

NLB Banka ad Skopje

Hold

Initiation of coverage

Price: MKD 18,150

Price target: MKD 20,807

Branded exposure to an underbanked economy

We initiate coverage of NLB Banka ad Skopje with a HOLD rating and a price target (PT) of MKD 20,807/share, which offers upside of c.14.6% to the 8 December closing price. We appreciate the bank's capital, which should allow it to record growth rates similar to the market on both the assets and liability sides, together with its liquidity at market levels. The growth trajectory should more than offset the downward pressure on the NIMs and, as the bank enters the new asset quality cycle, with quite a low NPL ratio and good coverage, we project an improving COR from next year onwards, which is likely to drive profitability in future periods. The presence of a large regional and strategic investor gives some assurance in terms of NLB Banka's capital and dividend payments going forward, in our view. At 1.0x and 0.9x our P/BV for 2021E and 2022E, respectively, and following the rise in the share price over the past couple of years, we believe the shares have mostly run out of upside potential; thus, we recommend to HOLD the shares now.

Growth potential. The bank's liquidity ratios are at market levels currently, and the local central bank expects the banking sector itself to grow faster than its peer countries in the following years. In a concentrated market such as North Macedonia, we expect the largest banks to obtain a major share of the market's growth, which could result in minor market share gains. For NLB Banka, we model a gross loan book CAGR of 7.1%, which could steer the bank's market shares towards its strategic levels: i) 16% in the corporate segment; and ii) 23% in the retail segment. We believe the bank's current capital levels offer enough capacity for such high growth rate estimates.

COR, asset quality and profitability going forward. NLB Banka entered the current crisis with good asset quality. After years of declines, the NPL ratio was reported at 4.3% in 2019, while the NPL coverage declined to 67.7%. By 3Q20, the NPL ratio increased back to 4.6%. Still, the loan COR is likely to drive the profitability levels in the next couple of years and we expect it to decline in 2021E to 0.9% vs. the 1.2% we expect to be reported in 2020E. In 2022E, the COR could drop to 0.7%. In any case, the declining COR should drive a rebound in profitability; thus, we expect the ROE to reach 11.5% in 2021E and as much as 12.3% in 2022E. Currently, we calculate that the long-term ROE could reach 12.8%.

Strategic investor and dividends. Given its dividend history, NLB Banka can be considered a dividend name. While management chose not to pay dividends from the 2019 profit this year, we believe the dividend payments could return soon for multiple reasons, including: i) NLB Banka's capacity to do so, even despite the high growth rates of the loans expected; ii) the reasonable capital levels, especially following the cancelled dividend payment this year; and iii) the presence of a large, strategic investor under the name of NLB Group. We anticipate dividend yields of 4.2% and 5.5% in 2021E and 2022E, respectively, but we admit that we may be slightly too conservative on our modelled payout ratios of 50% across our forecast period.

Valuation. In our view, the current share price more or less reflects the bank's fundamental value. At c.1x P/BV on a sustainable ROE of c.12-13% and a COE of 11.6%, we see the current levels as fair. Our excess return and three-stage DDM valuation models suggest blended upside of c.14.6%, which further supports our view and our HOLD recommendation on the name.

Expected events

4Q20 results	Jan/Feb 2021 (TBC)
FY20 report	April 2021 (TBC)
1Q21 results	May 2021 (TBC)
2Q21 results	July 2021 (TBC)
3Q21 results	November 2021 (TBC)

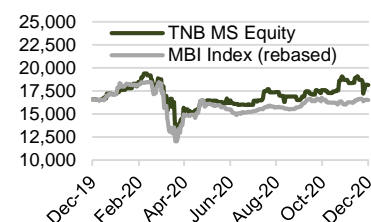
Key data

Market Cap	USD 304m
Free float	13%
3M ADTV	USD 34,925
Shares outstanding (m)	0.85
Major Shareholder	NLB Group (87%)
Bloomberg Code	TNB MS Equity
MBI Index	4,472.5

Price performance

52-w range	MKD 12,617-19,400
52-w performance	9.3%
Relative performance	9.8%

NLB Banka 12M share price performance



Year	NII (MKD m)	Net Profit (MKD m)	EPS (MKD)	P/E (x)	BVPS (RON)	P/BV (x)	ROE (%)	DPS paid (RON)	Dividend yield
2017	3,012	2,235	2,617	3.6	11,304	0.8	24.9%	995	10.6%
2018	3,013	2,129	2,493	4.9	14,413	0.8	19.4%	622	5.1%
2019	3,018	2,024	2,369	6.3	15,077	1.0	16.1%	1,738	11.6%
2020E	2,988	1,303	1,525	11.9	16,720	1.1	9.6%	0	0.0%
2021E	3,111	1,715	2,008	9.0	18,083	1.0	11.5%	763	4.2%
2022E	3,286	1,967	2,303	7.9	19,498	0.9	12.3%	1,004	5.5%

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Closing Prices as of 08 December 2020


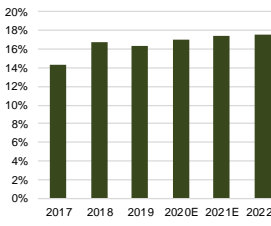
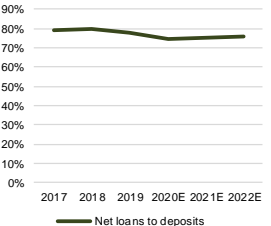
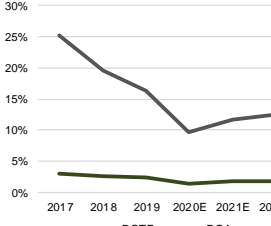
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Company snapshot – HOLD, PT MKD 20,807

NLB Banka ad Skopje				COMPANY DESCRIPTION										
HOLD														
Bloomberg ticker	TNB MS	20,000												
Closing price (MKD)	18,150	18,000												
Price target (MKD)	20,807	16,000												
Upside to PT	14.6%	14,000												
Shares outstanding (m)	0.85	12,000												
MCap (MKD m)	15,501	10,000												
Free float	13%													
3M ADTV (USD ths)	34.9													
52 Week Range (MKD)	12,617-19,400													
FINANCIALS (MKD m)				Growth rates										
	2017	2018	2019	2020E	2021E	2022E		2017	2018	2019	2020E	2021E	2022E	
Net interest income	3,012	3,013	3,018	2,988	3,111	3,286	Loans and advances to customers	5.5%	8.4%	6.3%	3.5%	9.2%	8.9%	
Net fee and commission income	871	876	921	918	951	987	Deposits	7.2%	7.8%	8.9%	8.2%	7.7%	8.0%	
Other operating income	307	595	184	237	247	262	Equity	16.8%	27.5%	4.6%	10.9%	8.2%	7.8%	
Net operating income	4,189	4,483	4,123	4,143	4,309	4,536	Assets	5.6%	9.6%	8.0%	8.5%	7.5%	7.7%	
Total operating expenses	-1,705	-1,706	-1,824	-1,841	-1,877	-1,910	Net result for the period	40.4%	-4.7%	-5.0%	-35.6%	31.7%	14.7%	
Profit before provisions	2,484	2,777	2,300	2,302	2,433	2,626	Net interest income	10.1%	0.0%	0.2%	-1.0%	4.1%	5.6%	
Impairment of financial assets	-31	-411	-78	-854	-527	-441	RATIOS & VALUATIONS							
Results after provisions	2,454	2,366	2,221	1,447	1,906	2,185		2017	2018	2019	2020E	2021E	2022E	
Associates	36	0	0	0	0	0	Net loans to deposits	79.3%	79.8%	77.8%	74.4%	75.5%	76.1%	
Income tax	-254	-237	-198	-145	-191	-219	Deposits to assets	81.1%	79.7%	80.4%	80.1%	80.3%	80.5%	
Net result for the period	2,235	2,129	2,024	1,303	1,715	1,967	Net loans to assets	64.3%	63.6%	62.6%	59.7%	60.6%	61.3%	
Cash and cash equivalents	10,211	11,780	11,866	15,124	15,721	16,047	Equity to assets	12.7%	14.8%	14.3%	14.7%	14.7%	14.8%	
Financial assets	0	12,082	14,885	17,158	18,104	19,711	Net interest margin	4.9%	4.6%	4.2%	3.9%	3.8%	3.6%	
Due from banks	2,631	2,864	2,853	2,951	3,175	3,457	Net interest income to average assets	4.1%	3.8%	3.5%	3.2%	3.1%	3.0%	
Loans & advances to customers	48,780	52,895	56,206	58,150	63,508	69,145	NII to avg assets adj. for prov. [WOOD]	4.0%	3.3%	3.4%	2.3%	2.6%	2.6%	
Other assets	12,122	1,483	1,740	1,784	1,906	2,035	Costs to average assets	-2.3%	-2.1%	-2.1%	-2.0%	-1.9%	-1.8%	
Intangible assets	129	143	207	207	207	207	Cost to income	37.8%	39.0%	41.0%	41.8%	41.0%	39.6%	
Property, plant and equipment	1,988	1,926	2,054	2,095	2,137	2,180	Pre-tax income to average assets	3.3%	3.0%	2.6%	1.5%	1.9%	2.0%	
Total assets	75,861	83,173	89,811	97,469	104,759	112,781	Effective tax rate	-10.2%	-10.0%	-8.9%	-10.0%	-10.0%	-10.0%	
Deposits from banks	454	500	619	619	619	619	ROA	3.0%	2.7%	2.3%	1.4%	1.7%	1.8%	
Deposits from customers	61,518	66,298	72,203	78,115	84,137	90,840	ROE	24.9%	19.4%	16.1%	9.6%	11.5%	12.3%	
Other liabilities	2,200	2,225	2,271	2,615	2,718	2,828	ROTE	25.3%	19.6%	16.3%	9.7%	11.7%	12.4%	
Subordinated debt	2,035	1,840	1,841	1,841	1,841	1,841	P/E	3.6x	4.9x	6.3x	11.9x	9.0x	7.9x	
Total liabilities	66,207	70,863	76,934	83,190	89,315	96,128	P/BV	0.8x	0.8x	1.0x	1.1x	1.0x	0.9x	
Retained earnings	3,191	4,336	4,419	5,722	6,786	7,895	P/Tangible BV	0.8x	0.9x	1.0x	1.1x	1.0x	0.9x	
Other equity	6,464	7,974	8,458	8,558	8,558	8,758	Dividend yield	10.6%	5.1%	11.6%	0.0%	4.2%	5.5%	
Total shareholders' equity	9,655	12,310	12,877	14,280	15,444	16,653	CHARTS							
Total liabilities and equity	75,861	83,173	89,811	97,469	104,759	112,781								
LOANS AND ADVANCES TO CUSTOMERS														
	2017	2018	2019	2020E	2021E	2022E								
Retail	55.6%	58.1%	59.4%	60.1%	60.2%	60.3%							Net result for the period	
Corporate	43.2%	41.3%	40.1%	39.4%	39.3%	39.3%								
Other financial org.	0.2%	0.3%	0.2%	0.2%	0.2%	0.2%								
Government	0.9%	0.4%	0.2%	0.2%	0.2%	0.2%								
Non-profit institutions	0.1%	0.0%	0.0%	0.0%	0.0%	0.0%								
Total	100%	100%	100%	100%	100%	100%								
CAPITALIZATION														
	2017	2018	2019	2020E	2021E	2022E								
Tier 1 ratio (%)	12.1%	13.8%	13.8%	14.6%	15.1%	15.5%								
CAR (%)	14.4%	16.7%	16.4%	17.0%	17.4%	17.6%								
Equity to total assets	12.7%	14.8%	14.3%	14.7%	14.7%	14.8%								
DUPONT ANALYSIS														
	2017	2018	2019	2020E	2021E	2022E								
Net interest income	4.1%	3.8%	3.5%	3.2%	3.1%	3.0%								
Net fee and commission income	1.2%	1.1%	1.1%	1.0%	0.9%	0.9%								
Other operating income	0.4%	0.7%	0.2%	0.3%	0.2%	0.2%								
Net operating income	5.7%	5.6%	4.8%	4.4%	4.3%	4.2%								
Total operating expenses	-2.3%	-2.1%	-2.1%	-2.0%	-1.9%	-1.8%								
Profit before provisions, impairments	3.4%	3.5%	2.7%	2.5%	2.4%	2.4%								
Impairment of financial assets	0.0%	-0.5%	-0.1%	-0.9%	-0.5%	-0.4%								
Gross result	3.4%	3.0%	2.6%	1.5%	1.9%	2.0%								
Tax expense	-0.3%	-0.3%	-0.2%	-0.2%	-0.2%	-0.2%								
Net result for the period	3.0%	2.7%	2.3%	1.4%	1.7%	1.8%								

