

# NLB Group Presentation

Creating a South Eastern European Banking Leader

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# Executive Summary

## Acquisition of Komercijalna banka a.d., Beograd

- Transaction completed in Dec 2020 (final price: EUR 394.7 million for 83.23% of ordinary shares)
- Integration process already started
- First consolidation done – no material surprises
- Negative goodwill (NGW) recognised (EUR 137 million) – integration costs fully funded by NGW
- Synergy effects estimated over EUR 20 million p.a. from 2023
- Takeover intention – confirming strong investment case
- Dividend capacity confirmed

## Preliminary Results for FY 2020

- Better than expected bottom line results
- Strict cost discipline underlines focus on cost excellence
- Pandemic had moderate impact on revenues
- CoR below guidance, given very good asset quality trends in Slovenia and decisive workout approach
- COVID-19 situation shows improvements - Slovenia & SEE region
- Stable macroeconomic outlook throughout the region

**Supporting NLB communities, clients and employees in the midst of COVID-19**



## Acquisition of Komercijalna banka - Strategic and Financial Rationale




# Strategic Rationale: A Transformational Deal to Become a Leading Player in SEE

## Franchise value enhancing transaction in Serbia



KB strengthens our position as one of Serbia's leading financial services provider.


KB enhances NLB Group's market share and presence across the country

	Before acquisition	After acquisition
Market share by total assets <sup>(1)</sup> %	1.9%	over 12%
No. of branches 	28	231



KB supports growth capacity and funding flexibility with stable core deposits and strong capital position.

KB adds new customer relationships as well as delivers our comprehensive range of products and services to an expanded customer base

	Before acquisition	After acquisition
No. of active clients 	141,866	991,354

# Financial Rationale: EPS Accretive Acquisition from 2022 whilst Integration Costs Fully Covered by NGW

Takeover offer intention aimed at securing all synergy potential

Strong enhancement of shareholder returns. EPS accretive >30% (2022 run-rate)



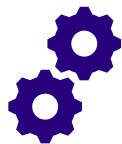
Strong contribution of Serbian market to Group's a.t. profit ~ EUR 100 million in 2024



Post merger after tax synergies quantified at EUR 21 million p.a



Increased efficiency CIR lower by 250 bps from 2023



Integration costs (EUR 31.2 million) and additional provisioning (EUR 7.0 million) fully covered with NGW



Published takeover intention

- Reaffirming our belief in KB
- 90% threshold squeeze out



# Dividend Capacity Remains a Key Driver to our Equity Story

Dividend distribution in 2021 – 2023 exceeding EUR 300 million

## 2021 Dividend:

- approval received for EUR 25 million as per ECB's limitation currently in place;
- ambition to distribute 70% of 2020 group profit excl. NGW – **EUR 92.2 million.**

Ambition to distribute in **excess of EUR 300 million** in **2021-2023**



## Acquisition Details





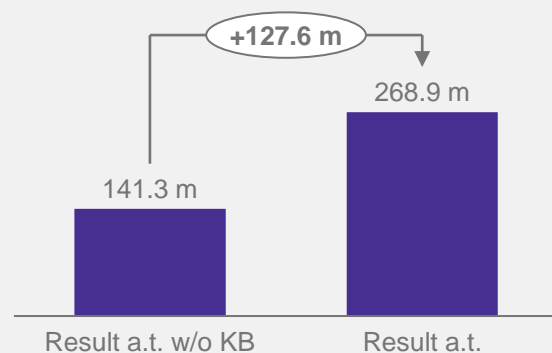
# Consolidation of Komercijalna Banka group in NLB Group 2020 Financials

## P&L and BS materially benefits from acquisition whilst maintaining CET1 well above requirement

### Impact of Komercijalna Banka group acquisition on NLB Group financials in 2020

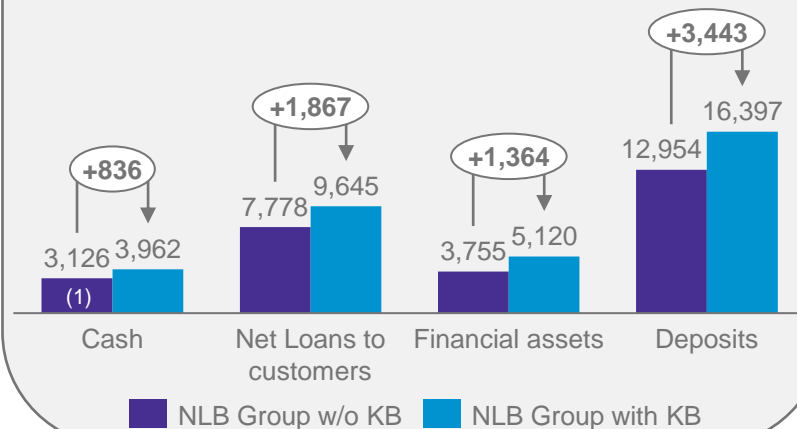
#### Income statement:

- Negative goodwill: EUR 137 million
- Expected credit losses on performing portfolio for KB banks: EUR 13.4million



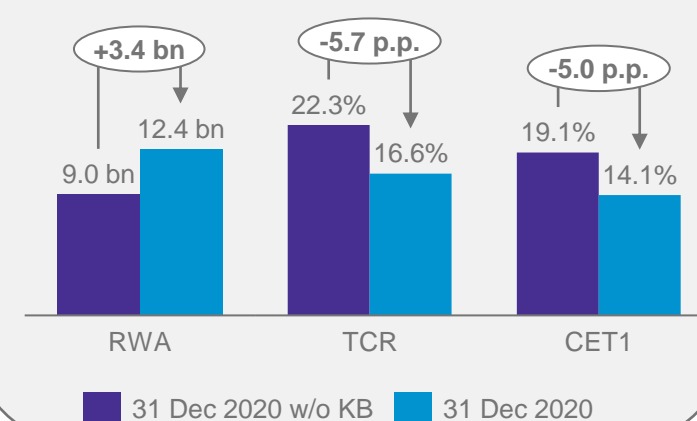
#### Balance sheet:

- EUR 4.3 billion increase in Total assets



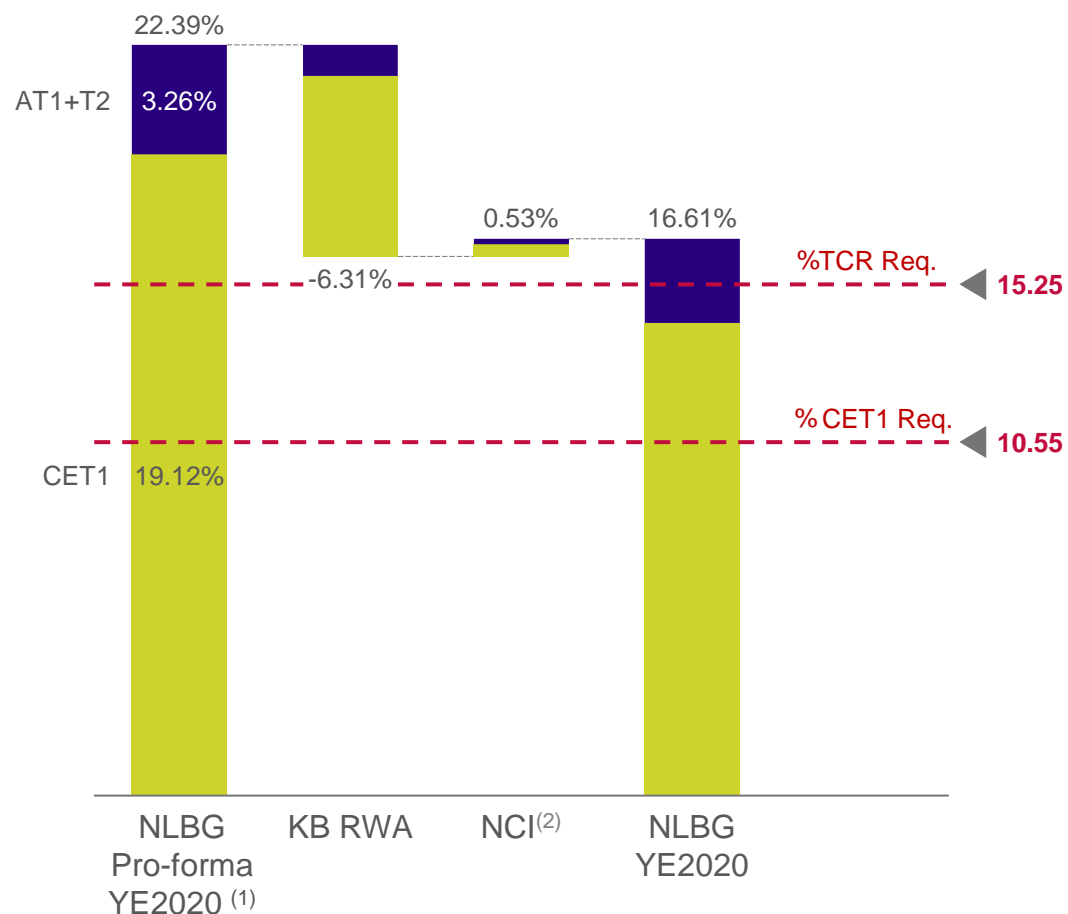
#### Capital:

- Increase of RWA
- Capital ratios well above requirements and target



# Pro-forma 2020 Capital Position Remains Above Requirements

Further capital optimisation measures have been identified



## ADDITIONAL CAPITAL IMPACTS:

- After takeover intention published in February 2021 regulatory capital lower by EUR 43m (35 bps);
- Inclusion of negative goodwill to regulatory capital expected by Q3 2021 (115 bps).

## RWA OPTIMIZATION ACTIONS:

- Decrease in KB trading book;
- Banking book portfolio optimization;
- Credit risk optimization through further engagement with MIGA;
- Third country equivalence framework for Bosnia and Herzegovina and Northern Macedonia.

(in EURm)	NLB Group	o/w KB
Credit Risk	10,223	2,676
Market Risk	1,251	730
Operational Risk	947	/
<b>RWA</b>	<b>12,421</b>	<b>3,406</b>

# Dedicated Team in Charge of Transformation to **Become the Leading Bank in the Serbian Market by 2025**

## Management Board members nominated by NLB



**Vlastimir Vuković**  
CEO and CMO

25 years of banking experiences

- 16 years Executive Board Member
- Deputy CEO and CMO in Vojvođanska banka
- President of the Executive Board in Intesa Leasing
- Member of the Executive Board of Banca Intesa, Srbija
- CMO in NLB Banka Beograd



**Dejan Janjatović**  
Deputy CEO, CRO and CFO

20 years of banking experiences

- 12 years Executive Board Member
- CMO in ProCredit Bank
- CRO and COO in ProCredit Bank
- Member of the Audit Committee of ProCredit Bank Moldova
- President of the Board of Directors of ProCredit Leasing
- CRO and COO in NLB Bank Belgrade



**Dragiša Stanojević**  
COO

23 years of banking experiences

- 5 years Executive Board Member
- Čačanska banka
- Eximbank
- UniCredit Banka Serbia
- Komercijalna Banka Beograd since 2006

