Strategy and Finance Division

Investor Relations

OTP BANK
1Q 2026 Conference call
Transcript

15 May 2026

PRESENTATION

Laszlo Bencsik - Chief Financial and Strategic Officer

Good morning or good afternoon, depending on where you are, and thank you for joining us today on OTP Group's first-quarter 2026 results conference call. You have the stock exchange report, the analyst tables and today's presentation available on the website. We are also broadcasting the slides as usual as part of this video call. As usual, I will make an attempt to summarize the main developments and events during the first quarter, and then we will open the floor for your usual questions.

The first page has been pretty stable for quite a few years now, which I think is a good sign. I think it's quite good that the most important headline features of OTP Group have not changed, and we don't intend to change those. We are working hard for these features to continue to dominate our performance. I'm not going to elaborate too much on this because I'm sure you know it by heart.

Turning to the first-quarter results, unfortunately, just like in the last couple of years, the first-quarter result is very distorted, and it is affected by the huge one-off or the huge extra taxes we have to pay in Hungary, especially due to the fact that we have to account for all these taxes at the beginning of the year. We are not allowed to accrue them accounting-wise. In case of extra profit tax, the number we have to book in the first quarter is even bigger than the expected number for the whole year because as you probably know, the system is such that if we acquire a certain amount of Hungarian Government Bonds, then we can reduce the tax payment. But this eligibility to reduce the tax payment is measured as time goes by during the year on a monthly basis. We have to fulfil that criteria month by month in order to qualify for this reduction. The full reduction will only be reflected in the full-year results. I think it's an important information that we have acquired those additional Hungarian Government Bonds. We expect the deductions or the reduction of the extra profit tax to happen according to our expectations.

Now because of these charges we booked for the whole year in the first quarter, the representative numbers of our performance and the book numbers in our financial reports differ. Therefore, on this slide, you can see both sets of numbers. The dark green number reflects numbers where we accrue these one-offs over the whole year. This probably provides a better reflection of underlying performance, whereas the grey numbers are the ones which are in the financial reports.

Then you can see the tax figure shown in grey on this slide as well, which went up y-o-y by 30%. This is mostly due to two factors. One is the substantial increase, in fact, doubling of the extra profit tax in Hungary and the higher tax rate in Ukraine. You may remember last year, it was a decision in Ukraine that they increased the tax on banks profits to 50%. Last year, that was only 25%. This adjusted number grew by 9% y-o-y.

On the next slide, you will see that the FX-adjusted number grew by 13%. I think from now on, we will have to take into consideration the HUF rate impact, especially when we compare to previous year numbers, our performance just because the HUF has gone through quite an appreciation very recently, and that obviously has an impact on our numbers. The ratios and the adjusted ROE performed quite well. C/I is slightly better than the full-year figure last year, but worse than first quarter last year. Most importantly, NIM continued to increase compared to last year but also compared to the fourth quarter last year. Portfolio quality remained stable with a normal level of risk cost. On the credit risk cost rate side, we released part of the provisions we previously created on the Russian Government Bonds, almost HUF 20 billion equivalent of provisions were released after the payment of the maturing bonds at the end of last year. Therefore, the other risk cost was a positive number, and the total risk cost was also a smaller number.

Now if we go now to the following page, where we present the FX-adjusted changes q- o-q and y-o- y of the first quarter numbers. If you look at the end of this presentation, we have detailed breakdowns for each of these lines. I mean, the most important P&L lines.

By country, you can also see these numbers typically on an FX-adjusted level as well, at least where it's relevant, and it's most relevant, obviously, to the Euro related countries. Maybe it makes more sense to elaborate on this FX-adjusted changes. If you compare the first quarter this year, 2026 to last year, there were no acquisitions or disposals. It's an apples-to-apples comparison. 13% overall profit after tax increase. Operating profit improvement 9%, and there was some moderation in the risk cost, mostly because this release of provisions on the Russian Government Bonds, what I just mentioned. I think in the revenue lines, there are some important developments. First of all, NII up 17%. This has been driven by mid-teens volume growth in the loan book and improvement in the NIM overall on a group-level. That's, I think, a pretty strong performance. This is all organic.

Now on the other hand, on the net fee and commission line, you see only 1% y-o-y growth, which is a much lower growth rate than we would expect given the nominal GDP growth of the countries where we operate and given the overall volume growth, both in deposits and in loans across the group. Now there are two important factors here. One is coming from Russia. In Russia, y-o-y, net fees and commissions went down by more than 20% and this is related to the transactional income, what we generate in transactions. There's a lower demand for - typically for the corporate transactions we provide for our typically European corporate clients in Russia, there was a decline there. Those of you who wanted to see our Russian revenues declining and transactional activity

declining, it has started to happen. This is not a unique feature to OTP, we also see this when we look at the numbers of other European banks operating in Russia as well. The other factor was that in Hungary, there was a moratorium in the first half of this year on the fees. We were not allowed to adjust from the beginning of the year despite the legal potential or opportunity, there was a strong pressure on the bank sector not to apply those increases. This is going to happen only in the second half of the year. From July, we apply the CPI increase on our fees in Hungary.

Hopefully, the Hungarian numbers in the second half of the year will show a better performance. There's one other factor here that this very high level of mortgage lending activity generated not just higher volumes and therefore, higher future revenues, but also higher commissions to third parties. This higher commission is also reflected in this number when you look at the Hungarian growth rate, which is only 1% y-o-y.

