

# NLB Banka ad Skopje

**Sell**

Maintained

Price: MKD 26,500  
Price target: MKD 21,095  
(from MKD 24,158)

## A good asset for a very high price

In this report, we maintain our SELL recommendation on NLB Banka, while reducing our price target (PT) by c.13% to MKD 21,095/share, from MKD 24,158/share. The bank continues to perform well, in the current environment, and its future performance should be supported further by the now growing interest rates in North Macedonia. This is likely to continue, supporting the NIMs, profitability and ROEs further, in our view. We continue to appreciate the bank's solid asset quality and capitalisation levels. Despite this, we deem the price too high, so we maintain our SELL on the bank, at this stage. The current downside we see in the stock is c.20%. Currently, the bank trades at some 1.2-1.3x P/BVs for 2022-23E, on our numbers. This is a c.58-64% premium vs. its peers, which we see as quite stretched; while, on our PT, the bank would trade closer to the peers' median. Moreover, if we compare our P/BV multiples for NLB Banka at our PT, they are in line with the median P/BV multiples at the PTs for the bank's frontier peers under our coverage. Therefore, our valuation call, outlined in our previous report (published in November 2021), remains the same.

**We like the story, but the price remains too high, in our view.** While we like the bank's fundamentals (the growth outlook for the banking sector in North Macedonia, its solid ROEs and strong brand, the strategic investor behind the bank, and its solid asset quality and capitalisation, which allows for good dividend payouts), the price seems too high to offer any further upside. We expect the bank's loan book to grow between 5.7-7.5% annually over our forecast period (2022-24E), while we see the NIM growing to 3.9% in 2024E, from 3.6% in 2021, due mostly to the increasing interest rates in the market, coupled with strong asset growth over the same period (6.9-7.3%). Although, on our numbers, the ROEs are likely to fall to 14.7% in 2024E, from 16.2% in 2021, the decline is mostly a result of the bank's COR profile normalisation, following the positive dynamics in 2021.

**We have rolled our model over by one year, and we publish our 2024E estimates.** In this report, we have updated our estimates for 2022-23E and published our new forecasts for 2024E. For 2024E, we expect the bank to report a ROE of 14.7%, a C/I ratio of 37.6% and the NIM growing to 3.9%. Furthermore, we expect the capitalisation levels to reach 16.6% and 19.1% at the Tier I and CAR levels, respectively, allowing for growth in the payout ratio in the implicit forecast period of our three-stage DDM and excess return valuation models.

**At 1.2-1.3x P/BVs, the bank's valuation is stretched, in our view.** We see NLB Banka's shares as quite expensive currently, due mostly to the premia at which the bank trades on both P/BV and P/E multiples. On our 2022-23E P/BVs, the multiples are 58-64% higher than the bank's frontier peers. On P/Es, the premia are 24-30% for the same period.

**Risks:** political risk; a high unemployment rate and other economic factors; the high rate of Euroisation of the economy; its very low trading turnover and free float; and asset quality in an increasing rate environment.

### Expected events

2Q22 results	July (TBC)
3Q22 results	November (TBC)

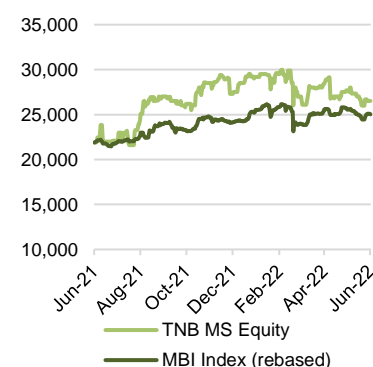
### Key data

Market Cap	USD 393m
Free float	13%
3M ADTV	USD 26,664
Shares outstanding (m)	0.85
Major Shareholder	NLB Group (87%)
Bloomberg Code	TNB MS Equity
MBI Index	6,087.3

### Price performance

52-w range	MKD 21,601-29,995
52-w performance	21.0%
Relative performance	6.8%

NLB Banka 12M share price performance



Year	NII (MKD m)	Net Profit (MKD m)	EPS (MKD)	P/E (x)	BVPS (MKD)	P/BV (x)	ROE (%)	DPS paid (MKD)	Dividend yield
2020	2,969	1,185	1,388	19.1	16,561	1.6	8.8%	0	0.0%
2021	3,105	2,358	2,761	9.6	17,527	1.5	16.2%	1,787	6.7%
2022E	3,559	2,550	2,986	8.9	19,892	1.3	16.0%	738	2.8%
2023E	3,890	2,605	3,050	8.7	21,268	1.2	14.8%	1,792	6.8%
2024E	4,199	2,773	3,246	8.2	22,801	1.2	14.7%	1,830	6.9%

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## Closing Prices as of 03 June 2022

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## Valuation

We set our new price target (PT) for NLB Banka ad Skopje at MKD 21,095/share, with potential downside of c.20%. We arrive at our PT using a combination of our excess return valuation model, giving us a PT of MKD 21,937/share, and our three-stage DDM, which yields a PT of MKD 22,086/share. The difference between the two methods is 1%. We also add a valuation based on the peer multiples to the mix, with a PT of MKD 17,429/share.