Investment case

We initiate on NLB Banka ad Skopje with a HOLD rating and a price target (PT) of MKD 20,807/share. We appreciate the bank's position on the local market, which could help it gain market share as it could enjoy slightly higher growth rates than the market. Such loan growth could, in our view, be supportive in the context of the falling interest rates environment and could thus keep the NIMs above 3% in our forecast period. At the same time, we appreciate the solid capital levels, as well as the presence of a strategic investor, which is a strong regional player. We expect the bank's profitability to remain strong and the ROEs to return to levels above 12% by the end of 2022E, mostly on the back of an improving COR, the aforementioned NIM levels, as well as C/I ratios below 42% during our forecast period. We note that the FX risks on both the balance sheet, as well as in the economy, are persisting, but the bank is offsetting its exposure. Given the current market valuation of 1x and 0.9x P/BV on our 2021E and 2022E estimates, respectively, growth rates near market levels and implied upside of c.14.6%, we are HOLDERS of NLB Banka's shares currently.

The bank's loan growth potential remains strong due to the liquidity at market levels and the good capital levels. North Macedonia's economy remains underbanked, and it seems quite oligopolistic, in our view. Considered the second- or third-largest bank in the country, NLB Banka's position is relatively strong. For further details, please see our [banking sector overview](#). According to our understanding, the bank plans to increase its market share in both corporate, as well as retail, lending to 16% from 14% currently, and to 23% from 21%, respectively. While it is unlikely that the bank will grow considerably faster than the market, we believe the oligopolistic structure of the sector allows the larger banks to gain market share. Assuming the structure of the sector's loan book remains the same, we forecast NLB Banka's market share in retail loans to converge to the bank's target and reach 22.3% by 2022E; while, in the corporate segment, we anticipate NLB Banka's market share to reach 15% by 2022E. We expect the net loan book to record a CAGR of c.7.1% between 2019 and 2022E.

Strong loan growth will support the NIMs and will slow down their decline. While we see a certain decline in the NIMs going forward, we believe the rate of the decline could slow down in 2022E vs. 2021E. On our numbers, the bank's NIM could drop to 3.2% in 2020E from 3.5% in 2019. From then on, we pencil in the NIM to decline to 3.08% and 3.02% in 2021E and 2022E, respectively. Despite the declining NIMs, we expect the net interest income to show a CAGR of 2.9% between 2019 and 2022E, mostly on the back of the aforementioned strong growth of the bank's loan book.

Strategic investor and sufficiently high capital should support dividend payments, in our view. NLB Banka ad Skopje has been a high dividend payer historically. Due to the pandemic caused by the coronavirus, the bank's management decided to postpone its recommendation on the dividend from the 2019 profit. However, we believe the bank could return to regular dividend payments as soon as next year and we expect, on average, payouts of 50% in the mid-term. We calculate that the long-term sustainable dividend payout ratio could be around 77%. In our view, the high capital ratios and the strategic investor behind the bank offer a cushion of safety, and even higher payouts could be possible, despite the aforementioned growth of the loan book, due mostly to the increasing capital in our model.

We see the bank returning to high profitability soon. On the back of multiple factors, including cost-to-income ratios near or below 40% in the years prior to 2019, quite high NIMs, as well as a relatively good COR performance, profitability has been very high recently. The pandemic did put pressure on NLB Banka's profitability earlier this year, due to which we expect the ROE metric to remain somewhat subdued, at c.10%. However, we believe the bank could return to ROEs near 12% by 2021E, where we expect it to remain for the foreseeable future. We do not pencil in any dividend payment from the 2019 profit, which inherently influences our ROE estimate. Should the bank decide to pay the dividend later on, even in the form of a special dividend, we believe the mid- to long-term ROEs could reach levels around 14%. In terms of C/I, we pencil in a gradual decline to 39.6% by 2022E, with the total operating expenses CAGR at 1.5% between 2019 and 2022E.

Due to the high euronisation of the economy, the bank's balance sheet remains exposed to FX risks. The sector's aggregate loan book consists of c.40% of loans in foreign currency. As of end-2019, the bank's FX loan book accounted for 42.5% of the total. Both the sector's and the bank's exposure to foreign currencies have been dropping gradually recently. The developments on the liability side of the balance sheet are similar. Despite the declining trends, we believe this is likely to remain a long-term issue; thus, it is a theme to watch, in our view. On the other hand, the bank manages its net exposure quite well. Its net USD exposure (loans vs deposits) has not reached more than 4% of total assets in the past three years, while its net EUR exposure has been lower than 3% of total assets in the same period.

We believe the current share price reflects the fundamentals. The current P/BV ratios of 1.0x and 0.9x our 2021E and 2022E (1.2x and 1.1x on our PT), respectively, reflects the fundamentals, in our view; and, with sustainable ROEs between 12-13% in the mid-term and the COE at 11.6%, we see the current market valuation as fair. Thus, we believe our HOLD recommendation is justified currently.

Valuation

We set our price target (PT) for NLB Banka ad Skopje at MKD 21,807/share, offering upside of c.14.6% to the closing price on 8 December. We arrive at our PT using a combination of our excess return valuation model, giving us a PT of MKD 21,489/share, and our three-stage DDM, which yields a PT of MKD 20,124/share. The difference between the two methods is 7%.

NLB Banka ad Skopje: valuation summary

TNB MS Equity	
Excess return valuation (50%)	21,489
3-stage DDM (50%)	20,124
Weighted average PT	20,807
Current price	18,150
Potential upside	14.6%

Source: WOOD Research, Bloomberg

Cost of equity estimate

To estimate NLB Banka's cost of equity, we use a risk free rate of 5% for North Macedonia, a market risk premium of 6.0% and a beta of 1.1x. All this yields a COE of 11.6%.

NLB Banka ad Skopje: cost of equity estimate

TNB MS Equity	
Risk free rate	5.0%
Market risk premium	6.0%
Market return	11.0%
1Y monthly beta	1.10
Cost of equity	11.6%

Source: WOOD Research

Excess return valuation

NLB Banka ad Skopje: three-stage excess return valuation model

	2019	2020E	2021E	2022E	2023E	2024E	2025E	2026E	2027E	+
Net profit (MKD m)	2,024	1,303	1,715	1,967	2,188	2,377	2,535	2,664	2,768	2,851
growth yoy		-35.6%	31.7%	14.7%	11.2%	8.6%	6.6%	5.1%	3.9%	3.0%
Dividend distribution (MKD m)	1,484	0	651	858	983	1,058	1,435	1,764	2,042	2,119
growth yoy		-100.0%	n/a	31.7%	14.7%	7.6%	35.7%	22.9%	15.8%	3.8%
Shareholders' equity (MKD m)	12,877	14,280	15,444	16,653	17,857	19,176	20,276	21,175	21,901	22,633
growth yoy		10.9%	8.2%	7.8%	7.2%	7.4%	5.7%	4.4%	3.4%	3.3%
Cost of equity (MKD m)	1,494	1,575	1,724	1,862	2,002	2,148	2,288	2,404	2,498	2,583
growth yoy		5.4%	9.5%	8.0%	7.5%	7.3%	6.5%	5.1%	3.9%	3.4%
Excess return (MKD m)	530	-272	-9	105	186	229	246	259	269	3,113
ROE		9.6%	11.5%	12.3%	12.7%	12.8%	12.8%	12.9%	12.8%	12.8%
Payout ratio		0.0%	50.0%	50.0%	50.0%	48.3%	60.4%	69.6%	76.7%	76.6%
Time adjustment for the valuation date		0.06	1.06	2.06	3.06	4.06	5.06	6.06	7.06	8.06
Discount factor		99%	89%	80%	71%	64%	57%	51%	46%	41%
Discounted excess return per share		-317	-9	98	156	172	165	156	145	1,504
Implied P/BV										1.14x
Book value per share implied at P/BV										17,185
Number of shares (m)	0.85									
Fair value	19,256									
Target price	21,489									
Upside	18.4%									
Valuation date	8 December 2020									
Fiscal year end	31 December 2020									
Time adjustment	0.06									

Source: WOOD Research

To calculate the fair value of NLB Banka's shares, we sum up the present value of excess returns per share until 2027E, the present value of the excess return in the terminal period beyond 2027E and the current capital invested in the bank at the implied P/BV ratio of 1.14x ($P/BV = (LT\ ROE - g)/(COE - g)$), based on a long-term ROE of 12.8%, a COE of 11.6% and a long-term growth rate of 3%. The fair value of an individual share then lands at MKD 19,256, giving us a 12M PT of MKD 21,489/share. The sensitivity of our excess return model for NLB Banka to the cost of equity and long-term growth rate estimates is presented below.

