Research Update:

Nova Ljubljanska Banka D.D. Outlook Revised To Positive On Potential ALAC Buffer; 'BBB+' Rating Affirmed

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Overview

- We expect an at least one in three chance that Slovenia-based Nova Ljubljanska Banka D.D. (NLB) will gradually increase its additional loss-absorbing capacity (ALAC) through the issuance of senior nonpreferred or Tier 2 instruments, approaching 8% of S&P Global Ratings' risk-weighted assets (RWAs) over the next two years, up from 3.7% as of end-2025. Therefore, we consider it could become eligible for a two-notch ALAC uplift.
- NLB has been delivering a track record of good profitability, while expanding its operations and becoming increasingly relevant with benchmark issues in the capital markets, diversifying its investor base.
- Therefore, we revised our outlook on our ratings on Nova Ljubljanska Banka D.D. to positive from stable and affirmed our long- and short-term issuer credit ratings at 'BBB+/A-2'.
- The positive outlook mainly reflects the possibility that we could upgrade NLB if it reaches and sustains a buffer of bail-inable subordinated instruments above 8% of S&P Global Ratings' RWAs, to provide additional protection to senior creditors in a resolution scenario, while maintaining a robust balance sheet and solid financial performance over the next 12-24 months.

Rating Action

FRANKFURT (S&P Global Ratings) June 24, 2026--S&P Global Ratings today revised its outlook on NLB to positive from stable and affirmed its long- and short-term issuer credit ratings at 'BBB+/A-2'. We also affirmed our long- and short-term resolution counterparty ratings (RCRs) on NLB at 'A-/A-2'. The outlook is stable.

In addition, we affirmed our 'BBB+' issue ratings on NLB's senior unsecured instruments (senior preferred), our 'BB+' rating on its Tier 2 debt instrument, and our 'BB-' rating on the additional tier 1 (AT1) debt instruments.

Rationale

Our outlook revision on our rating on NLB to positive reflects our view that there is at least one in three chance that its ALAC buffer will materially grow over the next two years and could provide additional protection to senior preferred creditors in a resolution scenario.

Our ratings currently incorporate a one-notch ALAC uplift, reflecting our forecast that NLB's bail-inable buffer (comprising Tier 2 instruments) will increase above 5% of S&P Global Ratings' RWAs by 2028, from 3.7% of S&P Global Ratings' RWAs at end-2025. We anticipate that NLB maintains its high concentration in the ALAC instruments, for which we revise the threshold to 4% for a one-notch of uplift and to 8% for two-notches uplift, which is 1% and 2% higher than our standards thresholds, accordingly. The positive outlook reflects a potential two notches uplift, if the group eventually pursues funding plans to access the markets with senior nonpreferred benchmarks, depending on the group's and capital markets developments, and increases its ALAC/S&P Global Ratings' RWA ratio over 8% of S&P Global Ratings' RWAs by 2028. While there is no subordination requirement by the regulator, we understand that there is a shift in the mindset of the group, as it aims to be a reliable issuer on the capital markets to ensure sufficient and diversified funding as it grows its lending book and expands in the Central and Eastern Europe region. We recognize that the bank plans to be increasingly active in capital markets, being a regular benchmark issuer across all debt classes.

NLB's recent hybrid issuance strengthened the capital base, but we expect that the buffers will be used for acquisitions to come. We estimate the bank's risk-adjusted capital (RAC) ratio was 10.3% as of end-2025. We forecast RAC in the range of 10%-11% in the medium term, assuming the 50%-60% corridor for the dividends for the next two years. High expected organic growth, coupled with NLB's target to acquire selected financial services companies in Southeastern Europe, are key reasons behind the recent buildup of capital. We think that the bank's portfolio growth, organic or through acquisitions, will largely absorb the additional capital buffers--as such, our assessment of the capital and earnings remain rating neutral over the medium term. In our view, there is a material likelihood that acquisitions will not materialize in the short term, which could leave the bank with a higher capital buffer for a prolonged period, supporting its credit profile as it evolves into a larger and stronger player in the markets. This is similarly supportive for our positive outlook.

Following NLB's expansion in foreign markets and solid growth of its retail and wholesale funding franchise, we now think that the group's funding has become a strength. The quantitative funding metrics have not changed materially over the last years, remaining on the upper side of the peer average (which we used to reflect in the positive adjustment notch to our rating in the past). Deposits from customers remain the primary funding source for the NLB group--core deposits account for 91% of funding base. Deposits expanded in 2025, with household deposits increasing 9% and corporate deposits rising 13%. We expect the trends to continue in 2026. Deposit guarantee schemes insure 79% of retail and 64% of total deposits. Subsidiaries are self-funded, as their funding structure is primarily deposit driven and customer deposits have proved to be stable in recent years in Southeastern Europe. We think that overall qualitative benefits to funding from the group's growing deposit shares in Slovenia and also in foreign markets have resulted in a better diversification of funding sources. Also, the group's growth and improved access to capital markets contribute to better funding opportunities and facilitate growth. Therefore, we now think that NLB's funding and liquidity is a distinct strength. Considering the one notch improvement in our funding and liquidity assessment, we now think that our 'bbb' stand-alone credit profile captures all rating aspects and we removed our previous positive comparable ratings analysis adjustment notch.