### Valuation summary

Method	weight	PT
Excess return valuation	40%	21,937
3-stage DDM	40%	22,086
Peer multiples	20%	17,429
<b>Weighted average PT</b>		<b>21,095</b>
Current price*		26,500
<b>Potential upside</b>		<b>-20.4%</b>

Source: WOOD Research; \*price data from Bloomberg

### Cost of equity estimate

To estimate NLB Banka's cost of equity, we use a risk free rate of 6.5% for North Macedonia, a market risk premium of 6.0% and a beta of 1.2x. All this yields a COE of 13.7%.

### Cost of equity estimate

Risk free rate	<b>6.5%</b>
Market risk premium	6.0%
Market return	12.5%
1Y monthly beta	1.20
<b>Cost of equity</b>	<b>13.7%</b>

Source: WOOD Research

### Excess return valuation

#### Excess return valuation model

	2021	2022E	2023E	2024E	2025E	2026E	2027E	2028E	2029E	+
Net profit (MKD m)	2,358	2,550	2,605	2,773	2,930	3,076	3,211	3,335	3,449	3,552
growth yoy	99.0%	8.1%	2.1%	6.4%	5.7%	5.0%	4.4%	3.9%	3.4%	3.0%
Dividend distribution (MKD m)	1,526	630	1,530	1,563	1,664	2,040	2,251	2,451	2,638	2,728
growth yoy	n/a	-58.7%	142.8%	2.1%	6.4%	22.6%	10.3%	8.9%	7.6%	3.4%
Shareholders' equity (MKD m)	14,969	16,989	18,164	19,474	20,740	21,776	22,736	23,620	24,431	25,255
growth yoy	5.8%	13.5%	6.9%	7.2%	6.5%	5.0%	4.4%	3.9%	3.4%	3.4%
Cost of equity (MKD m)	1,994	2,189	2,408	2,578	2,755	2,912	3,049	3,175	3,292	3,404
growth yoy	2.9%	9.8%	10.0%	7.1%	6.8%	5.7%	4.7%	4.1%	3.7%	3.4%
<b>Excess return (MKD m)</b>	<b>364</b>	<b>361</b>	<b>197</b>	<b>194</b>	<b>175</b>	<b>164</b>	<b>162</b>	<b>160</b>	<b>157</b>	<b>1,392</b>
ROE	16.2%	16.0%	14.8%	14.7%	14.6%	14.5%	14.4%	14.4%	14.4%	14.3%
Payout ratio	128.8%	26.7%	60.0%	60.0%	60.0%	69.6%	73.2%	76.3%	79.1%	79.1%
Time adjustment for the valuation date		0.57	1.57	2.57	3.57	4.57	5.57	6.57	7.57	8.57
Discount factor		93%	82%	72%	63%	56%	49%	43%	38%	33%
<b>Discounted excess return per share</b>		<b>393</b>	<b>189</b>	<b>164</b>	<b>130</b>	<b>107</b>	<b>93</b>	<b>81</b>	<b>70</b>	<b>542</b>
<b>Current book value per share</b>										<b>17,527</b>
Number of shares (m)	0.85									
Fair value	19,294									
<b>Price target</b>	<b>21,937</b>									
<b>Upside</b>	<b>-17.2%</b>									
Valuation date	06-06-2022									
Fiscal year-end	31-12-2022									
Time adjustment	0.57									

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 2029E, the present value of the excess return in the terminal period beyond 2029E and the current capital invested in the bank. The fair value of an individual share then lands at MKD 19,294, giving us a 12M PT of MKD 21,937/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.

## Excess return valuation model sensitivity to COE and LT growth rate

		Long term growth rate						
		1.5%	2.0%	2.5%	3.0%	3.5%	4.0%	4.5%
Cost of equity	10.7%	29,812	30,296	30,803	31,349	31,950	32,623	33,389
	11.7%	26,600	26,892	27,188	27,497	27,827	28,187	28,585
	12.7%	23,958	24,122	24,278	24,435	24,596	24,764	24,945
	13.7%	21,743	21,818	21,881	21,937	21,989	22,038	22,085
	14.7%	19,856	19,869	19,868	19,857	19,837	19,810	19,774
	15.7%	18,225	18,195	18,150	18,093	18,026	17,949	17,861
	16.7%	16,799	16,737	16,662	16,575	16,477	16,368	16,246

Source: WOOD Research

## Dividend discount model

To calculate our PT, we sum up the present value of the dividend cash flow received by investors in the first stage of our model (2022-24E), the present value of the dividends in the second stage (2025-29E) and the book value of the equity in the terminal value multiplied by the implied P/BV of 1.1x. We arrive at a fair value MKD 19,425/share, or a 12M PT of MKD 22,086/share.

