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Investor Relations

OTP BANK

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Transcript

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PRESENTATION

László Bencsik – Chief Financial and Strategic Officer

Thank you, and thank you, everyone, for joining us today. Good morning or good afternoon, depending on where you are. Let me jump into the presentation. As usual, the deck is available for download on the website, but we are also projecting it parallel to the conference call. Maybe we go to page 3, where we have the most important numbers.

First of all, we have some noise in the data due to the fact that most of these extra taxes or all the excess taxes in Hungary were booked in the first quarter for the entire year and some other supervisory fees as well in various other countries. Therefore, if you want to properly capture the business performance we need to allocate those costs over the year.

You can see two sets of numbers. One at the bottom with grey that's reported and then the other set of numbers with green where between the quarters, we have allocated evenly these extra taxes. If we look at these kinds of accrued numbers, then the first nine months was HUF 886 billion. That's like EUR 2.2 - 2.3 billion, 5% up y-o-y for the first nine months.

But I mean the actual business performance was stronger than that. If you look at - for instance -, the pretax profit, then this growth was already 8%. That's due to the fact that the extra taxes, primarily in Hungary increased a lot. And we put these extra taxes, the bank tax, and the extra profit tax into the tax line. And then on that line, just in Hungary, the extra profit tax increased by HUF 38 billion year-on-year. That's a major factor in the profit after tax number.

Now if we were to look at the operating profit year-to-year performance then, it was actually 16% up for the first nine months. And then obviously, risk costs were somewhat higher. As you can see on this chart, on the credit risk cost rate and the total risk cost rates. Having said that, most of these extra credit costs come from Russia due to volume effects, the Russian risk cost rate was 7.6%. That's part of this consolidated number. And if we were to take out Russia, Ukraine Uzbekistan from the credit risk cost rate and the total risk rate, we would get quite similar numbers to last year actually.

I think it's safe to say that we have had another strong quarter in the third quarter of this year. And there's no reason to believe that the following quarters will be anything worse. We remain quite optimistic regarding the current trend at current rate and the potential future developments.

This profit growth has primarily been driven especially by the operating profit growth and volume growth. We indicated at the beginning of the year that we expected more than last year credit volume growth. Last year, we had 9%. And the good news is that already at the end of the 9 months this year, the year-to-date performing loan growth was 10% and it's going to be strong. I think it's fair to assume that we will not just have higher number than last year, but materially higher, substantially higher growth rate, and this seems to be the run rate at the moment.

Return on equity, again, this accrued ratio was 22.7%, cost to income 39%, below 40%, very good and net interest margin stable. And already a little bit of talk about the credit risk cost rates, which are higher than last year, but mostly driven by the contribution from Russia.

The following slide is technical. It shows this kind of difference between the reported and this crude or even recognition special items. I'm not going to dwell into this, but that explains almost EUR 37 billion difference between the two numbers.

Let me go to the Core performance, OTP Hungary. Again, 5% up year-on-year, but this extra windfall tax increase is primarily here or substantially here in Hungary. The pretax number, again, with this even recognition of the one-off costs, which have been 15% up. After-tax profit, +5%, pretax profit 15% up year-on-year and this was primarily due again to loan growth and some margin improvement. I mean, last year, first nine months, the NIM was 2.84. This year, 3.09 and slightly increasing quarter-by- quarter.

Here, you can see this kind of detailing of the extra burdens in Hungary. And you can see how much the windfall tax, the extra profit tax increased. Last year, we paid EUR 7 billion altogether and this year, we expect to pay EUR 54 billion. And there was a strong increase in the transaction tax, as well. The tax rates were increased last year and they became effective late last year and the impact is quite substantial for this year.

Having said that, there is plenty of good news regarding our performance in Hungary. If you look at the recent novelty on page 6, this is the stock home start loan program and other subsidized mortgage program, which started in September this year. And you can see if you just look at the stock numbers, the impact is relatively modest, given that it only started in September.

But if you look at the applications, you can see how much the applications increase. The September level was three times more than the average monthly level. This is a very popular program. It provides opportunity for clients to take mortgage loans at 3% fix. This is what they pay, and we receive an interest rate subsidy and with that subsidy it is a reasonably profitable product.

