Strategy and Finance Division

Investor Relations

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Transcript

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PRESENTATION

László Bencsik - Chief Financial and Strategic Officer

Good morning and good afternoon, depending on where you are. Thank you so much for joining the third quarter interim report conference call. As usual, you have the presentation available on the website, and we are sharing it as well online as I speak. I am going to give you a hopefully not too long overview of the most important headline news and explanations around the third quarter results, and then we will have time for questions and answers.

I suggest we start on page 3, which tries to summarize the performance of this year and the third quarter, but mostly the first nine months, so the ytd performance. Let's start on the right side with the key performance indicators and the ones on which we made our guidance.

The first one, organic loan growth, 12% in nine months. It is not annualized; it is the nine-months growth. We indicated at the beginning of the year that we expected around the level of last year, which was 15%. Now, the proportional growth has been somewhat higher than last year. If you annualize it, you get somewhat higher than 15%, and this is quite strong.

Net interest margin, better than last year. We changed the guidance, in fact, after the second quarter result presentation and said that instead of similar to last year, net interest margin may be higher this year than last year. Indeed, this is what we see. First nine months, more than 4.6%, and it seems to stabilize at that level. I think it is fair to expect to remain higher than last year for the rest of the year.

Now, these two together, strong organic growth, mid-teens, and improving net interest margin resulted in 19% growth in net interest income y-o-y. Bear in mind that this is an FX-adjusted growth, so taking out the impact of the currency rate changes, especially here, the most important being the Hungarian forint appreciation, which has been considerable, especially if you compare the first nine months last year and this year. This is adjusted with the impact of the HUF exchange rate change, all the P&L lines you see here in the middle of this chart. The net interest income, I think, underlines and captures the organic growth momentum of the group close to 20% in terms of revenues coming from this loan growth and somewhat improved interest margin.

Cost-to-income ratio, slightly better than the first nine months last year, and this seems to be so far better than what we indicated, because our original indication was that it might be higher than last year. We keep that indication, being on the safe side and being conservative.

Risk cost ratios, not very different from last year, but bear in mind that this year we had two big one-offs hitting the risk cost line, and you also see them on this slide in the middle part. The first one we already reported in the second quarter, and that was the modification loss due to the rate cap extension until infinity, so the eternal rate cap for the variable mortgages in Hungary, and we booked that, the total negative potential impact in the second quarter.

Now, in the third quarter, there was another one-off loss hitting us in Slovenia. You are probably aware of this litigation regarding the old Swiss franc loans. These are loans which were issued by the banks before we acquired them. This is an inheritance we have to deal with from the past before the acquisitions. There have been some special interpretations of the law, put it this way, in the Slovenian legal decisions of the courts, and that led us to a conclusion that the best course of action is to try to capture the potential total loss from these lawsuits, the litigations, and create a one-off provision. The number you see here is what is the entire expectation for these litigation cases, including potential future litigation cases. This is a loss estimate, so basically, there is equal probability of ending up after a couple of years with a lower level of loss and with a higher level of loss. This is our expected number. We hope that with this, we put the financial impact of this problem behind us also in Slovenia, similar to other countries in the region.

These risk cost ratios include these two one-off negatives, which we had to incur during the second and third quarters. I mean, we put the first nine months number without the rate cap impact, and that was only slightly higher than last year without Russia, Ukraine, and Uzbekistan.

There was another one-off, which was positive, surprisingly, in a way. But it is good to have some positive surprises as well. That is a tax shield, which we recognize after simplifying the internal ownership structure of the group. When we acquired NKBM in Slovenia, we acquired a holding company, an SPV, which owned NKBM, and there were various reasons for the transactions being such, namely that there were some, for instance, some government guarantees related to this holding company, those expired. It was time to simplify the group structure, the internal ownership structure. So now, the entire Slovenian bank is owned directly by OTP Hungary. It was sold from the Luxembourg holding company. Now, this transaction resulted in a tax shield, in a tax saving or a negative one-off impact on earnings in Hungary, according to Hungarian tax legislation. That counterbalanced the also Slovenia-related cost of provisioning for the Swiss franc loans.

