Strategy and Finance Division

Investor Relations

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Transcript

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PRESENTATION

László Bencsik – Chief Financial and Strategic Officer

Good morning or good afternoon depending on where you are. I'm László Bencsik speaking and welcome you at OTP Group's 2025 First Quarter results conference call presentation and Q&A. I'd like to mention first of all that this conference and the whole session will be recorded. In case you intend to speak, please take that into consideration.

First of all, I have the honour and the privilege to introduce Mr. Péter Csányi, who is our new Chief Executive Officer. Péter is not at all new to the organization. He joined OTP Hungary in 2016, nine years ago. First he was the Managing Director responsible for digital sales and digital development, in general, and then became the Head of the Omnichannel Tribe and the Head of the Daily Banking Tribe, and then in 2021, he became the head of the Digital Division and the deputy CEO, and also member of the Board of Directors of the Group, and he also, for the last two years, he has been Chairman of the newly created Executive Steering Committee, which technically served as the kind of operative de facto operational leadership committee of the leading committee of the Group. He has been practically in this current role for two years now. Therefore, he is very well known and very, very respected within the organization, professionally and personally as well. Everyone I know has been quite happy to welcome him in this new position.

Before joining OTP, he had had a long and successful career as a management consultant and as an investment banker at McKinsey & Company, serving financial institutions primarily in the Central Eastern European region, and also in Deutsche Bank and Merrill Lynch in the City of London as an investment banker. He has a background in economics and management. He has an MBA from Kellogg School of Management, Master's Degree in Financial Management from Instituto de Empresa, and a Bachelor's in economics from City University, London. I strongly believe that with Péter as CEO and Mr. Sándor Csányi as continuing in the Executive Chairman position, it is fully assured that we can continue on this successful path, what OTP Group has achieved during the last 33 years, but also creates an opportunity to renew and further improve whatever we do.

So with this intro, I'd like to give the floor to Péter Csányi. Please welcome him.

Péter Csányi – Chief Executive Officer

Thank you very much, László and I welcome all of you to the 1Q 2025 conference call. I would like to briefly talk little bit about the division of responsibilities between the Chairman role and the CEO role to begin with.

First of all, what is important to mention, as László already highlighted that the Chairman will remain in a full-time active Chairman role. He will continue to be obviously Chairman of the Board of Directors, and he will continue to head the Management Committee of the Group. Regarding strategic decisions, for example, acquisitions or capital decisions, risk governance, risk framework, risk appetite decisions, it is still the Chairman, and, obviously, the Board of Directors that will make the final decisions on the strategic directions in this regard. He will continue to appoint members of the Management Committee, so the Deputy CEOs of the Group, the retail division, corporate division, risk finance divisions, and he will continue to appoint the subsidiary CEOs both in Hungary and in the foreign subsidiaries, and he will continue to appoint the heads of the Supervisory Boards or Board of Directors, depending on the relevant jurisdiction of the foreign subsidiaries.

And myself, as a CEO, I will manage the operational day-to-day activities of the Group. As László mentioned, we have formed the Executive Steering Committee about a year and a half, almost two years ago. It has worked well until now, and I strongly believe that we have a better cooperation between the different business units and the enabler functions within the bank for managing the day-to-day operative decisions. Previous roles that have reported directly to the Chairman as in a CEO position will report to me. So, marketing, HR, compliance, legal and internal audit, and Bank Security will report directly to me. Obviously, what is required by regulation to be reported to the either the Board of Directors or the Supervisory Board will continue to report to these relevant bodies. I strongly believe that this setup will provide a sort of continuity, but at the same time, a renewal for the Group.

What should be highlighted is that this is effectively an increased management capacity for the governance of the Group. Me being a full-time CEO, I believe, as I mentioned lead to a stronger cooperation between the departments and also between the subsidiaries that will eventually also allow us to make faster decisions and become more flexible as a management team to react to any regulatory changes, any market changes, and will provide us with a strong foundation for being able to react fast on the market.

If we look at the strategy of the last period, we still believe that the strategy has been a successful strategy, we have grown our loan book more than four times in the last 10 years, we have a strong growth in the net income of the bank, and in a very good way we have both exploited the organic growth opportunities that are available on our markets, which are generally, obviously, because of our geographic footprint, higher growth markets than that of more developed countries in the Eurozone, generally in Western Europe, and we have done up obviously, a number of acquisitions that we have been able to integrate well in the last few years. We still believe that the focus should remain on growth, but at the same time, continue our efforts to provide or to achieve superior profitability, especially compared to our peer group, and do this in a conservative way with regards to business and risk policy, and also maintain a relatively strong capital and liquidity position among our peer group.

These four pillars of the strategy will remain unchanged. As I mentioned to you previously, the Board of Directors has the ability to determine the strategy in the final say. We will continue a strong focus on these three pillars. At the same time, obviously, this does not mean that we cannot look for areas where we can improve the performance, and we will be looking at four categories of initiatives where we will focus on in the next years to continue to improve our performance.

Client Experience, obviously, we have new entrants, new competitors in the market. We need to enhance our experience and our service offering to a certain extent in order to still be relevant in the marketplace in the long term. So, we will be looking at especially our digital offering, not just our digital sales capabilities, but also how we can service our customers through the digital channels in a better way, and also expand into potentially beyond banking products, where we have not yet expanded. Obviously, we actively monitor where we have already entered, for example, e-commerce, real estate, and healthcare service offerings. We will be looking to grow those businesses and also better integrating them into our offering.