It is clearly beneficial for clients, and it's also a profitable product for the banking sector. Now this means that the current run rate of, let's say, annualized 12% because the first nine months, as you can see on this chart, mortgage loan growth was 9% year-to-date. We annualize it just roughly, it's like 12%. This 12% annualized run rate can increase, and we expect this to increase for the next year, for the next 12 months at least. And that can be up to, I mean, high teens, even closer to 20% until at least the end of the second-quarter next year.

If you look at other product segments in Hungary, consumer loans going strong, almost 39% higher contractual demand in the first nine months of this year than last year. Our market share is very strong. Now this is quite an attractive profitability product. That's one of the profitability drivers for us in Hungary. Having this strong market share and having this strong growth rate, this is quite good news. Our market share recently increased. The other kind of important market share number on this slide, I think it's in the lower right corner 41.4%. This is our market share from retail deposits and it again, quarter-on-quarter increased a little bit. You may remember that the first half of the year, a large chunk of retail government bonds were repriced and that caused some reallocation of funds by retail clients. And the good news is that we seem to be able to manage this transition well, and our market share again started to grow in deposits.

Corporate is probably even more exciting. It does seem that finally, we see a turnaround in corporate loan growth, especially in Micro and Small segment. As you can see on this chart, Micro/small year-to-date, growth rate was 12%, a large corporate or total corporate 5%, and that's a big improvement compared to '23, '24, where volumes were basically flat.

And we read this now as an indicator of potential turnaround, at least in our client portfolio. Obviously, this trend reversal has been supported by the current subsidized scheme, which is the Széchenyi Card MAX+ scheme targeting micro small corporates in Hungary. Our market share is very strong in this product. And due to all these changes, as you can see on this page, we reached a historic high in our market share among Hungarian corporates, above 20% which is historically the highest number, very good news. We are very happy about this.

On page 9, you see all the non-Hungarian bank performances. I think it's quite solid across the board. Maybe the only kind of pledges in Uzbekistan. We talked about this, as you can see, both the nominal profit declined materially compared to last year and the ROE also went down. I mean this is something we discussed in detail in previous presentations. We had to limit the volume growth of consumer loans for quite a long period, for almost one year until we managed to fix the IT infrastructure and restarted the growth of consumer lending somewhere in the second quarter this year. And the results are very strong and very, very promising.

I will show you in a few slides. I will show you the details how well new production is building up in Uzbekistan. I'm very hopeful that starting from now quarter-by-quarter, we will be able to improve our performance and reach back potentially previous levels.

The NIM development, it's fairly stable quarter-quarter, even on a basis point level. Since the beginning of the year five basis point improvement is primarily coming from Hungary, Hungarian margin keeps improving, while in some of the other banks, like in Uzbekistan, where cost of funding increased, or in Bulgaria, where it's a euro rate environment, and this is due to Europe, somewhat lower rate than last year overall in Serbia having some hit but primarily the improvement as I said, was driven by Hungary improvements.

Let's take a look at the volume trends, performing loan volume trends across the group, 10% year-to-date. And again, and it isn't to assume that growth slows down. It's quite the opposite in Hungarian mortgages, we expect definitely acceleration in the last quarter, and in Uzbekistan. As you can see, this 13% increase year-to-date there is not evenly distributed between the quarters, first-quarter was flat; second-quarter 4% growth; and third-quarter, 9% growth just in one quarter. This is when we are up to much higher speed than previously.

The other, I think, important development is Ukraine. As you can see, we - somewhere at the end of last year, we decided to be more active in lending in Ukraine, and that's resulted in more than 50% growth in consumer lending. Obviously, this is from a relatively low base, but nevertheless, we started to grow and corporate and leasing started to grow meaningfully this year and this is in line with our strategic decision to be active on the lending side. In Ukraine, obviously, selectively, but we believe that there's a broad segment of clients who are quite able to take on some leverage and loans.

Maybe a few more words about the Uzbek development because this is important for us strategically. You can see, the cash loan volume changes and disbursement numbers by quarters and our market share. And we had this difficult period starting from the first-quarter last year, which period pretty much ended a year after. And in this time, we lost market share, our operating results declined, and our profits declined, but now I believe we have reached a turn around. And as you can see, our market share started to grow in the third quarter, and you can see how much we were able to ramp up production of cash loans. And now we believe that we are giving these loans based on sound understanding of clients' credit worthiness and it's well supported by data, so we feel confident that these are going to be quite profitable vintages that we are churning on.