NLB Banka ad Skopje: sensitivity of our excess return valuation model

		Long term growth rate				
		2.0%	2.5%	3.0%	3.5%	4.0%
Cost of equity	9.6%	31,771	33,063	34,478	36,067	37,892
	10.6%	25,582	26,350	27,160	28,038	29,010
	11.6%	20,631	21,060	21,489	21,933	22,404
	12.6%	16,564	16,766	16,946	17,114	17,275
	13.6%	13,149	13,194	13,207	13,193	13,157

Source: WOOD Research

Dividend discount model

In our dividend discount model, we assume a 50% payout ratio from the 2020E earnings, which continues, more or less, for the following four years. In the second stage of our model, we assume that the payouts could increase gradually, to 77%, which we calculate as a sustainable level of payouts in the long term. The lower payout ratios in the early stages of our model are the result of the pandemic-caused crisis and our rather conservative stance towards dividends in the first years after the pandemic has run its course.

NLB Banka ad Skopje: three-stage dividend discount valuation model

	2019	2020E	2021E	2022E	2023E	2024E	2025E	2026E	2027E	+
Net profit (MKD m)	2,024	1,303	1,715	1,967	2,188	2,377	2,535	2,664	2,768	2,851
growth yoy		-35.6%	31.7%	14.7%	11.2%	8.6%	6.6%	5.1%	3.9%	3.0%
EPS (MKD)	2,369	1,525	2,008	2,303	2,562	2,783	2,968	3,119	3,241	3,338
growth yoy		-35.6%	31.7%	14.7%	11.2%	8.6%	6.6%	5.1%	3.9%	3.0%
Shareholders' equity (MKD m)	12,877	14,280	15,444	16,653	17,857	19,176	20,276	21,175	21,901	22,633
growth yoy		10.9%	8.2%	7.8%	7.2%	7.4%	5.7%	4.4%	3.4%	3.3%
BVPS (MKD)	15,077	16,720	18,083	19,498	20,909	22,453	23,740	24,794	25,644	26,500
growth yoy		10.9%	8.2%	7.8%	7.2%	7.4%	5.7%	4.4%	3.4%	3.3%
DPS paid (MKD)	1,738	0	763	1,004	1,151	1,239	1,681	2,065	2,391	2,481
growth yoy		-100.0%	n.m.	31.7%	14.7%	7.6%	35.7%	22.9%	15.8%	3.8%
ROE		9.6%	11.5%	12.3%	12.7%	12.8%	12.8%	12.9%	12.8%	12.8%
Payout ratio		0.0%	50.0%	50.0%	50.0%	48.3%	60.4%	69.6%	76.7%	76.6%
Time adjustment for the valuation date		0.39	1.39	2.39	3.39	4.39	5.39	6.39	7.39	8.39
Discount factor		96%	86%	77%	69%	62%	55%	50%	44%	40%
Discounted DPS			655	773	794	765	930	1,024	1,062	
Terminal value per share estimate										30,204
Discounted terminal value per share est.										12,029
Implied P/BV (x)	1.14									
Fair value	18,032									
Price target	20,124									
Upside	10.9%									
Valuation date	8 December 2020									
Dividend payment day	29 April 2021									
Time adjustment	0.39									

Source: WOOD Research

To calculate our price target, we sum up the present value of the dividend cash flow received by investors in the first stage of our model (2020-22E), the present value of the dividends in the second stage (2023-27E) and the book value of the equity in the terminal value multiplied by the implied P/BV of 1.14x. Putting two and two together, we arrive at a fair value MKD 18,032/share, or a 12M PT of MKD 20,124/share. Below, we present the sensitivity analysis of our dividend discount model to the cost of equity estimate and the long-term growth rate, which we assume at 3%.

NLB Banka ad Skopje: sensitivity of our dividend discount model

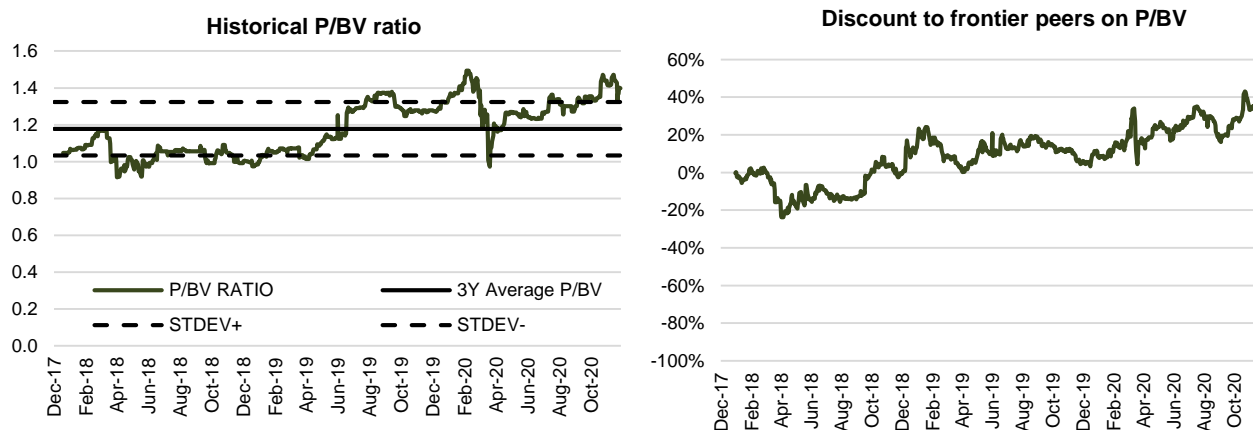
		Long-term growth rate				
		2.0%	2.5%	3.0%	3.5%	4.0%
Cost of equity	9.6%	26,899	27,029	27,160	27,291	27,422
	10.6%	22,950	23,056	23,162	23,269	23,375
	11.6%	19,948	20,036	20,124	20,211	20,299
	12.6%	17,594	17,668	17,742	17,815	17,889
	13.6%	15,704	15,766	15,829	15,892	15,954

Source: WOOD Research

Peer comparison and multiples valuation

Our HOLD recommendation is supported further by the multiples at which the bank currently trades. We note that, due to the lack of Bloomberg consensus, we decided to use historical data for the two charts below. While these numbers may not be as indicative as forward-looking numbers, we believe they can give us an insight on the trends. As NLB Banka trades at a high P/BV multiple, coupled with a large premium vs. its peers, we believe our decision to put the bank on HOLD for now is justified. On forward-looking multiples, the bank trades at 1.0x and 0.9x our 2021E and 2022E book value estimates, respectively.

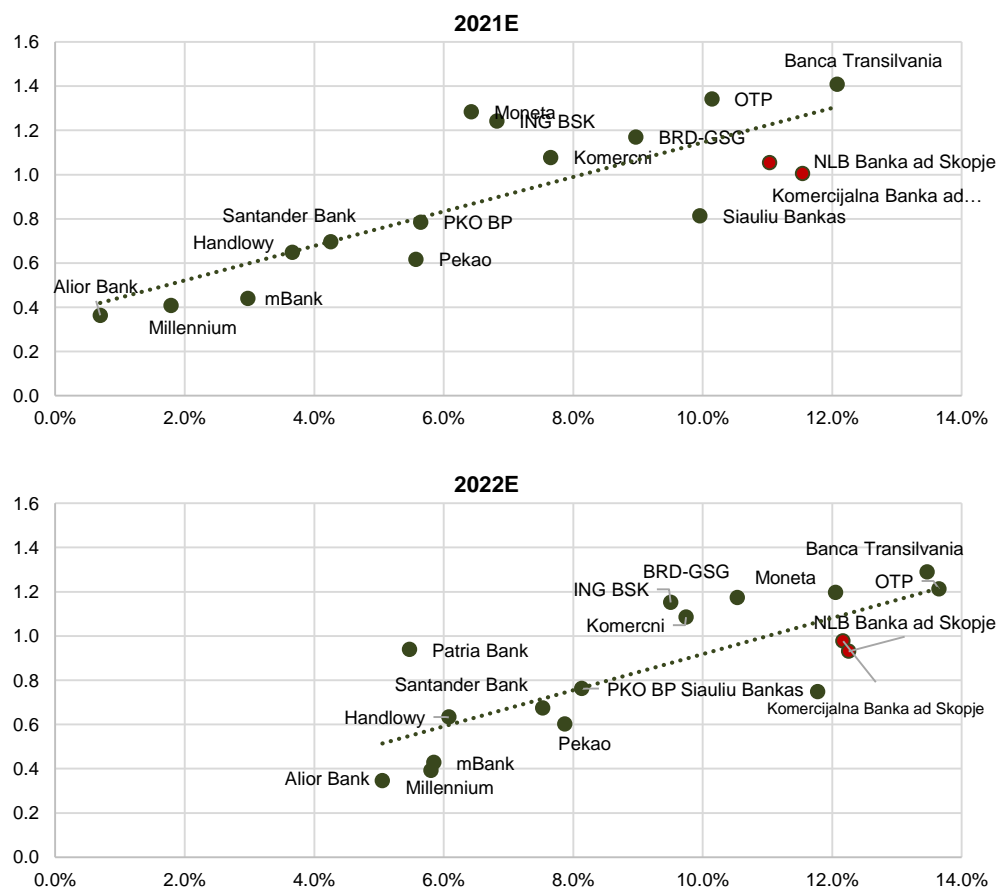
NLB Banka ad Skopje: price to historical BV and discount to peers (frontier)



Source: WOOD Research, Bloomberg

As the two plots below indicate, NLB Banka's ROEs are superior to those of its peers trading at similar forward looking P/BV multiples. Some premium for NLB Banka is justified, in our view, not only because of its higher ROEs, but also due to the superior growth rates anticipated for the banking sector in North Macedonia vs. its peer countries in the region.

P/BV (y-axis) vs ROE (x-axis) scatter plot: peer comparison (region)



Source: WOOD Research, Bloomberg

NLB Banka ad Skopje trades currently at c.1.0x and 0.9x our book value estimates for 2021E and 2022E, respectively, slightly lower than our estimates for the bank's peers. This is coupled with potential ROEs above 10% in the next two years, only slightly higher than the frontier peer average. On P/E, the bank trades at 10.6x and 9.3x, on our 2021E and 2022E numbers, respectively.