Due to primarily these two factors that we had to delay the fee increases by six months, and we also incurred quite sizable commission fees on the new lending on mortgages. The NII line, I think that's quite strong, and that's probably the most important in this sense and the close to 10% operating profit increase as well.

The next slide is rather technical. For those of you who are interested in the exact numerical details of the difference between the reported number and this even recognition of special items adjusted line. Those are the differences, and most of the differences, as you can see, come from Hungary, and it's due to the windfall tax mostly. Which was booked in the first quarter HUF 136 billion. The annual number, we expect it to be only HUF 110 billion. Then the actual number relevant to the first quarter was HUF 26 billion. That causes this difference. This big difference is, it's in Hungary, and therefore, the Hungarian numbers, which you can see on the following chart, have been even more distorted by this accounting treatment.

We actually had losses due to the windfall tax and the other taxes in Hungary in the first quarter. But if you do this adjustment, then the number was positive HUF 120 billion, which is quite a sizable growth y-o-y. I have to highlight here that most of this positive impact from the provision release behind the Russian Government Bonds happened in Hungary.

There was some in Bulgaria, but the bulk of this almost HUF 20 billion release happened in Hungary. There was also a pre-tax HUF 19 billion fair-value positive adjustment on the subsidized loans in Hungary due to the movements of the yield curves or the yield curve movements. There was a positive effect in the first quarter. Those two appeared in the Hungarian numbers in the first quarter, and those two may not appear in the second and subsequent quarters in Hungary.

That resulted in this high jump in ROE using this adjusted numbers. It's unlikely that we are going to continue to have this level of earnings in Hungary for the remaining of the year. It may moderate back to the previous trendline. NIM, on the other hand, kept improving, and that's although the improvement on a quarterly basis was quite slight, but at least positive. Risk cost rate overall was negative provision write-back.

This is due to this Russian Bonds provision release. Here in the right lower quarter, you can see the taxes, the extra taxes. These are our expectations related to what we are going to pay for each of these tax lines during the course of the year, and those expectations have not changed. Maybe a few deeper thoughts about Hungary and the Hungarian operations. The subsidized mortgage program, which is very popular, continues. These are the new application volumes.

As you can see, as expected, new applications in the first quarter were somewhat lower than the previous quarter, but still more than double the last year first quarter numbers. It's still very strong. Our market share jumped up to higher than 40% before the introduction of this program, it was in the low 30s. This is quite typical. We tend to have much higher market share in case of subsidized programs than on the market-based structures.

That's primarily because these are typically more complicated products. The sales process, the client interaction is much more complicated, requires more resources, more skilled resources, more physical presence and overall scale in order to be able to handle the sudden, dramatic increase in demand. We are typically much better positioned to provide this performance than some of the other banks. That's the reason primarily.

In other products, cash loans and savings deposits, the market share in newly contracted cash loans somewhat declined, and that's due to price competition. There's increasing price competition in this segment, and we try to balance or maximize future earnings by positioning our price points in a way that we, maximize the NPV of production, and that resulted in a somewhat lower market share. Growth of new production is still quite strong, 17% y-o-y and in baby loans, as you can see, we have also quite remaining high market share.

Having said that, even more important on this slide, I think, probably the most important in Hungary is that we continue to increase our retail deposits market share. Despite of the very low rates, what we provide, what all the banks provide. We consider this number extremely important because we consider that this number is probably the best gauge to suggest how deep and strong a bank's connection is with retail clients in a given country. This number going up and has been going up for quite a long time. That's very positive.

Corporate, similarly positive news in Hungary. Our market share in corporate loans continued to increase, and it has reached a historic high, 21.6%. You can also see the long-term development there, which is very positive.

The other good news is that in line with the, I would say, somewhat positively surprisingly high first quarter GDP number in Hungary. Corporate loan growth continued. Overall, it was 2% on a quarterly level, which is somewhat a slowdown compared to the second half of last year, but still much more than what we grew altogether in 2023, in 2024. But most interestingly, micro- and small volumes continued to grow. The growth rate there accelerated considerably, 6% growth in just one quarter, and this is the micro small sector. That's quite promising when you want to have a view on the fundamental activity level in the local economy, the local corporate sector, so to say, because micro- and small segment is typically local part of the large corporates, mid-corporates are obviously multinationals as well and or the sector which is serving multinationals.

On page 10, you have an overview of the performance of the various units, the various countries across the group. It is solid performance. However, typically not better than last year. With the exception of Uzbekistan, which managed to improve profitability, and this is good. ROE is closer to 30%. That's quite promising, and we are happy to see these numbers. We had a big decline in profitability in Russia. This is related to what I just explained, the demand for the corporate transfers and FX conversions started to decline, and that reflects in our numbers.

Now if we go to page 11, where you can see the NIM development on a quarterly basis, 11 bps up. As you can see, small improvements in Hungary, Bulgaria, Uzbekistan, Russia. A bigger chunk of this improvement came from the composition effect; namely higher-margin countries provided higher growth rates in the first quarter. It's not just the q-o-q, but also the y-o-y number, which has grown a lot. And here, obviously, the contribution of the Hungarian business was much better. More than half of the margin improvement while we can see y-o-y came from the Hungarian business.

Our rate sensitivity has increased, especially in Hungary, because of very rapid growth of deposits, you will see the deposit growth rates in Hungary in the first quarter. That's obviously very, very good in terms of profitability and earnings, but increased on the HUF rate sensitivity, which now stands at HUF 24 billion annualized NII, in case of the 100 bps change or in this case, the potential decrease in the rate environment. Likewise, in the euro sensitivity, it went up to EUR 125 million annualized NII potential impact based on 100 bps.