In terms of deposits, again, a strong performance year-to-date 9%. And just to remind you, the net loan-to-deposit ratio of the group is 74%. Nominally, we have 50% more deposits than loans. Despite the somewhat lower growth rate the actual nominal increase was substantially more in deposits than loans. The group level of liquidity

situation improved due to this. And the primary drivers here are in Hungary and Bulgaria, both in the retail. These are the two countries where we have dominant market share in retail deposits, around 40% in both countries. And in both countries, retail deposits are very profitable. This is a kind of a growth and profit engine of the whole group retail deposits in those two countries and so far, so good, quite strong performance in both geographies. In Bulgaria, there's an additional big event by 1st of January, Bulgaria finally joins the Eurozone. After around 25 years in the currency board, in a fixed currency regime, very well deserved, and we expect further positive ramifications from this from the accession to the euro.

And the only country where we had decrease, it was Uzbekistan, but again, funding a special retail deposit quite expensive and the volume growth in retail loans was not as strong as we originally planned for. Therefore, we scaled back somewhat the deposit volumes in order to optimize for profitability. But again, recently as the volume growth recovered, we again started to somewhat increase deposit volumes. This is subject to pricing basically.

On page 14, credit quality. Again Stage II ratio compared to the end of last year improved compared to the second-quarter, flat strong coverage, as you can see in comparison to some of the other players as well. There're no major developments on that front.

In terms of capital adequacy, 18.4%, which is still a decline compared to end of last year, but that's mainly due to the Basel IV impact, which kicked in from 1st of January, 90 bps negative and still 20 basis points transitional measures being outpaced by the end of this year. The fully loaded number, i.e. if you fully load with the changes expected till first of January, would have been 18.2%. Nevertheless, strong and way above regulatory requirement.

In terms of liquidity, we're quite liquid, the liquidity coverage ratio, 235%. During this year, we started with a Tier 2 in January, and then we have done two covered bonds, very successful ones, we're quite happy with the pricing levels and a senior preferred offshore yuan bond. We are trying to diversify our investor base on the debt capital markets as well.

This is the internal performance and then some reflections in the middle, right? How others see us, first the rating. There have been many upgrades. Moody's was a very recent one. They improved the counterparty rating of OTP Bank to A3 and the senior preferred bond and the negative outlook disappeared. The Tier 2 rating improved to Ba1. And previously during the year, S&P also improved our rating. Our senior preferred rating is BBB, which is a notch higher than the sovereign rating, which is BBB-, the Hungarian sovereign rating. This is, I think, a rare event that the bank is higher than the sovereign, but I believe this is very realistic situation.

Scope rating is even higher. And we have Fitch, for Ipoteka Bank, Uzbekistan, which also improved during the year, and they have been through a very successful issuance, they just printed a bond recently, which was very well received by the market.

Page 18, we like to show this one. This is S&P Capital Global Market Intelligence unit. It's just a financial comparison of financial performance of the largest European banks. Last year, we were number one. This year, number two. Next year, we want to get back to number one, as well.

And then EBA stress test, No.13 that was done during the early part of the year. We are in the first one-quarter of the parties.

Just very recently this week, there was an ESG upgrade, MSCI upgraded our rating to A.

The forward-looking guidance, I'm sure you will ask questions about that. But as usual, we will share with you our expectations, our guidance for next year when we present the annual numbers, and that's going to be the first week of March, as usual on a Friday.

I won't talk much about next year. But I think it's clear that we have a strong momentum, and there's no reason to believe that this strong momentum should deteriorate. Especially if you look at the macro environment, on a very high level, we expect basically GDP growth improvements in most of the countries where we operate. And where it's not improving, the kind of slowing down is quite moderate and from quite high levels.

Bulgaria slowing down to 3%. But for the rest there can be better numbers, to be honest, because the recent data in these countries outperformed our previous expectations and maybe is Uzbekistan also slowing down. But in the case of Uzbekistan, again, the latest GDP data was much better than what the market expected. Even these countries are doing well. And the biggest improvement in terms of GDP growth is expected in Hungary, where next year our expectation is 3%. It's an election year. The already strong consumption is going to further accelerate and then we don't expect further decline in investments. This seems to be a quite realistic expectation to go up to 3% after three difficult years '23, '24 and '25.