Secondly, cost efficiency. We are looking for further improving our cost efficiency ratio, not just separately in the subsidiaries, but also on Group level, and we will be looking for how we can, after successfully integrating or being through a period of integrations, utilize group synergies in not just IT but in other areas as well. Obviously, part of this can come from utilizing new technologies, which can serve as a good tool for improving efficiency as we have already started introducing AI tools in customer service and digital sales, for example, and a few years ago already started robotic process automation throughout the bank, we will continue to put a strong emphasis on further expanding this potential.

Lastly, as a sort of enabler to all the above, how we can do this in a much more flexible and efficient way? Those who are closely following the bank obviously know that we have started the agile transformation already back in 2018, 2019, have gone through a number of waves, not just in Hungary, but a number of subsidiaries. We are constantly looking for how we can have a corporate structure which is both efficient and being at the same time, flexible. So, in a nutshell, we believe the strategy is successful. We will continue on these three pillars shown on this page, but that does not mean that we don't need to fine-tune and be able to improve uncertain areas.

In the recent past, we have also appointed several new management members in key areas. Obviously, my successor as the head of the digital division. Let me start with him, András Sebők has overall 14 years of operational banking experience at a smaller Hungarian Bank, and in the last eight years, he has been with McKinsey on different banking IT consulting projects. I believe his experience brings the best in both worlds. So, operational banking experience obviously gives him hands on experience on what works and how to manage banking IT team, and on the other hand given his consulting background all across Europe with McKinsey gives him a good experience on what works best in the different banks in the different jurisdictions and can bring in a wealth of best practices from the industry.

Secondly, Péter Juhász is the new head of Marketing and Communication. He joins us from mainly telecom companies and has several FMCG experience. He will play I believe a pivotal role for us in order to enhance our brand, make it more innovative and much more useful, which we believe is needed given especially the change in competitive landscape.

Lastly, András Hámori, who just recently joined us as the CEO of OTP Bank Slovenia. CEO candidate, to be exact, because it is still subject to receiving the necessary approvals. He is a very seasoned banking executive with strong digital transformation skills. He got it mainly from two places, I would highlight among others, ING Australia, which is a digital-only bank, a large bank in Australia where he was heading retail banking, and earlier in his career, he was in charge of ZUNO, the digital bank of RBI. Obviously, he will be supporting us strongly on a digital-based Eurozone-oriented organic growth platform, and we expect his experience to also benefit us not just in Slovenia but generally across the whole Group.

This is in a nutshell what I wanted to explain in the beginning. The new setup between the Chairman and the CEO position, the strategy, and how we can improve further, and regarding new hires. With that, I would turn on to the results of OTP Group.

This is the standard page, which I'm sure is not new to you. We generally include in the conference call presentation sort of overview of the different aspects of our performance. We continue obviously to keep our dominant position in Central Eastern European countries. We have top one or two positions in five of the countries that we are present in. As I mentioned earlier, over the last 10 years through 14 acquisitions, we have grown our loan book over 4 times and by now 75% of our loan book is within the EU and 43% of the loans are in Eurozone or ERM II countries.

Our profitability remains excellent in my opinion. After a 23.5% return on equity for the full year in 2024, our first quarter return on equity in 2025 would have reached 23.7% if the negative items that are booked in one lump sum for the whole year had been recognized evenly. I will talk about this in a bit more detail at a later stage. Strong portfolio quality, 38 basis points, credit risk cost in 2024 and just slightly increasing to 40 basis points in the first quarter of 2025, and our Stage 3 ratio declined further as throughout the previous years. We continue to have a stable capital position, 18.0% core Tier 1, 26.8% MREL, and our leverage ratio is at 10.3%. Finally strong and stable liquidity position, 73% net loan to deposit ratio, and liquidity coverage at 238%, and we have still remained committed to further grow our green portfolio and our general commitment to ESG.

Diving a little bit into the actual 1Q 2025 profit after tax. As I mentioned, 1Q profit after tax has been very much influenced by having to recognize in one lump sum the full annual amount of the Hungarian special taxes, including the windfall tax and other supervisory charges. If we adjust for this and evenly distribute it across the four quarters the 1Q profit after tax would have been HUF 299 billion and if we compare it with the same adjustments to the 2024 first quarter results, it leads to an increase of 4% overall on a yearly comparison to the first quarter of last year.

Reported return on equity is 14.9% for 1Q this year. As I mentioned earlier, had we looked at these adjustments that I mentioned previously, it would have been a 23.7%. Relatively flat net interest margin, a slightly improving cost-income ratio, and a practically flat credit risk cost rate throughout the group.

As I mentioned, our adjusted profit after tax, should we have evened out the distribution of special taxes throughout the four quarters of this year, would have been HUF 299 million. Special taxes relating to the rest of the year, and the supervisory charges amounted to HUF 297 billion and HUF 13 billion respectively. Obviously, these had effect on the return on equity that you can see on the right-hand side of the page and the cost to income ratio both, obviously a positive impact, if we adjust for these two effects.

If we deep dive a little bit into Hungary for the next couple of pages, we see that obviously, the first quarter of 2025, reported profit after tax is negative HUF 32 billion, which results in a negative return on equity, but we have a slightly increasing net interest margin, which is a very positive sign for us, and we have a relatively flat, slightly decreasing cost-income ratio. And our credit risk cost rate is still relatively flat, practically 13 basis points. You see a little bit of a detail here on the different levies that the Hungarian state is imposing on the Group. What's important to mention is that since the last quarterly conference call, the government has announced the extension of the extra profit tax for 2026, and so we will continue to bear a burden to exact extent, we are not exactly sure yet. I'm sure it will receive more detail in the upcoming quarters, but that's obviously negative news for us.