Now looking at loan growth, it was 3% in the first quarter. It was 3.4%, but we have rounded numbers here. This was rounded down to 3%, but it was 3.4% FX-adjusted performing loan growth, which was quite in line with our expectations. Some countries provided quite remarkable performance.

The good news is that these are the three biggest countries, Hungary, Bulgaria, and Slovenia in the group who had a very strong performance, 5%, 4%. Just to remind you, last year, the whole year, Hungarian loan growth was 17%, Bulgarian 18%, and Slovenia was 8% for the whole year 2025. Now in this case, Hungary, first quarter, 5%; Bulgaria, 5%; Slovenia, 4%. In Hungary, this was primarily, I mean, to a large extent, driven by the mortgage subsidized mortgage program, but there's no such program in Bulgaria or Slovenia.

The other country which grew quite fast was Ukraine, 9% growth. Last year, we had a decent growth as well. Last year, there was 27% annual growth. Therefore, the base is getting bigger as well. On a higher base, now we have an acceleration in the run rate in Ukraine, which is, fairly good news.

Deposits, 3% increase in deposit volumes just in one quarter and especially Hungarian retail was strong. This is not surprising given that it was the last quarter before the elections and therefore, some fiscal transfers happened to the electorate and quite part of it landed in bank deposits.

I don't think I have to tell you that this is very positive for earnings and NII specifically. I think this is the biggest news on the deposit front.

Portfolio quality, page 14, remains stable, slight improvement in the Stage 3 ratio in the first quarter, down to 3.4%, 2.6% without the higher NPL ratio countries like Russia, Ukraine, and Uzbekistan. Coverage remained similarly high to previous quarters. There's not much event here.

Next page is about the CAR, which decreased from 18.1% to 17.6%, the Common Equity Tier 1 ratio. And in this waterfall, you can see the factors which affected this ratio. The profit itself would have increased the ratio by 90 bps in case the one-offs, these large taxes were accounted for evenly during the year, but they were not. Accounting for all the taxes in the first quarter, that had a 40 bps negative impact and then dividend, which we calculate according to the EU regulation.

This is not a guidance on the potential dividend payment. Organic growth consumed 40 bps and some temporary measures were phased out. That's another 30 bps negative, and there were some other effects. But the bottom line is that although the reported number was 17.6% if we recalculate these one-offs and evenly distributed over the year in Hungary, this adjusted profit number and we recalculate the CAR with the restated number, then the rounded number was at 17.9%, so close to 18%.

In comparison to, I mean, just anticipating the discussion about how high our capital adequacy is or is not. Indeed, the 17.6% even in our Tier 1 ratio level seems to be quite strong. We believe the figure that better reflects the underlying situation is closer to 17.9%, which is a solid level. That created some room to restart share buybacks. We just announced that there was another HUF 60 billion approval we received from the National Bank.

We can start a new program to continue to buy back shares, and the approved number was HUF 60 billion. Ultimately, there's some room for more acquisitions as well, given this higher-level ratio if there was an opportunity to do so.

On page 17, we can see the liquidity and the capital markets activity of the group. Liquidity ratio is very good. We remain to be funded by deposits 77% loan-to-deposit ratio, pretty stable across last year. The liquidity coverage ratio is 227%, NSFR is 151%, so quite strong levels. Relatively compared to the size of the profits and the size of the balance sheet, the call date profile is relatively modest. There's EUR 1.1 billion call date coming through this year. The overall share of wholesale funding in the balance sheet is still less than 10%. It's 8%, as you can see at the bottom of the chart in the right corner. We are not very leveraged at all in terms of market funding.

Rating, there has been no change recently. I mean, this is obviously an interesting topic. You probably heard about the new government in Hungary and the economic policy plans of the new Hungarian Government. They seem to be quite serious about targeting the preparation for Eurozone accession, and they want to meet the Maastricht criteria, accession criteria in four years. That obviously assumes a trajectory, a fiscal trajectory, which may open up the space hopefully, for rate improvements in the sovereign, which may hopefully reflect in our rating as well. But this is to be seen. We will see how it goes and how it develops. I'm going to talk a little bit about our expectations in terms of Hungarian macro later in the presentation.

The next two slides are the ones we always include just to reinforce our message that it's not only us who consider our performance to be reasonably good, but some other external objective views as well seem to confirm that and its research and the EBA Stress Test results.

Then sustainability and green lending, which is our page 21, which is our strongest focus in terms of sustainability to contribute to most of our ability in terms of doing green lending, and we achieved the quite ambitious targets that we set a couple of years ago at the end of last year. Even compared to that, there was an acceleration in the growth rate. Just in one quarter, we achieved 9% growth in green lending volumes. If it continues like this, then we will, I'm sure, surpass the 2028 targets much earlier, which is good news.

Now macro. In our case, there are obviously two large developments. One is a global development, and that's the war in Iran and the situation, the closure of traffic in the Strait of Hormuz and the impact of that situation on global energy prices and the expectations regarding future energy prices. We don't know what the future will bring here, and there are expectations change day by day, depending on the communication primarily from the President of the United States. Our assumption or rather hope is that what we base our numbers on is the assumption that the Strait will reopen soon. In the second half of the year, there will not be much disruption in the traffic across the Strait. That means that we expect the gradual normalization of the energy supply globally and therefore, the gradual normalization of the energy prices over the course of the second half of the year. These numbers are based on that assumption.