## Board of Directors



**Archibald Kremser**  
chairman  
(CFO)



**Blaž Brodnjak**  
(CEO)



**Vesna Vodopivec**  
(GM HR)



**Marko Jerič**  
(GM Legal & Secretariat)



**Uršula Kovačić Košak**  
(GM FM & Group Steering)



**Igor Zalar**  
(GM Global Risk)



**Guy R.S. Stevens**



**Dragan Đuričin**

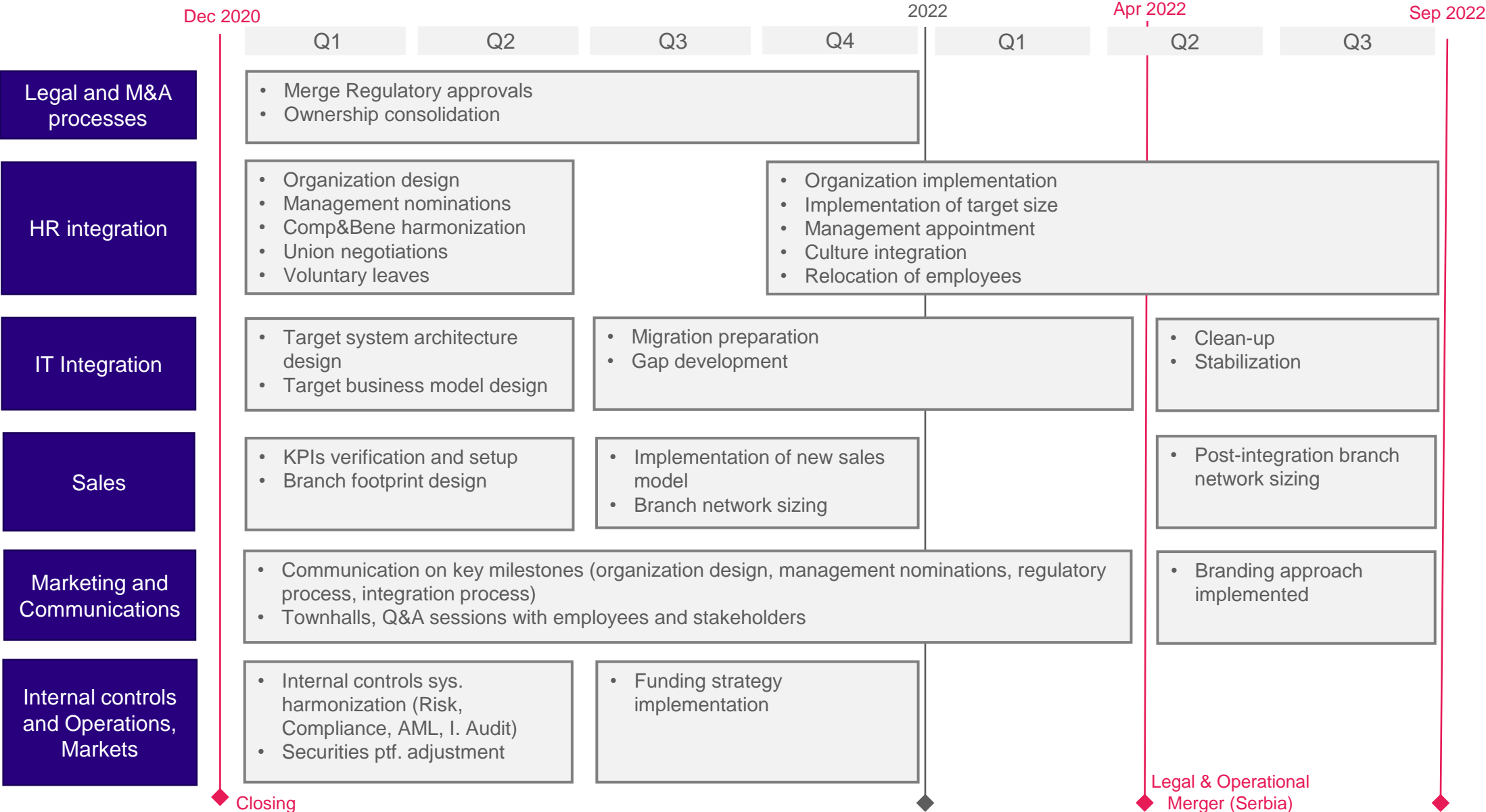


**Nenad Filipović**

- NLB representative (function in NLB)
- Independent representative

# Planned Integration of Two Banks in Serbia by Q2 2022

Synergy potential almost fully activated by end 2023





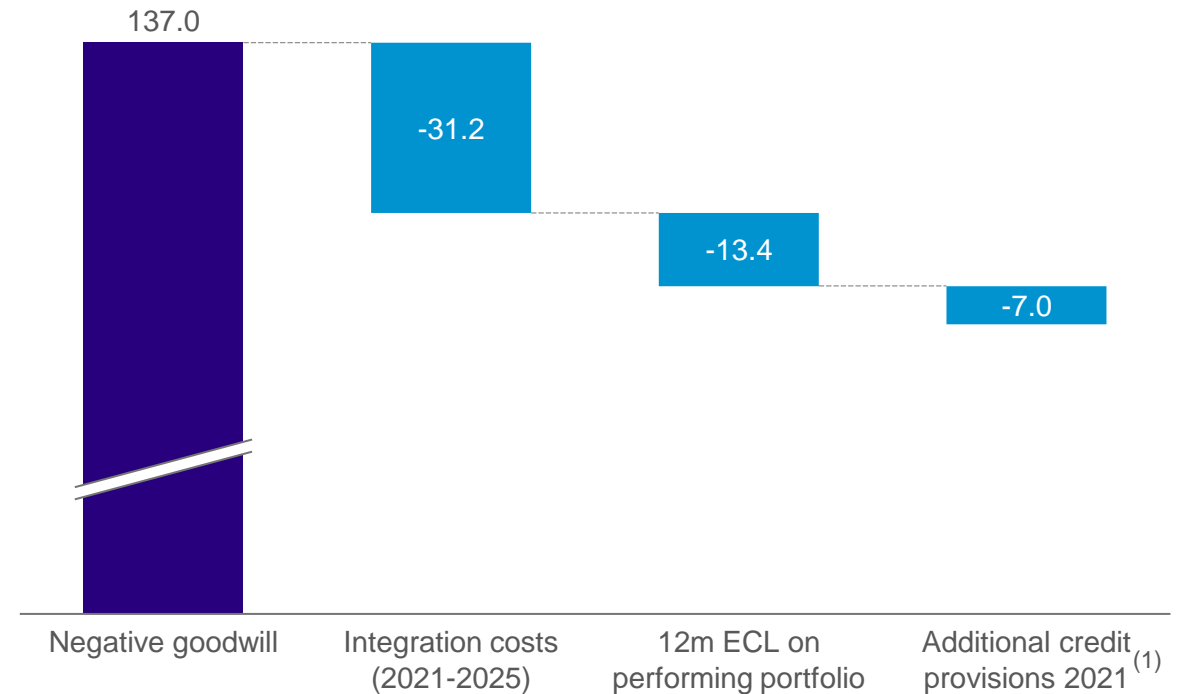
# Integration Costs are Fully Funded by Negative Goodwill

Approximately 2/3 of integration costs will occur in the first year

Integration costs between 2021 and 2025 (EURm)

	Amount	% of total
IT costs	-8.2	26.3%
HR restructuring	-11.4	36.5%
Marketing	-5.9	18.9%
Other	-5.9	18.3%
<b>Total</b>	<b>-31.2</b>	

Negative goodwill covers all restructuring charges (EURm)



# Cost Synergies Play the Lion's Share, Focusing on Operational Excellence

Expected efficiency improvements in excess of EUR 20 million p.a. from 2023

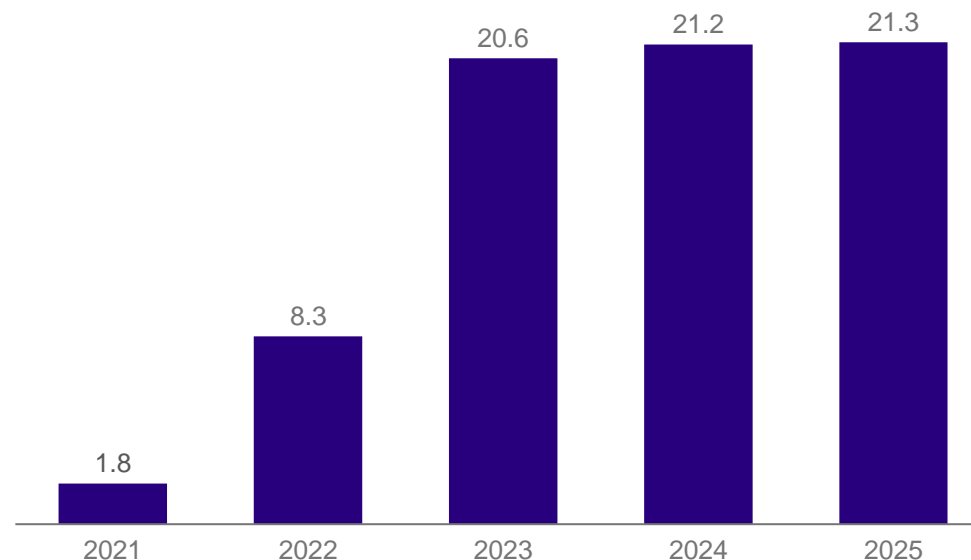
Synergies between 2021 and 2025 (EURm)

	Amount (Run-rate 2023)	% of total
Income synergies/attrition	1.2	6%
Cost synergies	20.1	94%
<b>Total</b>	<b>21.3</b>	

Cost synergies identified and share in cost synergies:

- HR cost synergies (50.0%)
- Rent HQ Buildings (13.5%)
- G&A cost synergies (32.8%)
- IT synergies (3.5%)

Total synergies by year (EURm)



Synergies from KB Banja Luka and KB Podgorica are not included in this calculation and they present further potential for efficiency improvements.



## Unaudited FY 2020 Results

# Key performance indicators of NLB Group

## Stable core revenues and strict cost discipline

in EUR million / % / bps	1-12 2020	1-12 2019	Change YoY
<b>Key Income Statement Data</b>			
Net operating income <sup>(i)</sup>	504.5	517.2	-2%
Net interest income	299.6	318.5	-6%
Net non-interest income	204.9	198.7	3%
Total costs <sup>(i)</sup>	-293.9	-305.0	4%
Result before impairments and provisions	210.5	212.2	-1%
Impairments and provisions	-71.4	-1.0	-
<b>Negative goodwill</b>	<b>137.0</b>		-
Result after tax	268.9	193.6	39%
<b>Result after tax w/o KB</b>	<b>141.3</b>	<b>193.6</b>	<b>-27%</b>
<b>Key Financial Indicators</b>			
Return on equity after tax (ROE a.t.)	8.3%	11.7%	-3.4 p.p.
Return on assets after tax (ROA a.t.)	1.0%	1.5%	-0.5 p.p.
Interest margin (on interest bearing assets)	2.11%	2.48%	-0.4 p.p.
Operational business margin <sup>(ii)</sup>	3.32%	3.77%	-0.5 p.p.
Cost-to-income ratio (CIR) <sup>(iii)</sup>	58.3%	59.0%	-0.7 p.p.
Cost of risk net (bps) <sup>(iv)</sup>	62	-20	82

in EUR million / %	31 Dec 2020	31 Dec 2019	Change YoY
<b>Key Financial Position Statement Data</b>			
Total assets	19,564.7	14,174.1	38%
Gross loans to customers	10,033.3	7,938.3	26%
Net loans to customers	9,644.9	7,604.7	27%
Deposits from customers	16,397.2	11,612.3	41%
Equity (without non-controlling interests)	1,952.0	1,685.9	16%

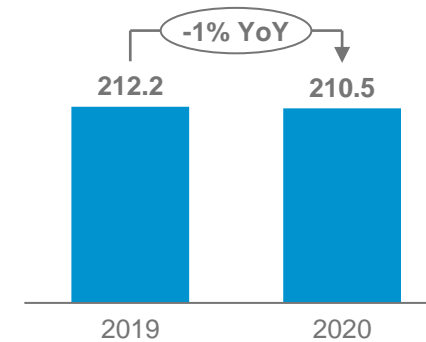
<sup>(i)</sup> Data for 2019 are adjusted to changed schemes prescribed by the Bank of Slovenia (relocation of some items from net other income to other general and administrative expenses);

<sup>(ii)</sup> Net income from operational business (NII - Tier 2 costs + Net fee and commission income + Recurring net income from financial operations) / Average total assets.

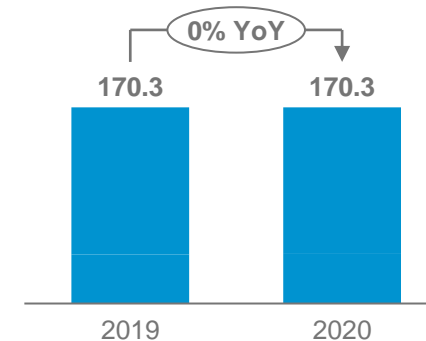
<sup>(iii)</sup> CIR is adjusted to changed schemes prescribed by the Bank of Slovenia.

<sup>(iv)</sup> Credit impairments and provisions (annualised level) / average net loans to non-banking sector

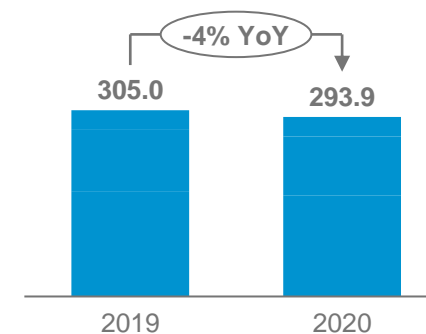
Result before impairments and provisions (in EURm)



Net fee and commission income (in EURm)



Costs (in EURm)

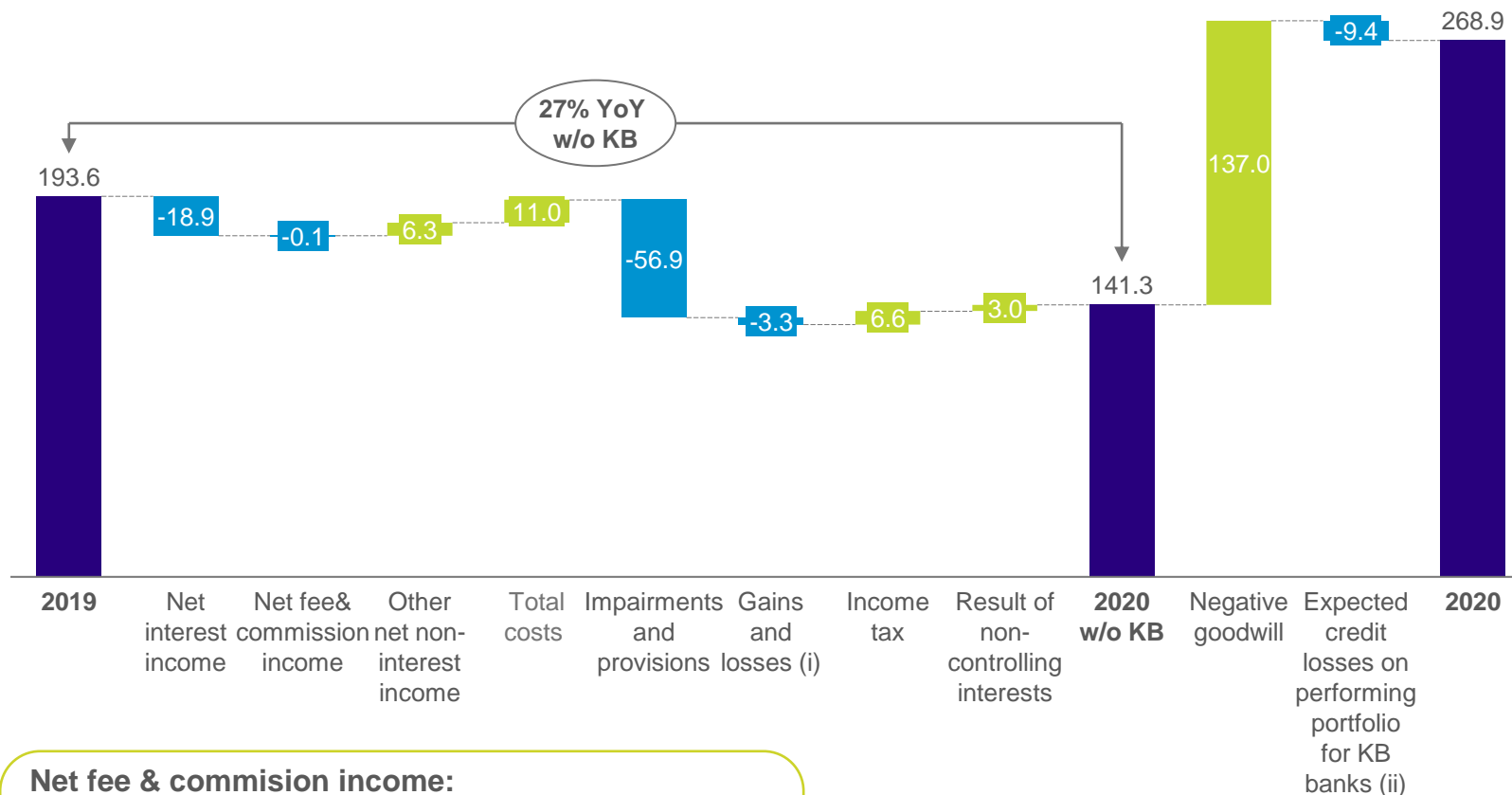




# Operating Income Performance Resilient Despite COVID-19

Bottom line affected primarily by COVID-19 related provisions

Net profit of NLB Group – evolution YoY (in EUR million)



## Net interest income:

- Lower reinvestment yields
- Higher cash position
- Issued Tier2 instruments

## One-off effects:

Vita & securities sale: Non-recurring net income was affected by the sale of NLB Vita (EUR 11.0 million), the sale of debt securities in NLB (EUR 17.1 million) and revaluation of loans measured at fair value through P&L (EUR 4.9 million)

## Net fee & commission income:

On the same level YoY, negative impact of COVID-19 on card operations and payment transactions compensated by increased package fees, higher assets management and bancassurance fees and achieved discounts on card operations

## Negative goodwill:

Assets and liabilities acquired measured at their fair values at the acquisition date

## Income tax:

Lower taxable income in subsidiaries, EUR 3.6 million tax refund related to Trieste Branch, no withholding tax due to almost no payment of dividends from subsidiaries outside Slovenia (in 2019 EUR 2.8 mil WHT)

