Strategy and Finance Division

Investor Relations

OTP BANK
2Q 2026 Conference call
Transcript

5 August 2026

PRESENTATION

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Good morning or good afternoon, depending on where you are, and thank you so much for joining us on this mid-summer day. It's very warm here in Budapest, very sunny and unfortunately, very dry. So, in a way fighting the elements. We are going to follow the usual process: we are going to show you the presentation, which is also available on the website, so you can download it. First, I go through a reasonably brief presentation, and then we will have a question-and-answer session.

We may just start with page 2, the high-level features or most important messages. They have not changed. So, I don't think we should dwell on these. We continue to deliver on those lines.

On page 3, we try to summarize the situation and make sense of the numbers, because in order to be able to understand the underlying business development, we need to somewhat specify which numbers we are looking at. Looking at only the reported numbers, that is HUF 306 billion profit after tax in the second quarter and HUF 483 billion profit after tax for the first half, and looking at the q-o-q and y-o-y development of these numbers is not particularly insightful.

One big problem with these numbers, in order to make some sense of them is the usual one, which we have been facing for a number of years, that the extra profit tax, the bank tax and the supervisory fees across the group, they all have to be booked at the beginning of the year. Since the size of these numbers have grown, unfortunately quite extensively during the last couple of years, it has a huge impact on the quarterly distribution of profits. On top of that, the extra profit tax keeps decreasing throughout the year as we continue to fulfil the requirements to reduce and to be able to get a discount on the extra profit tax. Therefore, we show you these prorated or adjusted numbers where we show the numbers as if these extra burdens were evenly distributed among the four quarters throughout the year.

Those are the numbers that you see on this page in the upper left corner in darker green colour. Now these numbers are much more meaningful than the reported ones. However, they also require some further consideration.

The first one is due to the fact that the HUF (Hungarian Forint) appreciated so much during the last year. So, to fundamentally understand what's going on in terms of the business performance, it may be better to look at the FX adjusted numbers, which are not affected by the exchange rate changes. If we compare the first half of this year to first half of last year, this adjusted number shows 2% decline. But on an FX-adjusted level, so without the impact of the exchange rate changes, first half profit after tax went up by 4% y-o-y.

Taxes increased quite substantially, and there are two sources of that increase. The bigger one, obviously, is the extra profit tax doubling from last year to this year. In the first half, it's almost an additional HUF 30 billion tax. The other country where we are subject to increased taxes is Ukraine. In Ukraine, the corporate tax increased from 25% last year to 50% this year. So therefore, the taxes line, which includes all of these, went up 22%. Now that leads us to the profit before tax numbers. On that line, again, FX-adjusted, we see 8% growth y-o-y. That's somewhat better.

But even this number includes this one-off burden, which we had to book in the second quarter for the rate cap in Hungary, which has been with us since the beginning of '22. The method applied by the previous government was that in every six months they extended the program with another six more months. So therefore, we gradually step-by-step recognized the potential loss of this. In the current situation, legally, there's no end to the rate cap. We understand this as an interim situation because discussions are ongoing between the government representatives and the banking association. Our expectation is that eventually, this is going to change, and they will come up with a solution, which creates a fairer system on the level of society and the solution which is according to the legal requirements in Hungary because we believe that the current solution is not. Therefore, we have taken legal actions, and we are going to continue to do so in the future as well. Nevertheless, the best solution would be a fair resolution of the rate cap. It shouldn't have happened, but it did and it should be fixed. But it hasn't been done yet.

So, we had no other choice than booking the full potential loss for the remaining maturity of these loans. That was the equivalent of HUF 30 billion pre-tax, and most of this was booked as a risk cost. Now if we had not had this, then the profit before tax growth compared to last year would have been 11%. So, this 11% is more or less what can be considered as a business-as-usual underlying performance improvement. That looks markedly better than the minus 7% or the minus 2% or the plus 4% or plus 8%, or you can pick a number, but we believe that the 11% is probably the closest to the actual development.

Now let's have a look at the details of the P&L lines. On FX-adjusted basis, this is shown in the middle section of this slide, net interest income y-o-y has gone up by 19%. That's a pretty solid performance. This is a result of strong organic loan growth. Last year, we had 15%, and we guided for this year, maybe similar level to last year. But the good news is that the first half of the year was 8%, so some acceleration. Even within the first six months, the second quarter was stronger than the first. That means that y-o-y loan growth was 17%, FX-adjusted. On top of that, net interest margin also improved somewhat compared to last year. These two together, plus the strong and even more profitable deposit growth, especially in retail, resulted in almost 20% y-o-y net interest income growth.

However, fees and commissions, only 3% and other net non-interest income negative 21%.

So, what happened here? Fees and commissions used to grow faster. So, what happened on the fees and commission lines? Two reasons. The bigger one is that in Russia, fees and commissions declined by 17% y-o-y. The other smaller impact came from the fact that we had to delay the legally possible fees and commission increases in Hungary. You may remember that we were strongly requested to voluntarily delay the fee increases by the previous government somewhere last year. Therefore, those annual fee and commission adjustments in retail, which we typically do in Hungary happened only at the end of June and not in January. This has a smaller impact.