Obviously, there's a risk here that the situation is not going to normalize and in that case GDP growth may be lower due to higher energy prices and inflation might be higher and the rate environment might be higher, as well. This is potentially true for all the countries on this page, except Russia, which would be the beneficiary of such a high-energy-price environment, obviously. But all the other countries will be potentially negatively or at least marginally negatively affected. Now based on this assumption I think here, the most important numbers are the Hungarian ones. The number which changed the most is the expected fiscal deficits in Hungary, it's up to 6.8%. This is the latest indication from the former government and from the new government as well.

The new government just took office this week, and they are going to review the fiscal situation and come up with a new budget for this year during the course of the summer. This number may or may not be reinforced. I don't expect a lower number than this. I think if all goes well, it's not going to be higher than 6.8%. It seems that the previous government spending had been excessive before the election and certainly the higher energy price may also have an impact here.

Despite all of this, the first quarter GDP growth in Hungary was surprisingly strong or somewhat better than most of us expected. And therefore, even in this environment, we expect closer to 2% GDP growth, which is the highest number over the last four years. The macro expectations regarding Hungary changed considerably based on the newly elected government, which has two-third majority in the Parliament, and therefore, they can change technically all the legislations obviously in line with the EU legislative framework.

There seem to be a commitment to converge to the Eurozone and to converge to Western European standards and business environment, which maybe not in very short term, but mid- to long-term is quite supportive and positive for the potential growth and also for fiscal deficit decrease and also for inflation decrease and for the rate environment to go lower.

In that scenario growth expectations will probably increase in Hungary and margin expectations somewhat moderate, but that is compensated by the cost of capital or expected return numbers which are also going to be lower potentially the next couple of years due to lower rate environment.

What in short-term, potentially most important is the access to EU funds. We put here a slide to facilitate your understanding of what we are talking about when we talk about access to EU Funds. There's EUR 36 billion, and

Hungarian GDP is like EUR 220 billion. EUR 219 billion was last year numbers. This is a sizable amount of money what is at stake now. And there are different parts of it. There are grants and there are loan facilities, access to loan facilities at a much cheaper level than the Hungarian sovereign cost of funding is at the moment. These are the different parts.

The most urgent is the Recovery and Resilience Facility grant subsidy, EUR 5.8 billion and the REpower EU, which have been suspended and they are subject to fulfilling 27 milestones. These are 27 requirements regarding the legislative environment, and the institutional environment in Hungary. Those have to be changed to gain access to these funds. In case of the RRF grant and the REpower EU, the deadline is very close. By the end of August, a, the payments have to happen.

That's a short time frame. It requires fast legislative changes, which is quite feasible. Pretty much it seems that the new government intends to make those. That's not a problem, but it also requires some level of flexibility on the EU side to provide those funds despite the fact that these projects have not obviously been completed. Therefore, some more creative solution is needed. But I think chances are good that these funds will be available. There's a loan facility as well linked to the Recovery and Resilience RRF facility. That's EUR 3.9 billion.

There's the usual Structural and Investment Funds, that's the usual EU Funds and subsidies budget and access to that. Here, it's partially suspended because of these 27 milestones, partially suspended because of the Fundamental Rights Chapter. There are another four additional Hungarian legislations, which are affected here. It does seem to be in the intention and the interest of the new government to comply with these requirements. And here, the deadline is much longer, so 2029. I don't see much risk here to be able to secure those funds.

There's a Security Action for Europe, safe loans. This is still early-stage of development. I don't think any European country has started to use those funds. They are dependent on the same milestones and requirements. There's no deadline, at least we are not aware of a deadline to use those funds. This is for the defense developments. So that can have a positive effect short term, if these funds open up and start to flow and generate a new investment cycle.

It's not just these funds, but overall, investments can accelerate because these are just triggers or contributing factors to a bigger investment scheme. And typically, what we have been seeing over the last two decades now that together with EU funds, we typically have other funding facilities as well. A higher EU fund flow to the country translates to higher investments, higher GDP growth and higher, especially corporate loan demand. This is what can be expected if all these events materialize. Now based on this, we don't see fundamental reason to change our guidance. The guidance remains the same. Similar to last year Volume Growth, similar to last year margin. C/I, maybe somewhat worse, similar risk profile and maybe somewhat worse ROE.

Now based on the first quarter numbers, I think we're pretty much on track in terms of loan growth. Margin seems to be better. Maybe on this line, there might be a positive surprise. We'll see the C/I ratio. I think it's too early to say that. Certainly, the risk profile seems to continue to project the same features as last year. There's no reason to believe that this guidance would not be the right one. ROE, first quarter is somewhat better than we expected, but we'll see how it's going to develop over the year. That was the formal part of the presentation.

You have the usual additional slides in this pack, should you want to have more cross-section information about NII, about margins, about volume growth, fee income, other income, and total risk cost. These are the additional slides that we have in the pack. Thank you for listening to this presentation.

Please ask your questions.

QUESTIONS AND ANSWERS

Operator

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

Gabor Kemeny - Autonomous Research – Analyst

Firstly, on costs, and the 17% FX-adjusted cost growth, you talked about an element of the regulatory charges going up y-o-y and some expenses like the branch rationalization presumably will drive savings down the road. But how do you expect cost growth to evolve from here? I guess there is a concern out there that whilst your revenues are developing more strongly than expected, a large part of that may not drop to the bottom line, given the cost inflation. Can you reassure here? That's the first topic.

And then secondly, on the political developments in Hungary, what do you think is the likelihood that we may see a significant Bank Tax cut next year? And further on Hungary, now since the election, we have seen a significant contraction in the sovereign spreads. Can you give us a sense of how this could impact your financials, your P&L and capital from Q2?