The short-term expectation, we decided not to formally change them compared to what we did at the end of the second quarter. But I think it's obvious that loan volume growth, which already 10% compared to 9% last year. These nine months year-to-date, 10%. And obviously, we expect the run rate to continue or even somewhat improved, as I said, in case of Hungarian mortgages. And in case of this big consumer loans, for sure, sure. We are not just going to have higher number, but I think it's going to be a significantly higher number in the loan growth, and that's going to have obviously positive impact for next year earnings.

Margin, again, it's very stable. So again, no reason to believe that it's going to be otherwise. Cost-to-income ratio, this is where we improved the guidance at the end of the second quarter. And the new guidance is to be close to 41.3%. Currently we are still below 40%. I think this is, again, quite likely.

And in terms of risk costs, the risk cost rate, for the first nine months was higher than last year, but again, this was primarily driven especially by the Russian volume growth and higher rate there. And ROE 22.7%, we had strong number. And it's the denominator which is obviously much bigger than last year. We are accumulating capital faster than profit, that is the reason behind the return on equity being somewhat lower still this year than last year.

In terms of capital actions or capital strategy, I'm sure, again, you will have questions, but we will keep our usual custom and announce how much dividend payment the management will prepare to the AGM next year when we present the annual numbers first week of March next year. What we do now, we are executing this buyback program. We did HUF 60 billion at the beginning of the year, and then we started another HUF 150 billion program at the end of April when we got the second package approval from the Central Bank. And we are at HUF 90 billion currently, and we continue this program. That's pretty much the kind of short presentation going through highlights, so to say, of the year or the third quarter.

And please, if you have questions, ask them and we'll try our best to answer.

QUESTIONS AND ANSWERS

Operator

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

The first question is from Gabor Kemeny, Autonomous Research

Gabor Kemeny - Autonomous Research - Analyst

The first question would be - I would pick up on your points on loan growth, please, which is indeed pretty strong, I believe, 12%, 13% annualized as of Q3. And yes, I was kind of blown away by the home start numbers you showed on page 6 by the applications. It seems like there's a broader strong trend.

How do you think about the loan growth outlook going into '26 accelerating towards the mid-teens, possibly the high teens. Is that conceivable? And related to that, - do you think your NII growth will be kind of proportionate to the loan growth or would you like to highlight any possible changes in customers' securities income which could shape your NII going forward?

And my last question would be on M&A. I believe you were linked to Forte bank in Kazakhstan recently in the press. Can you share any views about your appetite to enter into Kazakhstan, please?

Laszlo Bencsik - Chief Financial and Strategic Officer

Okay. Yes. I mean I share your enthusiasm regarding loan growth, I think this is, as you said, a strong rate. And if you look at the forces, the current force is shaping the future trajectory of the loan growth, they seem to be positive, right? Certainly, Hungarian mortgages, very clear, and certainly there is a big increase in consumer loans. These are trends which have already been seen. And we expect them to continue.

The other positive development is in Hungary, right? The Hungarian corporate has started to grow finally. And now I think it's a new trend. All the other countries are doing well and the GDP numbers that I showed, we expect to get stronger or remain at elevated level. So again, allow me not to give a concrete guidance for next year because of policy wise, we are not doing it now. But I think your observation is very correct that - the run rate is 12%, 13%.

And the factors which may influence the future growth rates seem to be rather positive. Now that's obviously supportive for NII and NIM, I mean, there are the two factors which are very important here. One is actually deposit growth and more specifically, deposit growth in retail and especially in Hungary and Bulgaria, and these two countries have been growing quite strong. And with Bulgaria joining the Eurozone, through its conversion we might end up having somewhat higher current account volumes, as well.

In Hungary, disposable income growth may accelerate given the pre-election period and there are various kind of disposable income increasing factors for various parts of retail. That's also marginally positive.

In Bulgaria, when they joined the Eurozone, the current 12% mandatory reserve rate is going to go down to the Eurozone level of 1%. And currently we don't receive any interest on the 12% reserve rate. That's going to be a boost. Plus, we have the replacement of old low yielding Hungarian government bonds which will be replaced with higher yield ones. That's also kind of supporting factor.

So again, in terms of NIM, the net interest margin without giving numeric guidance, I think these factors which influence the game forward-looking seem to be rather supportive - and it is a big plus. It doesn't seem to be the case that the euro rate is going to plunge substantially further and the reasonably stable euro rate going forward is, again the support for the NIM in the euro-related part of our book.