I think what's also important to mention on this page is that, as you can see on the right-hand chart on the bottom that we booked HUF 94 billion for the windfall tax, but overall, for the year, we expect HUF 54 billion windfall tax. The reason why we booked more is because of the way how we have to book this. So, in essence, we have to book the full extent of the windfall tax, and throughout the following quarters of 2025, if we increase the stock of government securities required, then we can decrease, basically receive back the paid in tax in the first quarter. So, practically in the following quarters, the windfall tax will be, if we increase the government securities stock, a positive effect, not a negative effect on the quarterly results.

We look into different business lines in Hungary. In retail, we see a very good trend in retail mortgage loans. 19% increase in the first quarter in the contractual amounts. Our market share is slightly decreasing, but that is a conscious decision as we don't want to engage in certain pricing competition, and we have a very strong market share, as always, in the subsidized loans. And if we look at the cash loans, also very strong growth. 43% growth in contractual amounts and 43.5% market share in the first quarter, which is a continuation of our strong market share performance that we have seen in the last three years.

In terms of retail savings and retail deposits, we see very good trends. Relatively large stock of high coupon government bonds has been expiring in the first quarter and/or have switched to lower coupon payments going forward. Retail that obviously had a positive impact on the savings market share, and we also see, a strong pickup in the retail deposits, and I believe this is a very good indication that we have a good offering on the market.

In terms of corporate, our corporate loan volume is rather stagnant. We still have not seen a general pickup in the corporate segment. Obviously, mainly attributable to the current macroeconomic landscape and the GDP, we have seen a very sharp decline in investments. We have not yet seen the turnaround in the corporate segment, but still, our market share is very stable, 19.8%. And in the corporate segment, also we have a very strong market share in the government-subsidized products.

Switching to the foreign subsidiaries. Overall, a very strong contribution continued to Group results. We see relatively good ROEs in both the small markets and larger markets within the EU markets, so the top three around 10% to 19% return on equity for the first quarter of 2025, and obviously higher return on equity outside the EU as expected, obviously, different risk profile, different expectations on return. As I mentioned, overall good evolution of the cost-income ratio which on Group level has improved in the first quarter of 2025.

If we dig a little bit deeper on the drivers behind the Group performance, net interest margin has practically remained flat on a quarter-over-quarter basis. On a year-over-year basis, very strong contribution from Hungary and our EUR sensitivity has decreased from EUR 190 million back in the third quarter in 2023 to EUR 105 million at the end of 1Q 2025. Should a 100 basis points decline in euro rates occur? This is, in our view, manageable and on the HUF sensitivity at 6.5% base rate, practically insignificant. Obviously, it was a different case when the base rate was 18% for a while.

Regarding volume growth in terms of performing loans, 3% increase quarter-over-quarter, FX adjusted. Balanced composition among all the retail and corporate lines. I would like to highlight Ukraine, 14% growth in consumer lending. This is again a strong growth following the good performance from last year. Also in deposits, a 3% growth, as I already talked about, significant growth in Hungary, 7%, both strong performance from retail and corporate, and overall, this has allowed us to keep our loan-to-deposit ratio at 73%.

In terms of portfolio quality, our Stage 3 ratio decreased further to 3.5%. Even without Russia, Ukraine, and Uzbekistan, it's a decreasing trend, and if we look at our coverage ratios, we have a conservative approach, and we still have a significantly higher coverage ratio than most of our peers, and this is not just because of Russia, Ukraine, Uzbekistan as you can see, even without these countries it is higher, compared to our regional peers at the end of the first quarter this year.

Turning to capital, our CET 1 ratio in the first quarter of 2025 decreased to 18%. Our capital adequacy ratio is standing at 20%, MREL ratio at 26.8%. The decrease in the core Tier 1 ratio was mainly attributed to the introduction of Basel IV regulations as of the 1st of January. On the right-hand side of the page, you can see the breakdown what impacted core Tier 1 ratio by 86 basis points negatively. The good news obviously is that majority, practically all of the effect for this year, has already been booked in the first quarter of this year. We don't expect to see such an extent of negative, yeah, negative effect due to Basel IV in the upcoming quarters. This also obviously includes the HUF 270 billion dividend deduction that AGM has approved a couple of weeks ago.

If you look a little bit at the decomposition, as I mentioned, our ratio is standing at 18%, and if we look at it on a fully loaded basis, one should consider two additional factors. One is the phasing out of previous COVID capital reliefs, which were provided during the COVID pandemic. And also the effect of HUF 150 billion share buyback that we announced in the second quarter of 2025. If we look at it on a fully loaded basis, the Core Tier 1 ratio is 17.2%.

Compared to the benchmarks of the peers. Yes, it is somewhat on the conservative side. We do have a bit of reserve, but it's not in our view excessive when, especially, compared to the benchmarks on a Tier 1 ratio level, and if you look at the leverage ratio, 10.3% in Hungary is higher than for the peers. This is due to a more conservative approach by the Hungarian Central Bank and more stringent regulations that we have to abide.

Obviously, we have no AT1 capital, and our Tier2 is not fully utilized. We viewed this, the full utilization of Tier2 and the potential issuance of AT1, as potential reserves for strategic acquisitions, but we are not sort of putting additional reserves on top, any additional reserves on top for acquisitions. So, obviously our goal for the Tier2 is to have it fully utilized and we still have significant room potentially in AT1 issuance if we find a potential acquisition opportunity where we have a good market potential, and we have a favourable market to enter or a favourable market where we would like to expand, and we find a target, which is healthy and a price point at which a deal would make sense.