The other income line, which was negative, minus 21% was primarily negative because of Russia. This line in Russia declined by 32%. This reflects the declining volume of transactional business, that we have in Russia, which is primarily coming from European corporate clients who make transactions, and that's a reasonably high-margin business. This is declining in line with the overall decline of trade volumes between Russia and EU counterparties. So that's our external environmental trend. This is something we are not going to fight. We accept and we are not proactively selling this. So in a way, this is okay. Maybe some of you might be a bit happy to see that because that shows that our Russian activities declining in that sense and, our profits have also started to decline y-o-y.

That's why the total income growth is only 10% despite the net interest income growth y-o-y was 19%. That net interest income is the biggest part of the total income. So, this 10% is due to these factors which I just explained.

Operating expenses went up 17%. This doesn't look very good, to be honest, and we are not very happy about this, that operating expenses went up 17% and income only 10%. Despite the core income component, namely net interest income, grew more than expenses, 19%, but certainly, on this expense growth trajectory, we are actively working on this. This is one of the management’s focuses to slow down this rate of growth, and we are working hard to have a materially lower number for next year of the operating expenses growth.

On the right side, you see the ratios, which are related to the guidance what we have given, and we decided to change the guidance or modify the guidance on one occasion, that's the net interest margin.

Given that the fact for the first half it's 4.61% and considering all the environmental factors, we believe it is quite likely that the net interest margin is going to be higher than last year. But that's probably not a huge surprise to you. All the other lines, we haven't felt necessary to modify the guidance, but you can see where these numbers lead to.

Maybe the risk cost rate requires some further elaboration. As I mentioned, the one-off cost of the interest rate cap extension to maturity, the cost of HUF 30 billion most of it appeared as a credit risk cost. Obviously, that increased the risk cost rate and the risk cost line. Without this impact the credit risk cost rate would have been 21 basis points, and without Russia would have been 42 basis points. That is without Russia, Ukraine and Uzbekistan. So, this 42 basis points, what you see here the risk cost rate for the European countries, under the fundamental part was only 21 basis points, which is not very different from the reference period last year.

Page 4. It just gives more details of the P&L line. You can see the numerical values as well, but I already talked about the most important column, and that is the one somewhere in the middle, showing the y-o-y FX-adjusted growth rates.

On page 5, you can see the technical details behind this prorated recognition of the extra charges. So, if you are interested, we booked and reported HUF 173.5 billion in the first half, whereas the amount that would be attributable to the first-half period on an evenly distributed basis would be only HUF 75.9 billion. So that's the explanation of the difference.

Before we dwell on the details of the performance of the group, let me share with you some information and some thoughts regarding the potentially most exciting recent development, and that is that we finally agreed with the owners of Luminor to acquire the bank. We signed an SPA with Blackstone and DNB Bank. We are obviously very excited about this. We cannot disclose anything other than what is publicly available.

However, we agreed with the sellers that we can share this one information and as you can see here, the purchase price was set below the book value. This is not a new information because DNB Bank already published the expected loss on their investments in their books and from that, some of the analysts already calculated the price, or the price range. This is what we can tell you about the purchase price with an agreement from the sellers.

Now on our side, the rationale is clear: entering three new markets, which are quite developed Eurozone markets, both in terms of penetration, income per capita and banking services, these markets have also very advanced digital services.

That's part of the excitement for us. Being able to compete in such an advanced market.

We have been saying that the optimal position in Central Eastern Europe in the smaller countries is to be No. 1 or No. 2 maximum. Now Luminor is not No. 1 or No. 2,but we consider this potential acquisition as creating a growth platform in these countries. Our aim is to challenge the market leaders and that can be done through organic growth, but that also could be done through further acquisitions. So, this is obviously something we take into consideration when we look at this transaction strategically.

Again, we are not able to share any insights with you, but we may go as far as we find the current management team very competent, capable and strong. The IT developments what they have achieved during the last couple of years are also very impressive, and there's a visible result of them. Luminor recently came out with a very new, and we consider it very good and competitive new mobile app, which we believe will considerably strengthen the ability to compete in the retail segment in these countries.

Now in the next couple of slides, you can see the publicly available information and the pro forma combination of the assets. So, if you combine these assets on a pro forma basis as of the end of the first quarter, using the most recent publicly available numbers for Luminor, they will account for roughly 12% of the total assets, 14% of total loan book and 22% of total mortgage loans. So, mortgages are the strongest part of the Luminor's business activity. Also, it is very interesting that if we combine with Luminor, 50% of our loan volumes would be in the Eurozone. Again, this is potentially important from not only from a business perspective, but also from a rating perspective, and could have a broad range of positive effects for us.

On the following page, you see the detailed information on what is publicly available for Luminor and also for the market. You can see from the penetration numbers that these markets and the whole regions seem to be more similar to developed Western European Eurozone markets than what we typically have at the moment in our portfolio, and that is reflected of higher mortgage loan penetration and the much lower consumer loan penetration. This 3.5% is closer to the most developed Eurozone countries like Germany, Netherlands and so on.

Specifically, Luminor, the return on equity is not particularly strong. If we look at the last year numbers, 8.6%, this is much less than the comparable two larger and two smaller banks, what you can see on the page at the lower right corner. These are the banks which are active across the regions, so directly comparable to Luminor, and Luminor falls behind in terms of return on equity. So why? If you look at the numbers, in terms of net interest margin, they seem to do well, it's better than the market leaders. But in cost-to-income ratio, they don't compare very well. That's not so good performance, in other aspect is always represents a potential opportunity to improve. This is theoretical at this stage, opportunity to maybe improve the profitability ratio of Luminor in the future.