Including all these effects, the y-o-y growth without the FX impact was 6% profit before tax. If you adjust that with these elements that we listed here, then the annual profit before tax growth was, in fact, 11%. Taxes went up, I will elaborate on that, and that's the known factor in Hungary and in Ukraine. Therefore, we have a somewhat

higher tax burden this year, and altogether, this resulted in 6%, or with all these adjustments, 8% y-o-y growth.

The quarterly numbers, again, there's some noise in the quarterly numbers coming from these one-offs, and there were other items explaining the quarterly change, not so much one-offs, but recurring items, either on an annual or a quarterly basis, which impacted this q-o-q change. But fundamentally, on the underlying business performance level, there wasn't so much difference between the second and the third quarters as such. But these details I will talk about a little bit in case of the Hungarian business.

The next slide is just a technical slide, and this shows this modification, what we apply when we smooth out the impact of the taxes in Hungary, specifically the banking taxes and some other regulatory burdens in other countries, and in a way, accrue it to be comparable between quarters.

Then we can go to page 5, which describes the development of the major KPIs and the profit after tax in Hungary in the core activities. Here as well, you can see the q-o-q results. First of all, there was a drop in the second quarter from the first, and now there's a strong increase from the second to the third. We listed the items which had a substantial impact, and some of them are recurring, but again, more technical nature.

One was this fair value adjustment we have to book for this more than HUF 2 trillion, or it's getting closer to HUF 2.5 trillion subsidized loans in Hungary, which we have to mark to market fair value adjust according to the changes in the yield curve. In the third quarter, it was positive HUF 9 billion, and the second quarter, it was negative certainly. It explains HUF 27 billion from the quarterly change.

Then we had the negative rate cap provisioning in the second quarter. We didn't have that in the third quarter, so again, this explains HUF 26 billion positive. Then in the second quarter, there was some negative revaluation result from the portfolio investments, plus we had a positive impact from the dividends and share swap regarding the OTP-MOL share swap transaction in the second quarter, which did not appear in the third quarter. These are other technicalities but explain most of the quarterly change in the Hungarian business, and by the way, most of the quarterly change on a group level as well.

Net interest margin, again, better than last year and seems to stabilize. Cost-to-income ratio, again, somewhat better than last year. Risk cost, not so much different from the first nine months last year.

Here on this slide, you can also see the extra charges we have to pay in Hungary, which are substantial, obviously. You know the 2026 numbers already. They have not changed, and the news is that we know now what we are going to pay for 2027. It is rather unfortunate that, despite our expectations of material decline next year, which, with hindsight, were rather optimistic and humble, this decline is not going to materialize. We have to delay our expectations to 2028, apparently regarding a material decrease in the sector charges falling on the financial sector and obviously other sectors as well. But the banking and insurance sector are the biggest burden carriers in this respect.

The only line where we do not expect further charges is the rate cap. We provisioned the maximum potential loss from the rate cap, and we also launched the appropriate legal action. We turned to the Constitutional Court for remediation because we believe that all these rate caps are unconstitutional, at least since the very special high-rate environment ceased to exist in Hungary. We are not saying that we expect a positive number here next year, but it could happen. I mean, in case the ruling is in favour of us, we may see a positive number. If it is negative, then zero.

Going forward and elaborating a bit more on the Hungarian situation. In terms of the banking sector, the largest event or the most interesting event for the last year, including the end of the last year, has been the subsidized Home Start program, which resulted in a surge of demand in housing loans in Hungary. I think we took our share of the opportunity rather successfully, as you can see, our market share from mortgage generation increased during this period. The profitability of these products is attractive, so we are happy to be able to take part in these programs.