And the final thing here, has this increased your appetite to issue AT1 at all? I'll leave it there.

Laszlo Bencsik - Chief Financial and Strategic Officer

17% cost growth is high. Our biggest increase we had in Russia, where we invest into more even stronger compliance and regulatory control functions and IT. NII growth was 17%. The problem in our case, in the first quarter was that out of the revenue lines, the total income growth was FX-adjusted at 12%. But the biggest chunk and the most important NII grew by 17%.

Fees partly grew, and other income growth was also lower, and that's also impacted by Russia. We are also aware of this, and we carefully monitor and control costs. Having said that we still don't see a major reason to start drastic cost-control initiatives. Let's take, as an example, Bulgaria or Uzbekistan in part is where we invest into the future and especially into IT and people. The Bulgarian C/I ratio is 34%.

If you take Russia out, then one of the highest ratios is Bulgaria. Bulgaria with this level of cost growth achieved in the first quarter 19% ROE. That's Eurozone. That's more than 2 times ROE over cost of equity. And volumes have been growing quite fast in Bulgaria last year. loan growth was 18%. Just in one quarter this year, we had 5% loan growth. We are growing fast organically. And that growth involves some, cost development as well.

I'm not going to tell you that we are going to reduce this y-o-y cost growth to a single-digit or something like that because this is not going to happen. But on the other hand, this is not cost growth without any gains or without control. All these developments are according to plan and under control. And we are not concerned about these numbers.

The only concern we have in terms of cost, it's basically Hungary and the Hungarian headquarter cost, and this is where we have started to take measures. We will continue to take measures in order to reduce the size of the HQ in Hungary and make it more efficient.

Political development, well, I don't think it's at all realistic that the extra taxes will be cut this year in Hungary. Given the budget situation and the fiscal position, what this new government inherited does not have any room to do that, 6.8% expected deficit this year.

But if you believe and we believe that this new government is committed to develop Hungary into a competitive, modern economy quite more similar to successful Western European economies. That does not allow the level of sector taxes what exists today and the level of distortion the curves and certainly don't support the mid- to long-term higher economic growth, which is expected in the country.

Our expectation is that, yes, there will be a gradual decrease, especially in the extra profit tax in Hungary, which is together with the banking tax, which is the most painful number, right? And this is the number which was doubled from last year to this year where the profitability of the banking sector overall declined. This is completely unfounded and ridiculous, but happened, nevertheless. On this line, we expect a material improvement.

In fact, over a course of hopefully not too many years, the complete elimination of that line. Some level of bank tax and transaction tax, I'm sure, will remain. I think it would be at least fair to go back to the situation where we were in '21 and before, where we only had banking tax and transaction tax.

Our HUF government bond portfolio is in the Hold-to-Maturity treatment and the HTM portfolio. There's no capital impact. We don't mark-to-market these bonds. Therefore, there's no immediate impact. The AT1, we know the situation regarding AT1 or our view, AT1 has not changed. This we consider as a reserve for a potential larger acquisition. We continue to be on the view that we only do AT1, if there's a larger acquisition which requires that capital.

Gulnara Saitkulova - Morgan Stanley - Analyst

Just a follow-up on the previous questions. Can you comment on your headcount strategy? You referred to 1.5% increase in headcount, which areas of business are seeing this incremental hiring? And what is driving that additional headcount demand? And another question on margin outlook. So, you reiterated the NIM outlook of 4.34% with potential upside. Can you provide some colour on your outlook for margins across your key markets?

What trends are you currently seeing on the ground? And what are the main drivers we should be considering for this year and next across your geographies? And here, can you also mention what are you observing in terms of the competitive environment evolution – across loans and deposits across your markets?

Laszlo Bencsik - Chief Financial and Strategic Officer

Headcount, you mean headcount in Hungary or country by country or what?

Gulnara Saitkulova - Morgan Stanley - Analyst

Overall, in the group.

Laszlo Bencsik - Chief Financial and Strategic Officer

We don't have an overall headcount policy for the group. The different entities in the group are at different stages of development in terms of market growth, in terms of expected growth, in terms of IT maturity, and in terms of progress of implementing new technical tools, I mean, AI tools. We don't have an overall headcount plan. We have, but that's an aggregation of the individual country numbers and different countries are in different situation.

We have the most focus at the moment on Hungary, and we started to take measures and more specifically on the Hungarian headquarter headcount. The overall headcount in Hungary is 11,000 people in the whole group; it has grown a lot over the last couple of years. Regarding the headquarter, which is like more than 7,000 out of its 8,000 people, if you take out the network, this is where we see, by the way, across the group, the biggest efficiency increase potential. This is going to come over the next year, next 1.5, 2 years. We are not going to do any drastic measure, but this is something where we focus, and there will be results here.

NIM is 4.59%, 4.6%. This seems to be clearly higher than the last year number, which was 4.34%. Already in the first quarter, we are considerably higher than last year. Therefore, I think maybe we can go to page 27 here, which is about margins. There's a high risk here or a high potential for better performance than last year and better performance that we guided for. Just to be conservative, we decided not to change the guidance.

Now if we look country by country, in Hungary, we have seen improvement, over the last couple of years. I think the bottom of the cycle was around 2.3%, something like that back in 2023. Now we are almost 1pp higher. Improvement slows down, but it's still driven by strong retail deposit growth that happened in the first quarter, this looks quite promising.