Sorry, I cannot comment anything specifically regarding M&A. In terms of geographies, we have been clear about this before that we consider Central Asia as a region with high growth potential, and we consider the whole region attractive and we are quite happy with what we did with the investment in Uzbekistan despite the difficulties that we face, but I think that's okay, it's a new market, and we brought a bank through privatization. And yes, the region we quite like. And the country you mentioned is part of that vision. But no further comment, sorry.

Gabor Kemeny - Autonomous Research - Analyst

No worries, clear enough.

Robert Brzoza

I have a couple of questions related to growth outlook, if I may. First of all, I've seen that in several locations, be it Russia, Serbia, Croatia, you had been facing somewhat negative regulatory environment. which affected both fees as well as NII development. And I'm wondering, what do you think - what the future holds in those countries and maybe some others where the credit growth is pretty high, like Bulgaria. What do you think in general about the regulations, how that's going to affect the growth going forward?

And second question also related to growth in Slovenia. Probably if I'm seeing right, your year-to-date loan book growth after the merger is somewhat falling behind major competitors, I believe. If you could comment how you're going to fix the situation and come back to a more growth-oriented strategy there?

Laszlo Bencsik - Chief Financial and Strategic Officer

Well, yes. I mean there have been some macroprudential measures in Russia, Uzbekistan, but we usually welcome macroprudential measures, because they make lending a more rational business and it discourages players who have in some cases, very different risk appetite than we have and can kind of do harm to the market. That happens, right? Macro-prudential measures, we are usually happy with them. Even if they slow down somewhat the overall growth of the market, we welcome them.

Serbia is different. In Serbia, the measure was that it's a force lowering of the consumer loan APRs, right? We and all other banks were strongly suggested to voluntarily decrease their APRs, the interest rates of consumer loans to clients who have less than the average wages and income. And that's very harmful. That's a distortion to risk-based pricing.

That's kind of interference into the market conditions. It's a kind of mixed basket. But in Serbia this change, it's not going to slow down lending. It's going to boost lending, obviously, right, because it means that we have lower rates potentially generating higher demand.

Now Slovenia, the problem is pricing. Some of our competitors and unfortunately not exactly the small competitors follow pricing strategies, which are very difficult to understand, put this way, what is the economic rationale behind that. And this is a challenging situation. But we try to do our best. I mean the other thing is that it is a country where we recently had the new CEO, a very dynamic and very experienced colleague who has very ambitious targets and aspirations. But even with this comment, I think kind of 6% year-to-date growth, I mean annualized 8%, and actually in a very developed eurozone country, I don't think that kind of 8% annualized growth rate is not acceptable in the Eurozone mature market, correct? Having said that, again, this is probably the country where we have the biggest challenge in terms of pricing behaviour from some of our competitors.

Robert Brzoza

Yes, understood. May I also maybe revisit the case for subsidized mortgage lending in Hungary. During the conference, I just want to confirm if I got it right. I think a figure of 20 - or around 20% annual rate was mentioned.

And I just wanted to specify, did you allude to the segment or subsegment or Hungary and subsidized mortgage outstanding? Or was it the figure which was related to Hungary or all outstanding loans. I presume you referred to mortgage segment, but I'm not sure whether that was the total mortgage segment or the subsidized mortgage segment only?

Laszlo Bencsik - Chief Financial and Strategic Officer

Yes. As I said it, I think today, the current run rate without this home start program was annualized 12%. And our original expectation and early experience regarding demand suggest that this 12% run rate can improve.

And I said, yes, that it can be till the end of second-quarter next year, at least, i.e. it can go up to high teens even close to 20%. We don't know exactly, but it's very clear that acceleration should be expected. And again, as I shared with you the early data support that previous assumption. And this number refers to mortgage loans altogether mortgage volume growth in Hungary. Not just the subsidized, but total.

Simon Nellis - Citigroup

Just a few questions from me. I guess the first one would just be on risk cost and how you feel about the outlook going forward. I think risk cost has been a bit more elevated than in earlier quarters, the last two quarters. Just would be interested in hearing your thoughts about any imminent risks or lack of risks going forward. And then my - maybe let's start with that one. I have two more, if that's okay.

Laszlo Bencsik - Chief Financial and Strategic Officer

Yes. I mean, if you look at the third-quarter, risk cost, HUF 57 billion, of which HUF 29 billion came from Russia, and that's just related to the nature of the product there. Consumer lending is growing, and it has a higher than normal risk cost level and its profitability is really strong there. It's not a concern at all.