## Total costs:

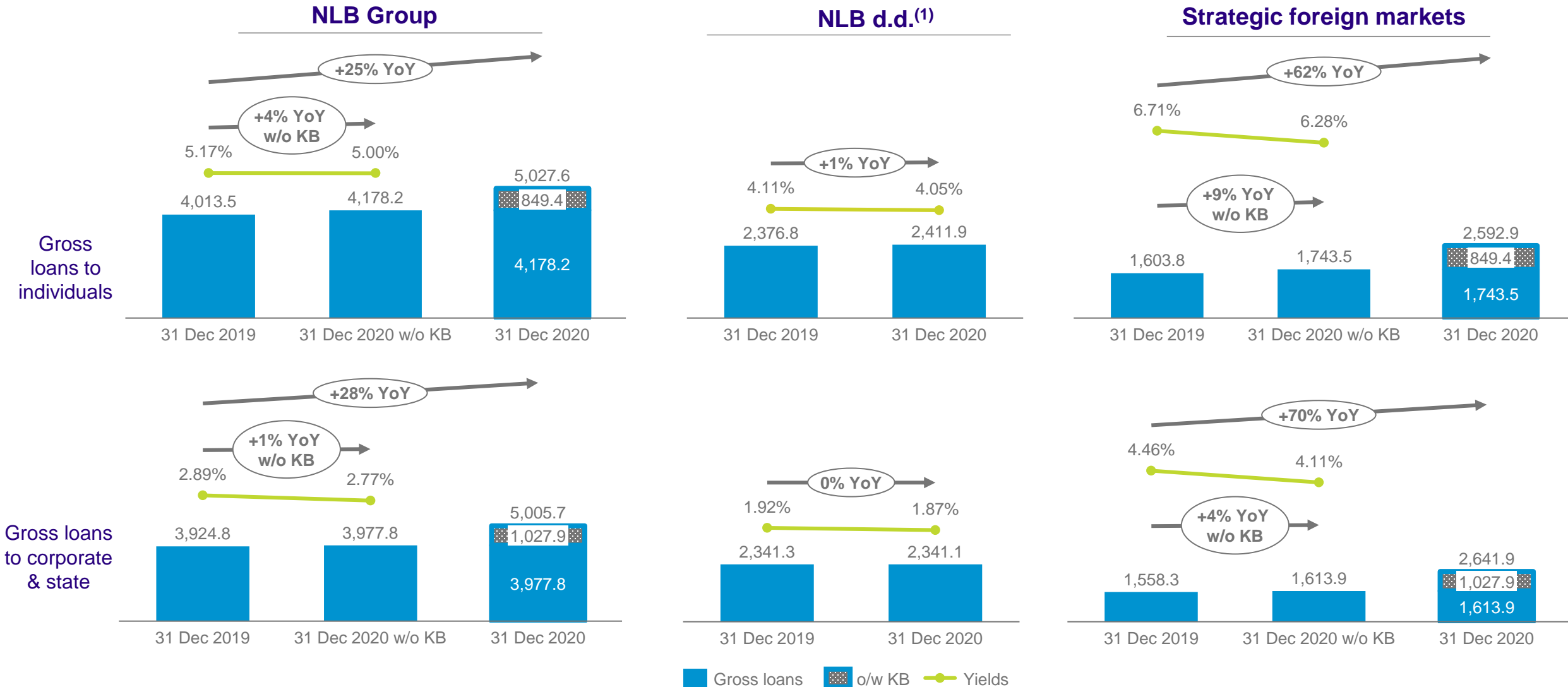
4% lower costs YoY: strict discipline and effects from cost initiatives

## Net impairments and provisions:

In 2020, the Group established EUR 48.9 million of net impairments and provisions for credit risk, o/w EUR 18.4 million due to changed macroeconomic parameters (COVID-19). In addition expected credit losses on performing portfolio for KB banks in the amount of EUR 13.4 million were created

# Loan Dynamics

Robust loan growth in subsidiaries continues, with KB acquisition Strategic foreign markets outgrowing Slovenia



Note: (1) Without funding of subsidiaries;

# Decisive Response to COVID-19

By the end 2020 over 80% of moratoria expired

(in EUR)	Covid - 19 Moratorium				
	Exposure	o/w expired by 31 Dec. 2020	Outstanding amount	% of Exposure	% of Exposure (excl. expired moratoriums)
<b>NLB Group member</b>					
NLB d.d.	489,950.9	152,108.6	337,842.3	7.0%	4.8%
NLB Banka, Skopje	347,350.6	292,042.4	55,308.2	27.5%	4.4%
NLB Banka, Banja Luka	20,946.1	17,443.6	3,502.6	3.5%	0.6%
NLB Banka, Sarajevo	35,157.2	26,799.2	8,358.0	6.3%	1.5%
NLB Banka, Prishtina	249,283.2	190,121.7	59,161.5	32.3%	7.7%
NLB Banka, Podgorica	165,046.9	165,046.9	0.0	35.0%	0.0%
NLB Banka, Beograd	251,797.6	251,797.6	0.0	41.5%	0.0%
NLB Leasing d.o.o. - v likv., Ljubljana	3,615.2	3,331.9	283.3	14.1%	1.1%
Komercijalna banka a.d., Beograd	798,057.7	798,057.7	0.0	34.1%	0.0%
Komercijalna banka a.d., Banja Luka	32,073.8	27,604.8	4,469.1	16.1%	2.2%
Komercijalna banka a.d., Podgorica	41,664.3	38,050.2	3,614.1	32.0%	2.8%
<b>NLB Group</b>	<b>2,434,943.6</b>	<b>1,962,404.6</b>	<b>472,539.0</b>	<b>17.7%</b>	<b>3.4%</b>

On **NLB Group level (including Komercijalna Banka group) EUR 2,435 million moratorium approved**, 45% to Non-financial corporations and 54% to Households. Moratoria were granted for the period between 3 to 12 months. **By the end Q4 2020 81% of the granted moratoria already expired.**

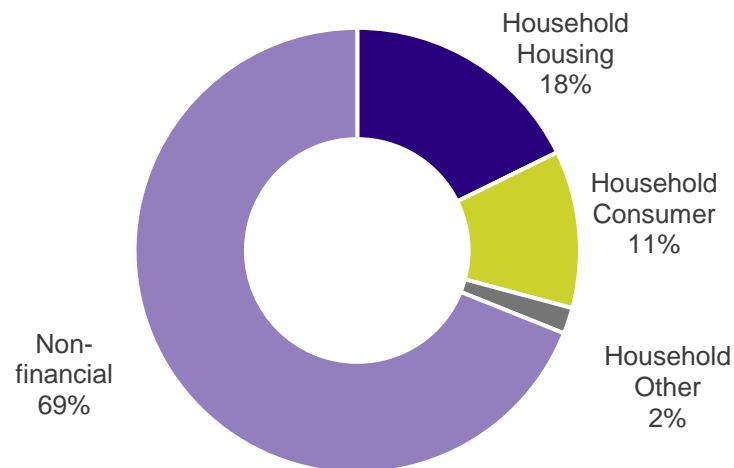
In Slovenia EUR 493.6 million moratoriums have been approved with outstanding amount EUR 338.1 million at the end of Q4 2020 and represents less than 5% of the total portfolio. Banks in Strategic Foreign Markets have approved EUR 1,941.4 million moratoriums, more than half of them in Serbian Banks as a result of COVID-19 related measures taken at the state level. **93% of the approved moratoriums approved in Strategic Foreign Markets have already expired by the end of Q4 2020.**

Apart from moratoriums, the Group is also providing additional liquidity by granting new loans to help with the specific situation due to COVID-19 crisis. The volume of such loans was EUR 20.8 million in the Bank and close to EUR 128.1 million in other banking members of the Group, most of them in Serbia, amounting to 4% of total exposure to Serbia. EUR 134.6 million of the **new COVID-19 loans are subject to public guarantee schemes** in Serbia and in Slovenia.

# Performance of Expired Portfolio and Remaining Moratorium Overview

More than 95% of expired moratoria clients are repaying regularly

Structures of non-expired loans under moratorium (31 Dec 2020, in %)



	Stage distribution	
	Non-financial	Households
Stage 1	50.7%	56.6%
Stage 2	38.0%	35.8%
Stage 3	11.4%	7.6%

	Duration of outstanding moratoriums		
	<= 3 months	> 3 months <= 6 months	> 6 months
Percentage of non-expired exposure	55.2%	27.4%	17.4%

## REMAINING MORATORIUM OVERVIEW – solid coverage, small remaining exposure and short duration

- Duration of remaining moratoriums is very short – more than 82% or EUR 390 million of exposure will expire by mid-2021 making moratoriums H1 2021 story.
- Structure of the moratorium exposure has shifted from initial 54% exposure to households and 45% to non-financial corporations to remaining exposure of two thirds to non-financial and the rest to households.
- Coverage ratio at 7.05% for total non-expired portfolio is double than coverage ratio for total exposure under moratoriums and what is normal for loan portfolio (3.4% without KB).

## PERFORMANCE OF EXPIRED PORTFOLIO – encouraging trends:

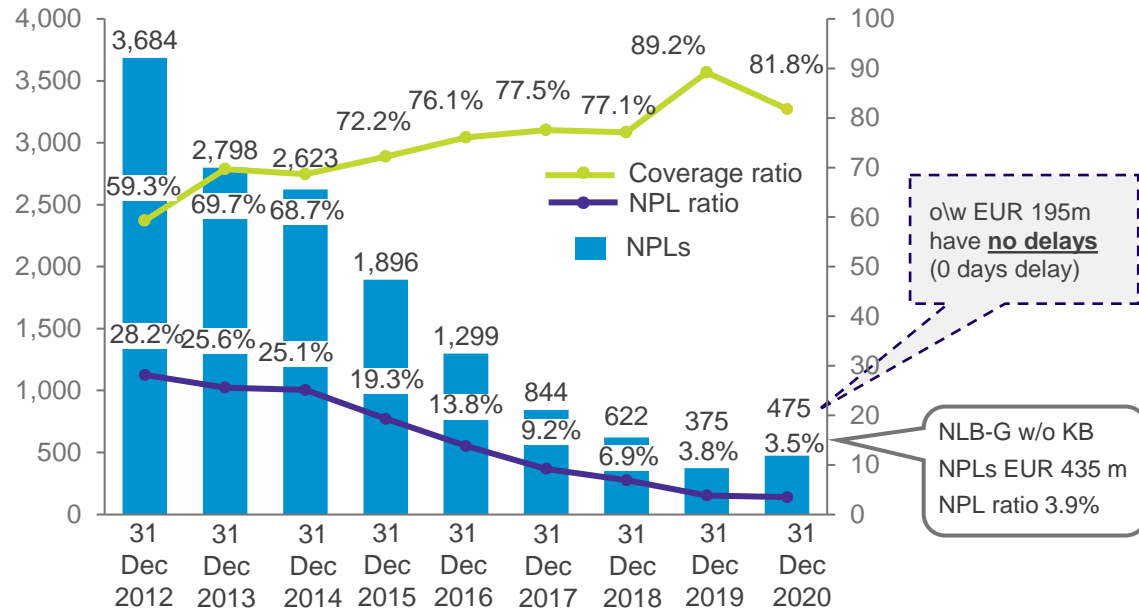
- Out of expired portfolio, we observe that more than 95% of exposure have no problems with servicing their obligations.
- Among the non performing exposures, more than two third are in the unlikely to pay or less than 90 days category, indicating that asset quality is behaving as expected and prepared for.



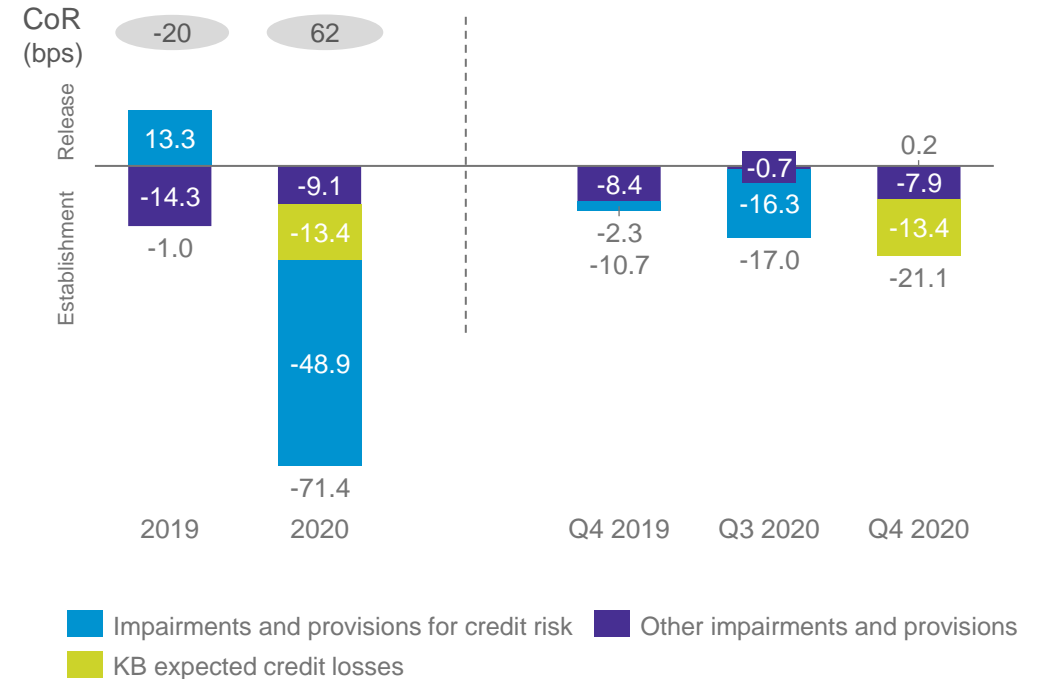
# Asset Quality

## Firmly under control with CoR at 62 bps

Active workout drove **gross NPL ratio** down (Group, EURm)



Impairments and provisions (Group, EURm)



**Cost of risk** at 62 bps, mostly related to COVID-19 provisions. Cost of risk lower than guidance, mainly due to very good asset quality trends in Slovenia and successful NPL workout.

In Q4 **NPL inflow** due to two one-off events; changed treatment of excluded interest (EUR 34 million) and KB banks acquisition (EUR 40 million). NPLs from regular business within the planned framework. On the other hand, a better recovery of NPLs than planned, mainly on repayments and sold receivables as well as reclassification to performing credit rating (net release of app EUR 18 million in NLB).

**NPL ratio** decreased from 3.8% to 3.5% YoY, while **NPE ratio** increased by 0.1 p.p. YoY to 2.8%.

Coverage ratio reduced due to classifications of loans from KB.

# Asset Quality of KB Banks After Fair Value Recognition

## High % of Stage 1 Loan portfolio – asset quality under control – the NLB way

Credit portfolio<sup>(1)</sup> by Stage (KB Banks, 31 Dec 2020, EURm)

in EUR million

	Total credit portfolio				Retail			Corporate			
	Stage1	Stage2	Stage3	FVTPL	Stage1	Stage2	Stage3	Stage1	Stage2	Stage3	FVTPL
<b>KB Banks</b>	<b>2,603.2</b>	-	<b>40.4</b>	-	<b>843.7</b>	-	<b>5.8</b>	<b>966.1</b>	-	<b>34.6</b>	-
Komercijalna banka a.d., Beograd	2,279.8	-	35.2	-	766.4	-	3.8	799.4	-	31.4	-
Komercijalna banka a.d., Banja Luka	197.2	-	1.2	-	34.0	-	0.5	117.6	-	0.6	-
Komercijalna banka a.d., Podgorica	126.1	-	4.0	-	43.3	-	1.4	49.1	-	2.6	-

	Credit portfolio						Provisions and FV changes for credit portfolio					
	Stage1		Stage2		Stage3 & FVTPL		Stage1		Stage2		Stage3 & FVTPL	
	Credit portfolio	Share of Total	Credit portfolio	Share of Total	Credit portfolio	Share of Total	Provision Volume	Provision Coverage	Provision Volume	Provision Coverage	Provisions & FV changes	Coverage with provisions and FV changes
<b>Total Credit portfolio of KB Banks</b>	<b>2,603.2</b>	<b>98.5%</b>	-	-	<b>40.4</b>	<b>1.5%</b>	<b>10.4</b>	<b>0.4%</b>	-	-	<b>0.0</b>	-
o/w Corporate	966.1	96.5%	-	-	34.6	3.5%	8.0	0.8%	-	-	0.0	-
o/w Retail	843.7	99.3%	-	-	5.8	0.7%	2.2	0.3%	-	-	0.0	-
o/w State	629.0	100.0%	-	-	0.0	-	0.2	0.0%	-	-	0.0	-
o/w Institutions	164.4	100.0%	-	-	0.0	-	0.1	0.0%	-	-	0.0	-

### All assets, including loans, initially recognised at fair value in NLB Group financial statements.

All loans are classified either in Stage 1 (performing portfolio) or in Stage 3 (non-performing portfolio).