### Three-stage dividend discount model

	2021	2022E	2023E	2023E	2025E	2026E	2027E	2028E	2029E	+
Net profit (MKD m)	2,358	2,550	2,605	2,773	2,930	3,076	3,211	3,335	3,449	3,552
growth yoy	99.0%	8.1%	2.1%	6.4%	5.7%	5.0%	4.4%	3.9%	3.4%	3.0%
EPS (MKD)	2,761	2,986	3,050	3,246	3,430	3,602	3,760	3,905	4,038	4,160
growth yoy	99.0%	8.1%	2.1%	6.4%	5.7%	5.0%	4.4%	3.9%	3.4%	3.0%
Shareholders' equity (MKD m)	14,969	16,989	18,164	19,474	20,740	21,776	22,736	23,620	24,431	25,255
growth yoy	5.8%	13.5%	6.9%	7.2%	6.5%	5.0%	4.4%	3.9%	3.4%	3.4%
BVPS (MKD)	17,527	19,892	21,268	22,801	24,284	25,497	26,621	27,656	28,606	29,571
growth yoy	5.8%	13.5%	6.9%	7.2%	6.5%	5.0%	4.4%	3.9%	3.4%	3.4%
<b>DPS paid (MKD)</b>	<b>1,787</b>	<b>738</b>	<b>1,792</b>	<b>1,830</b>	<b>1,948</b>	<b>2,389</b>	<b>2,636</b>	<b>2,870</b>	<b>3,089</b>	<b>3,194</b>
growth yoy	n/a	-58.7%	142.8%	2.1%	6.4%	22.6%	10.3%	8.9%	7.6%	3.4%
ROE	16.2%	16.0%	14.8%	14.7%	14.6%	14.5%	14.4%	14.4%	14.4%	14.3%
Payout ratio	128.8%	26.7%	60.0%	60.0%	60.0%	69.6%	73.2%	76.3%	79.1%	79.1%
Time adjustment for the valuation date		0.57	1.57	2.57	3.57	4.57	5.57	6.57	7.57	8.57
Discount factor		93%	82%	72%	63%	56%	49%	43%	38%	33%
<b>Discounted DPS</b>			<b>1,465</b>	<b>1,316</b>	<b>1,232</b>	<b>1,328</b>	<b>1,289</b>	<b>1,235</b>	<b>1,169</b>	
<b>Terminal value per share estimate</b>										<b>31,228</b>
<b>Discounted terminal value per share</b>										<b>10,392</b>
Implied P/BV (x)	1.1									
Fair value	19,425									
<b>Price target</b>	<b>22,086</b>									
<b>Upside</b>	<b>-16.7%</b>									
Valuation date	06-06-2022									
Fiscal year-end	31-12-2022									
Time adjustment	0.57									

Source: WOOD Research

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%.

### Three-stage dividend discount valuation model sensitivity to COE and LT growth rate

		Long term growth rate						
		1.5%	2.0%	2.5%	3.0%	3.5%	4.0%	4.5%
Cost of equity	10.7%	31,000	31,128	31,256	31,384	31,513	31,641	31,770
	11.7%	27,230	27,336	27,442	27,549	27,655	27,761	27,867
	12.7%	24,259	24,348	24,437	24,526	24,615	24,704	24,793
	13.7%	21,859	21,935	22,010	22,086	22,161	22,237	22,312
	14.7%	19,884	19,949	20,013	20,078	20,142	20,207	20,272
	15.7%	18,232	18,287	18,343	18,399	18,454	18,510	18,566
	16.7%	16,830	16,878	16,927	16,975	17,023	17,072	17,120

Source: WOOD Research

## Peer comparison and multiples valuation

As NLB Banka trades at a high P/BV multiple, coupled with its large premium vs. its peers, we believe our decision to maintain our SELL recommendation is justified, for now. On forward-looking multiples, the bank trades at 1.3x and 1.2x our 2022E and 2023E book value estimates, respectively.