Now, you probably heard that the program is being changed, so this week is the last one, or until next week when clients can apply for this subsidized structure. In the fourth quarter, we have a huge tsunami of applications. Our colleagues are working extremely hard to fulfil all client demand, and we are going to do that. We are going to fulfil all the applications which satisfy the criteria. That means that the fourth quarter this year will be potentially quite strong as well in terms of loan growth or new applications.

But starting from next week, and that is on the following slide where we put some data around the comparison of the old or the existing subsidized structure and the new one. We can see the changes. There will be more limitation on the eligibility of the new program. In case of used residential property transactions, the subsidized rate is going to be higher for the clients. The subsidies will be less, but the rate is higher for clients. Instead of 3%, it is 5%. For the new, it remains 3%, but there will be more limitations on the usage of property especially, and the eligibility of the buyers.

Therefore, we expect the program to shrink some of the eligible demand, and therefore, compared to this year's extraordinary high loan growth in Hungarian mortgages, next year, we may see moderation back to normal levels, because this is still a meaningful and potentially interesting structure for a number of our clients.

Looking at the other market segment, the retail segment in Hungary, consumer loans, there has not been such a dramatic shift there. We continue to be strong.

Interestingly, if you look at the market share on this chart, in retail deposits, you see a slight drop. That drop is a technical effect. The Neo Bank, which is active across many countries in Europe, moved its Hungarian retail deposit volumes from their outside Hungary accounts to their Hungarian accounts. Now they are part of the Hungarian statistics provided by the National Bank for the whole market. This decline is actually due to that. The market itself, at least statistically, increased. However, it is rather a muted impact, and this shows now, I think, the full and realistic picture of the market shares of different players, including the one which used to be offshore from the perspective of statistics at least.

In terms of corporate growth, on page 9, we were an outlier. OTP Bank was an outlier last year in terms of corporate lending because we started to grow our corporate volumes already in 2025, and the market was not growing much. This trend continued into 2026. We have, I would say, healthy, meaningful volume growth in corporates in Hungary, most importantly in micro and small, which are really the core of the Hungarian client base here.

Subsequently, the result of that growth was that our market share increased to levels where we have not been before. At the end of September, our market share from loans to Hungarian corporates increased to 22.3%. This is something I believe remarkable, and we are certainly proud of this development.

It means that in less than 20 years, organically, because obviously we have not done any acquisition which involved corporate loans in Hungary, in 18 years we tripled the market share. It took like roughly 10 years to double it and another eight to increase it again once more. Therefore, we are at this level, and now we are a clear leader in corporate lending as well in Hungary, not just in retail products, which is very important for us.

On page 10, you have an overview of the performance of the outside Hungary parts of the group, the banks. It is pretty, I think, steady performance, except one-offs or technical impacts, and the result of technical impacts in Slovenia.

Slovenia went down because we had to book these provisions for the Swiss franc mortgages. If we had not done that, then our ROE would have been the same as last year.

The other country where we had regulatory change was Ukraine, where the corporate tax doubled from 25% to 50%. You can see that if we had only the same corporate tax rate as last year, we would have had 23%, only slightly lower than last year’s ROE.

Then where we had improvement, it's Uzbekistan. In Uzbekistan, as you can see, margins improved considerably. That was the first step. Hopefully, starting from the second half of this year and going into next year, we will see much more dynamism in terms of loan growth as well. In the third quarter this year, growth was already 3%, and 8% in consumer loans, so it started to accelerate, and we hope that this is going to continue into next year.

The country where return on equity declines is Russia, and this is a normal result of the lower level of trade activity between Europe and Russia, where we take a smaller part, but the total transactional volume is going down, so our clients' transactional volume is going down as well, trend-like, and this is the financial impact of that which we can see here as well.

Q-o-q margin was relatively stable, and what you see here is more of a noise, just a fluctuation. More meaningful is the y-o-y change, which shows improvement almost in every aspect. Having said that, on a forward-looking basis, we don't expect so much trend-like change unless there are major moves in the rate environment in the different countries where we operate, which we don't so much expect to happen for the foreseeable future, so for the next year or so.