For loans in **Stage 1**, **12-month expected credit losses** are recognised immediately after closing, i.e. already in year 2020.

For **Stage 3** loans special rules apply: these loans are called POCI loans (POCI = Purchased or Originated Credit Impaired) initially recognised at fair value, **without any additional credit loss allowances**.

In subsequent periods, only the cumulative changes in the lifetime expected credit losses since initial recognition will be recognised as a loss allowance for POCI loans (either as additional expenses if expected credit losses increase or as release of impairments if expected credit losses decrease).



## Final Remarks

# KB accelerates our strategic priorities



## Our Customers come first



- Client activation (850k active clients vs 1.1m client base);
- Strong potential in corporate SME segment (KB behind market);
- Product penetration and X-sell in cash and housing loans, credit cards;
- Positioning NLB&KB to gain efficiencies and further invest in customer experience.



## Delivery on our Strategy



- Becoming the leading financial institution focused on and headquartered in our home, the SEE region;
- Building a modern, digitalized, and efficient bank;
- Improving the quality of life in the region through a responsible and sustainable approach to our business operations.



## Expanding our Presence in Serbia



- Increasing market share and expanding services to new clients;
- Strengthening and leveraging on strong deposit franchise & strong capital base;
- New talent pool.



## Providing Long-term Value to Shareholders



- Strong contribution of Serbian market to Group's profit;
- EPS accretive over >30% (2022 run-rate);
- Dividend distribution in 2021-2023 exceeding EUR 300 million.

# Stronger together against Covid-19



## Employees

- Strong **emphasis on healthcare**
  - The majority of employees (85%) are working from home (except for branch office and contact centre employees)
  - Preventive withdrawal of employees with health conditions from work environment
  - Healthy Habits project promoting preventive measures and healthy lifestyle
- Promotion and support for **work - personal life balance**
- Implementation of **new communication channels** for online meetings and better reach (MS Teams and emergency SMS)

We protected our employees ...



## Clients

- Healthcare promotion and **strict preventive measures** in branches
- Implementation of **new digital solutions** and enhancement of our digital capacities
  - Remote signature feature in mobile bank Klikin
  - Biometric authentication in mobile wallet
  - Enhanced capacity of NLB Contact Centre - 124% more video calls in 2020
  - 50% increase of online chats with our banking advisors
  - Almost 35.000 new users of mobile bank Klikin
- Continuous support of our customers by providing **moratoria** and **liquidity lines**

... invested in technology,



## Community

- **Donations** aimed at mitigating the effects of the epidemic
  - To UKC Ljubljana and UKC Maribor
  - Heroes of the 3rd floor
- With **#HelpFrame Project** we supported local entrepreneurship by offering advertising space to more than 170 local businesses through the NLB Group
- We have committed ourselves to the **UN Principles for Responsible Banking**

and supported local communities.



# Outlook

## 2021

## 2023

Regular income	Exceeding EUR 600 million	Exceeding EUR 700 million
Costs	Initial increase in cost base in the year 2021, costs projected around EUR 430 million including restructuring charges.	Costs below EUR 400 million
CoR	70-90 bps	40-60 bps
Loan growth	Mid-single digit loan growth	High single-digit CAGR 2021-2023
Dividend	EUR 92.2 million	Cummulative more than EUR 300 million in 2021-2023
ROE	High single digit	> 10% (RORAC <sup>(1)</sup> > 12%)

# Investor Relations details

For any further questions please refer to [Investor Relations](#).

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# Q&A

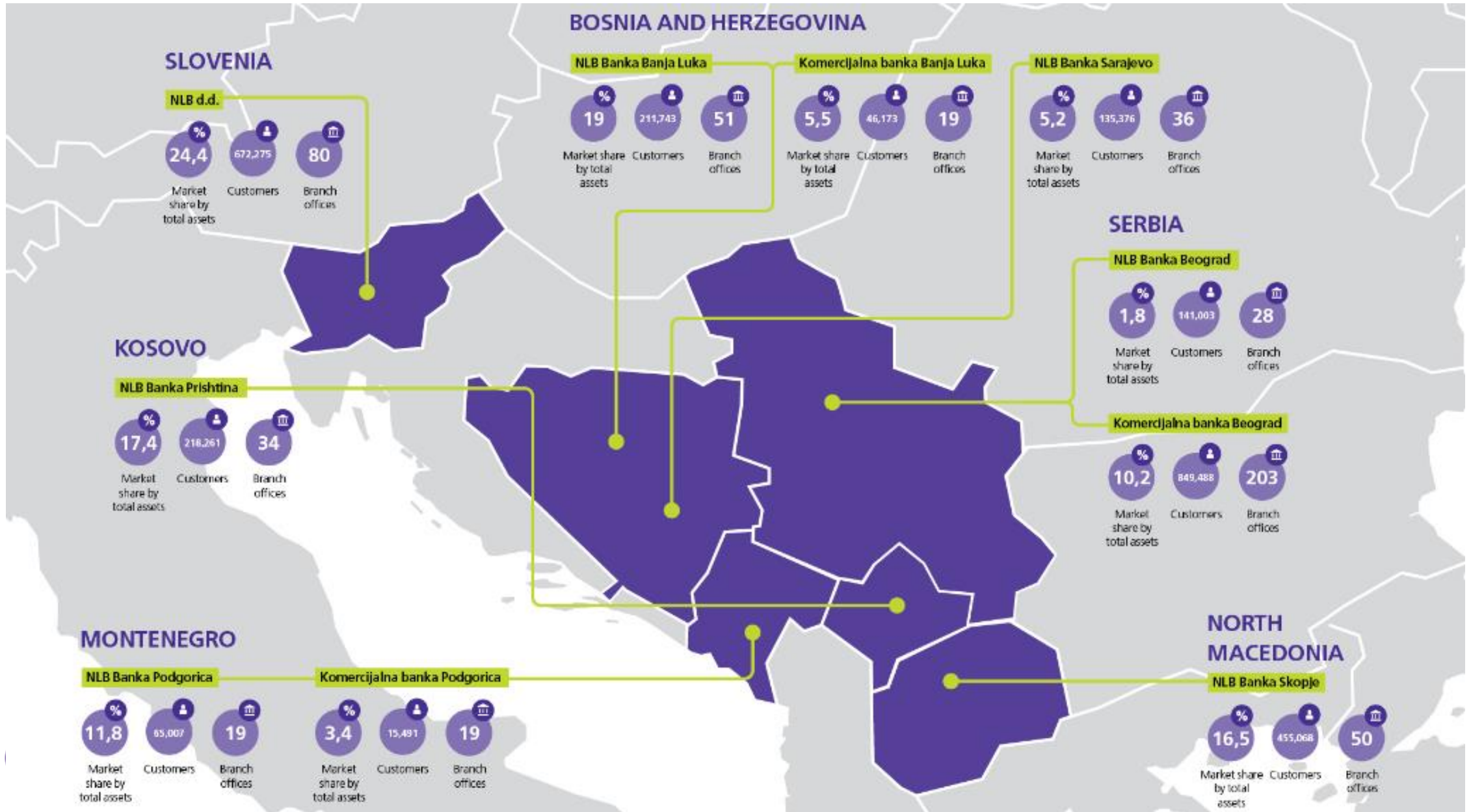


# Appendix





# Acquisition in Our Home Market





# Macroeconomic Environment in Serbia

Robust and diversified economy with resilient COVID-19 response setting pathway for future growth and digital development



**Lowest GDP contraction** in the region: **-1.0%**<sup>(1)</sup> in 2020, compared to -6.8% for Eurozone<sup>(2)</sup>



**FDI into Serbia rose to USD 4.3 billion in 2019** (8.3% of GDP) as a result of the country's improved business climate and equity capital growth. In 2019 the total stock of FDI stood at **USD 44 billion**.



## Main sectors of industry by GDP contribution:

- Services (IT fastest growing) 50.0%
- Industrial 25.5%
- Manufacturing 15.0%
- Agriculture 6.3%



## COVID-19 response:

- Government measures for reducing negative effects at **12% GDP**
- Serbia ranking **No. 1 in Europe** by number of people vaccinated

# Key Performance Indicators of Komercijalna banka

## Komercijalna Banka group<sup>(1)</sup>

in EUR million	Komercijalna Banka, Beograd		Komercijalna Banka, Banja Luka		Komercijalna Banka, Podgorica		Kombank INvest		Komercijalna Banka group (consolidated)	
	2020	2019	2020	2019	2020	2019	2020	2019	2020	2019
Net interest income	103	107	5	5	5	5			113	117
Net fee and commission income	41	45	2	2	1	2			45	49
Operating costs	98	94	6	6	6	5	0.2	0.2	110	105
Net impairments and provisions	-9	21	0	0	-1	-1	0.001	0.025	-11	13
Result after tax <sup>(i)</sup>	25	76	1	1	1	1			26	71
Total assets	3,907	3,677	236	250	154	156	1.5	1.4	4,255	4,046
Net loans to customers	1,630	1,579	155	151	104	88			1,866	1,771
Deposits	3,194	2,874	153	177	120	125			3,455	3,155
ROE <sup>(ii)</sup>	5.6%	11.7%	2.3%	3.8%	2.6%	4.8%	0.4%	1.9%	5.5%	10.2%
Interest margin <sup>(iii)</sup>	2.7%	3.0%	2.3%	2.2%	3.3%	3.3%			2.7%	3.0%
CIR	68.1%	61.8%	87.6%	86.5%	85.3%	83.6%			69.2%	63.7%
LTD	51.0%	54.9%	101.8%	85.2%	86.7%	70.7%			54.0%	56.1%
NPL ratio <sup>(ii)</sup>	7.8%	7.2%	2.1%	5.8%	4.9%	5.8%			7.2%	7.0%
# of employees	2,669	2,744	163	159	146	148	5	5	2,983	3,056

(i) Profit before tax for Komercijalna banka, Banja Luka and Komercijalna banka, Podgorica

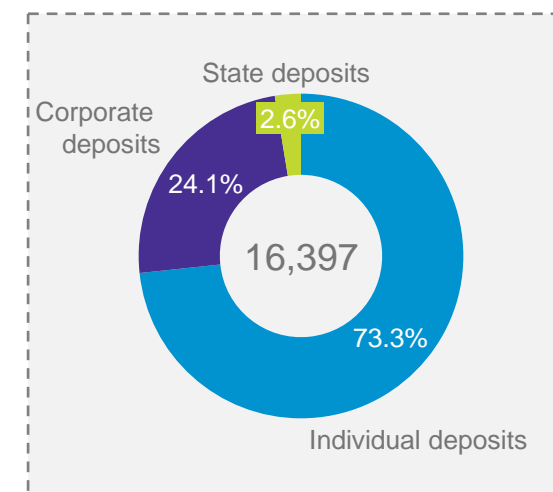
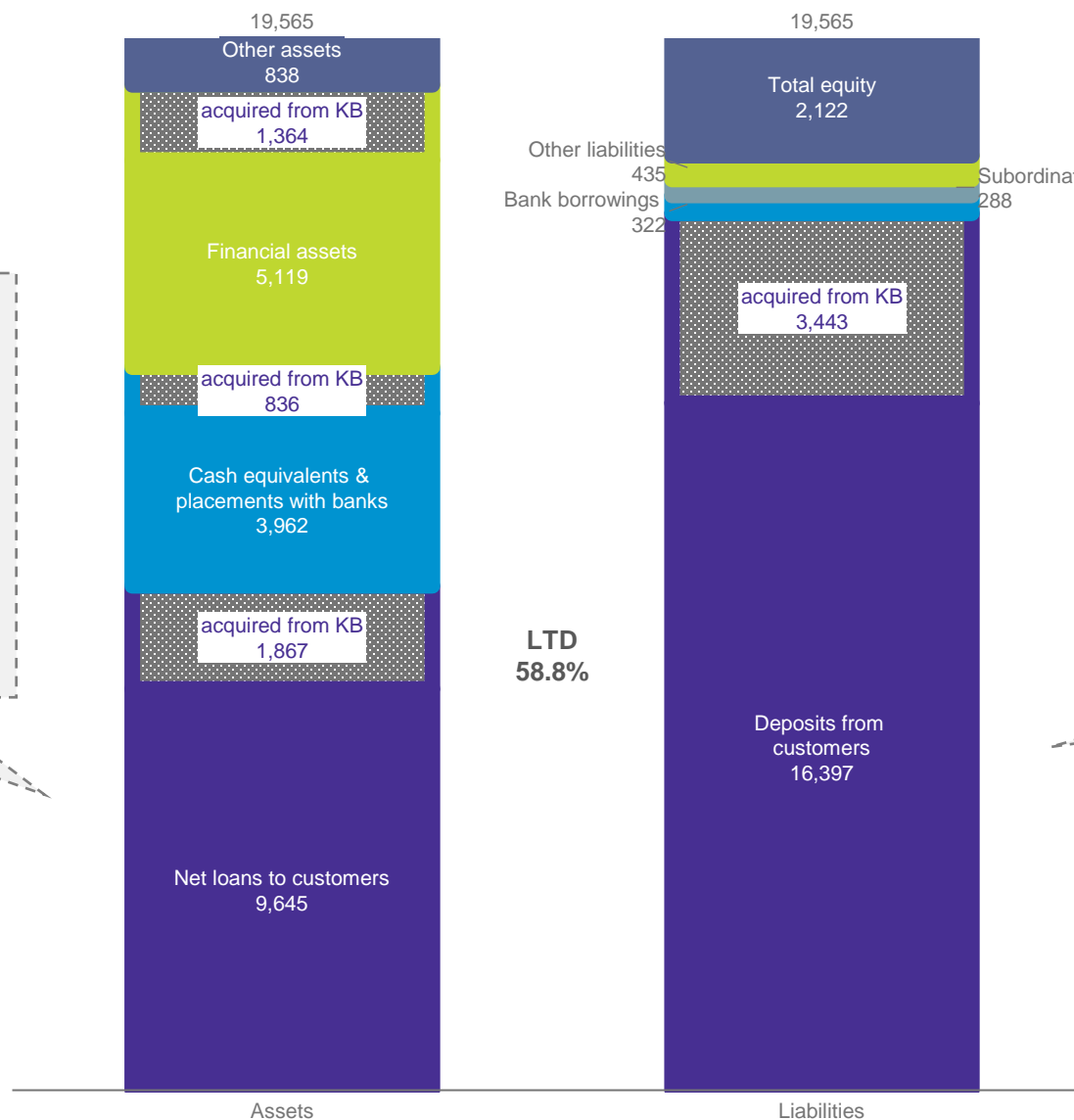
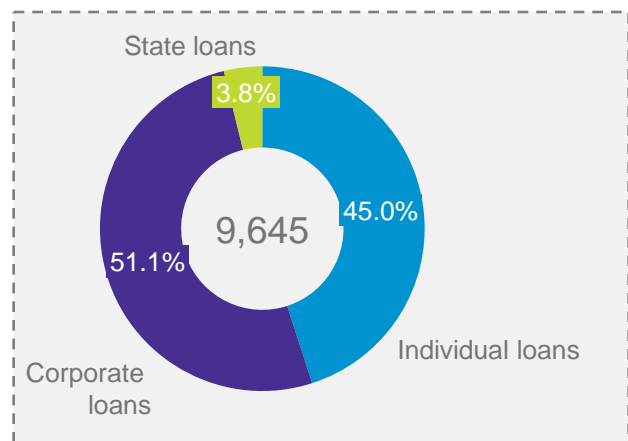
(iii) Total capital