Peer valuation table

Bank	Last price	Market Cap	P/E		P/BV		ROE		Div.	
8 December 2020	lcl	USD m	2021E	2022E	2021E	2022E	2021E	2022E	2021E	2022E
North Macedonia										
Komercijalna Banka ad Skopje	6,949.0	311	9.9	8.3	1.1	1.0	11.0%	12.2%	4.1%	4.6%
NLB Banka ad Skopje	18,150.1	304	10.6	9.2	1.0	0.9	11.5%	12.3%	4.2%	5.5%
Czech Republic										
Komerční	630.0	5,503	13.9	11.1	1.1	1.1	7.7%	9.7%	9.6%	6.3%
MONETA	66.8	1,569	20.0	10.3	1.3	1.2	6.4%	12.1%	4.0%	7.8%
Georgia										
TBC Bank	1,190.0	3,845	5.9	5.0	0.8	0.7	15.5%	15.7%	0.0%	0.0%
Bank of Georgia	1,208.0	3,479	6.4	5.2	0.9	0.8	15.8%	16.5%	0.0%	0.0%
Hungary										
OTP	12,300.0	11,612	13.7	9.3	1.3	1.2	10.1%	13.6%	2.8%	3.3%
Lithuania										
Siauliai Bankas	0.5	358	8.5	6.6	0.8	0.7	10.0%	11.8%	4.1%	5.3%
Poland										
PKO BP	28.3	9,634	14.2	9.5	0.8	0.8	5.6%	8.1%	6.7%	10.0%
Santander Bank	184.7	5,135	16.6	9.1	0.7	0.7	4.3%	7.5%	6.0%	11.0%
Pekao	59.7	4,263	11.3	7.7	0.6	0.6	5.6%	7.9%	8.4%	12.3%
ING BSK	163.4	5,783	18.8	12.6	1.2	1.2	6.8%	9.5%	1.6%	2.4%
mBank	176.0	2,029	15.1	7.4	0.4	0.4	3.0%	5.8%	6.6%	13.3%
Handlowy	36.5	1,297	17.8	10.6	0.6	0.6	3.7%	6.1%	5.6%	9.5%
Millennium	3.1	1,030	23.1	6.9	0.4	0.4	1.8%	5.8%	4.5%	14.4%
Alior Bank	17.5	622	n/m	7.0	0.4	0.3	0.7%	5.1%	0.0%	0.0%
Romania										
Banca Transilvania	2.2	3,101	12.1	10.0	1.4	1.3	12.1%	13.5%	5.4%	6.5%
BRD-GSG	14.8	2,570	13.0	11.1	1.2	1.2	9.0%	10.5%	9.2%	10.8%
Patria Bank	0.1	72	n/m	17.6	n/m	0.9	2.6%	5.5%	0.0%	0.0%
Slovenia										
NLB	46.1	1,116	7.9	6.1	0.5	0.5	6.5%	8.1%	8.8%	11.4%
NLB Banka ad Skopje est.	18,150.1	304	10.6	9.2	1.0	0.9	11.5%	12.3%	4.2%	5.5%
NLB Banka ad Skopje PT	20,806.5	349	10.4	9.0	1.2	1.1	11.5%	12.3%	3.7%	4.8%
Mean [region]			13.9	9.3	0.8	0.8	6.4%	8.1%	5.4%	7.8%
Mean [frontier]			11.0	10.0	1.1	1.0	10.0%	11.8%	4.1%	5.3%
Current premium/(discount) to peers			-4%	-8%	-10%	-5%	1.6pts	0.5pts	0.1pts	0.2pts

Source: WOOD Research, Bloomberg

Risks

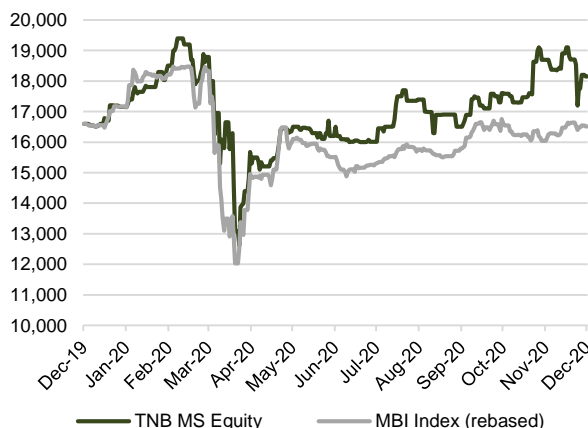
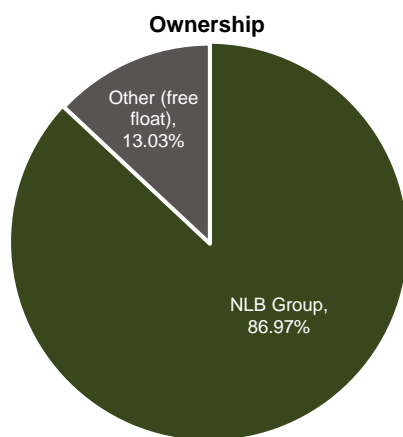
- ✓ **Political risks.** The country changed its name to North Macedonia recently, to be able to join NATO and apply to join the European Union. While Mr. Zaev, who was the Prime Minister during the name change, is usually seen as a statesman abroad, his decision to change the country's name, due to a long-standing dispute with neighbouring Greece, angered some of his voters, which resulted in snap elections, which took place earlier this year. During his tenure, the quality of democracy improved somewhat, according to the ratings by Freedom House, but it still scores only 63/100 points and is considered to be a "Partly Free" country.
- ✓ **COVID-19.** North Macedonia has not been spared from the COVID-19 pandemic. The government introduced certain measures, and announced a state of emergency between 18 March and 22 June. Following quite an easy summer, the number of COVID-19 cases began increasing again in the autumn. Should the government fail to contain the outbreak, there are risks that the negative impact of the pandemic will be larger than expected initially, which could, consequently, influence our estimates. The winter months are likely to be key in containing the spread of the disease in the country and elsewhere.
- ✓ **High unemployment rate and other economic factors.** High unemployment remains a large problem in North Macedonia, especially amongst the younger generation, which faces an unemployment rate of c.34.9%, according to the State Statistical Office of North Macedonia. A large number of North Macedonians are thus moving abroad, seeking jobs, which has negative effects on the local economy. The overall unemployment rate declined to 17.3% in 2019, from 26.1% in 2015. If the outflux of the local population increases, the economic potential of the country will fall, which could affect our long-term estimates and assumptions negatively. With the crisis triggered by the COVID-19 pandemic, the odds of this may have increased slightly.
- ✓ **High rate of Euronisation of the local banking system and economy.** The local population is still demanding the EUR, and transacts with the currency quite frequently. FX loans and FX deposits account for more than 40% of their respective totals. Despite the evident downward trend, the demand for foreign loans from North Macedonia remains elevated. On the one hand, this is positive, as the local banking sector may easily offset the large amount of FX deposits it carries on the aggregate balance sheet, but it also creates an inherent risk, especially if the central bank decides to leave its effectively fixed exchange rate policy, or if the factors influencing the exchange rate become too strong for the central bank to handle. While we do not see these risks as imminent, they are present and, should they increase, such levels of Euronisation may prove to be dangerous. Please see our [overview of the banking sector](#) in North Macedonia, for further details.
- ✓ **Trading turnover and free float are relatively low.** In USD terms, NLB Banka ad Skopje's 3M ADTV remains only c.USD 100,000. While this may be the result of the high stake held by NLB Group, which in and out of itself does not really pose a risk, the low share turnover does indeed increase the overall risk of the investment, should a higher stake be acquired. On the other hand, we note that the free float of the company's shares is quite large.

Company description – briefly on NLB Banka ad Skopje

NLB Banka ad Skopje is one of the leading banks in the country of North Macedonia, the third-largest bank in terms of assets and the second-largest in terms of loans. The bank operates 52 banking branches currently, it is one of the strongest institutions in the card business in the country. NLB Group, with an 86.97% equity stake, is the only shareholder of the bank that holds more than 5%. The rest of the shares outstanding are considered free float.

The bank was established in 1985 and, since 1993, it has been operating as a commercial bank, offering its services to clients in North Macedonia. The majority of the bank's capital was acquired by NLB Group (Nova Ljubljanska Banka d.d. Ljubljana) in 2000, when NLB Banka ad Skopje became one of the group's first members.

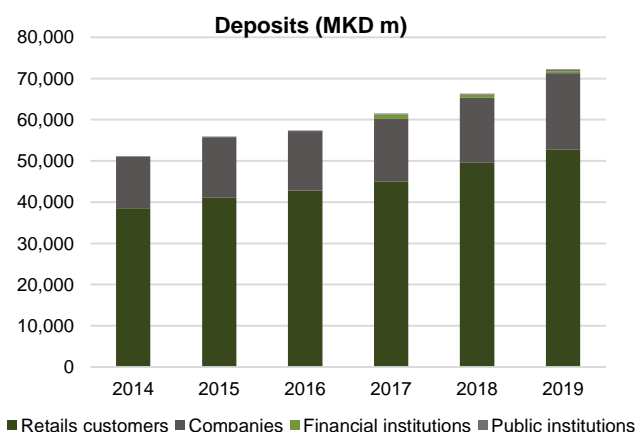
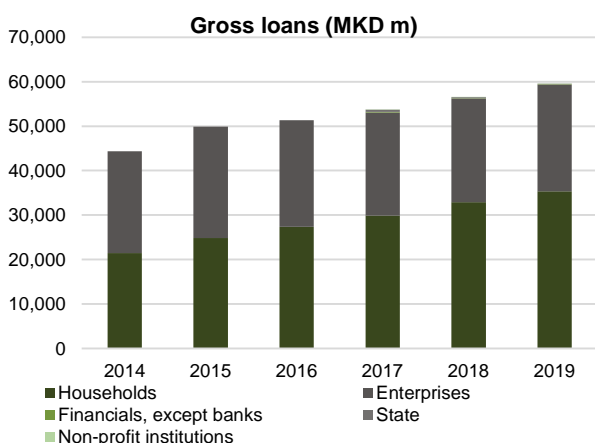
NLB Banka ad Skopje: shareholders' data and share price performance



Source: WOOD Research, NLB Banka ad Skopje

As of 30 September 2020, the bank has offered universal banking services, but it is most active in retail lending, which accounts for c.61% of its total gross loans. While the bank offers many types of loans, including credit card loans, consumer loans and mortgages are its focus areas currently. Its corporate lending arm is quite large as well, with its share of total lending taking up as much as 40%; however, the share of loans to corporates has dropped gradually to the current levels, from c.51% in 2014. The deposit structure is similar, with the exception that retail deposits account for a larger part (73%) than in loans. In terms of the structure of the bank's balance sheet, deposits finance as much as 80.2% of total assets, 77.8% of which are net loans.