Now page 9 shows this the level of digital maturity of the markets and the scarcity of branch coverage. As you can see in all the three countries, Luminor itself has 18 branches only. So, it's already primarily digital. With this new mobile app, which they just came out, it's called Luminor Bloom, we believe that they will be able to compete even more effectively on the digital front.

So, that's what we can say about the story. Obviously, we have to go through the approval process, and that is going to take some time given that it's ECB and also the authorities in all three countries, which are relevant here. So, it is going to be a process taking some time, but we do everything on our side and on the side of the sellers to make it as fast as possible. We very much hope that the process will be objective and fair. In that scenario, we don't see any major roadblock to success.

On page 10, we go back to the usual slides, starting with the story in Hungary. Hungarian results were even more affected by these one-offs what I explained.

I didn't explain the quarterly decline on page 3, on the group level, but I'm going to do it here because the reason for that came from the Hungarian numbers. There were two factors here. One, I already talked about, and that's the interest rate cap what we booked. It was HUF 30.4 billion pre-tax and HUF 26 billion after-tax impact. All of this was at the Core and Merkantil in Hungary.

On a quarter-to-quarter basis, there was another line, which impacted the quarterly difference, on the other income side, the fair value adjustment of the subsidized loans. Now this is a rather large and growing portfolio. It's now more than HUF 2 trillion. It's like HUF 2.2 - 2.3 trillion and growing portfolio in Hungary in local currency, in Hungarian forint. It's getting closer to EUR 5 billion equivalent. Now we have to fair value adjust this portfolio. If there are any interest rate swap related to this portfolio, those swaps have to be fair value adjusted. This is because hedge accounting, cannot be applied when the underlying asset is measured at fair value adjustment basis. So, this is a big portfolio. If the yield curves shift and change their shapes, then the quarterly impact can be quite sizable. That happened in the first quarter, we had HUF 20 billion plus. in the second quarter, we had HUF 20 billion minus impact coming from this, and that created the difference of HUF 40 billion between the two quarters.

In Hungary, on top of these two, we also revaluated negatively some investment in subsidiaries, but that only has an impact on the local numbers in Hungary. On the consolidated level, they are eliminated, so they don't appear. They appear positively because they create a tax shield in Hungary. So, the impact of this is somewhat positive because of the tax shield on group level.

But the other two appear on the group level as well, the HUF 26 billion and the HUF 40 billion and these two were the reason behind the quarterly decline on the group level as well. They are also the reason behind the quarterly decline in Hungary.

Now the good news is that in Hungary, if you take the six months altogether, then this fair value adjustment of subsidized loans had a very small positive impact, HUF 1 billion or so. So, the good news is that on a ytd level, there's not much impact, but on a quarterly level, there is.

The other good news is actually, if you compare the first half of the last year, again, with prorated recognition of one-offs, the increase in Hungary was 15%, even including the cost of the interest rate cap. That obviously comes from the improvement in the net interest margin, which you can see here on this slide and also from the very strong growth in the portfolios. I'm going to talk about the growth rates of the loan portfolio and the deposit portfolio; both are very positive in Hungary.

Now one more remark on this slide, the credit risk cost rate in Hungary was 55 basis points in the first half, which is much higher than last year. Now again, the entire growth here was due to the fact that we booked most of the cost of the interest rate cap among the risk cost. If it didn't happen, we would have had 1 basis point credit risk cost rate in Hungary, so pretty stable portfolio.

A few more details in Hungary, page 11, you can see the growth of the Home Start program, it continues. Second-quarter was just as strong as the first in terms of new applications. So far, we haven't heard about modifications of the conditions. So as far as we understand, the program continues. As usual, when there's a surge in demand and especially when the demand is shaped by availability of subsidized programs – and subsidized loans are typically more complicated to process in terms of applications than market-based loans because clients have to approve their eligibility and the structure is usually more complicated, it requires longer and deeper and more skilled interaction with clients in these situations – typically, our market share increases. Indeed, this happened during the first half of this year. Our market share from new production of mortgage loans went up from this low 30s, which we used to have to close to 40%, which is also something we are quite happy about.

Following page shows the other retail segments and how they fare. Cash loans have continued to be strong. The baby loan program continues. We haven't heard about changing conditions.

There's one interesting number here. It's the market share in retail deposits. As you can see, there was some decline in the second quarter, which also shows up in the ytd numbers. We ended the last year at 41.2%, and we went down to 40.4%. Now this is in our understanding, due to a technical development that a digital bank, which is active in the region started to localize its client base, and they switched the IBAN numbers of their Hungarian clients to Hungarian. Apparently, in our understanding, they were actually part of the total market number at the end of '25 and the first-quarter, which was, in fact, not quite a case because they were part, but with a zero volume. So technically, this localization and the deposit volumes of this digital player who has Hungarian clients start to appear in the overall market numbers technically from the end of June. We don't know exactly, but our understanding is that most of these volumes appeared at the end of June, but maybe some parts are going to come through in July, maybe August. But certainly, by the end of August, we should see the impact on the total market numbers coming from this technical reporting change. That resulted in this decline.

But overall saving market share increased, but that is just May numbers, so that's not June.