(iii) Total Assets

# Balance Sheet Structure – NLB Group

Increase of total assets by EUR 4.3 billion due to Komercijalna Banka acquisition

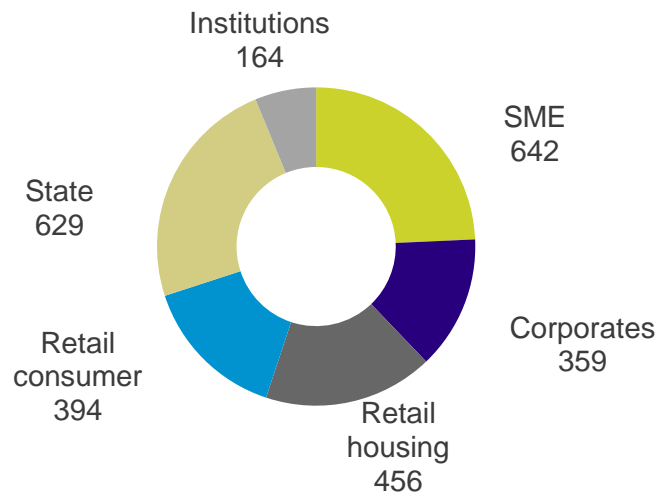
(31 Dec 2020, in EURm)



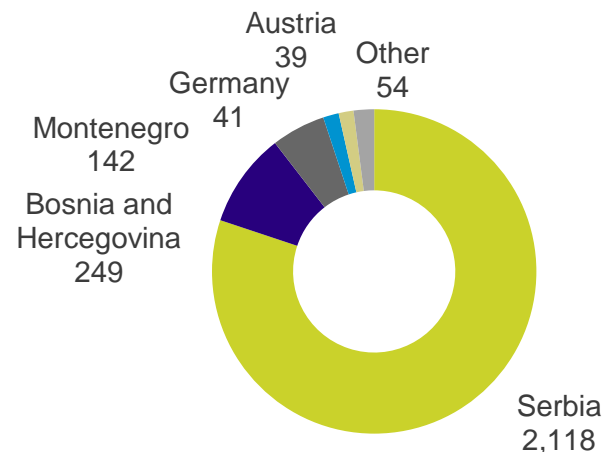
# Diversified Credit Portfolio of KB Group

Credit portfolio<sup>(1)</sup> (KB Banks, 31 Dec 2020, EURm)

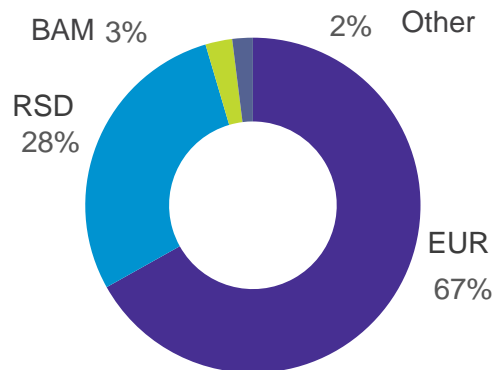
Credit portfolio <sup>(1)</sup> by segment



Credit portfolio <sup>(1)</sup> by geography



Credit portfolio <sup>(1)</sup> by currency



Top 10 industries	
INDUSTRY	Exposure (%)
Wholesale and retail trade	17.9%
Agriculture, forestry and fishing	12.5%
Manufacturing	11.2%
Construction industry	10.6%
Electricity, gas, steam and air condition	8.7%
Public admin., defence, compulsory social.	8.6%
Information and communication	6.9%
Mining and quarrying	4.8%
Real estate activities	3.9%
Transport and storage	3.7%

# KB's Market Share and No. of Clients

MARKET SHARE	
Total RETAIL Placements	8.46%
Private individuals	8.00%
Housing loans	10.31%
Consumer loans	6.77%
Overdarfts	14.57%
Agro business	14.85%
Micro business	8.44%
Total RETAIL Savings	17.21%
Total CORPORATE Placements	6.4%
Total CORPORATE Deposits	12.24%

ACTIVE CLIENTS	
KB Bank Retail *	842,164
Private individuals	727,104
Agro business	79,180
Micro business	35,880
KB Bank Corporate *	7,324

**\* Definitions for Active clients:**

- ✓ Individuals and farmers: all clients with loans, overdrafts, credit card with at least 3 months, positive balance on current account with at least 1 trnx in the last 3 months or any deposit over RSD 1.000.
- ✓ Micro clients: all clients with exposure of deposits over EUR 10.000.
- ✓ Corporate: all clients (PL+NPL) with total exposure (PL+NPL) >0 and/or deposits above RSD 10.000 and at least 1 trnx on the current account in the last 3 month



# Welcome package

For existing and new clients NLB & KB in Serbia

From February/March onwards and throughout H1 2021 **introduce and strongly promote a Welcome package** for existing and new clients which will support the business (especially lending and new customer onboarding).



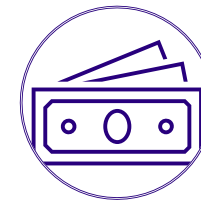
**Welcome  
Package (set)**  
Free of package fee  
for new customers for  
3-6 months



**Welcome  
Cash loan**  
Loans w/o origination  
fees for 3/6 months &  
refinancing cash loans  
for loans approved till  
Mar./Jun. 2020



**Welcome  
Housing loans**  
Loans w/o origination  
fees for new loans  
3/6 months



**Welcome to our  
ATMs**  
Free ATM cash  
withdrawal  
within NLB Group  
(over 330 ATMs in the  
country and 1,039  
in the region)



# Key Performance Indicators of NLB Group

## Stable core revenues and strict cost discipline

in EUR million / % / bps	1-12 2020	1-12 2019	Change YoY	Q4 2020	Q3 2020	Q4 2019
<b>Key Income Statement Data</b>						
Net operating income <sup>(i)</sup>	504.5	517.2	-2%	121.2	123.3	129.8
Net interest income	299.6	318.5	-6%	75.1	74.4	79.7
Net non-interest income	204.9	198.7	3%	46.1	48.9	50.1
Total costs <sup>(i)</sup>	-293.9	-305.0	4%	-77.7	-71.4	-88.0
Result before impairments and provisions	210.5	212.2	-1%	43.5	51.9	41.9
Impairments and provisions	-71.4	-1.0	-	-21.1	-17.0	-10.7
<b>Negative goodwill</b>	<b>137.0</b>		-	<b>137.0</b>		
Result after tax	268.9	193.6	39%	164.2	31.0	31.3
<b>Result after tax w/o KB</b>	<b>141.3</b>	<b>193.6</b>	<b>-27%</b>	36.6	31.0	31.3
<b>Key Financial Indicators</b>						
Return on equity after tax (ROE a.t.)	8.3%	11.7%	-3.4 p.p.			
Return on assets after tax (ROA a.t.)	1.0%	1.5%	-0.5 p.p.			
Interest margin (on interest bearing assets)	2.11%	2.48%	-0.4 p.p.			
Operational business margin <sup>(ii)</sup>	3.32%	3.77%	-0.5 p.p.			
Cost-to-income ratio (CIR) <sup>(iii)</sup>	58.3%	59.0%	-0.7 p.p.			
Cost of risk net (bps) <sup>(iv)</sup>	62	-20	82			

in EUR million / %	31 Dec 2020	30 Sep 2020	31 Dec 2019	Change YoY	Change QoQ
<b>Key Financial Position Statement Data</b>					
Total assets	19,564.7	15,145.7	14,174.1	38%	29%
Gross loans to customers	10,033.3	8,111.1	7,938.3	26%	24%
Net loans to customers	9,644.9	7,749.0	7,604.7	27%	24%
Deposits from customers	16,397.2	12,408.8	11,612.3	41%	32%
Equity (without non-controlling interests)	1,952.0	1,770.8	1,685.9	16%	10%

<sup>(i)</sup> Data for 2019 are adjusted to changed schemes prescribed by the Bank of Slovenia (relocation of some items from net other income to other general and administrative expenses);

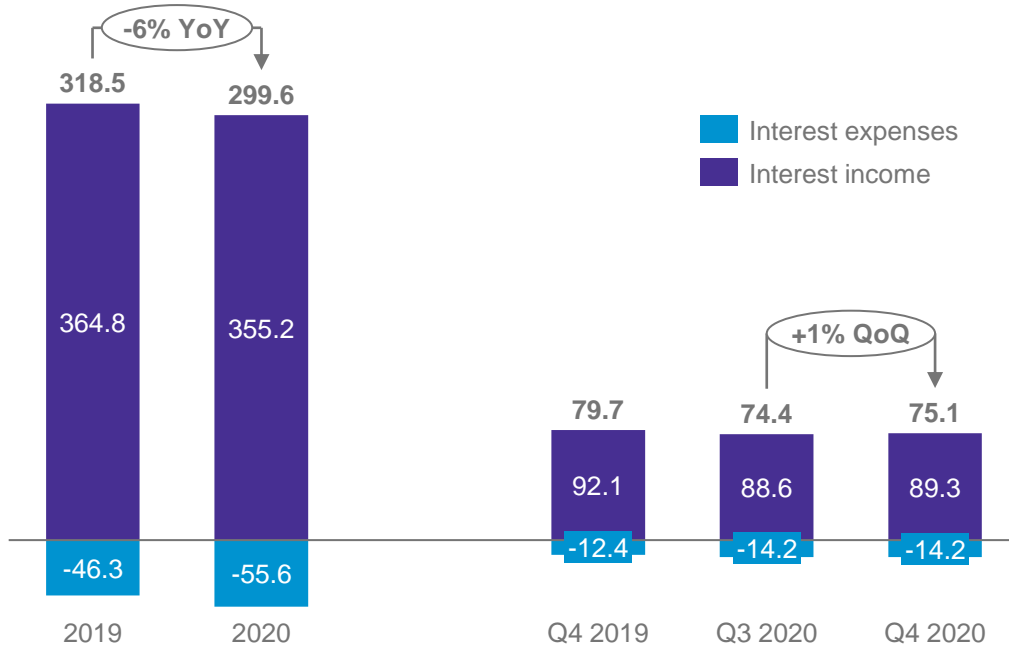
<sup>(ii)</sup> Net income from operational business (NII - Tier 2 costs + Net fee and commission income + Recurring net income from financial operations) / Average total assets.

<sup>(iii)</sup> CIR is adjusted to changed schemes prescribed by the Bank of Slovenia.

<sup>(iv)</sup> Credit impairments and provisions (annualised level) / average net loans to non-banking sector

# Net Interest Income Decreased: easing pressure on margins

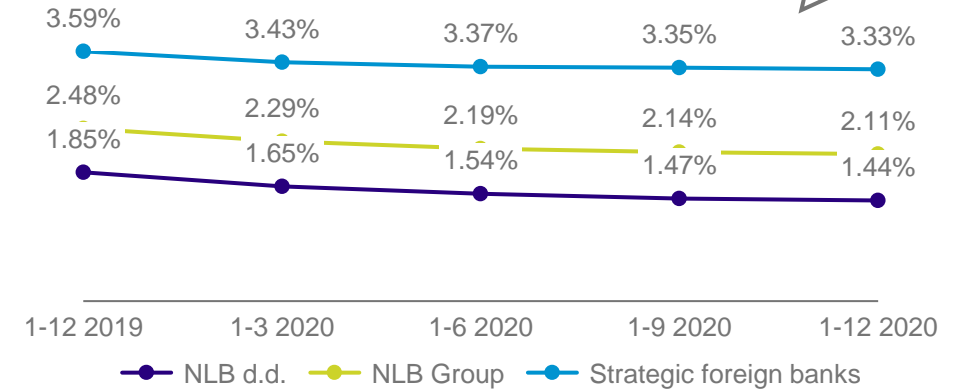
Net interest income of NLB Group (in EURm)



YoY decrease in interest income mostly related to lower income from financial assets related to reinvestment of debt securities with lower yields, higher cash volumes and balances with the central bank (bearing negative interest in line with the expansionary monetary policy), and continued pressure on interest rates achieved on the loan portfolio in the Bank and Group banking members in the SEE region. Higher interest expenses are related to the subordinated Tier 2 instruments raised by the Bank to optimize the capital structure. Interest expenses for customer deposits were decreasing.

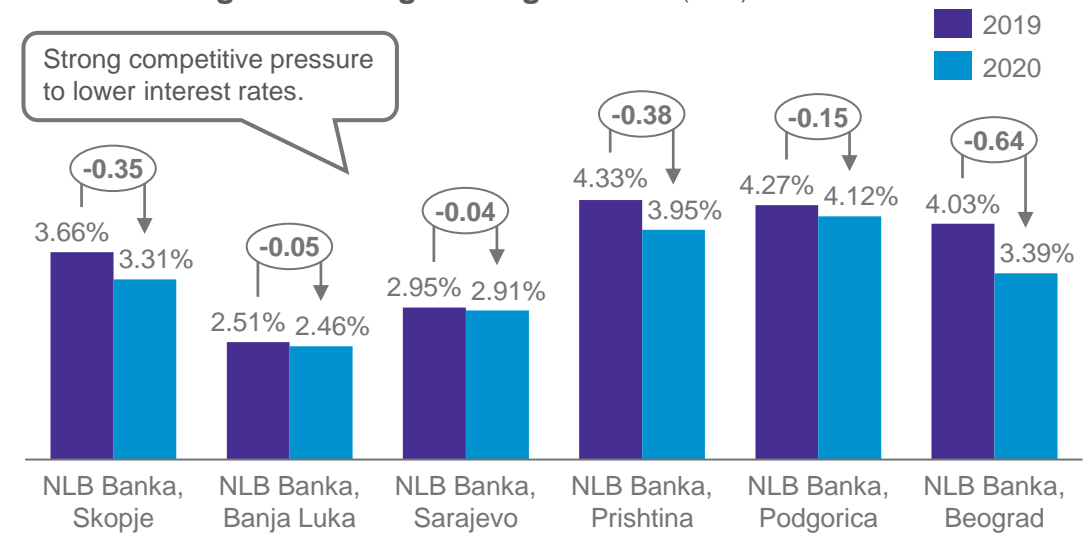
QoQ slight increase of the interest income due to higher volumes of loans, especially to individuals.

Net interest margin (in %)



Lower yields on securities portfolio and loan book, higher cost of funding (Tier 2), higher volume of cash and balances with central bank and continued pressure on interest rates.