NLB Banka ad Skopje: structure of gross loans and deposits



Source: WOOD Research, NLB Banka ad Skopje

Key management figures at NLB Banka ad Skopje

Antonio Argir, President of the Management Board. Mr. Argir has 20 years of experience in the field of finance. He joined NLB Banka, then called NLB Tutunska Banka, in 1999. He became a Member of the Management Board of NLB Banka in 2015 and, a year later, in 2016, he became the board's President. He graduated in Macroeconomy, Finance & Banking at the Faculty of Economy of the Cyril and Methodius University in Skopje. In 2016, with a Diploma of Honors, he earned his MBA at the IEDC Bled School of Management in Slovenia. Currently, he holds the position of Vice-President of the

Economic Chamber of Macedonia and he is a member of the Assembly of the Macedonian Banking Association.

Guenter Friedl, Member of the Management Board. Mr. Friedl has 25+ years of experience in the field of finance. Prior to joining NLB Banka ad Skopje in 2018, he worked at NLB Group as a country manager for North Macedonia and Kosovo in 2018, as Vice-President of UniCredit Austria in 2017, and as CFO and Member of the Management Board for UniCredit Bank in Slovenia from 2014-17 and as CFO and Member of the Management Board of UniCredit Bank in Latvia from 2010-14. He has also held other senior positions in the field of finance in Slovakia and Austria. He earned a MBA degree from the Donau University (Austria) in cooperation with University of British Columbia (Canada) and was awarded a Masters in Advanced Studies in Finance from Donau University. He also holds a Masters from the Vienna University of Economics and Business in Social and Economic Sciences.

Peter Zelen, Member of the Management Board. Mr. Zelen has worked in the field of finance and banking for more than 22 years. Prior to joining NLB Skopje in 2020, he worked for NLB Group since 2010 as a manager for restructuring, a manager for credit analysis, and he also served as the head of the department for credit analysis and various other positions. He earned a BSc in Economics at the Economic Faculty of the University of Maribor in 2001 and a BSc in Engineering at the University of Ljubljana.

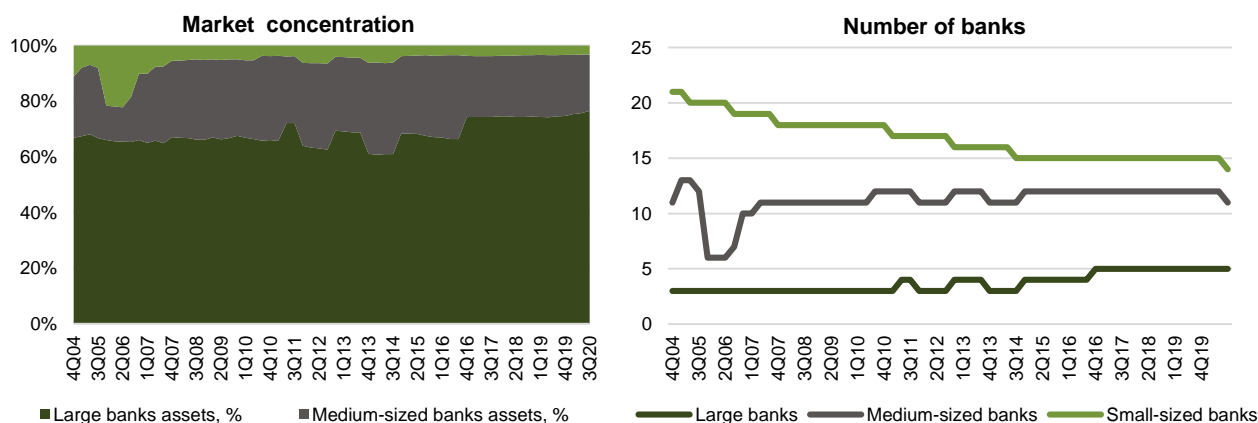
Igor Davchevski, Member of the Management Board. Mr. Davchevski has more than 20 years of experience in the field of banking and finance. He joined NLB Skopje in 2002 and, until 2010, he served as a Senior Executive for Self-Service Banking; then, until 2019, he served as the Manager for the Payment System Division. Between 2018 and 2019, he serves as an Assistant to the Management Board (COO) and, since 2020, he has been a Member of the Management Board and serves as the COO. Prior to NLB Skopje, he worked at International Private Bank. He holds a BSc in Electronics and Telecommunications from the Cyril and Methodius University in Skopje. In 2019, he earned his MBA at the IEDC Bled School of Management in Slovenia. Between 2014 and 2019, Mr. Davchevski was a Member of the Management Board of Clearing House KIBS ad Skopje.

North Macedonia's growth case – a brief reminder

In this section, we touch briefly on the growth case of the banking industry in North Macedonia. Most of the banks, the largest of them at least, should be able to draw large benefits from the growth that we anticipate going forward. For a more detailed description of the banking industry in North Macedonia, please refer to our [report, page 18](#).

North Macedonia's banking system is highly concentrated amongst the five largest banks. The three largest banks, in terms of assets, hold a market share of c.57%; while the top-five banks hold a market share of 75%. There are 14 banks operating in the country currently, three of which are considered to be large, six medium-sized and five are small. On 12 August 2020, the local central bank revoked the operating licence of Eurostandard Banka ad Skopje.

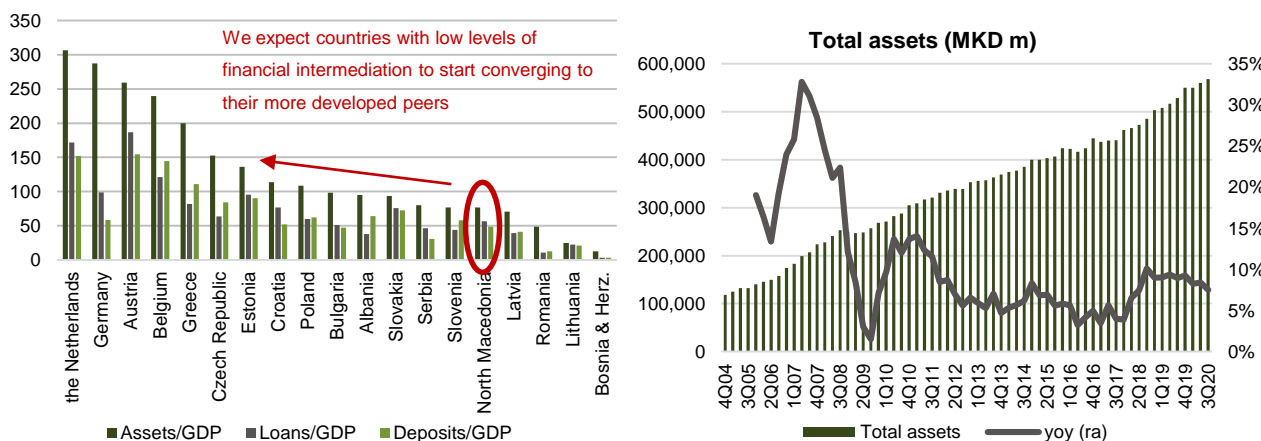
Concentrated banking sector, where the five-largest banks hold 75% of the market...



Source: WOOD Research, National Bank of the Republic of North Macedonia

The level of financial intermediation, measured as bank assets to GDP, loans to GDP and the total amount of deposits to GDP remain quite low in North Macedonia, at least when compared to its more developed peer countries. While it remains close to the levels of North Macedonia's peer countries, the increase of financial intermediation should go hand-in-hand with the economic development of the country, supporting the further growth of the sector's asset base. As is clear in the chart below, the industry has been reporting superior growth rates vs. its peer countries already in the past, and we expect this to continue.

...and the low loans to GDP ratio created conditions under which the largest banks can grow rapidly and ...



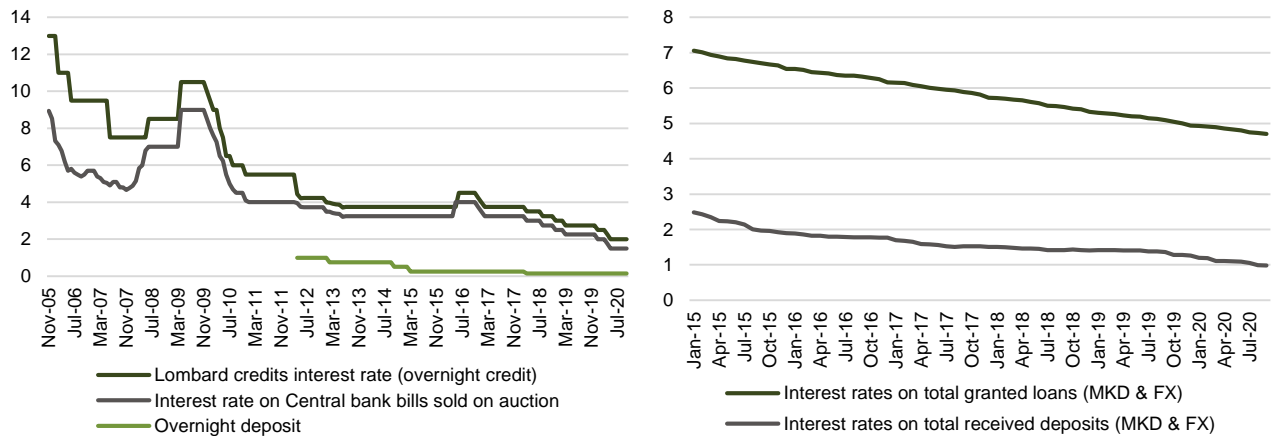
Source: WOOD Research, National Bank of the Republic of North Macedonia, central banks of all the respective countries, statistical offices of the respective countries, CEIC

Currently, the local central bank expects credit to grow by 6% in 2021E; while deposits are expected to grow 6.5%. In 2022E, the growth of credit increases further, to 7%, and we expect deposits to grow faster too, to 7.7%.

Both the concentrated banking market and the lower levels of financial intermediation should create such conditions in the market, which could play out well for the largest players in the country. With the market power they hold currently, they should be able to attract most of the growth and thus beat the average growth rates of the smaller players.

In our view, this could help local banks to tackle the environment of declining interest rates going forward. The average interest rates on total granted loans and received deposits followed the downward path of the central bank rates and, most importantly, of the interest rate on Central Bank bills sold at auction, the key rate of the central bank currently.