Now, talking a little bit about volumes and organic growth. On page 12, you see the cross-section, the cross-country and cross-product segment numbers. The overall 12% and the different numbers show that we are accelerating in Ukraine. We restarted lending beginning of last year, and we continue with that. Obviously, the base is still low, but strategically, we believe that we understand the environment and we know how to start to grow our lending activity in a profitable way in the current still, albeit very difficult environment, given the war and the escalation rather than de-escalation of the situation. But we are always hopeful that this is just an escalation before major de-escalation, which we very much hope is going to happen soon.

In terms of volumes, obviously, the two biggest are in Hungary and Bulgaria, and the good thing is that both countries are growing quite fast and quite strongly. In Bulgaria, this is primarily fuelled by just the fundamental macro environment and the positive impact from joining the Eurozone. In Hungary, admittedly, it's also positively impacted by the mortgage subsidy scheme, which is running strong still.

Hopefully, Hungary will take a similar path as the other CEE countries to join the Eurozone during the next couple of years, and that should translate into structurally higher loan demand and obviously structurally lower and decreasing rate environment and pressure therefore on margins. In a good scenario, that should be compensated by the additional volume we generate in terms of earnings.

Deposits grew 8% in the first nine months and given our 80% loan-to-deposit ratio, it doesn't totally provide the liquidity and the funding for the loan growth, but it's not far from it. It's keeping up strong, especially Hungarian retail and Bulgarian retail, which again, in terms of volumes, are the biggest chunks of this picture, and in terms of profit contribution, are obviously the biggest parts of the whole group, these two segments.

Other details, portfolio quality seems to continue to be stable, provisioning strong, so there's no major development here.

In terms of capital, also not many surprises. We are, as you can see, in nine months, we generated 2.9 pps of Common Equity Tier 1 equivalent of regulatory capital. Roughly half of that, or somewhat less than half of that, was consumed by the organic growth, and then some dividend deductions according to the regulations, because we don't have a fixed payout ratio policy as such.

We continued to buy back shares. We had a HUF 60 billion amount in the first half of the year, and then we also asked for the increase of the general-purpose treasury share quota from the National Bank. That's another HUF 55 billion increase. Not in the third quarter, so it's not in the numbers, but recently, in October, we got another permission to buy HUF 50 billion more, and this is going to be reflected in the fourth quarter capital ratios. We continue to buy back treasury shares.

This 17.8% in terms of Common Equity Tier 1 ratio, compared to others and also compared to regulatory requirements, it's clearly well above the requirements and peers. But in Tier 1 ratio level, we are still above, but not as much above as in Common Equity Tier 1 ratio terms.

Here, obviously, we are working on closing the deal in the Baltics, buying Luminor, and that transaction is going to comfortably reduce somewhat the Tier 1 and Common Equity Tier 1 ratios, and at least on the Tier 1 ratio level, get us closer to our relative target level, which is to be at the higher part of the group of comparable banks, which are on this chart.

In terms of wholesale funding, we continued in the third quarter our efforts to provide the group primarily with MREL eligible funding. We did senior preferred, and we also started last year to issue covered bonds because of this very strong growth of the mortgage book in Hungary, and because this is the cheapest source of funding for wholesale funding for the group. We continued to diversify our investor base, so we made a small issuance in Swiss franc, and we continued our bilateral funding structures in Chinese yuan.

There wasn't much development in the rating on page 18. Here, we very much hope that the new economic policies and the more sustainable trajectory of the fiscal situation in Hungary and the intention to join the Eurozone, and in general, the improvement in the overall rule of law and governance of the country, it will be reflected at some point in the ratings of the sovereign as well, which might have an impact on our rating as well, but it has not happened yet.

Page 19, some marketing slides, I would say, but these things we are quite proud of. We are coming from a small country, from a small bank background, and it's always good to feel that we get step by step recognized more globally as well. We are on the Forbes list, less than 400. I don't think you get down to that level of the list if you start reading, but nevertheless, we got and we found ourselves, so that's good news.