Regarding our liquidity position, as I mentioned previously 73% loan-to-deposit ratio, our liquidity coverage is at 238%. Compared to the last conference call, there have been no new issuances of bonds. However, positive news should we want to issue bonds is that S&P, Standard and Poor's, upgraded our credit rating and is currently actually one notch above the Hungarian sovereign rating, which we view obviously as a positive news. You can see on the right-hand side of this page on the top our call MREL call date and maturity profile is manageable in 2026 and further years, especially given our current profit-generating capabilities.

To close off with as usual, with the management guidance. We don't see a reason at this moment to change our 2025 Group guidance, so our loan growth volume could be slightly above 9% in 2024 based on our first quarter results. We still believe this is achievable. Our net interest margin could be similar to the levels in 2024. Our cost income may be higher but not much than in 2024, our risk profile will be similar, and in our return on equity, maybe somewhat lower given the expected decrease in leverage.

Based on the first quarter results in 2025, we reaffirm this guidance for the full year, and obviously the AGM approved as I mentioned earlier, HUF 270 billion dividend payment in April, and we have received the approval from the Central Bank for an additional HUF 150 billion treasury share buyback until the end of this year. At this stage, we still don't consider treasury shares to be withdrawn, we will make a decision later on in what sequence and to what amount. We would like to use this permission that was granted to us.

That was my presentation on the performance and the guidance for 2025. I am planning to go to London next week. We are doing a non-deal roadshow which is being arranged by JPMorgan, and both in-person format and scheduled calls are taking place with investors from the USA, and other countries. There will be a fireside chat and dinner with analysts on the 15th of May, anyone who would like to join and actually meet me in person, meet us in person, please contact the people displayed on this page.

In general, I would like to host results presentations once a year, probably the full year results presentations that are in March. Going forward, I will myself personally take part in at least one or two roadshows during the year and obviously if there are any extraordinary circumstances, I am here. But for the rest of the results presentations and roadshows, László will continue to take the lead and be the key point of contact for investor and analyst presentations.

With that, thank you for your attention, and I would like to hand over to the Q&A and we are happy to answer all your questions with László.

QUESTIONS AND ANSWERS

Operator

Thank you, ladies and gentlemen. We will now begin our question-and-answer session.

The first question is from Máté Nemes, UBS.

Máté Nemes – UBS

Yes. Good afternoon and thank you for the presentation. Péter, congratulations to the appointment and thank you for presenting the results. I have a couple of questions, please. The first one is on over the next five years. If you could just share qualitatively, quantitatively, what would you consider a successful tenure in say, five years' time? And how would you assess that?

The second question would be on cost efficiency. You clearly highlighted that as a potential focus area of improvement. And you also mentioned there's scope to improve group synergies beyond technology and IT. Are you referring to central support functions here, like agency, jar, finance, ops, and can you give us a sense of the magnitude of the improvement opportunity on this front?

The last question would be on inorganic growth and M&A. I think you alluded to that in the presentation as well. Can you update us on your latest thoughts on M&A, where do you see opportunities? And also if you could specifically comment on any interest in Poland, how do you assess the opportunity in the country? Thank you.

Péter Csányi – Chief Executive Officer

Thank you for congratulating, first of all. Next five years and sort of financial performance KPIs. If you follow closely OTP Bank, we generally don't give long-term guidance on key metrics. Obviously, that does not mean that internally or I myself don't have ambitions in this regard This is why we are actively looking for improving our cost efficiency, improving our operational structure, our governance structure, but typically, beyond yearly guidance that we give, we try to avoid giving longer term guidance. The environment that we are operating in, the geopolitical environment, the macroeconomic uncertainties, I don't think, would warrant any kind of strong dependence on such KPIs. Our approach has been always to remain conservative, be rather prepared for any uncertainty, and be able to manage it swiftly.

I would not go into guidance for the five years. As I mentioned at the beginning, the three pillars, growth, profitability and stability will remain a core part of the strategy and we'd like to see, still strong growth in the long term at least keep our profitability if possible, at the current levels and operate with the same kind of stability regarding capital and liquidity position.

Cost efficiency and group synergies. Yes, obviously. What is kind of already ongoing, right, IT synergies. We have ongoing initiatives, for example, core banking replacement. Core banking, being a significant cost and a significant project for a group, we are utilizing, we are implementing the same system in Hungary and in Bulgaria, and we have a number of ongoing group projects in internal processes, especially in lending origination, CRM, and certain obviously basic operational, organizational tools that are common across the group already. We continue to do this. What your question referred to is outside of IT; what we are looking for could be potentially operational services, which we provide throughout the Group. But I generally try not just to focus on IT, but for example, a common product development, having a common product in different countries, for example. Very much go outside IT and see if there are any synergies in other areas. We will continue to look at this exact magnitude. I mean, we look at it on a project-by-project basis. As with most of the projects, we look at it on an NPV level. But I would not go as far as to say a magnitude because the actual performance of the bank in the end is determined by a lot of factors, not just on the actual achieved synergies in terms of cost.

M&A activity. We have been closely looking at Poland for a number of years, and we have looked at several banks closely within Poland over the several years. I believe you are quite familiar with the Polish market or quite know the sort of opportunities in the Polish market, but we also see the risks in the Polish market that mainly being obviously the foreign exchange mortgage loans, which have still not allowed us to be fully comfortable with the Polish market in terms of entering. Otherwise, we see the Polish market is an attractive market, it's a large market, very developed banks, digitally very developed banks as well. So, would there be a good opportunity? We would definitely consider it if the risks would be properly mitigatable in the short run, and should we find something, which is at a reasonable price point. But at the moment, banks are relatively expensive at around two or even higher price to book value.