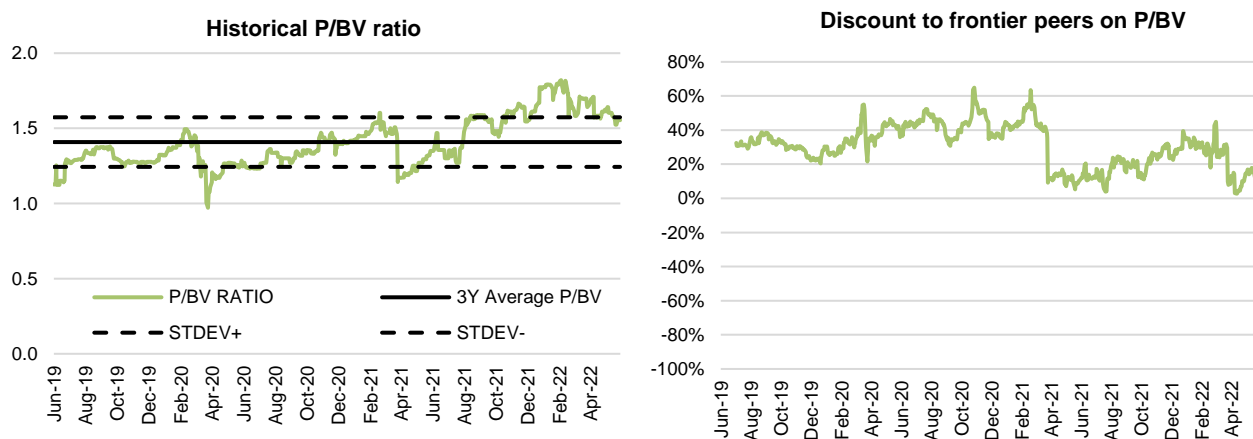
### Peer multiples valuation model

	Frontier multiple	WOOD	weight	EUR
2022E P/BV	0.8	14,969	25%	12,651
2023E P/BV	0.8	16,989	25%	12,895
2022E P/E	7.2	2,358	25%	16,943
2023E P/E	6.7	2,550	25%	17,051
<b>Weighted average (m)</b>				<b>14,885</b>
Number of shares (m)				0.85
<b>PT (per share)</b>				<b>17,429</b>
Last price				26,500
<b>Upside</b>				<b>-34.2%</b>

Source: WOOD Research; \*price data from Bloomberg

Our SELL recommendation is supported further by the multiples at which the bank trades currently vs. the historical averages. We note that, due to the lack of Bloomberg consensus, we have decided to use the trailing 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 into the trends.

### Trailing P/BV ratio of NLB Banka ad Skopje together with the discount vs. peers



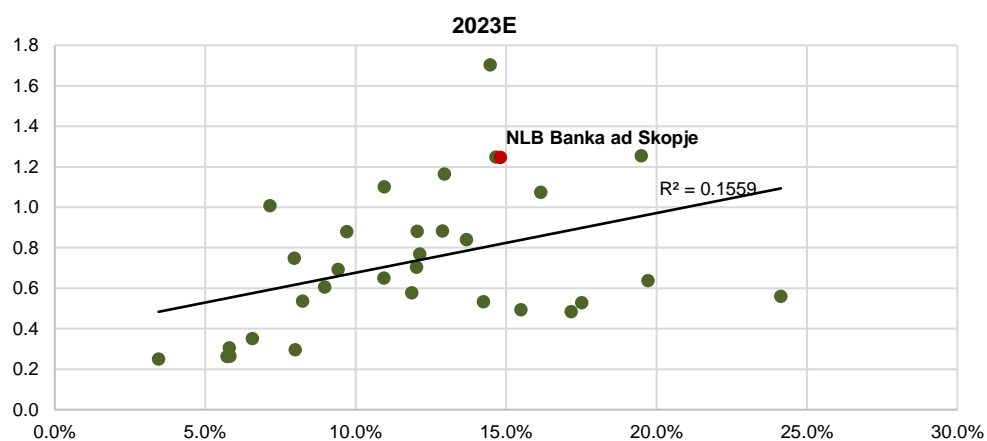
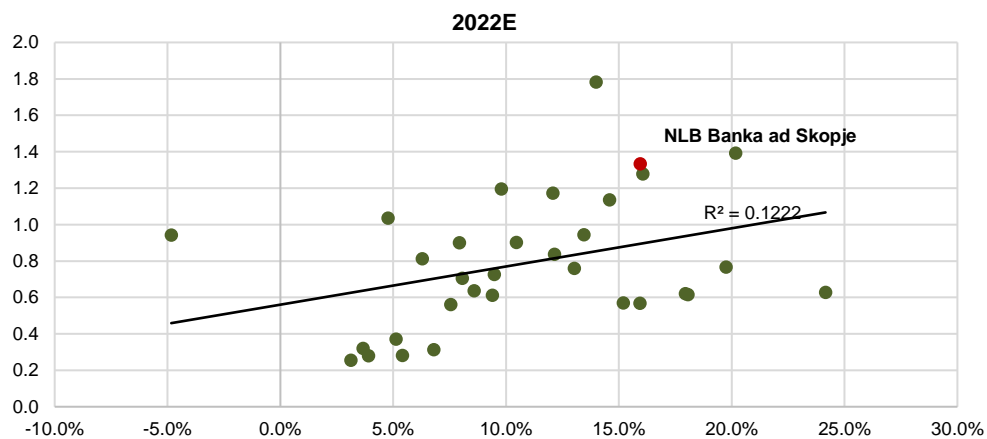
Source: WOOD Research, Bloomberg