The other usual slides regarding the S&P Global Market Intelligence ranking, number 2 this year, and the somewhat outdated but still very relevant stress test, which was done in 2025. There will be another, I guess, next year, and then we'll see how well we fare. We hope we will fare very well.

In terms of our efforts to promote and support especially the environment and the climate change reduction, we continue on green lending. We believe this is our potential, the most meaningful contribution to this cause, and it's also profitable, so we are quite happy to continue to do this.

In terms of expectations, it's not yet time to talk about them so much for next year. What we know is, in Hungary, I think two important factors. One is the special taxes, the level of which we already know, and we show in this presentation, and the other one we now understand, how and to what extent the subsidized mortgage scheme changes. In a way, we already know the potentially most important regulatory factors.

In terms of macro development, in most of the countries where we operate, we expect similar and/or slightly better environment next year than this year, so that should be supportive. The biggest improvement is in Hungary. Hungary has been a laggard for many years, unfortunately, compared to other countries in the region. GDP started to grow this year, and we expect 1.7%, but that is still structurally lower than in each of the neighbouring countries around us. Next year, we expect that difference to close and Hungary to catch up in terms of growth rate, at least with the region, and that should be overall positive.

At the same time, I think it's quite credible, the budget, the fiscal target being lower than 5%. It could have been much more aggressive, and that would potentially have resulted in somewhat earlier fulfilling the Maastricht criteria, but that was the decision of the government to take a somewhat more gradual path, maybe the right one, and they targeted 4.9%, which we believe is quite doable and possible. That is more or less the environment, and in terms of the guidance for this year, we didn't feel it was necessary to change it, so it remains as it was after the second quarter.

Regarding next year’s performance, we will share our views on that if you join us on the next conference call when we present the annual figures on 5 March. Hope you can keep your curiosity and interest high, and you will join us as well then.

That was the presentation, as much as I could shorten it, and then please ask your very pertinent and good questions, and we will try to answer them.

QUESTIONS AND ANSWERS

Simon Nellis – Citigroup

Two things. Firstly, just on the Slovenian Swiss franc provisions, can you give us a view on the outlook going forward? I mean, do you think you'll have to top up provisions? What are the main assumptions behind that? I guess you moved to a portfolio approach to building these provisions. A little bit more commentary there would be helpful.

My second question would really be on fee income. It seems that fees went down quarter-on-quarter in a number of markets. My understanding was that you were constrained up until June in Hungary as to how much retail fee increases you could do. I guess I thought in the third quarter you were able to push through some fee increases, but it doesn't seem to be yet impacting positively the fees. Just a little more colour on fees, particularly in Hungary, would be helpful on the outlook going into next year.

László Bencsik – Chief Financial and Strategic Officer

The provisions we made in Slovenia reflect our best estimate of the total potential loss we may have from the legal cases which are current and which can be expected in the future, but it's model-based. I mean, it's unlikely that it's going to be 100% precise, and it will take the next five, whatever, more years for everything to peter out. But this is our best estimate of the total expected loss. It might be lower; it might be higher. This is our best estimate.

In terms of fee income, we have a slide in the appendix where we try to give a rather detailed explanation because, indeed, this fee income is a line where we don't perform according to the usual growth rate compared to the overall fundamental growth of the business. As you can see on this slide, y-o-y underperformance is in Russia and in Hungary.

Russia is obviously trend-like, and it's just explained by this lower transactional transfer activity, which is okay. This is not something we want to turn around. This is what we follow, and we are not proactively trying to promote this business. This is going to continue, and that's okay.