NLB has ambitious growth targets with its Strategy 2030 initiative, and we think that management is on track to deliver on the goals. In our updated financial forecasts for 2026-2028, we expect return on average equity between 15% and 16%. Management is in a good position to focus on innovation and advance the bank's business model, in our view. We expect the bank will continue to show strong profitability and maintain a robust balance sheet. While there has been some deterioration of the asset quality over the last few months (to 2.5% as of end March 2026), we consider the level remains in line with the peer average and we do not expect further material deterioration, with nonperforming loans (NPLs) fluctuating at about 2.6%-2.7% in the medium term. We do not think that recent NPL build up indicates a negative general trend, rather it reflects uncorrelated idiosyncratic issues. Apart from these several corporate cases, the quality of NLB's loan book has remained resilient. Current geopolitical issues, such as Middle East war and continued tariff disputes with the U.S. could negatively affect countries where the bank has its core operations by hitting its export-oriented clients, for example pharmaceutical, auto, aluminum, and steel companies. However, we do not see NLB as more exposed to the risks compared to most of its peers.

We think NLB will continue to expand in the Southeastern Europe region with an annual organic balance sheet growth of 6%-8%. This growth pace is higher than for many peers, mainly reflecting higher economic growth in countries of operations and increasing financial penetration of the markets. We think that NLB will maintain a cautious risk appetite and will not take excessive risks that could lead to unexpected financial losses. Over the past years, management has built up a track of good corporate governance and risk management practices, which we expect to persist. Although we note execution risks related to large acquisitions, we consider NLB's good track record of integrating acquired banks and nonbanks, as well as merging these with group entities. While expansion relates to higher risk countries, we think that NLB's approach remains cautious, leading to a more robust overall risk return, as the group diversified its revenues and risks. This is another positive element, supporting our outlook revision.

Outlook

The positive outlook reflects the possibility that we could upgrade NLB if it reaches a sustainable buffer of bail-inable subordinated instruments above 8% of S&P Global Ratings' RWA, to provide additional protection to senior creditors in a resolution scenario, while maintaining a robust balance sheet and solid financial performance over the next 12-24 months. We expect NLB will create value from its bank acquisitions on successful integrations and synergies while maintaining its risk appetite.

Downside scenario

We could revise the outlook to stable if we saw a greater, longer-lasting economic deterioration in NLB's core markets or intensified competition in Slovenia that could pressure the bank's asset quality and profitability. This could translate into a rise of nonperforming assets or hit profits, which could lead to underperformance in some of its key peer banks.

We could also revise the outlook to stable if the ALAC ratio of NLB's Slovenian resolution group did not develop in line with our forecasts, because of aggressive growth in Slovenia or failure to keep ALAC-eligible bonds at a sufficient level.

Upside scenario

We could take a positive rating action if NLB accumulated ALAC above 8% of S&P Global Ratings' RWA.

While more remote, we could also take a positive rating action if NLB were to operate with an RAC ratio that is sustainably higher than 10% while maintaining sound asset quality metrics and a restrained risk appetite.

For a positive rating action, we would need to see that the group continues to diversify its business model through further geographic or product expansion, leading to a more robust franchise and resilience against challenging operating conditions in key markets. Its ability to control and maintain risks and governance standards across acquired banks is a precondition for further upside to the ratings.

Rating Component Scores

Rating Component Scores

Issuer Credit Rating	BBB+/Positive/A-2
SACP	bbb
Anchor	bbb-
Business position	Adequate (0)
Capital and earnings	Adequate (0)
Risk position	Adequate (0)
Funding and liquidity	Strong and Strong (1)
Comparable ratings analysis	0
Support	1
ALAC support	1
GRE support	0
Group support	0
Sovereign support	0
Additional factors	0
SACP--Stand-alone credit profile. ALAC--Additional loss-absorbing capacity. GRE--Government-related entity.	

Related Criteria

- Criteria | Financial Institutions | General: Risk-Adjusted Capital Framework Methodology, May 5, 2026
- General Criteria: Hybrid Capital: Methodology And Assumptions, Oct. 13, 2025
- Criteria | Financial Institutions | General: Financial Institutions Rating Methodology, Dec. 9, 2021
- Criteria | Financial Institutions | Banks: Banking Industry Country Risk Assessment Methodology And Assumptions, Dec. 9, 2021
- General Criteria: Environmental, Social, And Governance Principles In Credit Ratings, Oct. 10, 2021

- General Criteria: Group Rating Methodology, July 1, 2019
- General Criteria: Methodology For Linking Long-Term And Short-Term Ratings, April 7, 2017
- General Criteria: Principles Of Credit Ratings, Feb. 16, 2011

Related Research

- Slovenia 'AA/A-1+' Ratings Affirmed; Outlook Stable, March 27, 2026
- Nova Ljubljanska Banka Affirmed At 'BBB+/A-2' After AT1 Bond Announcement; Outlook Stable; New AT1 Bond Rated 'BB-', Nov. 18, 2025
- Credit Conditions: Special Update: Prolonged Hormuz Disruptions Hurtling Towards Lasting Credit Implications, May 21, 2026
- The European Bank Resolution Story Ten Years On, Dec. 16, 2025
- Nova Ljubljanska Banka D.D., Sept. 1, 2025
- Banking Industry Country Risk Assessment: Slovenia, July 24, 2025
- Research Update: Nova Ljubljanska Banka Upgraded To 'BBB+' On Financial Outperformance And Strong Strategic Execution; Outlook Stable, June 18, 2025

Ratings List

Ratings List		
Ratings Affirmed; Outlook Action		
	To	**From**
Nova Ljubljanska Banka D.D.		
Issuer Credit Rating	BBB+/Positive/A-2	BBB+/Stable/A-2
Ratings Affirmed		
Nova Ljubljanska Banka D.D.		
Resolution Counterparty Rating	A-/--/A-2	
Senior Unsecured	BBB+	
Subordinated	BB+	
Junior Subordinated	BB-	