Then we have the Eurozone countries, Bulgaria, Slovenia, Croatia, and I would include here Montenegro as well, which uses the euro, where we had seen margin compression. But recently, margins stabilized. And this is what you can see. Bulgaria q-o-q, Slovenia, Croatia, and Montenegro reasonably stable levels. There, we don't expect much change unless there's a rate hike and rate hike can happen.

The euro rate, most likely to be increased, and that can be positive for these countries. This was certainly not expected when we made the budget for this year. This is related to the war in Iran and the closure of the Strait of Hormuz and higher energy prices. If indeed it happens and the euro rate will be increased, then it will bolster up the margin in these countries. Serbia, some decline, and that's mostly due to regulatory changes. There are limits on the margins and rates we can apply for retail lending in Serbia, and that is reflected in the margin. Uzbekistan started to improve, and that's good news. It's primarily because of the cost of funding optimization and the deposit pricing optimization. These are the parts. We are already in the first quarter higher than what we guided for. Based on this, there's some chance that there's a fair chance that we will remain at this higher level. Yes, that's it.

Gulnara Saitkulova - Morgan Stanley - Analyst

And can I just follow up? Which markets would you characterize as facing the greatest competitive pressure? And where do you see competitive dynamics remaining relatively benign?

Laszlo Bencsik - Chief Financial and Strategic Officer

Bulgaria, Croatia, Slovenia, quite price competitive. It's the Eurozone countries are the most price competitive especially in Corporate Lending. I don't think any of these markets are benign, unfortunately.

Simon Nellis - Citigroup

I may not have catch everything in the presentation. My question is around fees, which were quite weak in -- I mean, Russia but also Hungary and Bulgaria. I think you probably touched on this, but what's the outlook for fees going forward? It seems the run rate has slowed quite significantly. I think there were a number of reasons behind this, but what's the outlook going forward from here? That would be my first question.

And then also on risk costs, just wondering if -- what the exact changes to your FLI forward-looking macro assumptions were, if any, because of this US-Iran situation. And yes, if you use any overlays to top up provisions without hitting the risk cost this quarter?

Laszlo Bencsik - Chief Financial and Strategic Officer

Fee income growth being modest y-o-y was driven by two countries, Russia where they declined. Russia also had a negative y-o-y contribution to Other Income. It's transactional fees, transfers, and FX conversion margins. That's the next slide, page 31. It's not just the fee income. You can see there was quite a negative growth y-o-y in terms of Other Income as well, which is the FX conversion margin.

There's just less demand from our corporate clients. This we observe in the numbers of other banks being active in those fields, I mean, namely the other European banks still active in Russia. This seems to be systemic. I don't think this is going to change dramatically over the course of the year. There might be some seasonality here. Our assumption is that these special revenues which are not so much related to our core activity, which is consumer lending and deposit-taking, these kinds of special revenues may be at a lower level this year than last year, considerably lower. This is worse than what we planned for this year, but that's the case. And some of you might be happy to see that our revenues started to decrease in Russia. We have a more balanced view on this. We are not particularly happy about this. But anyway, this is what's happening.

In terms of Hungarian fee income, I said it at the beginning of the presentation that it's mostly because we were not able to increase the fees in line with inflation because we voluntarily had to, as all the other banks, delay the usual January fee adjustments.

We are going to do this at the end of the first quarter. That means that the second half of the year might be better. The other factor which negatively impacted Hungary was the fees and commissions. Commissions is typically an expenditure, and the higher mortgage lending involved higher commissions for third-party and that's also accounted for in this slide. These are the 2 countries where we had lower levels.

In Russia, this is probably the new normal. In Hungary, it is not. In Hungary, we should recover growth rate as we in the second half of the year of the fee income.

Simon Nellis - Citigroup

And I guess Bulgaria, it seems that its currency driven. I guess, would you assume that the underlying fee growth could still be growing around 6% in euro terms?

Laszlo Bencsik - Chief Financial and Strategic Officer

In Bulgaria, we had 6%. It's FX The HUF rate, especially to the euro rate change. From now on, we will have to be conscious of the FX impact, especially for the euro countries. It's better to look at the FX-adjusted changes. 6% is okay.

Simon Nellis - Citigroup

Yes. And then just on the provisioning.

Laszlo Bencsik - Chief Financial and Strategic Officer

We didn't make extra provisions. In line with what we expect in terms of the macro environment, and that is slight increase in inflation and some decrease in potential GDP growth, and maybe a higher rate environment. These expectations are included in the numbers what we had on this chart in terms of the macro. That macro scenario does not warrant or require extra additional provisions.

We seem to be quite conservatively provisioned already. Whether this is optimistic or not, it's hard to tell. There's an extreme scenario where the Strait will be closed for the next, I don't know, three years, and the oil prices will remain much higher than 100 per barrel for the next couple of years and so on and so on, in which case, there will be much more serious real economy adjustments and supply chain adjustments, and demand adjustments across industries. That is not factored in, in our current expectations. We don't think that this is the expected scenario either.

Mate Nemes – UBS

I have three questions, please. The first one would be on Uzbekistan. It's clear that you're seeing really good bottom-line profit growth and seeing good core revenue growth in the country. What struck out to me was a quite muted loan growth on a sequential basis in the quarter, which is surprising from a clear growth market. It seems like consumer was fine. Corporates went backwards. Any color you can share on that? What do you see on the ground? What is the expectation?

The second question would be on inorganic growth. Could you share any updates on M&A? I think at the time of the AGM or on the AGM, your Chairman mentioned that you're hopeful that you could announce an acquisition this year. Any color on that? Anything you can add? Also just in this context, tying back to your earlier comments on capital. What is the level of -- or amount of excess capital that you're seeing at the moment, just considering you want to be at the top end of the peer group in Tier 1 ratios.