## NLB's peers under our coverage: valuation

Bank	Price	Mkt Cap	P/E		P/BV		ROE		Div. Yield	
	lcl	USD m	2022E	2023E	2022E	2023E	2022E	2023E	2022E	2023E
<b>North Macedonia</b>										
Komercijalna Banka	12,250.0	485	13.0	12.0	1.8	1.7	14.0%	14.5%	5.1%	5.8%
<b>NLB Banka</b>	<b>26,500.0</b>	<b>393</b>	<b>8.9</b>	<b>8.7</b>	<b>1.3</b>	<b>1.2</b>	<b>16.0%</b>	<b>14.8%</b>	<b>2.8%</b>	<b>6.8%</b>
<b>Austria</b>										
Erste Bank	30.1	13,824	6.1	6.1	0.8	0.7	13.0%	12.0%	5.6%	5.9%
RBI	12.2	4,303	4.7	3.8	0.3	0.3	6.8%	8.0%	7.4%	9.2%
Addiko Bank	10.7	223	8.2	7.3	0.3	0.2	3.1%	3.5%	3.9%	7.3%
<b>Cyprus</b>										
Bank of Cyprus	1.2	552	8.7	5.4	0.3	0.3	3.7%	5.8%	0.0%	0.0%
Hellenic Bank	0.9	374	5.3	4.7	0.3	0.3	5.4%	5.8%	0.0%	0.3%
<b>Czech Republic</b>										
Komerčni	726.0	5,968	9.5	9.0	1.2	1.2	12.1%	12.9%	10.5%	7.2%
Moneta	76.8	1,697	8.1	8.6	1.3	1.2	16.1%	14.7%	9.9%	9.3%
<b>Georgia</b>										
TBC Bank	1,462.0	3,766	4.0	3.4	0.7	0.6	19.0%	19.8%	8.1%	7.5%
Bank of Georgia	1,642.0	3,744	4.1	3.4	0.9	0.7	22.2%	23.5%	6.1%	7.4%
<b>Greece</b>										
Eurobank	1.1	4,075	7.8	6.9	0.6	0.6	8.6%	9.0%	3.4%	3.8%
National Bank	3.7	3,542	7.6	6.7	0.6	0.5	7.5%	8.2%	3.0%	4.2%
Alpha Bank	1.0	2,436	7.4	5.5	0.4	0.4	5.1%	6.6%	0.0%	2.8%
Bank Piraeus	1.2	1,564	7.2	4.7	0.3	0.3	3.9%	5.7%	0.0%	0.0%
<b>Hungary</b>										
OTP	9,314.0	7,199	-18.6	6.5	0.9	0.8	-4.8%	13.7%	2.6%	3.0%
<b>Kazakhstan</b>										
Halyk Savings Bank	10.1	2,727	2.7	2.4	0.6	0.6	24.2%	24.1%	22.0%	22.9%
<b>Lithuania</b>										
Siauliau Bankas	0.6	386	7.2	6.6	0.8	0.8	12.1%	12.1%	4.9%	5.3%
<b>Poland</b>										
PKO BP	32.3	9,425	8.6	7.4	0.9	0.9	10.5%	12.0%	11.0%	6.4%
Santander Bank	258.0	6,149	11.7	9.2	0.9	0.9	7.9%	9.7%	8.5%	10.9%
Pekao	93.8	5,742	7.3	7.1	0.9	0.9	13.5%	12.9%	6.8%	7.1%
ING BSK	193.0	5,856	12.3	10.5	1.2	1.1	9.8%	10.9%	2.4%	2.9%
mBank	279.8	2,766	9.1	7.4	0.7	0.7	8.1%	9.4%	11.0%	13.5%
Handlowy	62.1	1,892	21.4	14.3	1.0	1.0	4.8%	7.2%	4.4%	6.7%
Millennium	4.8	1,357	8.0	6.3	0.7	0.7	9.5%	10.9%	0.0%	8.0%
Alior Bank	33.4	1,017	3.7	4.0	0.6	0.5	18.1%	14.2%	0.0%	12.5%
<b>Romania</b>										
Banca Transilvania	2.4	3,319	7.2	6.8	1.4	1.3	20.2%	19.5%	6.9%	7.4%
BRD-GSG	14.0	2,108	7.3	6.8	1.1	1.1	14.6%	16.1%	9.6%	10.2%
Patria Bank	0.1	60	13.3	9.8	0.8	0.7	6.3%	8.0%	0.0%	0.0%
<b>Slovenia</b>										
NLB	66.0	1,412	6.6	5.0	0.6	0.6	9.4%	11.9%	10.6%	14.0%
<b>Turkey</b>										
Garanti Bank	16.1	4,007	4.2	3.5	0.8	0.6	19.7%	19.7%	2.4%	5.7%
Akbank	9.1	2,771	4.0	3.4	0.6	0.5	15.2%	15.5%	2.5%	5.9%
Isbank	11.1	3,065	3.8	3.0	0.6	0.5	15.9%	17.2%	2.6%	6.6%
Yapi Kredi	5.0	2,480	3.7	3.3	0.6	0.5	18.0%	17.5%	2.7%	3.1%
<b>NLB Banka est.</b>	<b>26,500.0</b>	<b>393</b>	<b>8.9</b>	<b>8.7</b>	<b>1.3</b>	<b>1.2</b>	<b>16.0%</b>	<b>14.8%</b>	<b>2.8%</b>	<b>6.8%</b>
<b>NLB Banka @ PT</b>	<b>21,095.0</b>	<b>313</b>	<b>7.1</b>	<b>6.9</b>	<b>1.1</b>	<b>1.0</b>	<b>16.0%</b>	<b>14.8%</b>	<b>3.5%</b>	<b>8.5%</b>
Mean [region]			7.3	6.5	0.7	0.7	11.3%	12.1%	4.2%	6.6%
Mean [frontier]			7.2	6.7	0.8	0.8	15.3%	15.5%	6.5%	7.4%
<b>Premium/(discount)</b>			<b>24%</b>	<b>30%</b>	<b>58%</b>	<b>64%</b>	<b>0.7pts</b>	<b>-0.7pts</b>	<b>-3.7pts</b>	<b>-0.6pts</b>