Corporate, a few words in Hungary. It looks good. We were probably one of the very few banks last year who started to grow, and the growth rate even last year was quite strong in large corporate and in micro and small. Now the good news is that the large corporate growth continued into the first half. Even better news is that micro, small accelerated quite substantially. We have 14% growth in six months in micro, small corporate loans in Hungary. As a result of this, our market share continued to increase in terms of loans to Hungarian corporates and now it reaches 22%.

A brief overview of our non-Hungarian operations. These are the foreign group members. The overall performance is quite stable, in terms of profitability. We will go more details into volume growth in loans and deposits in the coming slides. But if just looking at the profitability, it's typically stable with some exceptions.

The biggest improvement we see in Uzbekistan in terms of return on equity compared to last year. That's due to the fact that the share of consumer loans, which have higher margin than other loans increases, plus we managed to somewhat optimize the cost of funding, the deposit rates and the cost of deposits. That translated into better margins and that translated into higher earnings.

Now on the negative side, we have Russia, where we have a trend like decline in profitability. This is linked to the fact that what I explained at the beginning of the presentation, that income, the fee income and other income lines declined in Russia in line with the decline of these overall activities, these transactional activities of our primarily European corporate client base.

We also have decline in case of Ukraine, but that is not at all related to the business performance. As you can see, return on equity went down from the kind of high 20s to 17%. But that's due to the fact that the corporate tax doubled. So last year, we had 25% this year, 50%. Even with 50% corporate tax rate, we made 17%, which is okay.

The other smaller magnitude decline happened in Serbia. In Serbia, that's not drastic, there's also a rate cap primarily for consumer loans, which was introduced last year. That to some extent contracted our margins in Serbia. So that's why we have somewhat lower return on equity in Serbia than last year.

Now going back to the cross-section slides, maybe one briefly looking at the margin. There was modest improvement of three basis points in net interest margin, but at least it was positive quarter-on-quarter. You can see the biggest components of that.

Hungary was unusual in this period, negative, but the reason behind that was not decline on product level margins, it was because there is a surge in the overall total assets. The 6% q-o-q growth in the balance sheet, was primarily from intragroup placements. In particular placements of the subsidiaries in Hungary increased quite substantially, and that's obviously a close to zero margin activity and also corporate deposits had quite a surge and that also a relatively low margin liability side product, especially compared to retail. So, this is the composition impact in Hungary.

Uzbekistan was positive, and the other 4-basis points came from, again, composition: the lower-margin countries had lower growth and the higher-margin countries at higher growth.

Rate sensitivity to the euro rate and HUF rate, they have not changed much. EUR 120 million to 1 percentage point to the euro and HUF 23 billion at 1 percentage point to the HUF rate.

Looking at volume dynamics, we are quite happy to see this slide, again, 8% growth in 6 months and the quarterly increase was 5%. There's acceleration in the growth rate compared to the first quarter.

You can see the particularly high performance, highest is Ukraine. Ukraine decided to turn on the tap and the growth rate is high. You can see the nominal numbers in terms of growth. This 18% growth in Ukraine was nominally less than 10% of the nominal growth in Hungary. But I think this shows our commitment to the country and I believe that business can be done profitably even in this environment, and we also consider this as an investment into the future of the country.

Obviously, the biggest country is Hungary. Bulgaria did very well, double-digit growth in six months. In Bulgaria, this is a post-Eurozone recession impact. In Hungary, this is primarily fuelled by the housing loan subsidized program, 17% growth in the first half in six-months in mortgages in Hungary.

Now the only laggard here is Uzbekistan. I showed you that in terms of profitability, Uzbekistan, in particular already started to improve. But in terms of growth, they are not there yet. Now the new development here is that we have changed the CEO. A new CEO, who is a Hungarian gentleman, who joined 2005, I guess, to my team in finance and he is a very seasoned and very good manager. He has been the CFO, the Chief Financial Officer of Ipoteka since we acquired it. So, he's taking over the leadership of the bank. We, especially personally me, believe that this is going to give the right boost to the performance. I personally expect visible improvements over the course even in the next six months compared to what we have achieved so far.

Deposits, ytd, 6%, again, strong. Especially strong in Hungarian retail and in Bulgarian retail, which are very profitable. These are potentially the most profitable products across the group, so that is certainly very important. So overall, a good picture.

I'm not going to go into the quarterly numbers in detail. I think the headline is that 5%. First six months loan growth was 8%, second-quarter was 5%. There's some acceleration in the growth rate that we have seen.

In terms of portfolio quality, stable, coverage also stable. The risk cost rate, second quarter was higher, but that was due to the fact that we booked this one-off charge for the rate cap as the risk cost, most of it.

In terms of capital position, 17.6% Tier 1 ratio. You can see that is strong. You can see the ytd development of the factors and the decomposition. The normalized profit generated 1.9 percentage points of Common Equity Tier 1 ratio. So that shows the capital generation potential. Is it low, 17.6%? I'm sure there will be questions about this. We believe that this 17.6% is somewhat higher than the optimal. Our aim is to be among the one of the strongest in this pack in this group of comparable banks. Now we seem to be quite an outlier in the higher end. Raiffeisen, because of the large exposure in some high-risk countries, they may not be the best benchmark here. But the good news is that we found the solution, which actually creates value for shareholders, and that is the Luminor acquisition, we believe it will bring this ratio to this range with the target compared to these banks.

In terms of liquidity: Loan to deposit ratio is 78%, liquidity coverage ratio above 200% and stable funding above 150%. In the second quarter, we made a benchmark Tier 2, and now we moved the benchmark up from EUR 500 million to EUR 1 billion. This was our largest ever issuance, and we consider it quite successful. That further strengthened our not just our capital, but also our liquidity position as well.