Net interest margin in strategic foreign banks (in %)

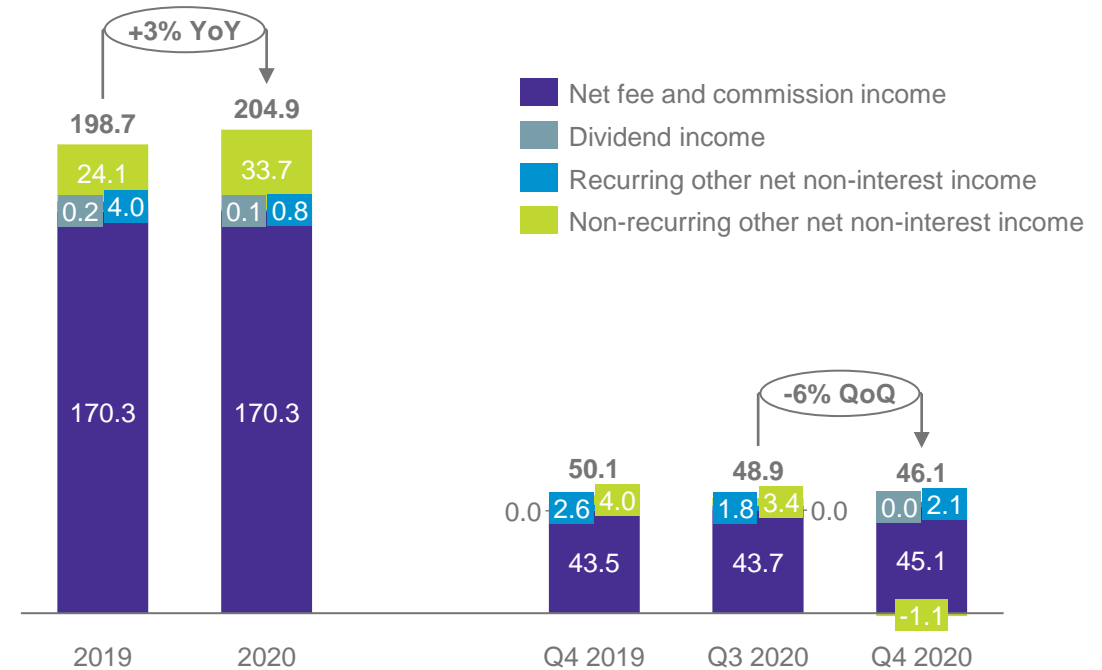


Strong competitive pressure to lower interest rates.

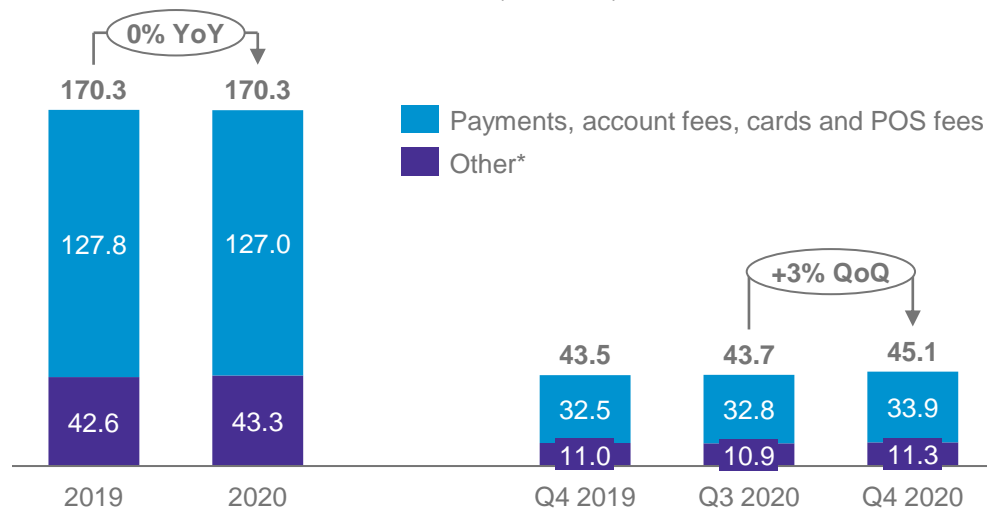
# Net Fees and Commissions **on the same level yoy**

- Net fee and commission income on the same level YoY, negative impact of COVID-19 on card operations and payment transactions compensated by increased package fees, higher assets management and bancassurance fees and achieved discounts on card operations.
- 2020 net non-interest income influenced by non-recurring income: sale of NLB Vita (EUR 11.0 million), sale of debt securities in NLB (EUR 17.1 million) and loan revaluation in the amount of EUR 4.9 million. In 2019 partial repayment of a larger exposure measured at fair value through profit and loss and active management of banking book securities in the amount of EUR 5.1 million and revaluation of a non-core equity stake in the amount of EUR 6.3 million.
- QoQ decrease mainly related to modification losses, caused by changes of contractual cashflows for loans under COVID-19 moratoria (o/w EUR 2.1 million in NLB Banka, Skopje and EUR 1.1 million in NLB, Banka Beograd).

## Net non-interest income of the NLB Group (in EURm)



## Net fee and commission income (in EURm)



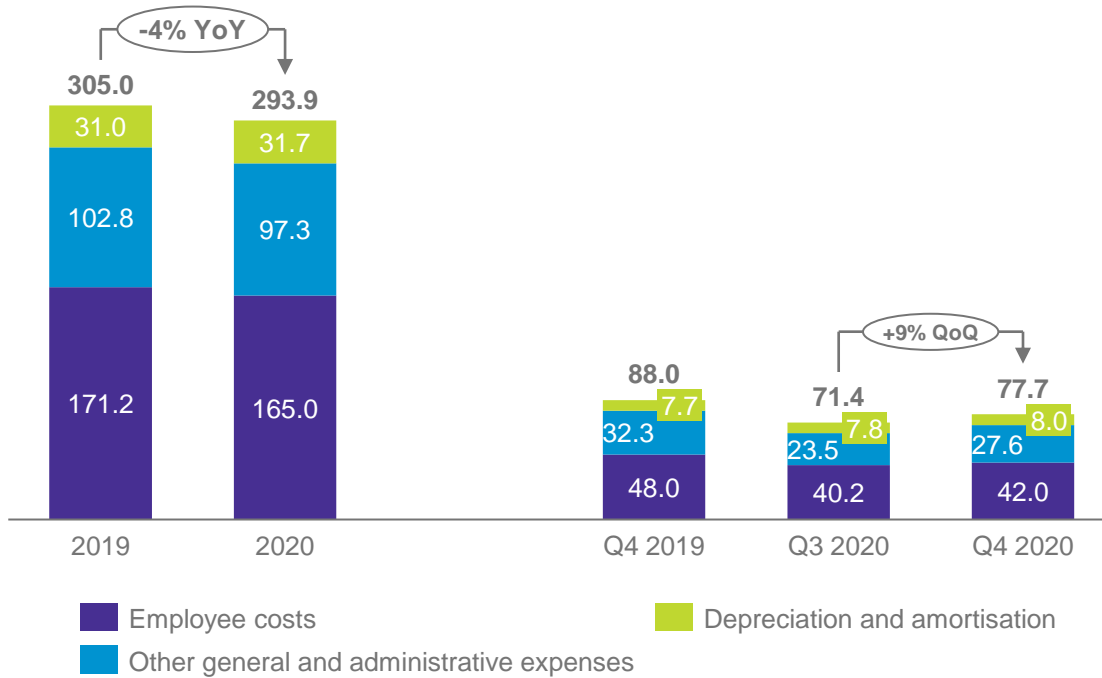
## Recurring net non-interest income split

in EUR million	Realization		Change YoY
	1-12 2020	1-12 2019	
<b>Recurring net non-interest income</b>	<b>171.2</b>	<b>174.5</b>	<b>-3.4</b> <b>-2%</b>
Net fee and commission income	170.3	170.3	-0.1 0%
Dividends income	0.1	0.2	-0.1 -47%
Net income from financial transactions (Fees from Exchange differences)	10.5	11.5	-1.0 -9%
Net other income	-9.7	-7.5	-2.2 -29%
- external realization (IT, cash logistics)	3.4	3.6	-0.2 -5%
- rents	3.6	5.1	-1.5 -30%
- regulatory charges (SRF, DGS)	-16.7	-16.2	-0.5 -3%

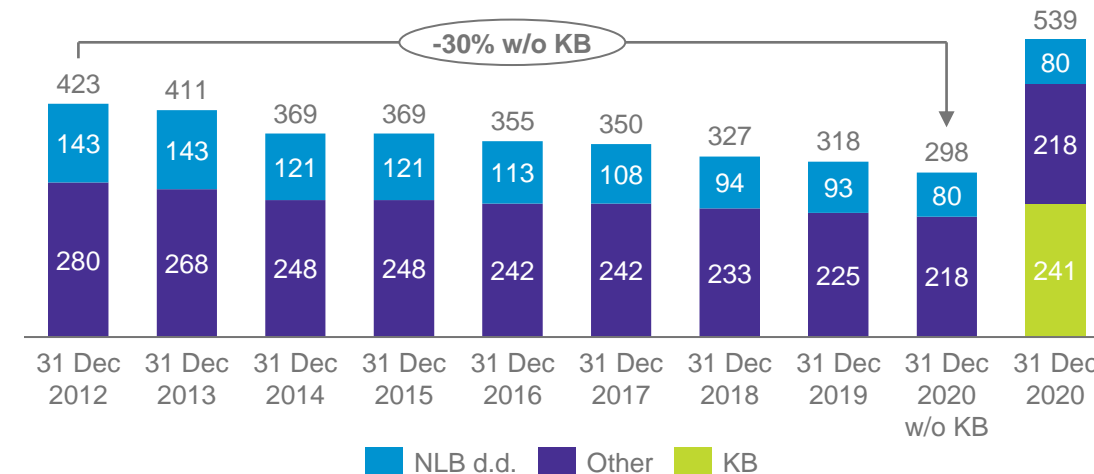
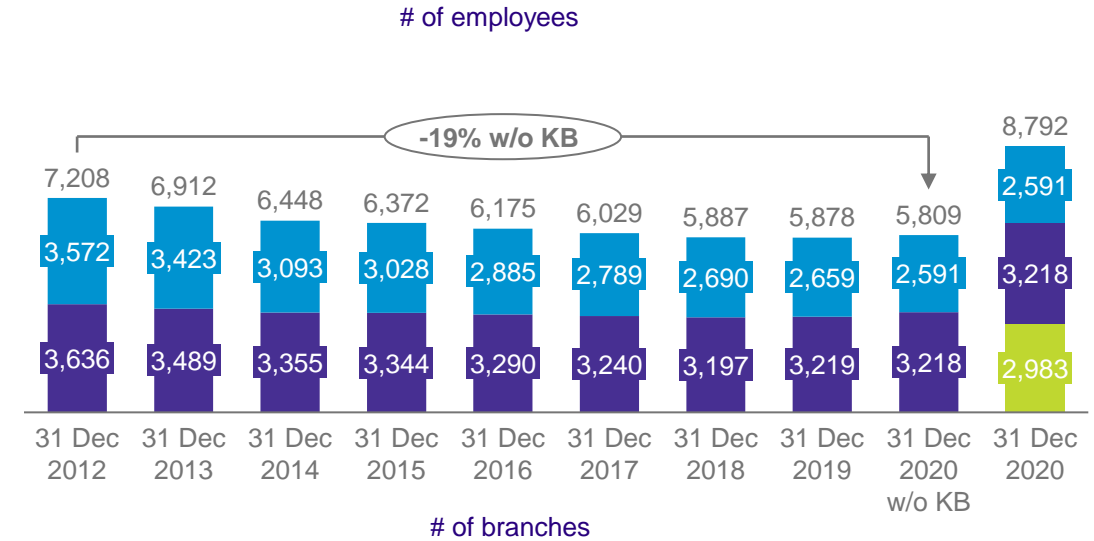


# Total Costs: lower employee costs and positive effects from cost rationalization projects

Costs (in EURm)



Effective rationalization of headcount and network



YoY decrease of total costs, mostly employee costs (mainly in NLB, due to lower number of branches and employees), positive effects from cash management and paperless projects, and cost of services (consulting). On the other hand higher IT costs (HOST, ESSO), costs of material (COVID-19 protection), and ECB&BoS supervisory costs in NLB.

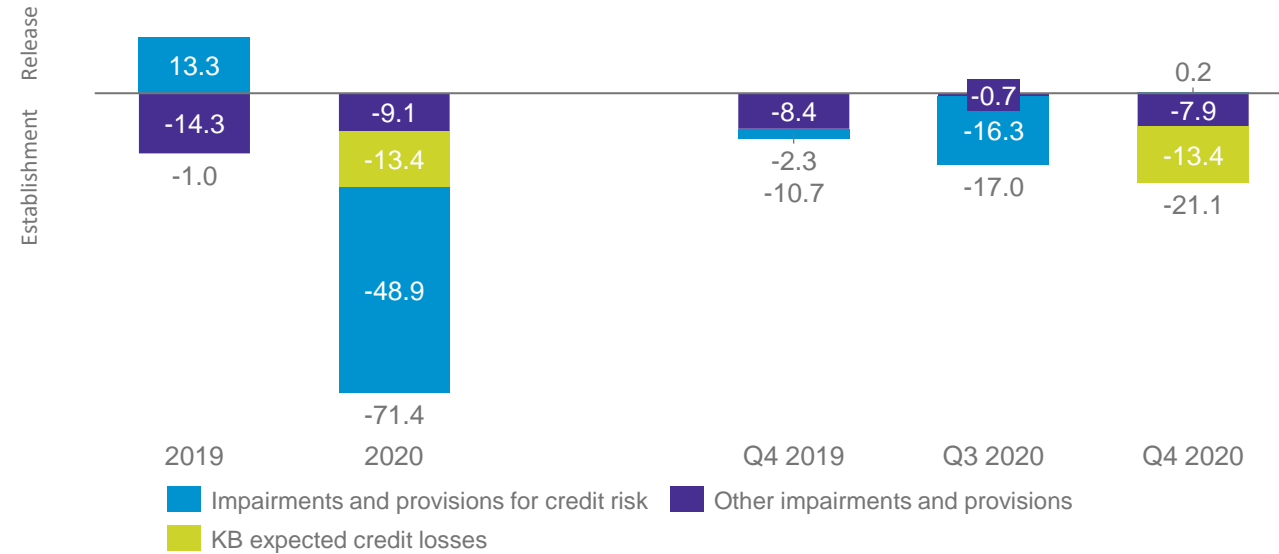
QoQ increase of total costs due higher other general and administrative costs (mostly costs of marketing and IT costs) and employee costs (still lower than pre COVID-19 levels).

The Group is undertaking several strategic initiatives (channel strategy, digitalization, paperless, lean process,...) to maintain the sustainable cost base going forward.

CIR stood at 58.3%.