With other markets, we are opportunistic, and we will look at any market which has a high growth potential is generally a market where we see potential, not just new markets. We will also consider acquisitions in markets where we are already present in, and we can grow further.

Máté Nemes – UBS

This is helpful. Thank you very much.

Operator

Thank you. The next question is from Gábor Kemény, Autonomous Research

Gábor Kemény – Autonomous Research

Hi Péter, pleasure to be talking to you. Firstly, maybe on your agenda, and related to the business initiatives. I mean just given all OTP's franchise your market positions, we normally think about a bank of your calibre as being on the offense. Do you see areas where OTP might be on the defence? I mean, thinking about digital disruption, how you react to that, regulatory headwinds, or any other areas you would like to highlight to us.

My second question would be on capital. Shall we interpret it as this 18%-ish CET1 ratio? Do you view yourself here as having excess capital or is it the level where you would like to be roughly, and let's say you assume that you would finance, you would be able to finance acquisitions through future profit generation AT1 issuance, Tier2 issuance. Is this how we should think about it?

Just finally, on your point of the retail savings or retail held government bonds expiring and some of them finding their way into retail deposits, to what extent have you captured this in your guidance? I'm thinking about it in terms of the retail deposits being a very profitable product for you. Wondered if this could offer any upside to your stable NIM guidance for the year. Thank you.

Péter Csányi – Chief Executive Officer

Thank you very much, Gábor. Regarding your first question, we like to be obviously on the offense if there is a good opportunity, and as I mentioned previously, it is worth being on the offense in certain markets we are very strong, where the pricing makes sense. I'm not just talking in terms of sort of M&A, but also from a business perspective. So, I mentioned that, for example, in Hungary, in mortgage, we don't want to decrease prices to a level where we see that it's not profit maximizing.

We'll be on the offense as long as it we believe it maximizes our profit rather than our size or general growth. On certain new entrants, I mentioned to you that, and I mentioned this on a lot of forums that certain cross-border competitors can offer a better value proposition in Hungary, partly due to the different cost structure that they can achieve because they don't have to pay some of the Hungarian special levies that we are paying transaction tax. They don't have to take part in some of the government initiatives that are imposed on the banking sector, and I'm strongly against that. I hope that will change not just in Hungary, but I believe this is a wider question. This is much more of a European question that similar activity should have similar regulation across the different jurisdictions within the EU.

Regarding capital, we do have some, as I mentioned, reserves. What we would like is to be relatively well capitalized compared to our peers. And I would like to highlight here, compared to our peers' part. We believe that in times of crisis, obviously, it matters, the capitalization, and it's not just up to us, in a sense, not just up to our capital adequacy that people will judge, investors will judge us, but also compared to our peer group, and we are not saying we want to be excessively capitalized, but we want to be relatively, at least in line, if not a little bit above our peer group. As I mentioned, we don't put additional reserves for acquisitions. We see plenty of strong continued profit generation capability. As I mentioned, we still have the Tier2 bucket part that is unutilized, and we have the AT1, and should an even bigger acquisition opportunity come, nobody said we cannot issue any more capital. We don't want to hold any sort of significant excess capital for acquisitions.

On the retail government bonds and the deposits, I would like to ask László to answer.

László Bencsik – Chief Financial and Strategic Officer

Thank you. As you rightly spotted in the first quarter in Hungary, we had an unusually strong retail deposit development, 6% in just one quarter, and that is mostly due to this effect that quite a large amount of retail government bonds turned into lower coupons, but also there was another effect, and that's the 13th month pension, which was paid for pensioners in February. Neither of these are going to continue for the rest of the year.

There will be some remaining positive effects in the second quarter coming from the retail mortgages, a lower amount of retail mortgages turning to a lower yield, and it might induce some deposit development. Most of this kind of positive one-off effect you can already see in the numbers in the first quarter. Obviously, it's a question of what percentage of these kinds of extra deposits are going to stay long-term. How much people will spend and how much they will eventually invest either in the form of buying real estate or cars or putting them into securities.

The very short answer to your question, no, it wasn't specifically part of our kind of original guidance, and, yes, maybe this is due to this effect, it's certainly kind of improving the expectations, so to say. It's certainly positive compared to the original expectations. But then again, there have been other developments, unfortunately, the US policy measures, for instance, and the potential impact of higher tariffs and exports from Hungary to the US, or as a ramification of that, maybe a somewhat lower, even lower euro rate, which on the other hand might have a somewhat negative impact on our expected potential NIM and margin environment.

So yes, this specific item, it's positive marginally compared to our original guidance, but there have been other developments or might happen other developments as well, which are not so positive. All in all, we don't think that this kind of justifies to change the guidance for the year or something like that, but it is marginally positive, it's true. Are you happy, Gábor?

Gábor Kemény – Autonomous Research

Yes, thanks very much. All very clear and helpful. Appreciate your thoughts.

László Bencsik – Chief Financial and Strategic Officer

Thank you.

Operator

Thank you. The next question is from Gábor Bukta, Concorde Securities.

Gábor Bukta – Concorde Securities

Thank you for presentation and congrats to your new role. Péter, I have two questions. The first one is coming with regard to Ipoteka because when I looked at the performance of Ipoteka, I felt that it was quite poor, if I can say, as incomes dropped both on an annual and quarterly basis, and I see that the market is growing, on the other hand. Deposit flow was also massive. Yeah, there was some explanation behind the drop in deposits, but can you give us more colour on what happening there? And if you have any plans to acquire a bank or grow organically, it would be nice to hear more about that.