And other reason is that we increased provisioning in Bulgaria related to consumer loans primarily, but again, within the expected range and it is quite okay, and we had two corporates in Uzbekistan, which resulted in another couple of billion more provisions. These are the focus points of the provisions, what we created. We don't see a reason to be worried, or we don't see a change in the underlying portfolio quality dynamics anywhere, so no.

Simon Nellis - Citigroup

Okay. And could you update us on the core banking system upgrade and if there's any implications for cost growth going forward there on that front?

Laszlo Bencsik - Chief Financial and Strategic Officer

Cost growth and core system change. We are doing very well. The first two products, I mean very niche products, and small volumes, but we started to operate through the new system and so far so good. We are progressing according to plan.

We are happy with the vendor. We are happy with the system. I mean it's a lot of work in the problem with core system replacements and the positive business impact is not that obvious, right, because you typically don't have a whole range of new functionalities, it's just a simpler and more efficient and easier to develop environment in a more sustainable environment. So no, we don't expect cost increase due to this at all.

And in a kind of midterm scenario, there might be, or we expect an overall reduction in the total cost of operating expenses in this environment. But usually costs we like to talk about when we managed to reduce them. The expectation here is not that we are going to have a huge peak in the OPEX in Hungary because we introduced the system. No, that's not the case.

The extra effort extra expenditure and costs, which is involved with the core banking system replacement, it's already there in our cost structure this year. The full team is engaged. s

Simon Nellis - Citigroup

And then just one last one on capital return. I think you have an ongoing buyback. If that buyback completes before the year-end, would you do another one or would we expect some new news on capital return only with the full year result?

Laszlo Bencsik - Chief Financial and Strategic Officer

We haven't decided on this. But we seem to be strong in capital generation. If you ask me, the share is still undervalued. Personally, I think it is quite supportive to continue the program. But we are not that close to the end. We brought back HUF 90 billion by now, I think. There's still quite some room to go.

Gabor Bukta - Concorde Securities

I have two questions. First, just a follow-up on capital allocation. I think you have executed around 60% of the current share buyback program. And if you won't finish it until the year-end. Is it possible to extend it or what's going to happen with the remaining shares? Because I am a bit concerned about how you can execute by the year-end because the valuation of the stock. Would you further buyback on the market?

And the second question is regarding the provisions, but not on loan provisioning rather than on the Russian bond portfolio because as far as I know as I see the profit even you created for Russian bonds amounted to HUF 97 billion by the end of the second quarter and start setting aside any provisions for these bonds. What is your strategy? And once you think you created enough provision for this bond, how would you see when you will release those provisions of the coverage.

Laszlo Bencsik - Chief Financial and Strategic Officer

Yes. I mean the extension of the program is possible, but it requires a supervisory approval. I mean given the level of capital adequacy and all the numbers around our performance, I don't see why this would not be given if we were to ask for it. So yes, it is possible, but it requires approval. Indeed, this kind of 79% coverage on these Russian bonds, majority of these bonds are paying regular interest, if that's question.

We increased the provisions based on the very firm requirements of our supervisor. So this is conservative. And to the other side, I mean this reflects the current view. There will be an event in early December, the first part of the bonds, which are performing at the moment, we have a repayment date and so this is going to be the first principal repayment.

And if this happens without any problem, then we don't foresee any problems. If it does indeed happen, then I think that's going to be a trigger point where we have to discuss with our supervisor if they want to change or don't want to change their view on the required level of provisions or require a level of conservativeness on these bonds.

This is just assuming this terrible war ends and the sanction environment potentially changes, then there's, I believe, an even bigger room to release these provisions. But today the official answer is that this level of what we decided is conservative enough to reflect the situation and to respond to our supervisors' requirements.

Mate Nemes - UBS

I have just a few questions left. The first one would be on corporate lending on slide 8. Heard you clearly that this might be the green shoots we're looking for in terms of the turnaround in corporate lending, the 5% year-to-date. Can you talk a little bit about the nature of the corporate lending here? Or do you - is this essentially pent-up demand for investment type of loans or we are not quite there yet? That's the first one.

The second question would be on growth of the various countries. It's clear you're seeing really high loan growth in a number of markets, including Bulgaria, including Russia, including Hungary. Can you talk about perhaps the

mix effects you're expecting, both in terms of top line and the bottom line in the next few years? What sort of way did you feel comfortable with for one or the other operating country that are currently showing high growth.

