loan growth	9%	High single digit loan growth	High single-digit loan growth
Dividend	EUR 92.2 million	EUR 92.2 million	EUR 100 million	EUR 110 million
ROE a.t. (%)	> 10%	11.4%	~ 10%, (ROE normalized ⁽⁶⁾ 12%)	> 10% (ROE normalized ⁽⁶⁾ > 12%)

⁽⁵⁾ Including integration costs: EUR 7.8 million G&A costs and EUR 5.9 million HR provisions.

⁽⁶⁾ ROE normalized = Result a.t. w/o minority shareholder profit divided by consumed capital. Consumed capital computed as 13.06% of average RWA reduced for minority shareholder capital contribution.

⁽⁷⁾ If legal remedies against the adopted law in February 2022 concerning loan agreements in Swiss francs concluded by banks operating in Slovenia (including NLB) and individuals are unsuccessful, the Bank estimates a negative pre-tax effect on the operations of NLB and NLB Group between EUR 70 and 75 million. This would have a limited (up to 55 bps) negative impact on the capital position.