The second question is reflecting on the Russian bond coverage, it was 73% at the end of December and 74% at the end of March. And you booked around HUF 6 billion foreign exchange during 1Q. Can you give context for it as the growth? The gross exposure was around HUF 130 billion. I t would be great to know was it the FX impact or what was the difference between the two methodologies at the end of 4Q and at the end of 1Q. Thank you.

Péter Csányi – Chief Executive Officer

I will ask László to answer these two questions.

László Bencsik – Chief Financial and Strategic Officer

Ipoteka as we kind of talked about it last year, despite the very strong development in consumer landing in the market, we somewhat dropped behind, and that was partially due to or mostly due to operational kind of weaknesses, and for us, it's taking time to bring up the operational level of the bank in order to be able to service the large volumes, the ever-increasing volumes, given the strong market. These are typically IT developments, and they took time, and originally, we expected to be fully ready by the end of last year. Now it seems that it took somewhat longer, and it also took the first quarter, but by now we can say, and we are following this very closely, and Péter personally talking to the management team there by weekly and having a status. This is something we follow closely from here, and it seems by now that mostly this kind of operational weaknesses have been improved, and now we actually, especially in April, we started to book much higher volumes, and this should continue to build up over the year.

The promise from our CEO in Uzbekistan is that second half of the year, the retail market shares in consumer loans and in mortgages are going to start to grow. We hope to turn around this negative trend in retail, which has been there for a year due to our operational weaknesses primarily. It was primarily operational weakness, but it was also our somewhat more conservative approach to retail risk than some of our competitors. We seem that we are in a way more conservative in taking into consideration income, for instance. Unverified income we have not taken into consideration so far, and I mean, you could argue whether it has been a good or bad strategy. We understand from one of our local strong competitors, recent quarterly results, and the publicly available information that they run into difficulties in terms of retail credit quality. So, I think to some extent our approach has been, therefore, verified, but this is a situation we are not happy with. We are turning this around, and most of the operational work, which had to be done, has been done.

In terms of our plans. We do like the country, and we, if anything, it has by far over exceeded already our original expectations in terms of the robustness of growth and business potential. If they were a suitable target, we would certainly consider that not necessarily the larger banks, because we are going to be present in the corporate segment, but that's not our primary focus. The large kind of remaining large banks, state-owned banks, are much more corporate-oriented than we are. But if we could find maybe a smaller, more retail-oriented bank for sale at a good value, we would certainly consider that. We also don't exclude potentially buying another big bank, but that's not maybe the primary goal. In terms of organic growth. Again, the opportunity is huge and, especially compared to our recent performance, it can further improve certainly.

Your second question regarding the increased provisioning on the Russian bonds, there hasn't been any particular development. We are pretty much following the kind of guidance and expectations of our supervisor here in Hungary. If you remember, we started to increase these provisions somewhere in the second quarter last year following the strong guidance from the supervisor. In general, we like to provision more and not less. We tend to be conservative, and we agree with this approach, but this is rather theoretical.

I wouldn't say that there has been a major change in the underlying valuation of the situation. It's more the level of conservativeness that is applied, and in that respect, we follow willingly our supervisor in Hungary. All-in-all we have HUF 97 billion. This is a provision on these amounts. If you were to ask what the potential impact could be if there's an end to the war and maybe partial release of the sanctions on Russia, then obviously you can look at this amount as a potential for release.

Gábor Bukta – Concorde Securities

Thank you. So I mean the provision coverage was 73%.

László Bencsik – Chief Financial and Strategic Officer

Yeah, the difference, I mean that's FX. Yeah, that's due to the FX. These are dollar exposures, and these numbers we report in HUF, right? Obviously, we provision in dollar and the stock of provision is kind of big enough and the dollar actually weakened compared to the HUF. So that's the discrepancy.

Gábor Bukta – Concorde Securities

Okay, absolutely clear. Thank you very much

László Bencsik – Chief Financial and Strategic Officer

Sure.

Operator

Thank you. The next question is from Simon Nellis. The floor is open.

Simon Nellis – Citigroup

Thank you very much and welcome, Péter. I'm sure László will be happy to share the burden of dealing with us analysts in the investor community. We can be tricky sometimes. I guess my first question for you would be on your priorities, I mean, you've given a pretty long list of things you want to do. What do you think you can do differently, better, quickly?

Then just beyond banking products. I mean, I think it's been quite tricky for banks to some banks have done quite well there, others have not. I think OTP Simple wasn't a particular success. I'm just wondering how you think you could expand into beyond banking products in a successful way.

And then I'd have one specific question back on the Uzbek business, your competitor TBC had issues with data integrity around the tax registry. Apparently, there were some fraudulent actors that were able to upload fraudulent salary data. I was just wondering if you faced similar issues in Uzbekistan, and you're aware of that particular fraud and are tackling it. Thank you.

Péter Csányi – Chief Executive Officer

Thank you very much. Your first question on priorities. As I mentioned in the beginning, our strategy has been successful and I believe, I strongly believe that we have one of the best management teams in the Group. Part of one of my key priorities, as I mentioned at the beginning, is that we have much better coordination internally and be able to make decisions more quickly, to react, and this has been a positive effect of the executive steering committee that we have been operating for the last year and a half now.

Now, going forward, obviously, we are, as I mentioned, reviewing where we can be better, right? Not just in Hungary, but across the group, we are reviewing sort of our initiatives that are ongoing in the group. We are reviewing what we can do better, what we should speed up, what we should actually potentially deprioritize. In order to facilitate this discussion, we are actually dedicating management time and attention to as we speak in the next couple of weeks. But as I mentioned, we generally don't give very strong guidance on actually sort of performance and long-term performance.