And the last question would be on the cost-to-income ratio guidance. That I think you've been quite clear that the FX adjusted organic performing loan volume growth north of 9% is basically not a problem, and that's just a conservative guidance. Is it also the case for the cost income ratio - or shall we expect the usual sort of strong seasonality in the cost base in Q4? And we could see that 39% prorated number deviate materially.

Laszlo Bencsik - Chief Financial and Strategic Officer

The corporate, the large corporate growth is not investment driven. That's mostly working capital, to be honest. And we don't see a big new investment cycle coming. There's still a potential upside. And I don't think this is going to happen in the next six months.

But at least working capital demand is getting there. And where we see more fundamental growth is the micro small segment, which are the typically small Hungarian mid-caps put it this way which are more consumption-driven and more retail oriented.

There's actually new investment on their scale, obviously. And there's kind of capacity increase, as well in line with the strong growth in consumption. I think in the Micro/small segment, there's underlying fundamental, I think, while the improvement on a larger corporate, it's not yet a new investment cycle.

Now this mix effect. Again, I mean, there are two clear pockets of segments where we expect acceleration in Hungarian mortgages and expect consumer loans, right? That's clear. Other than that - and Hungarian corporate has started to grow after two, three, two years of zero growth.

And Ukraine started to grow as well, which was, again, not growing much for actual decline in '22 and then kind of flat '23, '24 and start to grow this year. This now seems strong across the board. And if you further adjust with Hungarian mortgages for the next year and for Ipoteka consumer lines, if you just increase this year-to-date run rate, the quarterly run rate, then I think you got a picture which reflects the current situation.

And I don't see why there should be big shifts in the mix, except if the war ends. If the war ends, then Ukraine can be substantially stronger. I mean there will be a huge opportunity and then that opportunity will only be by our risk appetite. I think this is the potentially further structure change in the future that should be kicking in once the war finally ends.

Cost-to-income ratio, I think the usual seasonality can be expected. The cost-to-income ratio will be somewhat higher than the first nine months. But we already improved the guidance because we or you expected the original guidance higher than last year. Now it's around last year. I mean, we try to do our best and not to have too much seasonality, but some seasonality is quite natural, somewhat higher than 39.3% is realistic.

Mate Nemes - UBS

Got it. That's very helpful. Can I just follow up on the second question on the mix of facts and then very, very helpful color there. Do you see any areas there you feel like this sort of the other market may be running too hot or certain product groups, and that perhaps might not be sustainable at these levels beyond the next two, three quarters?

Laszlo Bencsik - Chief Financial and Strategic Officer

In the last three years, the fastest-growing was the Bulgarian mortgages, and that's quite a ride what we have seen there. And they are okay, macroprudential measures somewhat calmed down, but not too much the growth. We expected it to slow down this year, but the growth rate exceeded expectations. If you look at page 11, across the group growth rate, its Bulgarian mortgages, where I think it would be natural to slow down, yes.

Unidentified Participant

Given the credit market running quite hot and spreads level being quite tight, are you considering AT1 issuance? Or is that possibility only if M&A opportunities come up down the line as you suggested in the past?

Laszlo Bencsik - Chief Financial and Strategic Officer

Issuance of additional AT1, no, no. Again, this is our earmarked reserve for a potential big acquisition, right? If a big acquisition happens, then we issue.

Unidentified Participant

Okay. I thought maybe given where spreads are and different players during the AT1 could have been a good timing also for you, but it seems likely not.

And for next year, maybe in terms of funding, would it be for currency EUR or I mean, you talked before about diversifying your investor pool, et cetera, et cetera, and you currently have deals with different currency out there. So just wondering.

Laszlo Bencsik - Chief Financial and Strategic Officer

We are typically opportunistic between dollar and euro. And as you see, we have started to open up to Chinese yuan, so far offshore. But we always swap back the proceeds to euros. Whenever we issue FX on a group level, we swap back to Europe because that's one of the core balance sheet currencies of the group.

Laszlo Bencsik - Chief Financial and Strategic Officer

Thank you very much. Thank you for participating. Thank you for your very good questions and for your interest. I wish you all the best, and I hope you join us when we present the annual results in early March next year. Thank you. Goodbye.

Operator

Thank you for your participation. The first nine months 2025 conference call is closed now.

Note: unabridged transcript with minor English stylistic corrections.