Source: WOOD Research, price data from Bloomberg

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



Source: WOOD Research, price data from Bloomberg

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## Risks

- ✓ **Political risks.** The country changed its name to North Macedonia in 2019, 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 longstanding dispute with neighbouring Greece, angered some of his voters, which resulted in snap elections, after which he assumed the office of PM again. In January 2022, he was replaced by Dimitar Kvačevski, North Macedonia's 10th Prime Minister. According to ratings by Freedom House, the country scores only 66/100 points and is considered to be "Partly Free".
- ✓ **Unemployment rate and other economic factors.** High unemployment remains a large problem in North Macedonia, especially among the younger generation, which has an unemployment rate of more than 30%, 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 15.7% in 2021, from 26.1% in 2015. If the outflux of the local population accelerates, the economic potential of the country would fall, which could affect our long-term estimates and assumptions negatively. With the crisis triggered first by the COVID-19 pandemic, and later by Russia's invasion of Ukraine, the odds of this may have increased.
- ✓ **High rate of Euroisation of the local banking system and economy.** The local population is still demanding the Euro, and transacts with the currency quite frequently. FX loans and 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. This could be 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 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 Euroisation may prove to be dangerous.
- ✓ **Trading turnover (relatively) is low.** In USD terms, NLB Banka's 3M ADTV remains below c.USD 100,000. This increases the overall risk of the investment, should a higher stake be acquired.



# Financials

## Income statement

(MKD m)	2019	2020	2021	2022E	2023E	2024E
Interest income	3,533	3,381	3,418	3,911	4,282	4,635
Interest expense	-515	-412	-313	-352	-392	-436
<b>Net interest income</b>	<b>3,018</b>	<b>2,969</b>	<b>3,105</b>	<b>3,559</b>	<b>3,890</b>	<b>4,199</b>
Fee and commission income	1,639	1,652	1,995	2,129	2,253	2,384
Fee and commission expense	-718	-726	-1,020	-1,098	-1,173	-1,254
<b>Net fee and commission income</b>	<b>921</b>	<b>926</b>	<b>975</b>	<b>1,031</b>	<b>1,080</b>	<b>1,130</b>
FX gains net	21	43	-8	-8	-8	-8
Net trading income	147	152	278	279	313	347
Other income	184	161	304	423	456	491
<b>Net operating income</b>	<b>4,123</b>	<b>4,057</b>	<b>4,384</b>	<b>5,014</b>	<b>5,426</b>	<b>5,819</b>
Personnel expenses	-847	-844	-896	-971	-1,043	-1,102
General and administrative expenses	-558	-531	-569	-614	-657	-697
Depreciation and amortisations expense	-231	-260	-299	-295	-304	-313
Other operating expenses	-187	-179	-196	-196	-196	-196
<b>Total operating expenses</b>	<b>-1,824</b>	<b>-1,813</b>	<b>-1,959</b>	<b>-2,076</b>	<b>-2,200</b>	<b>-2,307</b>
<b>Profit before provisions and impairments of fin assets</b>	<b>2,300</b>	<b>2,243</b>	<b>2,425</b>	<b>2,938</b>	<b>3,227</b>	<b>3,511</b>
Net impairment losses on financial assets	-78	-962	228	-69	-296	-392
<b>Results after provisions</b>	<b>2,221</b>	<b>1,282</b>	<b>2,653</b>	<b>2,869</b>	<b>2,931</b>	<b>3,119</b>
Share of profit of associates accounted for using the equity method	0	0	0	0	0	0
<b>Result before tax</b>	<b>2,221</b>	<b>1,282</b>	<b>2,653</b>	<b>2,869</b>	<b>2,931</b>	<b>3,119</b>
(Expenses)/income with current profit tax	-198	-97	-295	-319	-326	-347
<b>Net result for the period</b>	<b>2,024</b>	<b>1,185</b>	<b>2,358</b>	<b>2,550</b>	<b>2,605</b>	<b>2,773</b>