Regarding beyond banking, obviously, it's tricky, right? And it's a field which is relatively new for not just for us. I think for any banking player which has entered into different industries, we see good examples a lot from Asia. Obviously, DBS has made a significant entry into beyond banking and several good examples from other banks where they've managed to really embed into the service offering beyond banking products, where it complemented or secured for the longer term the market share for the traditional banking products.

Our aim is to do the same. In my view, a customer doesn't come to OTP or the bank to get a loan and walk out happily from the branch or log out from our digital channel and be happy that they got a mortgage and they can pay interest going forward but actually needs a solution, right, for a certain live event or certain change of needs, and this is what we are trying to serve, and this is much more about putting more emphasis, significantly more emphasis, on customer satisfaction and customer experience.

Now, it would be great if we could look at these adjacent industries, let's say, and be able to say that, standalone, it makes sense financially to be present in those markets. In many cases, it's a much more nuanced view, as I mentioned, it complements either to keep our existing market share, keep our profitability, be able to offer superior services for our clients, and this is the view that we take, and I think so far, we have been relatively conservative. We really entered into areas such as what you mentioned, simple in payments, which are relatively closer to the traditional banking industries.

Yes, I believe not all of them will necessarily be a success, but this is a kind of manageable risk that we need to take and say that we will look at entry and expanding our service offering, even if not 10 out of 10 will be necessarily 100% success. Simple, by the way, has been on one hand not so successful regarding the app, but Simple is doing more than 80% of the card acquiring both in transactions and volumes in Hungary. The card acquiring is actually a very good fee generation business for OTP, and it allowed us to be able to innovate in one of the fastest changing landscapes being payments in a very, very flexible way.

We entered e-commerce, we launched last year Fizz.hu. We see significant month-over-month growth in products being sold in terms of volume, we see increasing commission revenue, but obviously, it hasn't been practically a year since we launched it. I would need to give it a bit more time. Healthcare, a relatively small investment into healthcare, private appointment booking. These are visible potentially but not significant investments. If we look at the group, I think we would make a bigger mistake if we don't try entering these adjacent industries.

To your second question on Uzbekistan salary fraud, data integrity, László mentioned in the previous question, we have been relatively conservative in the segment that we are targeting and the kind of requirements we take in terms of credit policy in Uzbekistan, partly as the reason why we have not been able to develop with the market as fast as the market. We don't see this as a big issue.

Simon Nellis – Citigroup

Thank you.

Operator

Thank you. We continue our question-and-answer session. The next question is from Valentina Stoykova, Barclays. The floor is open.

Valentina Stoykova – Barclays

Yes. Hi, good afternoon. Thank you very much for the presentation, and congratulations on the new role, Péter. My questions are related to your Uzbekistan business. I was just wondering whether you can give us a bit more colour on your strategy there regarding the derisking and the cleaning of the balance sheet. And what should we expect with regards to key financial metrics for this year? Any guidance on net interest, margins, cost of risk, capital metrics will be super helpful.

And then it will be great if we can also share the capital ratios and buffers over minimums for 1Q of Ipoteka, and your refinancing plans for the upcoming senior year bulk maturity, do you plan to refinance it within the group or in the markets, I'm referring to the euro bonds that I think due November this year?

László Bencsik – Chief Financial and Strategic Officer

I think I try to answer this. I'm László, but it won't be as satisfactory as you would like. I mean, as Péter mentioned, I mean we have a rather kind of strict approach to what guidance we give, even on a group level, so specific to one of the entities in the group, which is even not the largest. I don't think it would be appropriate to give line-by-line guidance. But I think the most important metrics at this stage, I think is market share, and our market share declined quite materially in consumer loans, and consumer loans are the most profitable business on the market and growing very fast. That's potentially the most important short-term KPI for us to turn around this trend, the declining trend which has been there for a year, it was up at higher than 14%, and now we are actually somewhat lower than 10% in terms of market share. we, this trend we want to turn around, as I said before, our CEO in

Uzbekistan just promised us, the management team in the HQ that this deal will most probably achieve starting from the beginning of the second half of the year. That's one expectation.

The other expectation is regarding mortgage market shares. Again, we have seen some erosion of the market share in mortgages. Ipoteka is still by far the largest mortgage lender in the country, but our market share started to erode somewhat, and this is by far much less than in consumer lending, but still, it did, and that's the second point in metrics terms where we want to turn around.

Then obviously, if that happens then it should have a positive impact on revenues and earnings. Unfortunately, what you've seen in the first quarter is that actually operating profit declined year-on-year by 30% primarily because revenues declined by 17-18%, and this is a very negative trend. While we want, we have to turn around, and we will. That's the kind of primary target.

In terms of PAT. if you look at the bottom line, that was reasonably strong despite all of this in the first quarter, and that is due to the fact that we started to see write-backs from the quite sizable provisions what we created in the second half of 2023 when some of the corporate book went into stage three. So due to our very hard work in terms of workout on these exposures, we started to see improvements, paybacks, and solutions for these situations, and they can bolster or smooth out somewhat the actual profit after tax line, even when there's a temporarily decline in the operational profits. That's what you could see in the first quarter, and there's some probability that it's going to continue to happen over the course of the year, that we might be able to further release some of the provisions what we created back in 2023.

Regarding the bond which matures in November, it's a euro bond, EUR 300 million, we are looking at. Obviously, it will depend on market conditions, and it will depend on the liquidity needs in FX of the bank, and that pretty much depends on our corporate lending activity growth because retail lending is all local currency, and I mean the capital markets are not very developed, so it's swapping. FX swaps don't so much exist on a large scale in the market, so the different currency markets are pretty segregated.