# Additional Impairments and Provisions due to COVID-19 Outbreak and KB Acquisition

Impairments and provisions (in EUR m)

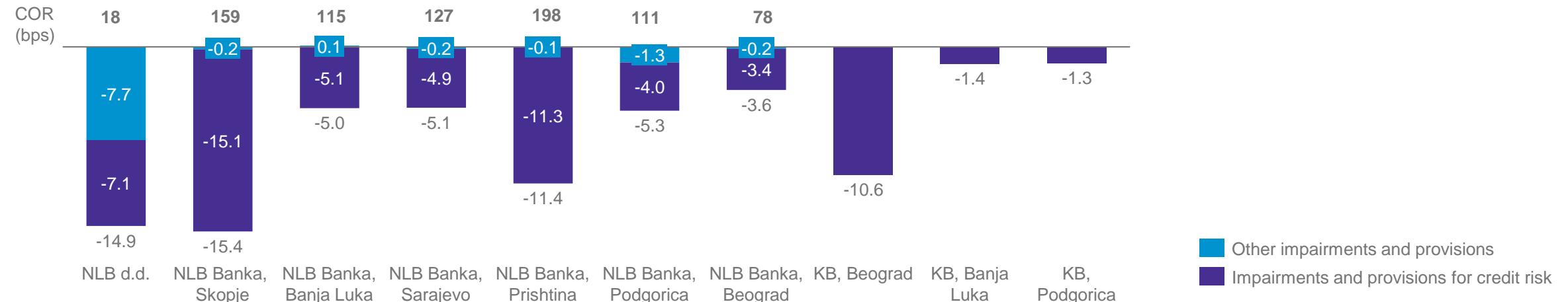


In 2020, the Group established EUR 48.9 million of **net impairments and provisions for credit risk**, out of which EUR 18.4 million due to changed macroeconomic parameters, that incorporate estimated impacts of COVID-19 outbreak. In addition expected credit losses on performing portfolio for KB banks in the amount of EUR 13.4 million were created.

The Group's **cost of risk** was positive (62 bps), as was also in all Group bank members, mostly related to established impairments and provisions related to COVID-19 outbreak, although partially neutralized with successful resolution of business cases in restructuring and workout (net release of cca EUR 18 million in NLB).

**Other impairments and provisions** established in the amount of EUR 9.1 million, of which mainly provisions for legal risks (EUR 4.2 million in NLB) and HR provisions (EUR 3.5 million in NLB).

Credit impairments and provisions <sup>(1)</sup> and CoR by company – contribution (in EURm)



Note: (1) Credit impairments and provisions are used for calculation of CoR and represent major part of impairments and provisions for credit risk (include also credit impairments and provisions for other financial assets).

# Asset Quality – NLB Group

## High % of Stage 1 Loan portfolio (measured at amortized cost & FVTPL)

Credit portfolio<sup>(1)</sup> by Stage (Group, 31 Dec 2020, EURm)

### NLB-G after acquisition of KB Banks

(EURm)	Credit portfolio									Provisions and FV changes for credit portfolio					
	Stage1			Stage2			Stage3 & FVTPL			Stage1		Stage2		Stage3 & FVTPL	
	Credit portfolio	Share of Total	YTD change	Credit portfolio	Share of Total	YTD change	Credit portfolio	Share of Total	YTD change	Provision Volume	Provision Coverage	Provision Volume	Provision Coverage	Provisions & FV changes	Coverage with provisions and FV changes
<b>Total NLB Group</b>	<b>12,650.8</b>	<b>92.4%</b>	<b>3,703.1</b>	<b>560.1</b>	<b>4.1%</b>	<b>89.0</b>	<b>475.7</b>	<b>3.5%</b>	<b>101.0</b>	<b>75.7</b>	<b>0.6%</b>	<b>40.8</b>	<b>7.3%</b>	<b>271.9</b>	<b>57.2%</b>
o/w Corporate	4,135.7	84.0%	928.5	426.8	8.7%	59.5	358.6	7.3%	73.0	49.0	1.2%	32.7	7.7%	210.8	58.8%
o/w Retail	4,779.2	95.0%	957.0	133.3	2.7%	29.6	117.1	2.3%	29.6	25.2	0.5%	8.2	6.1%	61.2	52.2%
o/w State	3,290.1	100.0%	1,658.0	-	-	-	-	-	-1.7	1.3	0.0%	-	-	-	-
o/w Institutions	445.8	100.0%	159.6	-	-	-	-	-	-	0.2	0.1%	-	-	-	-

### NLB-G w/o KB Banks

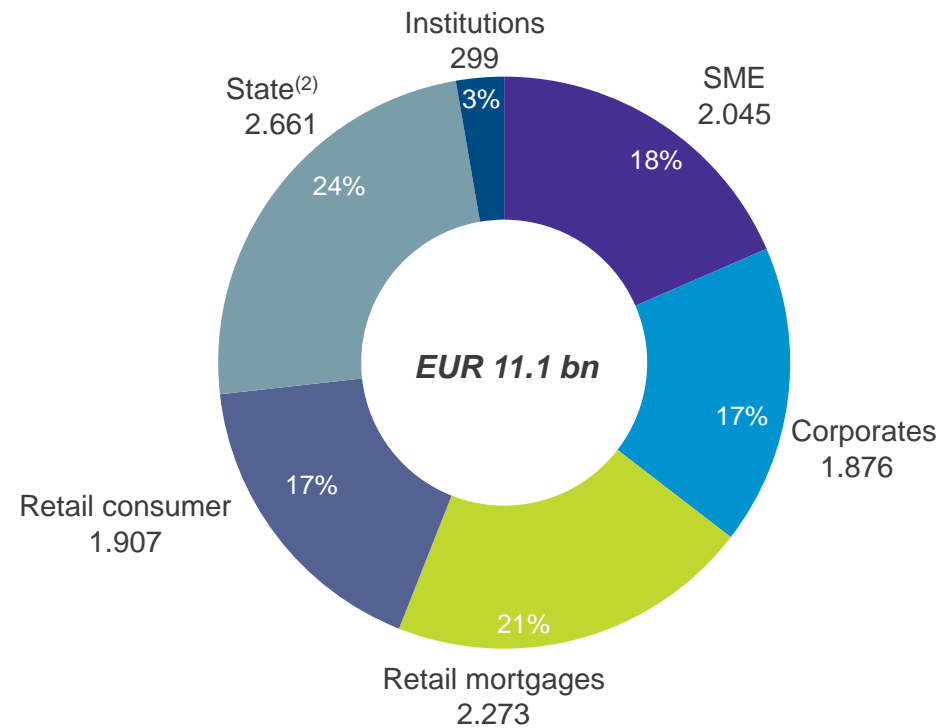
(EURm)	Credit portfolio									Provisions and FV changes for credit portfolio					
	Stage1			Stage2			Stage3 & FVTPL			Stage1		Stage2		Stage3 & FVTPL	
	Credit portfolio	Share of Total	YTD change	Credit portfolio	Share of Total	YTD change	Credit portfolio	Share of Total	YTD change	Provision Volume	Provision Coverage	Provision Volume	Provision Coverage	Provisions & FV changes	Coverage with provisions and FV changes
<b>Total NLB Group w/o KB</b>	<b>10,065.6</b>	<b>91.0%</b>	<b>1,117.9</b>	<b>560.1</b>	<b>5.1%</b>	<b>89.0</b>	<b>435.3</b>	<b>3.9%</b>	<b>60.6</b>	<b>65.3</b>	<b>0.6%</b>	<b>40.8</b>	<b>7.3%</b>	<b>271.9</b>	<b>62.5%</b>
o/w Corporate	3,169.6	80.9%	-37.6	426.8	10.9%	59.5	324.0	8.3%	38.4	41.0	1.3%	32.7	7.7%	210.7	65.0%
o/w Retail	3,935.5	94.1%	113.3	133.3	3.2%	29.6	111.4	2.7%	23.9	23.0	0.6%	8.2	6.1%	61.2	54.9%
o/w State	2,661.2	100.0%	1,029.0	-	-	-	-	-	-1.7	1.1	0.0%	-	-	-	-
o/w Institutions	299.4	100.0%	13.2	-	-	-	-	-	-	0.2	0.1%	-	-	-	-

# NLB Group Assets by Segment

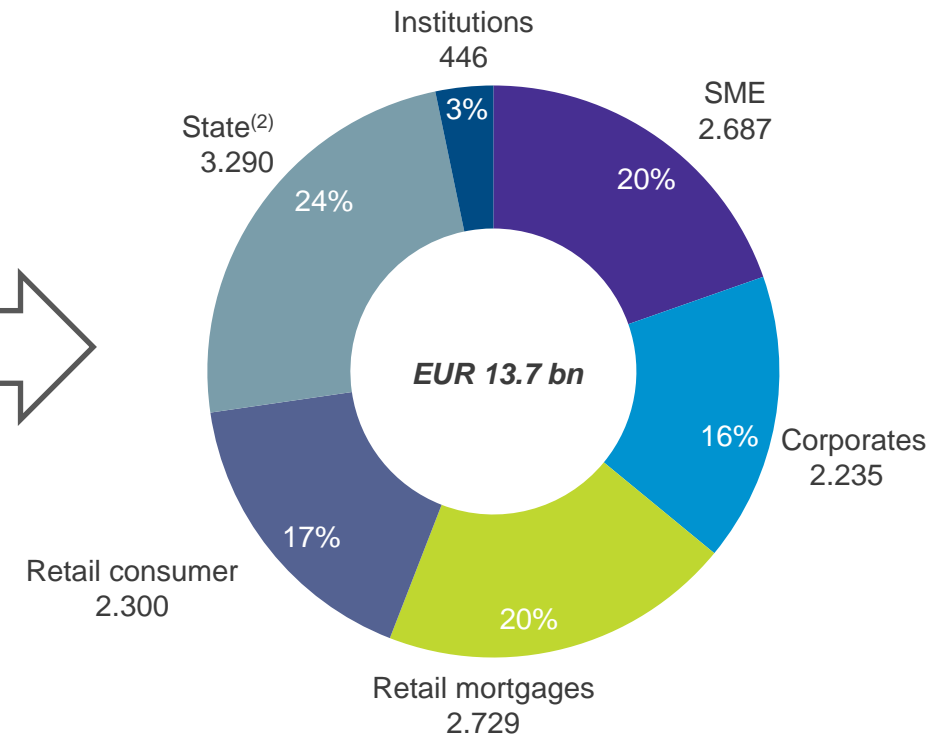
Well diversified credit portfolio, with substantial retail exposure

Credit portfolio<sup>(1)</sup> by segment (Group, 31 Dec 2020, EURm)

NLB-G w/o KB Banks



NLB-G after acquisition of KB Banks



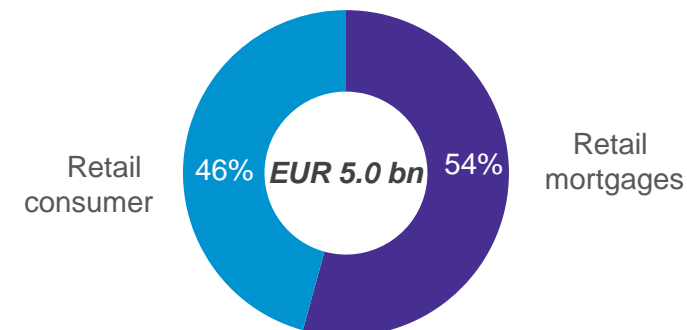
# NLB Group Assets by Industry & Sectors

The portfolio structure comparable to the one before the acquisition of KB

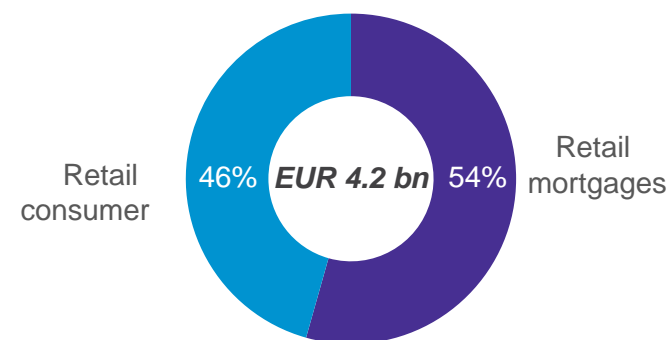
Corporate credit portfolio<sup>(1)</sup> (Group, 31 Dec 2020, EURm)

Corporate sector industry sector	NLB-G w/o KB	%	NLB-G	%	Δ
Accommodation and food service activities	113	3%	141	3%	29
Act. of extraterritorial org. and bodies	0	0%	0	0%	0
Administrative and support service activities	108	3%	122	2%	13
Agriculture, forestry and fishing	164	4%	289	6%	125
Arts, entertainment and recreation	18	0%	21	0%	3
Construction industry	268	7%	374	8%	106
Education	14	0%	14	0%	1
Electricity, gas, steam and air condition	171	4%	258	5%	87
Finance	150	4%	168	3%	18
Human health and social work activities	39	1%	50	1%	11
Information and communication	164	4%	234	5%	70
Manufacturing	874	22%	986	20%	112
Mining and quarrying	32	1%	80	2%	48
Professional, scientific and techn. act.	149	4%	172	3%	23
Public admin., defence, compulsory social.	133	3%	219	4%	87
Real estate activities	182	5%	222	5%	39
Services	12	0%	14	0%	2
Transport and storage	555	14%	592	12%	37
Water supply	28	1%	41	1%	13
Wholesale and retail trade	744	19%	923	19%	179
Other	1	0%	2	0%	1
<b>Total Corporate sector</b>	<b>3,920</b>	<b>100%</b>	<b>4,921</b>	<b>100%</b>	<b>1,001</b>

Retail sector after acquisition of KB Banks



Retail sector w/o KB Banks

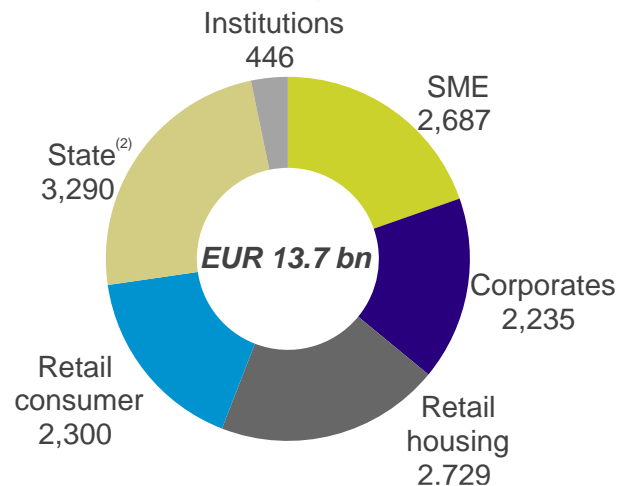




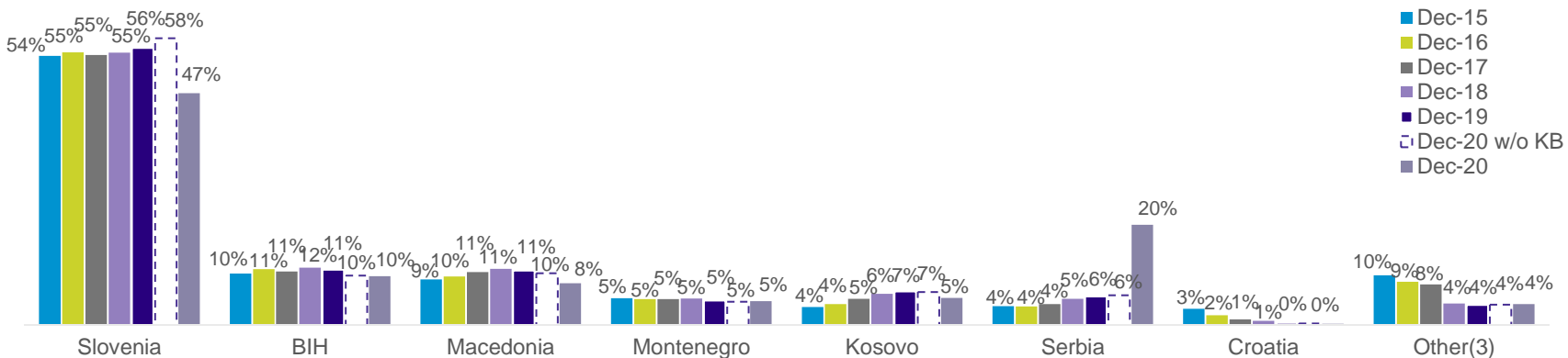
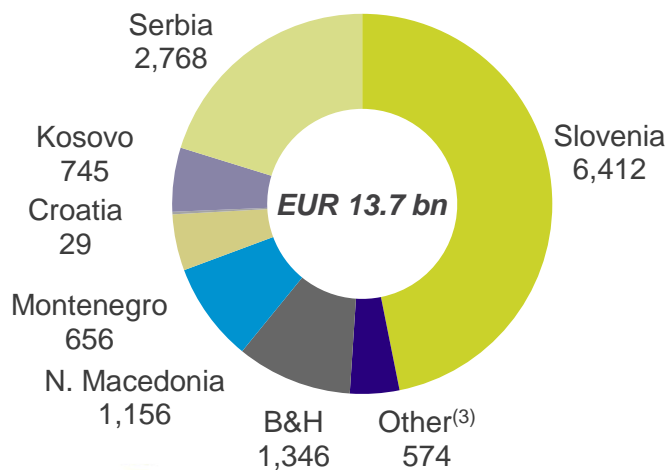
# Asset Quality – NLB Group