Source: WOOD Research, NLB Banka ad Skopje

## Balance sheet

(MKD m)	2019	2020	2021	2022E	2023E	2024E
Cash, cash balances at central bank	11,866	13,321	15,119	14,621	16,456	18,926
Financial assets measured at FV through OCI	6,169	5,365	7,174	9,322	9,916	10,486
Debt securities	8,716	12,586	12,828	13,790	14,667	15,511
Loans and advances to banks	2,853	3,067	2,812	3,023	3,215	3,400
<b>Loans and advances to customers</b>	<b>56,206</b>	<b>58,906</b>	<b>66,708</b>	<b>71,710</b>	<b>76,273</b>	<b>80,658</b>
Other financial assets	1,282	1,527	1,520	1,634	1,738	1,837
Investment securities available for sale	0	0	0	0	0	0
Foreclosed collateral	284	265	247	247	247	247
Investment property	103	103	96	96	96	96
PPE and right of use assets	2,054	2,111	2,082	2,145	2,209	2,275
Intangible assets	207	278	312	312	312	312
Current income tax assets	18	31	0	0	0	0
Other assets	53	48	55	55	55	55
<b>Total assets</b>	<b>89,811</b>	<b>97,609</b>	<b>108,952</b>	<b>116,954</b>	<b>125,184</b>	<b>133,803</b>
Deposits from banks	619	371	393	393	393	393
<b>Deposits from customers</b>	<b>72,203</b>	<b>79,337</b>	<b>86,118</b>	<b>92,729</b>	<b>99,612</b>	<b>106,754</b>
Other borrowed funds	644	422	1,519	1,543	1,558	1,563
Subordinated debt	1,841	1,848	2,768	2,768	2,768	2,768
Other financial liabilities	1,067	1,013	2,355	1,669	1,793	1,922
Provisions	369	345	417	449	482	517
Current income tax liabilities	0	0	79	79	79	79
Deferred income tax liabilities	136	79	103	103	103	103
Other liabilities	54	49	232	232	232	232
<b>Total liabilities</b>	<b>76,934</b>	<b>83,464</b>	<b>93,983</b>	<b>99,964</b>	<b>107,020</b>	<b>114,330</b>
Share capital	854	854	854	854	854	854
Share premium	2,274	2,274	2,274	2,274	2,274	2,274
Revaluation reserves	30	112	60	60	60	60
Retained earnings	4,419	5,604	4,811	6,731	7,806	9,016
Other reserves	5,300	5,300	6,970	7,070	7,170	7,270
<b>Total equity</b>	<b>12,877</b>	<b>14,145</b>	<b>14,969</b>	<b>16,989</b>	<b>18,164</b>	<b>19,474</b>
<b>Total liabilities and equity</b>	<b>89,811</b>	<b>97,609</b>	<b>108,952</b>	<b>116,954</b>	<b>125,184</b>	<b>133,803</b>

Source: WOOD Research, NLB Banka ad Skopje

## DuPont analysis

	2019	2020	2021	2022E	2023E	2024E
<b>Net interest income</b>	<b>3.5%</b>	<b>3.2%</b>	<b>3.0%</b>	<b>3.2%</b>	<b>3.2%</b>	<b>3.2%</b>
<b>Net fee and commission income</b>	<b>1.1%</b>	<b>1.0%</b>	<b>0.9%</b>	<b>0.9%</b>	<b>0.9%</b>	<b>0.9%</b>
Other operating income	0.2%	0.2%	0.3%	0.4%	0.4%	0.4%
<b>Net operating income</b>	<b>4.8%</b>	<b>4.3%</b>	<b>4.2%</b>	<b>4.4%</b>	<b>4.5%</b>	<b>4.5%</b>
Personnel expenses	-1.0%	-0.9%	-0.9%	-0.9%	-0.9%	-0.9%
General and administrative expenses	-0.6%	-0.6%	-0.6%	-0.5%	-0.5%	-0.5%
Depreciation and amortisations expense	-0.3%	-0.3%	-0.3%	-0.3%	-0.3%	-0.2%
Other operating expenses	-0.2%	-0.2%	-0.2%	-0.2%	-0.2%	-0.2%
<b>Total operating expenses</b>	<b>-2.1%</b>	<b>-1.9%</b>	<b>-1.9%</b>	<b>-1.8%</b>	<b>-1.8%</b>	<b>-1.8%</b>
<b>Profit before provisions and impairments</b>	<b>2.7%</b>	<b>2.4%</b>	<b>2.3%</b>	<b>2.6%</b>	<b>2.7%</b>	<b>2.7%</b>
Impairment of financial assets	-0.1%	-1.0%	0.2%	-0.1%	-0.2%	-0.3%
<b>Results after provisions</b>	<b>2.6%</b>	<b>1.4%</b>	<b>2.6%</b>	<b>2.5%</b>	<b>2.4%</b>	<b>2.4%</b>
Share of profit of associates accounted for using the equity method	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
<b>Results before tax</b>	<b>2.6%</b>	<b>1.4%</b>	<b>2.6%</b>	<b>2.5%</b>	<b>2.4%</b>	<b>2.4%</b>
(Expenses)/income with current profit tax	-0.2%	-0.1%	-0.3%	-0.3%	-0.3%	-0.3%
<b>Net result for the period</b>	<b>2.3%</b>	<b>1.3%</b>	<b>2.3%</b>	<b>2.3%</b>	<b>2.2%</b>	<b>2.1%</b>