FX funding we may need for corporate growth, and we are actually –reviewing and renewing our corporate strategy as we speak. This is something we are going to do during the next couple of months to gauge our kind of growth, appetite, and strategic intention related to corporate. Obviously, we want to be a universal bank, a retail focus, but a universal bank. So corporate is important and depending on the outcome of that exercise and also on market conditions, we may renew that bond or may not. So that has not yet been decided.

But I think we prepare as if we were to renew it and then see. But in terms of kind of strategic approach to Uzbekistan, we remain very, very positive. The market is strong, the country is developing fast and is on the right track, stable, and the way they handled geopolitically and kind of locally domestically the last couple of years, I think that has been a very good example of good management. We are quite happy to be there, and our ambitions are very high.

Valentina Stoykova – Barclays

Thank you. Thanks a lot.

Operator

Thank you. If you have a question for our speaker, please indicate it. The next question is from Máté Nemes, UBS.

Máté Nemes – UBS

Yes, thank you. I had two more questions. Two follow-ups, please. The first one is on the euro rate sensitivity. I think it's EUR 105 million now for 100 basis points. This has gone up slightly I think since year-end. Could you comment on what the reason for this is? Is there any change in your securities portfolios or any reason?

And the other question would be on corporate loan growth. I think you commented that we haven't seen a turnaround in corporate credit growth yet. Clearly, there's some positive momentum, at least visible in the numbers, but particularly in Hungary. What do you see in terms of investment sentiment and credit demand when talking to clients? A large German bank’s CEO this morning clearly said they are seeing improving sentiment in the Mittelstand or the large SME segment in the country. When do you think, this could translate to higher credit demand, specifically in your region?

László Bencsik – Chief Financial and Strategic Officer

Yeah, indeed. Somewhat increase the euro rate sensitivity. This is, I mean, this number is kind of fluctuating somewhat. Deposit growth was reasonably strong. We issued a Tier 2, relatively large size, and that increased the liability fixed side, and we are kind of reaching the limits of our ability to buy fixed yield securities on the asset side, primarily from a risk point of view.

Regarding credit swaps, which are obviously there as a potential, the recent environment has been quite volatile in a way. Rate expectations have been going up and down almost every second day. We have been relatively less active than we could have in a way, but there's nothing major or large change here underlying this, and it's most likely to stabilize around this EUR 100 million per year NII equivalent. I don't see a large opportunity to further decrease this. But we also try to maintain it close to this level, but there is this kind of plus-minus EUR 5 million, EUR 10 million volatility in this number, which is subject to typically many smaller changes in the balance sheet structure. Corporate loan growth in Hungary, this was an area where I personally, I was quite hopeful or optimistic, and maybe somewhat more optimistic than reality so far proved. The first quarter, so far this year, the growth on the non-retail side was mostly micro and small, where we still have subsidized structures, and within those subsidized structures, we have up to 50% market share.

We actually had 5% growth in micro small corporates in Hungary, but large corporate was technically flat, and we have not yet seen a shift or a major change in the sentiment or intention of corporates to start investing in a major way in the country.

But what you just said, we do expect to eventually kind of spill over to see in general and Hungary in particular, certainly given the large export exposure of the country, and most of those exports being oriented to Germany, and we do hear as well this kind of voices from Germany itself that they might turn around their investment cycle and actually start to invest again, but it has not yet appeared domestically in Hungary, it's going to do. Again, I've been personally kind of over optimistic, so I don't want to do that again. I don't want to give you promises or something like that. But we do see this potential positive development coming from core Europe and sooner or later it's going to reach Hungary as well. Hopefully in the second half of the year, but maybe only next year.

Máté Nemes – UBS

Understood. Watch this place. Thank you, László.

László Bencsik – Chief Financial and Strategic Officer

Thank you.

Operator

The next question is from an attendee joined via phone. I open the line; you will receive an automatic message about it.

Nick Dimitro – Morganson Investor Management

László, hi, this is Nick Dimitro, Morganson Investor Management in New York. Just a quick question, going back to Uzbekistan. There's been a new regulation that caps consumer loans at 25% of the loan book. How is that going to change the dynamics in your investment thesis behind being in Uzbekistan? I know that this has been kind of the product line that's been very lucrative and of most interest for you.

László Bencsik – Chief Financial and Strategic Officer

This is an advantage for us because our biggest competitors in this segment typically only have consumer loans. they are the strongest, growing, and by far the most sophisticated competitors. If anything, this is going to limit their future growth potential. Having said that, this is not something, which is applied from today on. There are a couple of years, I think five years or something by which the banks have to comply with this. We see it as potentially positive for our competitive positioning on the market because this is going to clearly limit our most aggressive competitors in this segment.

Again, we are much bigger in mortgage lending, so that's a strong part, and we do have intentions to maybe, I mean, we don't want to be a corporate bank, but we want to develop a universal bank so corporate lending will continue. Therefore, we anyway wanted to have a kind of balanced asset structure. This we interpret as rather positive for us.

Nick Dimitro – Morganson Investor Management

That's very interesting. Great. Thank you so much.

László Bencsik – Chief Financial and Strategic Officer

Thank you.

Operator

Thank you so much. If you have further questions, please indicate it. As there are no further questions, I hand back to the speakers.

Péter Csányi – Chief Executive Officer

Ladies and gentlemen, thank you very much for joining us today. I hope we gave an insightful presentation, and we managed to answer all your questions. As I mentioned to you, I will be in London. Anyone who wants to join, please reach out to the contact details that are at the end of the presentation.

And with that, we are ready to close this conference call. Thank you very much and have a good rest of the day.

Note: unabridged transcript with minor English stylistic corrections.