Having said that, we are still not very much levered. The leverage is quite low. If you look at the total wholesale debt to total assets, it's 8%, which we consider still quite low. In 2008 when the global financial crisis hit us, and it hit us hard, that was actually 25%. So, you still consider it comparatively low.

There hasn't been much movement on the rating. However, we are potentially optimistic in terms of the future coming from two factors. One, the economic policy of the newly elected government in Hungary, we believe is rating friendly. So they will also have to deliver and not just set targets and policy frameworks, but a good framework is important. Delivery is even more important. That makes us optimistic in terms of potential future rating developments. The other factor is, buying an asset in three Eurozone countries with a better rating than ours should have a positive impact on this consideration as well.

Another outside in perspective on us, I'm sure it's not a big thing for you because you are investing in many very successful large global companies. But for us, it was quite important that our ranking in the Forbes Global 2000 improved considerably. Now we are in part of the elite group of top 400 entities, corporate entities. So that's something we are quite happy about.

Then some more self-marketing slides. There's not much change on this, page 26, 27. We have seen these.

We continue with green lending. On page 28, you can see, and you may remember that we set this target to reach HUF1.5 trillion equivalent of green loan stock. We did that in '22. We overachieved at the end of 2025. But we did not stop. We didn't want to stop. This has further developed and now we are close to HUF2 trillion green loan stock volume. That's getting closer to EUR 5 billion.

Maybe a few words about expectations. In terms of macro, there's volatility, I'm sure you are also very much focused on the war in Iran and on U.S. policy regarding that difficult situation. Therefore, expectations are volatile, so to say. Plus, it's the heat, the drought and the scarcity of water is a current issue in Hungary. But nevertheless, we believe that it's not going to have a major material impact on the overall forecast numbers for this year. We still believe that these are the expected numbers.

We see a regional trend that we have had a couple of years when Southern Europe, the Mediterranean has done better and the Central or Northern Europe has been somewhat not so better, but some normalization seems to happen here. The Mediterranean region seems to be slowing down somewhat at least in the segments we focus on in our portfolio, while Central and Northern Europe starting to perform somewhat better. So, we are seeing some normalization in the growth differential that has existed over the last couple of years. Other than that, we don't see a major macroeconomic impact, apart from what we have already discussed: that potentially higher energy prices could translate into higher inflation and a higher rate environment, at least temporarily, for as long as the conflict in the Gulf persists.

In terms of guidance, we decided to modify the guidance in one aspect, regarding the net interest margin. I think we can reasonably safely predict that the net interest margins this year is going to be higher, exceed last year and not just to be around it. On all the other lines, we keep the previous guidance, and you can judge yourself whether the risks are up or down on those lines.

There's a bunch of other cross-section slides going through each line of the P&L. If you have interest or if your questions will target them, then I'm going to talk about it but not part of the formal presentation.

I'll finish here. I'd like to ask you to ask your excellent questions.

QUESTIONS AND ANSWERS

Gulnara Saitkulova – Morgan Stanley

When it comes to Luminor, where do you see the greatest opportunities to create value under your ownership?

At the same time, what do you see as the key execution risks associated with the acquisition, both in terms of integrating the business and operating in a market where OTP has not previously had a presence.

You mentioned that you aim to become number one or number two in the Baltic market. However, the Baltic banking market is highly competitive. There are well-established Nordic incumbents as well as digital challengers such as Revolut. What do you see as OTP's and Luminor's key competitive advantages in this market?

How do you plan to strengthen Luminor's competitive position over the medium term?

In addition, on the slide 8, you highlighted that Luminor's cost-to-income ratio is materially higher than that of the Baltic peers. What are the main operational levers you intend to pull to improve the efficiency and narrow this gap. Do you think this will require a material upfront investment from your side? Are there any areas of the business of Luminor where you can see scope for improvement or the profitability?

László Bencsik – Chief Financial and Strategic Officer

Wow, that was a very detailed question. Now, what I said exactly was that we would like to challenge the market leaders. If you look at the numbers, they have 12% market share across the Baltics in terms of loan, the number two player is 21%. So that's quite a big gap. As an aspiration, this gap should be closed or at least should decline.

What else would be a target to buy a bank than to grow it, right? I don't think it's a secret that we may look into other acquisition opportunities in these markets to strengthen the position of Luminor through acquisition. It's typically not easy to grow through market shares organically. That's usually a very costly exercise. Nevertheless, possible.

Now all of your other questions, I have answers to more or less, we have strong views on those, but I don't think I'm able to share with you. We have a nondisclosure agreement. So, I cannot tell you anything, which information comes from other than publicly available sources. So, at this stage, I won't be able to have an answer because operational levers and so on and so on.

Explaining how we intend to improve the cost to income ratio would mean sharing information, that I'm not allowed to do. Therefore, I think we have to remain on that level. If you go to page 8, I think it's very clear that there's an opportunity. If bigger banks and even smaller banks can operate with a much lower cost to income ratio, then there may be an opportunity to improve this. But I'm not in a position to share with you where, if at all, we see opportunities. Because we have not closed the transaction.