Source: WOOD Research, NLB Banka ad Skopje

## KPIs

	2019	2020	2021	2022E	2023E	2024E
<b>Growth rates (%)</b>						
Loans and advances to customers	6.3%	4.8%	13.2%	7.5%	6.4%	5.7%
Deposits	8.9%	9.9%	8.5%	7.7%	7.4%	7.2%
Equity	4.6%	9.8%	5.8%	13.5%	6.9%	7.2%
Assets	8.0%	8.7%	11.6%	7.3%	7.0%	6.9%
Net result for the period	-5.0%	-41.4%	99.0%	8.1%	2.1%	6.4%
Net interest income	0.2%	-1.6%	4.6%	14.6%	9.3%	7.9%
<b>Balance sheet ratios (%)</b>						
Net loans to deposits	77.8%	74.2%	77.5%	77.3%	76.6%	75.6%
Deposits to assets	80.4%	81.3%	79.0%	79.3%	79.6%	79.8%
Net loans to assets	62.6%	60.3%	61.2%	61.3%	60.9%	60.3%
Equity to assets	14.3%	14.5%	13.7%	14.5%	14.5%	14.6%
Capital adequacy ratio	16.4%	15.7%	18.0%	19.0%	19.0%	19.1%
Tier 1 capital ratio	13.8%	13.3%	14.9%	16.1%	16.3%	16.6%
<b>Loan quality (%)</b>						
NPL ratio	4.3%	4.2%	4.7%	-	-	-
NPL coverage	67.7%	n.a.	n.a.	-	-	-
Coverage of C, D, E loans	136.8%	136.9%	127.1%	-	-	-
<b>Profitability (%)</b>						
Net interest margin	4.2%	3.8%	3.6%	3.7%	3.8%	3.9%
NII to average assets	3.5%	3.2%	3.0%	3.2%	3.2%	3.2%
NII to average assets adj. for provisions [WOOD calculation]	3.4%	2.1%	3.2%	3.1%	3.0%	2.9%
Costs to average assets	-2.1%	-1.9%	-1.9%	-1.8%	-1.8%	-1.8%
Cost to income	41.0%	42.3%	41.8%	39.0%	38.3%	37.6%
COR	-0.1%	-1.7%	0.4%	-0.1%	-0.4%	-0.5%
Pre-tax income to average assets	2.6%	1.4%	2.6%	2.5%	2.4%	2.4%
Effective tax rate	-8.9%	-7.5%	-11.1%	-11.1%	-11.1%	-11.1%
ROA	2.3%	1.3%	2.3%	2.3%	2.2%	2.1%
ROE	16.1%	8.8%	16.2%	16.0%	14.8%	14.7%
ROTE	16.3%	8.9%	16.5%	16.3%	15.1%	15.0%
<b>Per share data (x*)</b>						
Number of shares outstanding (m)	0.85	0.85	0.85	0.85	0.85	0.85
Average price per share (MKD)	14,928	26,500	26,500	26,500	26,500	26,500
EPS (MKD)	2,369	1,388	2,761	2,986	3,050	3,246
BVPS (MKD)	15,077	16,561	17,527	19,892	21,268	22,801
Tangible BVPS (MKD)	14,835	16,236	17,161	19,526	20,902	22,435
P/E	6.3x	19.1x	9.6x	8.9x	8.7x	8.2x
P/BV	1.0x	1.6x	1.5x	1.3x	1.2x	1.2x
P/Tangible BV	1.0x	1.6x	1.5x	1.4x	1.3x	1.2x
DPS paid (MKD)	1,738	0	1,787	738	1,792	1,830
Dividend yield (%)	11.6%	0.0%	6.7%	2.8%	6.8%	6.9%

Source: WOOD Research

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10/12/2020	HOLD – initiation of coverage	10/12/2020	MKD 20,807
		04/05/2021	MKD 21,034
05/11/2021	SELL	05/11/2021	MKD 24,158
		08/06/2022	MKD 21,095

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Benefit Systems	1, 2, 3
BRD	5
Bucharest Stock Exchange	5
CCC	5
CD Projekt	5
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PZU	4, 5
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Ten Square Games	3
Transelectrica	5
Transgaz	5

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