Diversified credit portfolio, focused on core markets and cautious risk taking

Credit portfolio<sup>(1)</sup> by segment (Group, 31 Dec 2020, EURm)



Credit portfolio<sup>(1)</sup> by geography (Group, 31 Dec 2020, EURm)



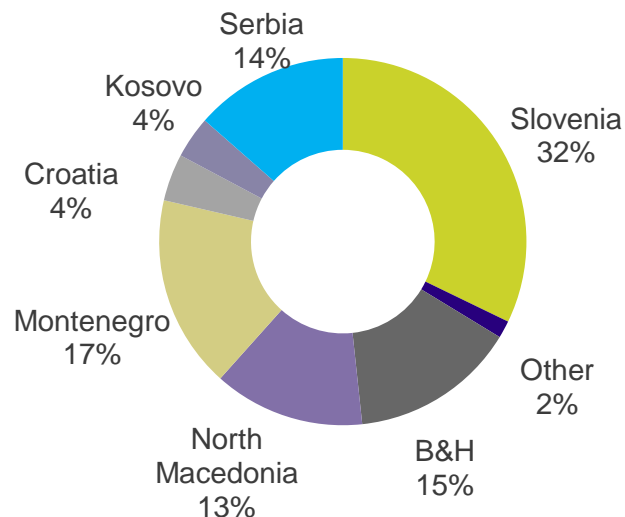
Source: Company information

Note: (1) Credit portfolio also includes advances to banks and central banks; (2) State includes exposures to central banks; (3) The largest part represent EU members.

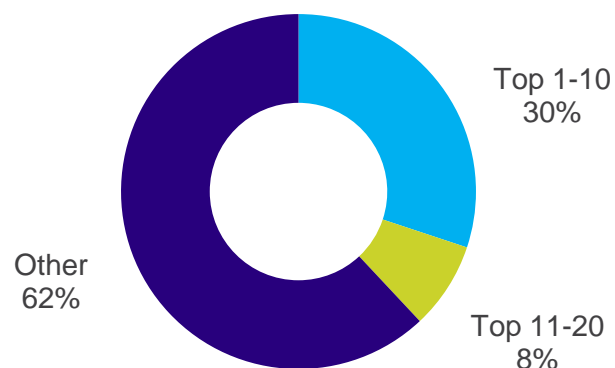
# Asset Quality – NLB Group

## NPLs fully covered by provisions and collateral

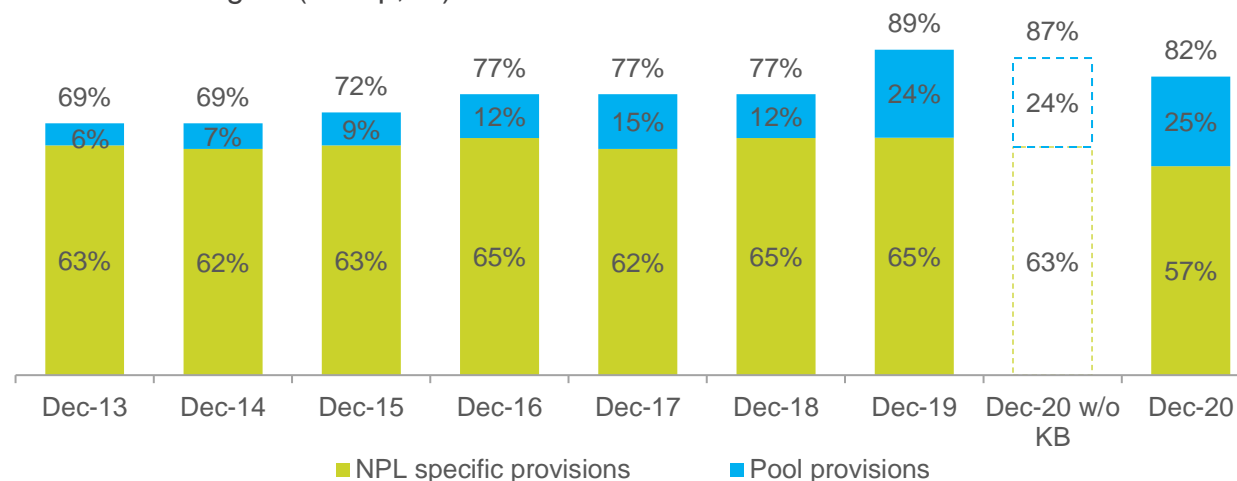
NPL by geography (Group, 31 Dec 2020)



Top 20 NPLs (Group, 31 Dec 2020)



NPL cash coverage<sup>(1)</sup> (Group, %)



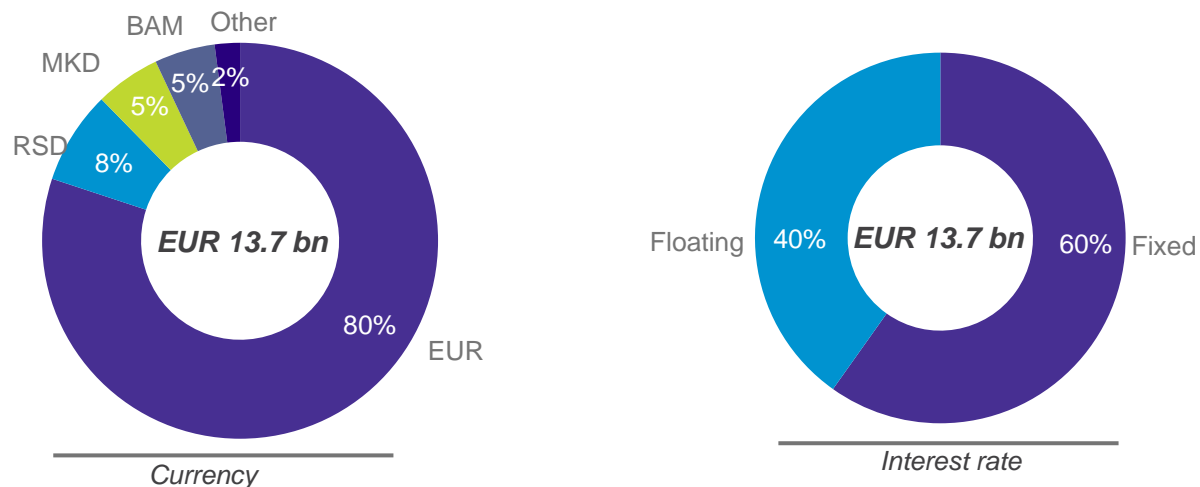
An important Group strength is the NPL cash coverage (CR1), which remains high at 81.8%. Further, the Group's NPL coverage ratio (CR2) stands at 57.3%, which is well above the EU average as published by the EBA.

The decrease in coverage indicators in Q4 2020 was influenced by the special treatment of NPLs from acquired entities. NPLs of KB Banks are initially recognised at fair value, without any additional credit loss allowances.

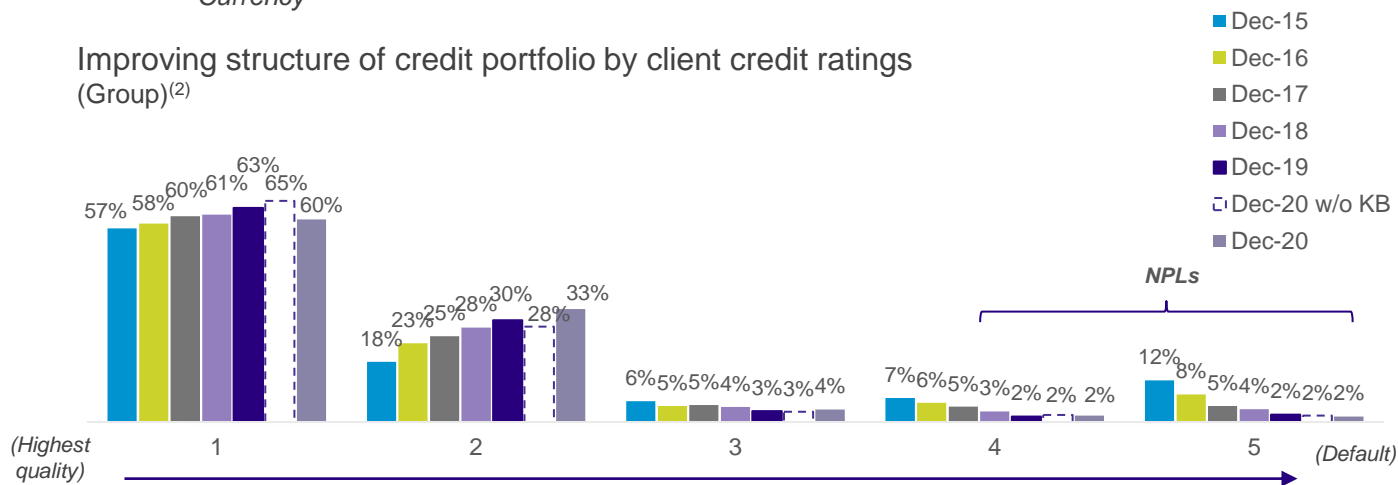
# Asset Quality – NLB Group

Diversified credit portfolio, focused on core markets and cautious risk taking

Credit portfolio<sup>(1)</sup> by currency and rate type (Group, 31 Dec 2020)



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



Source: Company information

Note: (1) Credit portfolio also includes advances to banks and central banks; (2) Rating A, B and C are performing exposures. Rating A: investment grade clients with high financial stability; Rating B: clients with high ability to repay their obligations, a significant aggravation of the economic environment would cause problems to them; Rating C: performing clients with increased level of risk who may encounter problems with settlement of liabilities in the future; Rating D and E are NPLs: Default clients (article 178 of CRR), including clients in delay >90days and other clients considered 'unlikely to pay' with delays below 90 days. Numbers may not add up to 100% due to rounding.

**No large concentration** in any specific industry or client segment

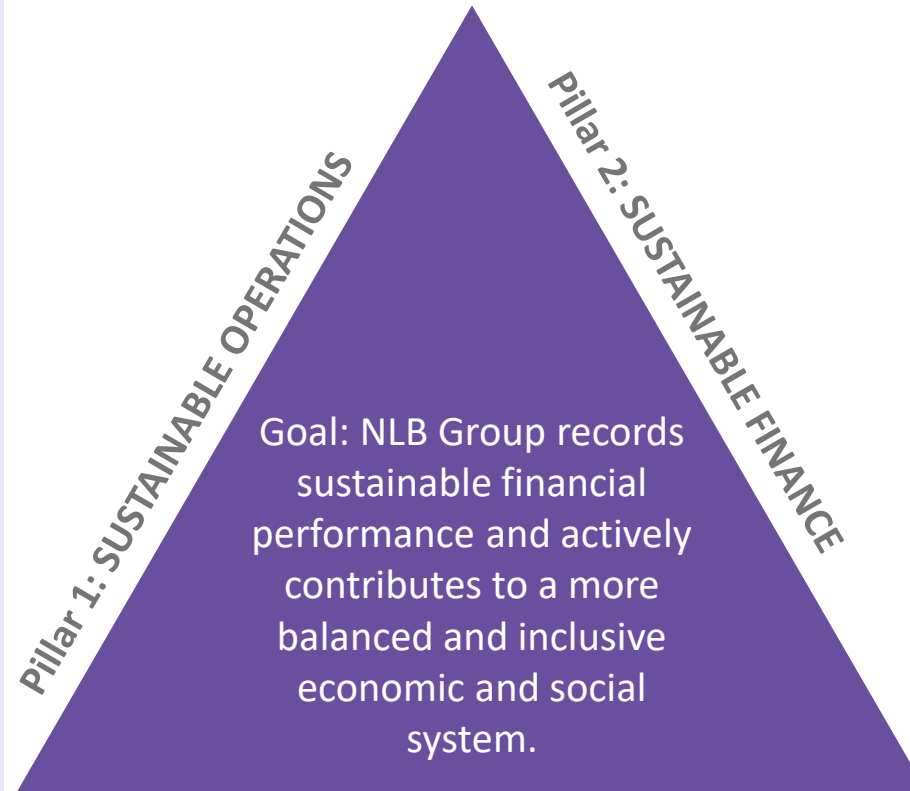
**Lending strategy** focuses primarily on its core markets of retail, SME and selected corporate business activities

Great emphasis is also placed on **active monitoring of credit portfolio** for early detection of possible credit deterioration:

- Early warning system for detecting increased credit risk
- Close monitoring of clients with COVID-19 moratoria
- Intensive and proactive handling of problematic customers
- Cautious lending policy
- The Group is **actively present** on the market, financing existing and new creditworthy clients.

# Sustainability Framework: in 2020, the Group embarked on a path of more intensive integration of sustainability into banking operations

## STRONG SUPPORTING FOUNDATIONS:



Pillar 3: CSR

## 2021 SUSTAINABILITY ROADMAP:

### SUSTAINABLE OPERATIONS & SUSTAINABLE FINANCE:

- Upgrading business strategy with UN SDGs and ESG factors orientation.
- NLB Group portfolios impact analysis & target-setting and implementation.
- Implementation of requirements defined in ECB Guide on climate-related and environmental risks in NLB Group Risk Management Framework.
- Development of sustainable product portfolio.
- Adopting Environmental and Social Credit Policy Framework and Environmental and Social Risk Categorization Methodology Framework
- Implementation of the EBRD and MIGA E&S Standards together with E&S management system.
- Establishment of the NLB Sustainability Corporate Governance model.

### CSR:

- Upgrading CSR activities with UN SDGs.

The transition to sustainable banking requires the adaptation of most processes in the Group, as well as changes in the banking culture.