And the last question would be just one on Hungary. You talked about sector taxes. And I was wondering -- are there any sector-specific policy changes apart from taxation that you would like to see policy changes that would be beneficial in your view for the economy and the sector? Anything on that front would be appreciated.

Laszlo Bencsik - Chief Financial and Strategic Officer

The volume growth in Uzbekistan was disappointing. I can confirm that. It came from two angles. One was another IT issues regarding the core system. The core system had serious operational issues and stopped working for meaningful amounts of time, which quite seriously disrupted our ability to sell. Those have been fixed. We in-sourced the development of this system, and we are buying the source code. We are getting full control over the development of the core system, and we are scaling up the development capacities.

The good news is that in April, there were no further mishaps in terms of availability of the core system. This sounds like a very basic problem, but these are the problems that we face. That was one. The other one is conservative. We remain conservative, especially in corporate. In Corporate Lending, we don't feel very confident to be more aggressive or to be more active, right? We are exploring this, but we are careful and we don't want to make moves, which we regret in the future.

There's no reason for that. As you rightly pointed out, profitability improved. earnings are getting to a level, where we want to see them. We want to keep that situation in the future, and we don't want to grow just for the sake of growth. We want to grow profitably. In Corporate, we still don't feel 100% confident that we can even achieve the returns what we expect after risk cost with strong volume changes. This is the reason behind corporate inactivity in a way.

In retail growth, consumer Lending growth, we wanted that to be stronger, but I was hindered by IT problems in the first quarter, which we solved. They don't seem to be problems anymore in the second quarter. In fact, we are putting live in operation, our new mobile app solution. We had no more than one and the new development is now going live, and we expect a very positive impact on retail activities as well coming for that.

The first quarter was somewhat difficult operationally, but we are quite optimistic, and we believe that the rest of the year will be better in terms of growth. I think we're quite happy to see that returns are closer to the levels what we expect them to be than they were last year.

There's no news I can share with you regarding M&A. We are obviously very restricted in terms of what we can just informally share. Whenever there's an information we important to share, we are sharing it immediately. We continue to look at various opportunities. It would be good to make an agreement this year where we are sure that we create value, but if we are not sure that we create value, then we are not going to make a deal. Given the strong organic growth trajectory, there's no pressure on us to deliver deals if we are not convinced that we create value for shareholders by doing those deals. I know it's very general and doesn't really answer your question, and I'm sorry for that, but I'm not in a position to say more.

Tier 1 capital, your question. The ratio was higher than the reported. We have to talk about 17.9% which is definitely higher than the highest on this slide. We restarted share buyback, and we just got an approval for another HUF 60 billion, and we continue buybacks. Between 16.5% and 17%, that's the range, I think, which would still allow us to be at the higher end of this group.

That's a potential opportunity to do more buybacks or do an acquisition or more acquisitions. That's the magnitude on that level. There's the Alternative Tier 1 instrument, which is a dedicated reserve for us, issuing an AT1 -- that's the other thing which we may consider. Other policy changes than sector taxes? If we could achieve a major improvement or a material improvement on the sector taxes, we would already be quite happy. A path which leads to fulfilling the Maastricht criteria in four years, what the new government started to talk about means swift fiscal consolidation and decrease in inflation and quite swift conversions of the rate environment to the Euro rate. That’s a big change.

And I would put the trajectory of a country on a very different path than what we had been for quite a long time, the last 10 years, I would say. Other than this, in that scenario, in a lower budget deficit and lower rate environment scenario and plus availability of EU funds. That means that there will be much less need for these subsidized programs. If EU funds are available and coming and if the rate environment is lower, then market-based lending and substantial demand at those rate levels can be more than enough. I think the necessity of these subsidized products in retail and corporate will diminish. That can be another subsequent policy change if that trajectory manifests.

Gabor Bukta – Concorde Securities – Analyst

I have a couple of questions. Look, the first is regarding the foreign sensitivity. You touched on this on slide 11. And if you could clarify the rate sensitivity because I'm not sure I got it. So, does it mean that if rates drop by 100 bps in Hungary, it is a net positive or negative for the bank? And does it include the fair value adjustments as well? And if you move forward, I have a couple of questions related to Q2 because I think that you will be distorted by a couple of things.

First, the forint has significantly strengthened following the elections and will be heavily impacted. So just wondering if you hedged part of your euro exposure. And the next one is that I think due to the share swap

agreement with MOL, you are eligible for a dividend of [HUF13] billion. But I guess more will postpone it to Q3. So, could you clarify that you are expecting it in Q3? Or will you book as a receivable in Q2, or what will happen?

Laszlo Bencsik - Chief Financial and Strategic Officer

The HUF rate sensitivity is negative. A lower rate means lower NII. The sensitivity, what you can see on this slide means if the HUF rate goes 100 bps lower, then we are going to have ceteris paribus HUF 24 billion less NII in one year in the following year.

Gabor Bukta – Concorde Securities – Analyst

Yeah. But yes, I didn't get that. Is it relevant or consistent with the euro sensitivity because it was mentioned that for 100 bps change in euro rates stood at around EUR 125 million. But yes, okay, it's clear.

Laszlo Bencsik - Chief Financial and Strategic Officer

These two are independent.

Gabor Bukta – Concorde Securities – Analyst

Yes. Okay. And what about Q2?