In terms of risk of integrating the bank, I don't see. We acquired 14 banks in the last 12 years, and many of them were in new markets. Some of them were much less developed markets where they operate, in terms of the supervisory environment they operate and in terms of their operations or management. I think the risk of integrating Luminor to OTP Group is much less than the risk what we have faced in most of the cases during the last 12 years throughout these 14 acquisitions, either because the country and the entity was less developed and/or because we had to merge entities. There's no merger here. We simply have to incorporate Luminor into the Group.

Plus, you may consider this sensitive, but maybe not because you know the names as well of the management team. We consider the management team quite strong. So, we consider this as low risk in terms of integration to the group.

I'm sorry, I'm just not in a position to answer your very detailed and very pertinent questions, I must say. Indeed, these are the right questions to ask. These were the questions we asked ourselves when we conducted the due diligence and modelled the expected financial performance.

Gabor Kemeny – Autonomous Research

Can I please follow up on Luminor. I think the way you phrased it that you were hoping for a fair and objective approval process here. How concerned are you that this may not be a case? I mean some of your approval processes in previous M&A deals like Slovenia has been dragged on for quite some time. We saw some press reports about OTP's Russian exposure coming up. So, your views on this would be interesting.

Secondly, on your point of high advanced digital adoption in the Baltic markets. I mean, what is your point here? Does this mean that you might actually not have too many low-hanging fruits to save on costs? Would this mean that the rest of the organization can potentially learn from the more digitally advanced Baltic operations? Or could this mean that like how do you think about the physical network of 18 branches? Is this the optimal level? Your thoughts on that would be helpful.

Then finally, on the Home Start program and Hungarian loan growth topic, what are your latest thoughts about the sustainable growth rate here? I think you mentioned on a previous call when we spoke about it that the mortgages could potentially grow at a double-digit rate even without the subsidies, but it would be interesting to hear your thoughts to what extent are we seeing a front-loading of demand ahead of the market potentially moving to standard rate?

László Bencsik – Chief Financial and Strategic Officer

In terms of the approval process, indeed, let me put it this way, the nature of OTP Group is somewhat politically sensitive in the Baltics. We openly acknowledge that sensitivity and take it very seriously. Therefore, we have to put an effort into transparently communicate what we do.

We need to explain how we operate and why our presence should not be a problem for any of the Baltic countries. We also need to communicate the OTP story, our strength, what we have achieved, what we typically bring to a country and what we could bring to Luminor. In addition, we want to highlight our commitment to supporting Ukraine, our willingness to take risks there, and our position as one of the most active non-local banks in terms of growth rates and everything.

So, I think we have to make a good effort to create a transparent and fair view of the group and somehow focus on the facts and the objective parts of the story. We cannot, and we don't want to be politically involved. But as we have seen across Europe, cross-border acquisitions can become part of local political discussions or agendas, right?

In case of much bigger countries, we have seen that happening. I think this is unfortunate in Europe. This is not healthy for Europe. But this is there. We have to take it seriously, and we will take it seriously. Obviously, we have consulted with the local supervisors and with ECB prior to this transaction. Also, these discussions made us believe that objectively, there doesn't seem to be any potential big roadblock to a transaction.

But nevertheless, it will take time, and we have to manage this process or contribute to this process as much as we can. I think this is what I can say at this stage.

In terms of the nature of digital development and why I think is it good? Because you are as strong as you competitors make you, right? You get better and stronger by competing with better and stronger competitors.

So, it will be a potential mistake to stay out of one of the most developed markets digitally in Europe because then you are not part of the real happening, right? I'm sure we will learn from these markets, which we can apply in some other parts of the group. I also believe that we can contribute from quite broad experience what we have of different geographies and market situations and potential developments.

The Home Start Program. Your question was very good, but even more exciting question, I think, is how long this is going to continue? So far, we don't see the end of it. We haven't heard any plans to change the structure or the level of subsidy or whatever. This continues, as far as we can tell.

Obviously, the longer it continues, the more seriously we take this commitment by the Government to join the Eurozone. The timeline what they said was quite short, in four years. So, by 2030, they want to be ready to join Eurozone. That means, that assumes a quite rapid fulfilment of criteria and a normalization of the rate environment quite rapidly.

That means that the difference between the subsidized rate, which is maximum 3% for clients and the market rate is going to be less and less different. Therefore, as we go along in the future, the difference should be less and less between the subsidized and the market rate.

In this sense, that means that the attractiveness of the program, if it doesn't change, is going to diminish because this relative attractiveness is going to be less and less and the potential negative impact, should the program end or be substantially changed, will become smaller and smaller. But I think it's still reasonable to assume if, in a business-as-usual environment, we should be in the lower teens, I mean, around 10%, 15%.

Having said that, if we look at what happened in Bulgaria closer to joining the Eurozone and after joining the Eurozone, we have very strong loan dynamics. We have had like two, three years of more than 20% growth in Bulgaria mortgages. We have 35% as fast as Hungary, right? Now Bulgaria mortgages are special because they're the benchmark is the deposit rate, and that's on the market and that's zero. So, it's very specific and rather cheap, but still strong growth. Bulgarian penetration level is twice as much as in Hungary. Housing loans to GDP in Bulgaria is around 40%, in Hungary, it's still around 7%. If we believe in this accession scenario, policy scenario, then maybe even without this subsidized structure in a few years, we can get to 20-plus percent.

That's what the experience in Bulgaria suggests. We'll see. But for us, the more immediate question is that how long is it going to continue? We don't know how long the current subsidized structure will remain.