...fight the ever-declining interest rate environment



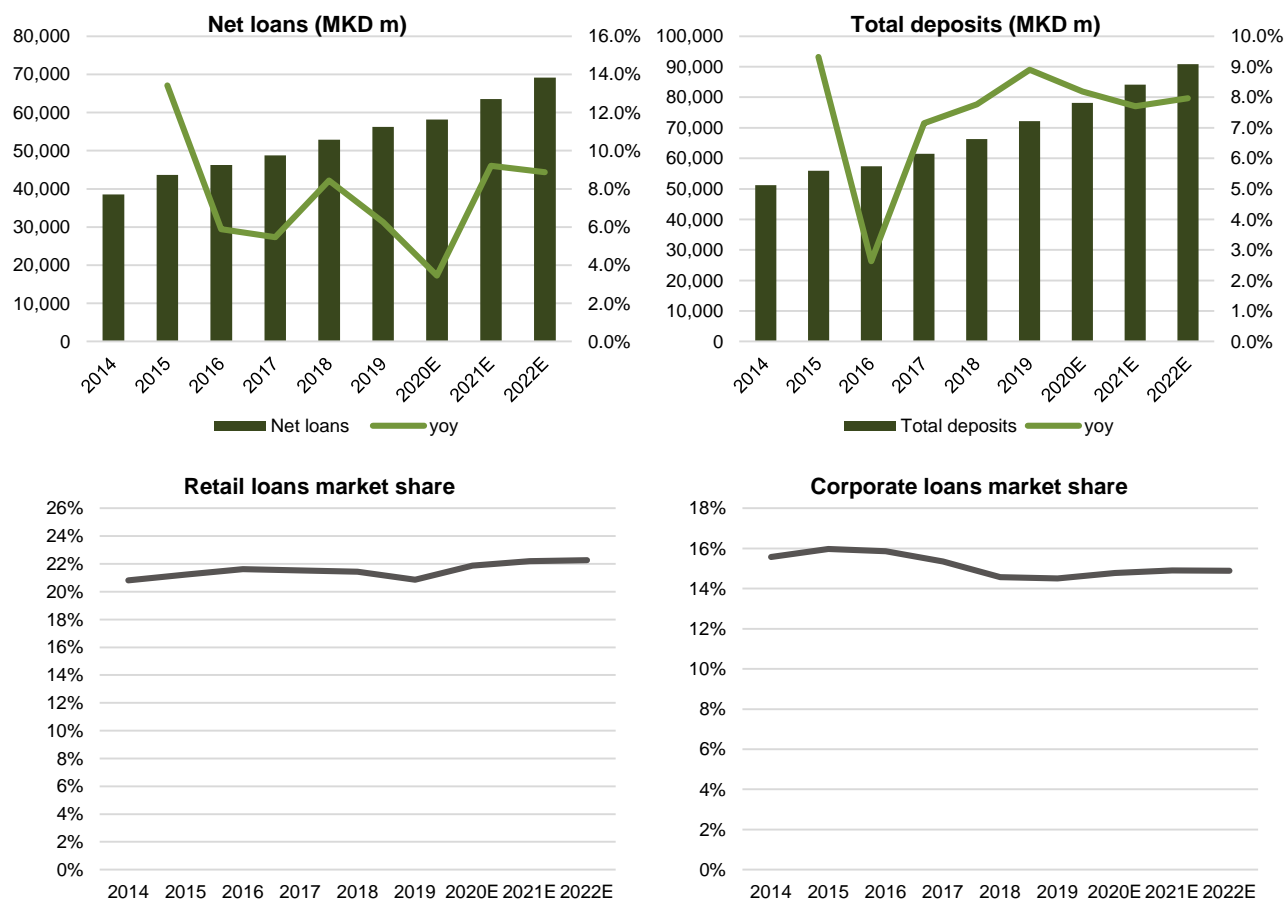
Source: WOOD Research, National Bank of the Republic of North Macedonia

Financial forecasts

Assets, loans and deposits

In the chapter above, we lay out our growth case for North Macedonia's banking sector. We believe this should translate into growth of the loan books and asset bases across the board but, in our view, the largest banks could obtain a significant part of the growth. This is the reason we expect NLB Banka to record a gross loan book CAGR of 7.1%, somewhat higher than what the local central bank expects for the sector.

NLB Banka ad Skopje: loans and deposit forecast



Source: WOOD Research, NLB Banka ad Skopje, National Bank of the Republic of North Macedonia

Under the assumption that the structure of the sector's loans will remain unchanged, we project the bank's market share in retail loans to converge to the strategic level set by the bank and reach 22.3% by 2022E; while, in the corporate segment, we expect NLB Banka's market share to reach 15% by 2022E.

In terms of deposits, we believe the inflow should remain strong. In 2020E, the expected deposit growth is explained by the closure of the economy earlier in the year, and clients' inability to spend or travel (so the liquidity is kept in their deposit accounts). The slight slowdown and consequent increase in 2021E and 2022E, respectively, are in line with the central bank's forecasts, or a touch higher. We expect deposits to grow 8.2%, 7.7% and 8.0% in 2020E, 2021E and 2022E, respectively. The resulting net L/D ratio lands between 74.4% and 76.1% between 2020E and 2022E.

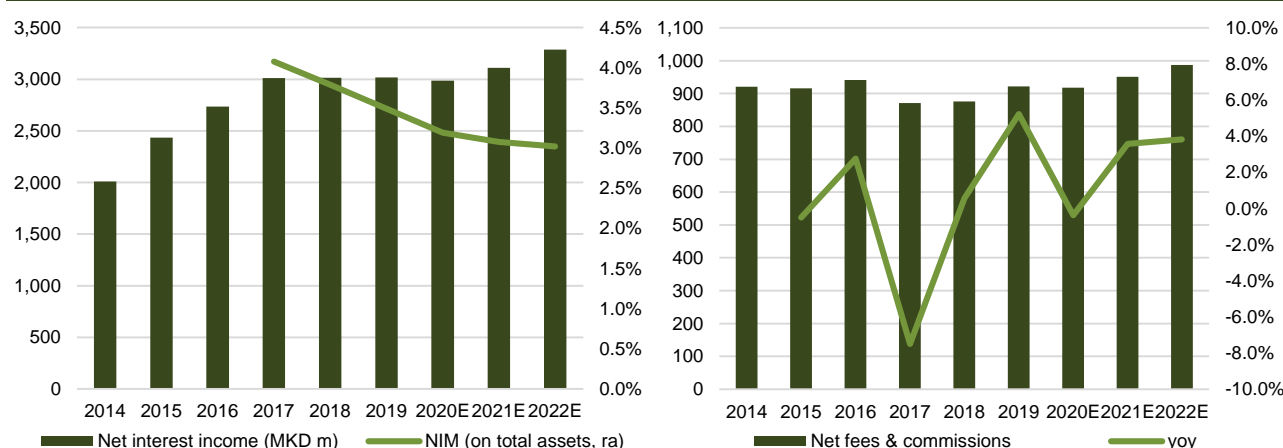
Net interest income, F&C and total operating revenues

Similarly to other banks in the region, NLB Banka ad Skopje has muddled through the low interest rate environment and we anticipate this to continue, at least throughout our forecast period. On the back of the recent declines in the ECB's and North Macedonia's central bank's key interest rates, we expect further declines in NLB Banka's yields in the coming years. In our view, this should be offset by the increase in the loan book, as described above.

Having said that, we pencil in a slight decline in the net interest income (NII) in 2020E vs. 2019; while, in 2021E, we expect the NII to grow 4.1%, followed by growth of 5.6% in 2022E. The increasing growth rates in NII are the result of the increase in the net loan book over the forecast period. In terms of NIMs (calculated on total average assets), we anticipated further declines in line with what we have seen

previously. In 2022E, on our numbers, the decline in NIM could ease somewhat. In our model, we calculate a NIM of 3.2% in 2020E, down from 3.5% in 2019, and 3.1% and 3.0% in 2021E and 2022E, respectively.

NLB Banka ad Skopje: WOOD's projections of net interest income and NIMs

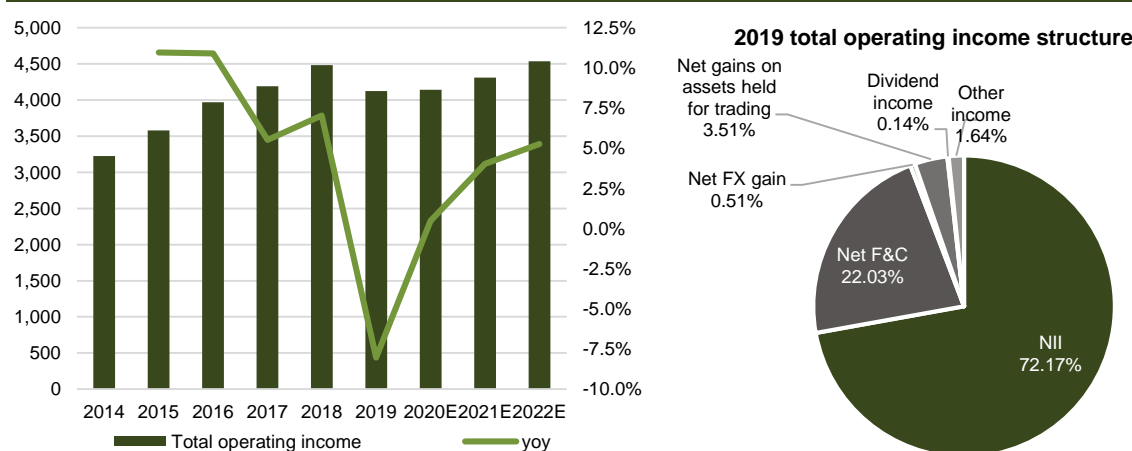


Source: WOOD Research, NLB Banka ad Skopje; ra – right axis

Banks in North Macedonia have forgone multiple fees during the state of emergency in the country. Due to this, we model a weaker F&C line for 2020E, specifically a decline of 0.4% on an annual basis. However, going forward, we feel comfortable modelling growth rates that converge gradually towards 4%, mostly on the back of increased economic activity, as well as an increasing number of banking clients, as the economy returns to normal slowly over the years.

All of the above, coupled with net other income, takes our total operating revenue to MKD 4,143m in 2020E, MKD 4,309m in 2021E and MKD 4,536m in 2022E.