Laszlo Bencsik - Chief Financial and Strategic Officer

Q2, yes, a stronger HUF. The total earnings if the exchange rate appreciates, a stronger HUF translates into lower nominal, HUF-Group-Level profits. Then you have to have assumption on the other currencies as well, right? Because, for instance, the rouble just strengthened towards the HUF. There can be other movements, and the Uzbek currency can strengthen as well. There are different currency movements across the Group.

But if you assume a 10 forint appreciation in the HUF euro rate. If you assume a parallel appreciation of the HUF to all the other currencies in the group, then this 10 forint rate appreciation translates roughly HUF 20 billion profit after tax per year. If you divide it by a quarter, then it's HUF 5 billion. That's a quarterly impact by 10% forints and there is more than 10% forint. You can do the math, and you can do whatever scenario you assume.

Hedging, we have a strategic open position, other than that, we don't have a HUF position. We don't hedge the revenue from the non-Hungarian businesses. In fact, we hedge the capital ratio. The Group-Level Capital Adequacy ratio. And that means that when the HUF appreciates or weakens, it changes the risk-weighted assets of the non-Hungarian businesses. And it also changes the equity of the non-Hungarian businesses. And we want these 2 to move reasonably close to each other.

We want to have a situation where the exchange rate changes don't have a material impact on the Group-Level Capital Adequacy. That requires not to hedge the equities in the different group members. Majority of our investors are coming from other currencies than Hungarian Forint, right, typically dollar, euro, British pounds. They may look at the share price in their own currency as well. That I don't know.

The dividends, it has an impact that MOL decided to pay the dividends later. It does have an impact on the cash flow, on our liquidity plan, so to say, but it doesn't have impact on the earnings. We are going to accrue those expected dividends.

Gabor Bukta – Concorde Securities – Analyst

In Q2 or in Q3?

Laszlo Bencsik - Chief Financial and Strategic Officer

Q2. The decision was made.

Gabor Bukta – Concorde Securities – Analyst

I have another question related to others. The Fair Value Adjustment in Q1 was very significant. But given that the Hungarian Government Yields came down significantly in the last couple of weeks, where do you see the Fair Value Adjustment in Q2, if you take into account the current yield curve?

Laszlo Bencsik - Chief Financial and Strategic Officer

Indeed, the Fair Value Adjustment on subsidized loan was quite positive in the first quarter, close to HUF 20 billion. It's going to be not the same amount. We don't know how much it's going to be, but the current situation means that it's going to be negative in the second quarter.

Jovan Sikimic - Oddo BHF SCA - Analyst

Jovan Sikimic from ODDO BHF. I have a follow-up on Uzbekistan. If you look at the loans to deposits, they were flattish or stable over the last couple of quarters. Do you have any plans to, let's say, normalize it back to, I don't know, 100% 150%? And if yes, what would be approximately impact on the margins?

And if it comes to the dividends, are you paying out the dividend from Uzbekistan unit? And if you maybe can share what's the current capital adequacy there? I don't think that you reported, but maybe you can share it with us. And a minor question on Serbia. I think you mentioned that you expect a recovery -- but we know that, I mean, politically, it's also quite turbulent there. So, I mean, FDIs are definitely negatively affected by this. So, in which segments would you expect the recovery, especially in the lending activity there?

Laszlo Bencsik - Chief Financial and Strategic Officer

Dividends, we have not taken out so far. We haven't attempted it or we haven't tried. Recovery in terms of Lending Activity, we had approximately 1% growth in the first quarter compared to that growth rate. I think we expect improvement for the rest of the year compared to the first quarter. Loan-to-deposit ratio target per se, we don't have.

We are quite okay to operate over 100%. We have access to capital markets on a stand-alone basis. We issued a very successful bond last year, which was a double-currency-bond local currency and dollar and there's further demand. We feel comfortable to be able to fund on a stand-alone basis if there were higher growth of loan demand and loan growth. We don't feel constrained by funding, and we certainly don't have a loan-to-deposit ratio target per se.

Jovan Sikimic - Oddo BHF SCA - Analyst

And there is no pressure from the regulator, from the Central Bank, right? Because the sector as such in total has high loan-to-deposits, right?

Laszlo Bencsik - Chief Financial and Strategic Officer

No.

Jovan Sikimic - Oddo BHF SCA - Analyst

Okay. And on Serbia?

Laszlo Bencsik - Chief Financial and Strategic Officer

In normal environments, banks should have leverage. They should provide leverage in an economy. There's nothing wrong with higher than 100% loan-to-deposit ratio. That used to be the norm in a way. In Europe, we have developed into a situation where banks are expected to have lower than 100%.

Typically, it became a new norm because there's so much liquidity in Europe and because banks have been so conservative in lending, but I don't think that's actually optimal for the long-term development of economy. I don't see any problem having a bank having more than 100% loan-to-deposit ratio. In the meantime, I have the capital adequacy ratio number. It's 19.1% in Ipoteka. The minimum requirement is 13%.

In Serbia, we expect double-digit growth in retail and corporate lending. We have seen on the market, I'm talking about market figures here because we haven't given guidance on the entity itself. But yes, we expect acceleration in loan demand.

Operator

As there are no further questions, I hand back to the speakers.

Laszlo Bencsik - Chief Financial and Strategic Officer

Thank you. Thank you very much for joining us today and thank you for listening to the presentation and for your very good questions. Please join us on the next con call, which will be on the August 5. During the summer, we usually don't report on Friday because it's more polite to do it midweek. It's going to be Wednesday in August, August 5, and please join us again. Until then, I wish you all the best, and goodbye.

Operator

Thank you for your participation.

Note: unabridged transcript with minor English stylistic corrections.