Alex Kantarovich – Römer Capital

I would like to ask about the Russian situation. You mentioned decline in profitability. But I want to check if the bank in Russia handles oil and gas payments from Western Europe to Russia. If you can give some colour on this.

The broader question is what are your expectations about a resumption of upstreaming of dividends from Russia?

László Bencsik – Chief Financial and Strategic Officer

As we have been clear about this, we do cross-border transfers between European counterparties and Russian counterparties, and counterparties in Russia and European counterparties, typically serving our European corporate clients in Russia, within the framework of the sanction rulings and rules and being extremely focused and rigorous on compliance.

I probably should not go into more details on this. Strategically, our first and most important target or goal is full compliance especially with sanctions regulations. Everything what we do is within the context of detailed sanction regulations. Whenever there's a potentially sensitive transaction, we consult with the relevant authorities, I mean, outside Russia. So that's what I can say on this.

Dividend upstreaming, we will submit an application for dividend payments based on the first half results, and we are hopeful that they will be approved and we can resume the dividend payments. So, we are going to try. I hope silence means sufficient answer. So maybe we can go to the next one.

Jovan Sikimic – ODDO BHF

I was just interested in what about your earlier thoughts on expanding the footprint in Central Asia, if it's still valid? After Luminor deal probably will not take as much capital as initially thought. Can you give us a bit of an update about capital returns going forward, I mean, in terms of potential new share buybacks this year?

László Bencsik – Chief Financial and Strategic Officer

The attractiveness of Central Asia has not changed. We continue to consider the region attractive, and we continue to look into every meaningful opportunity in the region. But that's not a guarantee, for any new event or transaction. But our interest remains, and we are going to continue to monitor these markets and seriously consider opportunities if they come up.

In terms of capital returns, our approach to share buybacks have not changed. We announce them when we receive an approval from our supervisor. I think it's fair to say that we are going to submit application. As usual, we are not telling that how much and when only on the day when we receive the regulatory approval.

The other part of capital return is dividend; I can say as much as that this acquisition does not change our dividend aspirations or our views on how much dividends we intend to suggest paying. Having said that, we don't have a formal dividend payment policy and the payout ratio target. But I think it's fair to share with you that our internal thinking and discussions, this Luminor transaction does not change how we think about future dividend payments.

Jovan Sikimic – ODDO BHF

Of course, of course. Maybe if I may add another one. Maybe your thoughts or insights if there's something changed recently in terms of how do you see windfall tax development in Hungary by the new government?

László Bencsik – Chief Financial and Strategic Officer

Very, very relevant question indeed. We expect the windfall tax to start to decline next year and then potentially gradually go down to zero.

This was an extraordinary measure for a situation which was claimed to be extraordinary. The magnitude of this tax is substantial; it was effectively doubled last year. We believe that if the government is serious about converging to more developed countries in Europe in terms of economic performance, institutional quality and business environment, then sector-specific taxes of this magnitude should not be part of the long-term framework.

This is not just the banking tax. There are many other sectors in Hungary, which have been heavily and specifically taxed, and this is extremely distorting and very negative for long-term development of the country. Obviously, there are short-term fiscal constraints. We acknowledge them. So, we didn't expect anything for this year.

But we expect the government to make a commitment during the course of this fall, because somewhere in October they will publish the budget for next year, but even more interestingly, the convergence plan, which is a three-year fiscal plan, which they have to submit to the EU. In that three-year convergence plan, we pretty much expect to see a gradual phasing-out at least of the windfall tax.

I'm sure there will be discussions between the Banking Association and the Government on this. It's August now and very warm, but I'm sure those discussions will start in September. I hope these are going to be fruitful and positive. Obviously, these are not our decisions for us to make. I think we have very strong arguments, but we'll see.

Valentina Stoykova – Barclays Corporate & Investment Bank

I have a few questions on Ipoteka, Uzbekistan. You mentioned that loan growth in 1H was mainly due to consumer loans. I was wondering how do you see cost of risk, NPL ratios migration from Stage 2 to Stage 3 developing into the end of the year? Also, I don't know whether you can comment on your expectations for next year as well.

Then this leads me to my next question, which is mainly on the growth strategy for Ipoteka. I was just wondering where you see the main opportunities given there is quite intense competition in the corporate lending and various caps on retail loans.

Then my last question is, when do you expect OTP to buy the remaining stake of the government? Shall we expect any dividend distribution from this year's earnings?

László Bencsik – Chief Financial and Strategic Officer

In first six months, consumer loan growth – which in our case is just cash loan, typically granted to payroll clients who have officially declared income – was 8%. This segment contributes to maybe 20%-25% of the growth in the total market of unsecured lending. Our problem so far has been that we have been targeting only a small segment of the total unsecured lending in this country.

The good side of that is that our risk profile is actually quite good, profitability is good and the portfolio quality is good. But we are falling behind in terms of growth. We are not capturing the full opportunity from the market growth, because we are not targeting the whole market. We are targeting just a sub-segment, which is a lower risk, lower return segment.

I think it has been okay that we have done this because it's learning and we didn't want to do reckless lending. Until the IT environment was not there we didn't have enough data and understanding of the market, and until the management was not solid enough to start to potentially penetrate riskier segments and higher growth segments, it has been okay.

But now we have to broaden our scope and our aim. The acceleration I primarily expect in consumer lending or in non-collateralized and non-mortgage retail, which actually includes car lending. So it's non-mortgage. But even in mortgage, we should do better.