NLB Banka ad Skopje: total operating income estimates



Source: WOOD Research, NLB Banka ad Skopje

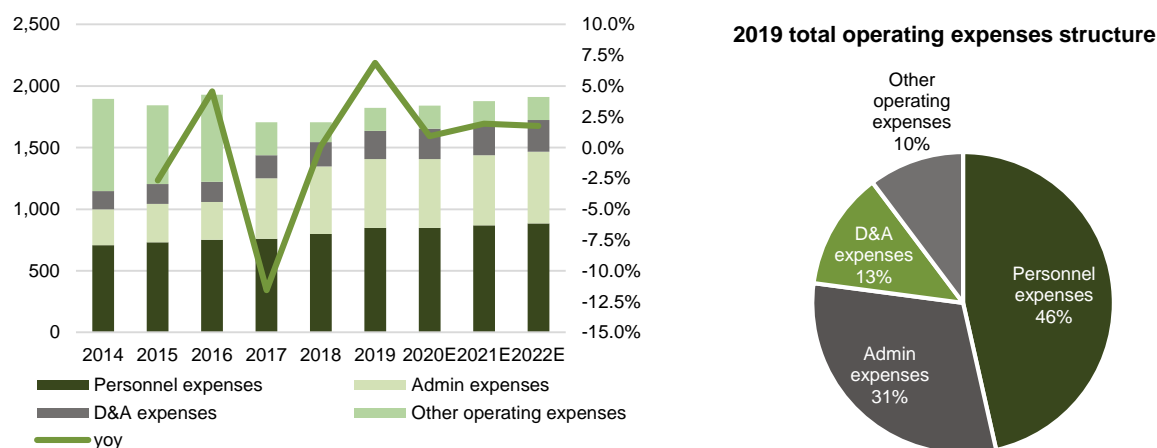
Operating costs

In our view, operating expenses are likely to continue with the trends we have seen in the past couple of years, i.e., slight increases over time. With such a high unemployment rate in the country, we believe the upward salary pressure should not be too high, even though we admit that, with a high number of competent people moving abroad, the pressure may be slightly higher in the banking industry than in the rest of the economy. However, we pencil in a more or less flat number of personnel over our forecast period and, thus, we expect the bank's personnel expenses to record a CAGR of c.2% over our forecast period.

We model the other costs lines to also continue with their trends, increasing slightly between 2019-22E. On average, we anticipate general and administrative expenses to grow 1.3% over this period, while D&A expenses could account for c.12% of property and equipment, in our view.

As a result, total operating expenses could record a CAGR of 1.5% between 2019-22E, in our view, while the C/I ratio is likely to remain between 42% and 39%.

NLB Banka ad Skopje: operating expenses



Source: WOOD Research, NLB Banka ad Skopje

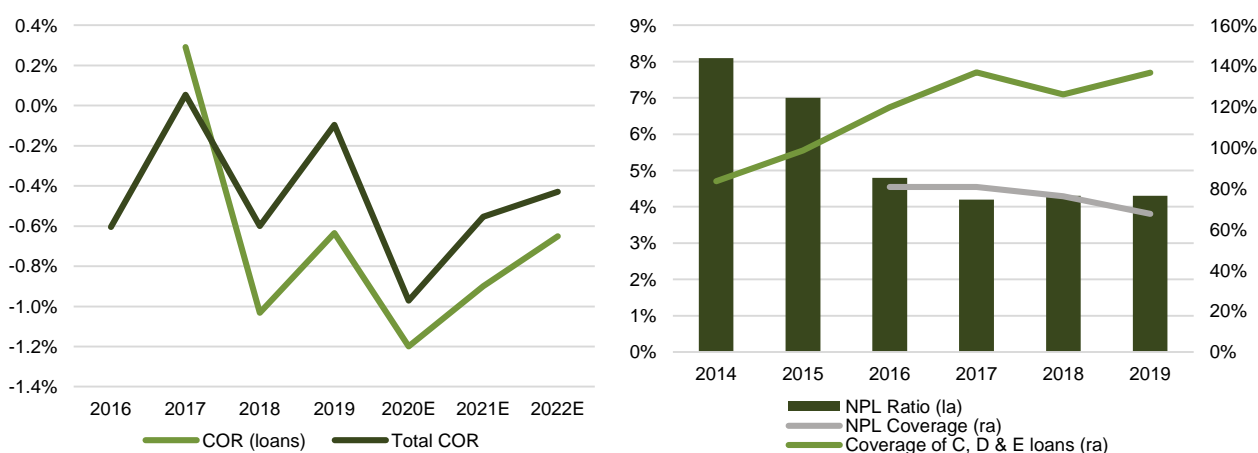
Asset quality and cost of risk

In terms of NPLs, the asset quality at NLB Banka ad Skopje has improved recently, to approximately 4.3% in 2019 from c.8% in 2014. While we admit that the coverage of NPLs declined somewhat over the period, we also note quite a substantial increase in the coverage of C, D and E category loans (please see the subchapter below for more details on C, D & E category loans). Having said that, we anticipate the asset quality to deteriorate over the next couple of years, as we learn the true impact of the current crisis – the increase in unemployment, the number of defaults, and the decline in business activity, etc.

This is also reflected in our COR forecasts. We expect the loan COR for 2020E to land at 1.2%. It is likely, in our view, that some uncertainty will continue into the first cold months of next year; thus, we expect the annual loan COR for 2021E to decline to 0.9%. In 2022E, we expect the COR to start converging to more “reasonable” levels, near 0.7% Total provisions of financial assets could, in our view, reach as much MKD 854m this year, coming down MKD 527m in 2020E and to MKD 441m in 2020E.

The total COR, i.e., the total impairment charge over the total financial asset exposure (including loans, securities, etc.), is likely to increase from 0.6% in 2018 and 0.1% in 2019 to 1.0% in 2020E, and then decline slightly, to 0.6%, in 2021E. On the back of the gradual declines in the loan COR, which accounts for the largest part of the total provisioning activity, the total COR could decline again to 0.4%.

NLB Banka ad Skopje: COR estimates & NPL ratios



Source: WOOD Research, NLB Banka ad Skopje

C, D & E loans explained

This report is based on the IFRS numbers reported by the bank. However, in terms of asset quality, we have decided to present and discuss the C, D, & E category loans. These categories are based on the local GAAP and, while the methodology is based, to a certain extent, on IFRS, it does not cover all the provisions and details applicable for IFRS 9.

The main difference versus IFRS 9 stems from the NBRNM-defined classification of credit risk exposure into the five categories presented in the table below, with pre-defined levels of impairment, e.g., in risk category A, percentages (potential losses) are limited from 0.01% to 5.00%. The three different groups then work similarly to Stages 1-3 under IFRS:

- ✓ Group 1 includes credit risk exposure classified as risk category “A”.
- ✓ Group 2 includes all the credit risk exposure classified as risk categories “B” and “C”, and still bears the performing credit exposure status.
- ✓ Group 3 includes credit risk exposures with non-performing status, exposures classified under the risk category “D” and “E”, as well as a part of risk category “C”, with non-performing status.

Risk categories under the NBRNM reporting standards

Risk Category	Percentage
A	0.01% - 5.00%
B	5.01% - 20.00%
C	20.01% - 45.00%
D	45.01% - 70.00%
E	70.01% - 100.00%

Source: WOOD Research, NLB Banka ad Skopje

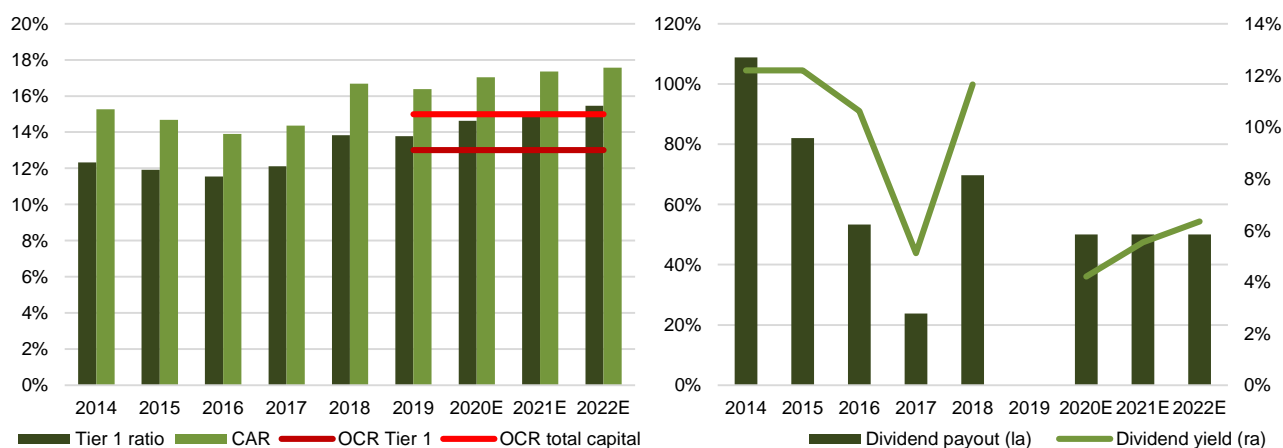
As per IFRS 9, the expected losses percentage is calculated using a model. As the local regulations define the aforementioned limits for each risk category from A through E, the input parameters for the calculation of impairments are set differently under the local GAAP. The resulting value thus gives, most of the time, a higher value and percentage for impairments.

Capital and dividend projections

While NLB Banka may seem to be quite tight in terms of capital when glanced at from the FY19 perspective (Tier I = 13.8% vs. the 13% required, including all the buffers), we do not expect any major issues. First, the bank has not paid a dividend from the 2019 profit, which supports the capital ratios going forward and, second, we expect the bank to remain profitable over our forecast period, despite the elevated COR charges. Similarly, the CAR of 16.4% (2019) seems to put the bank on the safe side, especially as it has not paid the 2019 profit out to shareholders in dividends.

To remain conservative, we assume payout ratios of 50% in the first stage of our valuation model (2020-22E), even though we note that the bank has the capacity to pay more once there is more clarity on the medium-to-long-term effects of the pandemic, followed by a gradual increase to c.77%, which we calculate as the bank's sustainable payout ratio in the long term, assuming a ROE of 12.8% and a terminal growth rate of 3%. Thus, in our view, NLB Banka could pay MKD 763/share in 2021E from the 2020E profit, followed by a DPS of MKD 1,004 in 2022E.

NLB Banka ad Skopje: capital adequacy and dividends*



Source: WOOD Research, NLB Banka ad Skopje, Bloomberg; *as announced

These payout ratios support the capital base further, which we see reaching 17.2% in 2020E, 17.4% in 2021E and 17.6% in 2022E. These levels indicate that the bank could, eventually, pay out more than we assume, or that the bank has the capacity to grow its loan book faster than we have pencilled into our model. In any case, either of the two could, theoretically, generate upside to our estimates, should they materialise. This time around, however, we choose to remain conservative until there is more transparency on the COR levels, and the general development of the economy next year and in the future, especially in the context of the pandemic.

Financials

Income statement

(MKD m)	2015	2016	2017	2018	2019	2020E	2021E	2022E
Interest income	3,372	3,553	3,630	3,558	3,533	3,464	3,574	3,686
Interest expense	-938	-818	-618	-546	-515	-477	-463	-400
Net interest income	2,434	2,735	3,012	3,013	3,018	2,988	3,111	3,286
Fee and commission income	1,299	1,406	1,425	1,496	1,639	1,728	1,852	1,990
Fee and commission expense	-384	-465	-554	-620	-718	-810	-901	-1,002
Net fee and commission income	916	941	871	876	921	918	951	987
FX gains net	124	126	29	27	21	21	21	21
Net trading income	-6	2	122	136	147	160	170	185
Other income	229	294	307	595	184	237	247	262
Net operating income	3,579	3,970	4,189	4,483	4,123	4,143	4,309	4,536
Personnel expenses	-732	-751	-760	-799	-847	-849	-869	-886
General and administrative expenses	-311	-308	-492	-548	-558	-558	-570	-581
Depreciation and amortisations expense	-162	-163	-185	-197	-231	-246	-251	-256
Other operating expenses	-639	-706	-268	-162	-187	-187	-187	-187
Total operating expenses	-1,844	-1,928	-1,705	-1,706	-1,824	-1,841	-1,877	-1,910
Profit before provisions and impairments of fin assets	1,735	2,042	2,484	2,777	2,300	2,302	2,433	2,626
Net impairment losses on financial assets	-975	-314	-31	-411	-78	-854	-527	-441
Results after provisions	761	1,727	2,454	2,366	2,221	1,447	1,906	2,185
Share of profit of associates accounted for using the equity method	27	32	36	0	0	0	0	0
Result before tax	788	1,759	2,490	2,366	2,221	1,447	1,906	2,185
(Expenses)/income with current profit tax	-78	-167	-254	-237	-198	-145	-191	-219
Net result for the period	710	1,592	2,235	2,129	2,024	1,303	1,715	1,967

Source: WOOD Research, NLB Banka ad Skopje

Balance sheet

(MKD m)	2015	2016	2017	2018	2019	2020E	2021E	2022E
Cash, cash balances at central bank	6,309	7,780	10,211	11,780	11,866	15,124	15,721	16,047
Financial assets measured at FV through OCI	0	0	0	4,229	6,169	8,141	8,256	8,989
Debt securities	0	0	0	7,853	8,716	9,017	9,848	10,722
Loans and advances to banks	5,148	4,341	2,631	2,864	2,853	2,951	3,175	3,457
Loans and advances to customers	43,676	46,250	48,780	52,895	56,206	58,150	63,508	69,145
Other financial assets	0	0	0	1,191	1,282	1,327	1,449	1,578
Investment securities available for sale	10,670	9,695	10,316	0	0	0	0	0
Foreclosed collateral	248	224	204	110	284	284	284	284
Investment property	115	103	103	103	103	103	103	103
PPE and right of use assets	2,102	2,076	1,988	1,926	2,054	2,095	2,137	2,180
Intangible assets	121	134	129	143	207	207	207	207
Current income tax assets	0	0	0	0	18	18	18	18
Other assets	1,082	1,260	1,498	79	53	53	53	53
Total assets	69,470	71,863	75,861	83,173	89,811	97,469	104,759	112,781
Deposits from banks	1,380	1,516	454	500	619	619	619	619
Deposits from customers	55,937	57,411	61,518	66,298	72,203	78,115	84,137	90,840
Other borrowed funds	2,072	1,499	1,128	979	644	619	583	538
Subordinated debt	2,040	2,034	2,035	1,840	1,841	1,841	1,841	1,841
Other financial liabilities	0	0	0	735	1,067	1,406	1,514	1,635
Provisions	250	208	272	306	369	400	430	465
Current income tax liabilities	19	90	92	13	0	0	0	0
Deferred income tax liabilities	3	2	15	135	136	136	136	136
Other liabilities	514	835	693	56	54	54	54	54
Total liabilities	62,215	63,595	66,207	70,863	76,934	83,190	89,315	96,128
Share capital	854	854	854	854	854	854	854	854
Share premium	2,274	2,274	2,274	2,274	2,274	2,274	2,274	2,274
Revaluation reserves	-8	-5	-4	2	30	30	30	30
Retained earnings	1,284	2,294	3,191	4,336	4,419	5,722	6,786	7,895
Other reserves	2,851	2,851	3,339	4,844	5,300	5,400	5,500	5,600
Total equity	7,255	8,268	9,655	12,310	12,877	14,280	15,444	16,653
Total liabilities and equity	69,470	71,863	75,861	83,173	89,811	97,469	104,759	112,781

Source: WOOD Research, NLB Banka ad Skopje

DuPont analysis

(%)	2015	2016	2017	2018	2019	2020E	2021E	2022E
Net interest income	3.6%	3.9%	4.1%	3.8%	3.5%	3.2%	3.1%	3.0%
Net fee and commission income	1.4%	1.3%	1.2%	1.1%	1.1%	1.0%	0.9%	0.9%
Other operating income	0.3%	0.4%	0.4%	0.7%	0.2%	0.3%	0.2%	0.2%
Net operating income	5.3%	5.6%	5.7%	5.6%	4.8%	4.4%	4.3%	4.2%
Personnel expenses	-1.1%	-1.1%	-1.0%	-1.0%	-1.0%	-0.9%	-0.9%	-0.8%
General and administrative expenses	-0.5%	-0.4%	-0.7%	-0.7%	-0.6%	-0.6%	-0.6%	-0.5%
Depreciation and amortisations expense	-0.2%	-0.2%	-0.3%	-0.2%	-0.3%	-0.3%	-0.2%	-0.2%
Other operating expenses	-0.9%	-1.0%	-0.4%	-0.2%	-0.2%	-0.2%	-0.2%	-0.2%
Total operating expenses	-2.7%	-2.7%	-2.3%	-2.1%	-2.1%	-2.0%	-1.9%	-1.8%
Profit before provisions and impairments	2.6%	2.9%	3.4%	3.5%	2.7%	2.5%	2.4%	2.4%
Impairment of financial assets	-1.4%	-0.4%	0.0%	-0.5%	-0.1%	-0.9%	-0.5%	-0.4%
Results after provisions	1.1%	2.4%	3.3%	3.0%	2.6%	1.5%	1.9%	2.0%
Share of profit of associates accounted for using the equity method	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Results before tax	1.2%	2.5%	3.4%	3.0%	2.6%	1.5%	1.9%	2.0%
(Expenses)/income with current profit tax	-0.1%	-0.2%	-0.3%	-0.3%	-0.2%	-0.2%	-0.2%	-0.2%
Net result for the period	1.1%	2.3%	3.0%	2.7%	2.3%	1.4%	1.7%	1.8%

Source: WOOD Research, NLB Banka ad Skopje

KPIs, multiples & other data

	2015	2016	2017	2018	2019	2020E	2021E	2022E
Growth rates (%)								
Loans and advances to customers	13.4%	5.9%	5.5%	8.4%	6.3%	3.5%	9.2%	8.9%
Deposits	9.3%	2.6%	7.2%	7.8%	8.9%	8.2%	7.7%	8.0%
Equity	3.4%	14.0%	16.8%	27.5%	4.6%	10.9%	8.2%	7.8%
Assets	6.5%	3.4%	5.6%	9.6%	8.0%	8.5%	7.5%	7.7%
Net result for the period	64.3%	124.2%	40.4%	-4.7%	-5.0%	-35.6%	31.7%	14.7%
Net interest income	21.0%	12.3%	10.1%	0.0%	0.2%	-1.0%	4.1%	5.6%
Balance sheet ratios (%)								
Net loans to deposits	78.1%	80.6%	79.3%	79.8%	77.8%	74.4%	75.5%	76.1%
Deposits to assets	80.5%	79.9%	81.1%	79.7%	80.4%	80.1%	80.3%	80.5%
Net loans to assets	62.9%	64.4%	64.3%	63.6%	62.6%	59.7%	60.6%	61.3%
Equity to assets	10.4%	11.5%	12.7%	14.8%	14.3%	14.7%	14.7%	14.8%
Capital adequacy ratio	14.7%	13.9%	14.4%	16.7%	16.4%	17.0%	17.4%	17.6%
Tier 1 capital ratio	11.9%	11.6%	12.1%	13.8%	13.8%	14.6%	15.1%	15.5%
Loan quality (%)								
NPL ratio	7.0%	4.8%	4.2%	4.3%	4.3%	-	-	-
NPL coverage	n.a.	80.9%	80.9%	76.3%	67.7%	-	-	-
Coverage of C, D, E loans	98.7%	119.8%	136.9%	126.1%	136.8%	-	-	-
Profitability (%)								
Net interest margin	4.3%	4.6%	4.9%	4.6%	4.2%	3.9%	3.8%	3.6%
NII to average assets	3.6%	3.9%	4.1%	3.8%	3.5%	3.2%	3.1%	3.0%
NII to average assets adj. for provisions [WOOD calculation]	2.2%	3.4%	4.0%	3.3%	3.4%	2.3%	2.6%	2.6%
Costs to average assets	-2.7%	-2.7%	-2.3%	-2.1%	-2.1%	-2.0%	-1.9%	-1.8%
Cost to income	41.0%	37.4%	37.8%	39.0%	41.0%	41.8%	41.0%	39.6%
Cost of Risk (loans)	n.a.	n.a.	0.3%	-1.0%	-0.6%	-1.2%	-0.9%	-0.7%
Pre-tax income to average assets	1.1%	2.4%	3.3%	3.0%	2.6%	1.5%	1.9%	2.0%
Effective tax rate	-9.9%	-9.5%	-10.2%	-10.0%	-8.9%	-10.0%	-10.0%	-10.0%
ROA	1.1%	2.3%	3.0%	2.7%	2.3%	1.4%	1.7%	1.8%
ROE	9.9%	20.5%	24.9%	19.4%	16.1%	9.6%	11.5%	12.3%
ROTE	10.1%	20.9%	25.3%	19.6%	16.3%	9.7%	11.7%	12.4%
Per share data (x*)								
Number of shares outstanding (m)	0.85	0.85	0.85	0.85	0.85	0.85	0.85	0.85
Average price per share (MKD)	4,517	6,291	9,374	12,162	14,928	18,150	18,150	18,150
EPS (MKD)	831	1,864	2,617	2,493	2,369	1,525	2,008	2,303
BVPS (MKD)	8,495	9,681	11,304	14,413	15,077	16,720	18,083	19,498
Tangible BVPS (MKD)	8,354	9,524	11,153	14,246	14,835	16,478	17,841	19,256
P/E	5.4	3.4	3.6	4.9	6.3x	11.9x	9.0x	7.9x
P/BV	0.5	0.6	0.8	0.8	1.0x	1.1x	1.0x	0.9x
P/Tangible BV	0.5	0.7	0.8	0.9	1.0x	1.1x	1.0x	0.9x
DPS paid (MKD)	551	682	995	622	1,738	0	763	1,004
Dividend yield (%)	12.2%	10.8%	10.6%	5.1%	11.6%	0.0%	4.2%	5.5%

Source: WOOD Research, NLB Banka ad Skopje

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