Corporate is tricky. The potential is big, volumes are big, but our comfort level is still not very strong to start meaningful level of corporate lending. However, we should do more because this volume has been declining and it keeps declining. As you can see, this is too conservative, and this is not the strategy. There should be some moderate corporate loan growth as opposed to decline.

In corporate, you could do very big deals, right? I mean, volume-wise, you could grow very fast, but that we do not want to do. But decline is also not something we want. So we have to fix this.

So, we have two potential areas to expand. One is the non-cash loan part of the unsecured retail lending, and the non-payroll. That's a big part of the population. We believe that now we have enough understanding and enough IT capacity and people to do better and try to penetrate that part of the market, which is a bigger part than what we have been targeting so far. The other one is to do better in corporate, but that doesn't mean that we want to blow up the corporate volumes, but there should be some moderate growth, cautious actions to slowly build up the presence, as opposed to the precipitous decline what we have seen during the last three years.

Dividend, yes. we seems to be able to pay dividends this year after last year results. That's quite good actually. Yes, we are in discussions with the Government to conclude the buying of their remaining stake, and we hope to make a deal which is going to be beneficial to both sides and make both sides happy because, obviously, we have a strong interest to be in a good partnership and a good relationship with the Government.

Nikolai Dimitrov – HSBC

I just have a quick question, actually a couple of questions. The first one is, I know previously you said on earnings calls that if there is a larger acquisition, you're going to look to optimize the capital structure and potentially issue an AT1. I was wondering whether Luminor qualifies as a large enough transaction.

The second one is there's been another transaction that I think has fallen under the radar a little bit because everybody is so focused on Luminor. But there is a bank in Latin America in Paraguay, specifically called bank Ueno. I noticed that you increased your stake from 6.6% to 10% in May. Firstly, I was very surprised when I saw it, to be honest, because it's not your natural footprint, right? I was kind of wondering what the long-term intention is there.

My last question is: so you have different M&A opportunities, and you opted for Luminor. But when you look at Central Asia and the Baltics and did say this to yourself that the Baltics are very advanced and blah, blah, blah. So when it comes down to growth, it could be limited. What was it in the case of Luminor that attracted your attention to pivot away from Central Asia, which has been talked about previously and focus back on the Baltics?

László Bencsik – Chief Financial and Strategic Officer

Well, it's a large acquisition. This is the largest acquisition we ever made. In that sense, it's large. Is it big enough for us to issue an AT1? No. So it's large from our perspective, but not as large to qualify for an AT1.

Ueno is very exciting. We are obviously biased because we invested, but we really like the story. It started as a pure financial investment, but we started to talk with the management and go there and they came.

We very much like the story. It's a digital bank. It's a digital challenger, growing very fast. They have public reports. So, you can look at their numbers and their story, I think it's worth looking at. 23% ROE in a phase when they are growing very fast. They have an amazing client relationship in the country. They are very strong in payments. It can develop into a story even beyond the country. So, we really like that story, and the more we know, the more we like it. But it's still a financial investment. It's a financial investment, and there's no immediate intention to go beyond 10%. We could consider if they wanted to. But we are not a strategic investor. It's financial. We are not involved in managing the business. But it also opened a window for us to look into a different continent from a very exciting digital successful perspective. That perspective is quite fascinating.

We're quite happy financially that we made the investment, and we are quite happy that we have this window to be able to look into the Latin American market from a purely digital challenger perspective. That's where we are.

Baltics, we don't pose this question as either-or, Baltics versus Central Asia. It's not that we lost interest in Central Asia or in any other potential market where we could grow, including the footprint where we are present at the moment. The fact that we decided to buy Luminor doesn't mean that we neglect all other opportunities which come up. It's just this time, what we saw in Luminor and the deal what we agreed, we believe that this is attractive. We create value, and we see the upside.

If we go back to page 8, I don't think it's difficult to see the opportunity in the Baltics, right?

Because out of the top five banks in the Baltics, we have one. The ROE is 15.3% and 18% for the two bigger banks and for the two smaller banks it’s 19% and 14.6%. These are developed Eurozone markets, with the Eurozone cost of capital. We find these markets attractive. I think this is objectively attractive. So is the Luminor decision.

We believe we made a good deal. But that doesn't mean that we lose attention on all the other opportunities which may come up in other parts of the world. Again, between '14 and '23, in nine years, we acquired 14 banks. That's the speed and the level of acquisitions we are used to. Not doing anything for three years was rather strange.

Now, at least we have one transaction, but there's no reason not to have more. Actually, we would love to have more. But obviously, that is only going to happen if we can have a deal where we believe that we create value. So, it may not happen, but we continue to keep trying.

Operator

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

László Bencsik – Chief Financial and Strategic Officer

Thank you very much for joining us today, listening to the presentations, and thank you for your very pertinent questions as well. I hope to see you personally: We are going to the US; we are going to the UK. We are going to be as active as usual. Our CEO, Peter Csanyi, will join us in the US to meet investors there on the two events early September. So, you can see us there. As always, we are at your service.

I wish you a very good rest of the summer. I hope you will have more time to relax and prepare for the second half of the year and the rest of the year, and wish you all the best, and goodbye.

Operator

Thank you for your participation. The conference is closed now. Goodbye.

Note: unabridged transcript with minor English stylistic corrections.