Hungary, you have this longer explanation here on page 28, where we try to explain the most important factors which impacted the first nine months and which had only a specific impact in the third quarter. Indeed, from 1 July, we increased the fees to some extent. There's another impact which is more technical, there's HUF 3 billion decline in commission income q-o-q, it appears in basic securities. It's related to our retail securities commissions coming from activities or services to our retail clients. And this is usually not so strong during the summer, and there's also delayed accounting or settlement of these revenues. So that is typically fluctuating between quarters. The fourth quarter will be structurally higher in that sense. I mean, it was lower in the third quarter than in the second, and it came from this factor. We had to consider the market conditions as well and the pricing movements of our competitors. Hopefully, starting next year, we will not have distorted activity in the market, neither from the regulator nor from competitors. The expectation is that the normal inflation-related changes, which are specifically allowed by the legislation in Hungary, we can implement from the start of next year. The underlying transactional volumes driving this fee income remain strong, so there's no difference in that.

There's one impact here that I'm not sure whether we highlighted it so much in previous calls, and that is related to this, on a y-o-y basis, this difference of HUF 9.4 billion in terms of commission expenses, which we are paying as commission fees to third-party sellers. That is related to the surge of housing loan activity compared to the first nine months of last year. This is going forward, going to have less and less impact compared to the base because it's going to become part of the base in that sense. Other than that, there is no big news or structural change here other than what we explained on this chart.

Gulnara Saitkulova – Morgan Stanley

My first question is on Russia. Following the recent headlines about the potential sale of your Russian subsidiary, could you update us on the progress of the strategic review? What are the main execution hurdles and the prospects for completing a sale? If a transaction proves to be difficult to execute, would you consider stopping new lending and pursuing an orderly runoff in Russia?

And regardless of the outcome, would you consider publishing financial targets and metrics excluding Russia to give investors a clear view on the underlying momentum for the rest of the group?

László Bencsik – Chief Financial and Strategic Officer

Well, indeed, we made that announcement that we reviewed the strategy in Russia, which is due to two factors. One, the previously regular dividend payments were stopped in the fourth quarter last year, and since then we have not been able to take dividends out, and that somewhat colours the picture, makes it darker from our perspective. The other one is obviously our efforts to conclude the transaction buying Luminor in the Baltics, where our position in Russia is certainly quite sensitive, and we take that sensitivity quite seriously.

We are in the process of reviewing it, and therefore, I think we explicitly said that this will take until the end of the year. I think the next time when we communicate about that will be the annual presentation, when, I believe, Péter will also be here, our CEO, and then I'm sure we can share with you if we came to a different conclusion than before.

Unless we find a buyer in the meantime, which, I mean, in terms of a transaction, doing a successful transaction seems to be extremely difficult, and we don't see that situation changing so much. Our criteria remain the same. We are not willing to take any compliance risk or counterparty risk during a potential transaction, and we may be willing to suffer some discount compared to our perceived market value of the asset, but certainly not too much. That hasn't changed.

Nevertheless, part of the strategic review is that we seriously and honestly look at potential scenarios and look at the market and potential counterparties, and we explore and make a strong effort to explore this scenario as well. This is what I can tell you at this stage, that we are making a considerable effort to explore potential alternative scenarios. Whether we can find one, that I don't know.

Publishing figures without Russia, we may do that. Certainly, if we come to a different conclusion regarding strategy, we can start. It is not that difficult. The most important numbers we talk about anyway, namely the volumes and the profit. There is technically zero intergroup activity between our Russian bank and all the other parts of the group, so you can just easily take out the profits that we generate there, and this is the impact on annual profits. Volumes, likewise, there is no intergroup funding to Russia.

The other more important factor is the potential impact on our capital ratios, assuming the most negative disaster scenario if we had to deconsolidate the entire asset. That number at the end of the third quarter was 40 bps positive. If we, for any reason, had to, which is completely unlikely and we certainly do not expect that to happen at all, but in a theoretical scenario, if we had to deconsolidate the entire asset without any compensation, the impact would have been positive, or would be positive, on our capital ratios by 40 bps. So upward, not downward.

Gulnara Saitkulova – Morgan Stanley

Can I also ask about costs and operating leverage? If you look at the nine months, operating expenses increased 15% against revenue growth of 10%. How much of that cost growth is recurring, and what are the key moving parts we need to consider for next year, particularly wage inflation and IT investments? When do you expect these efficiency gains from these investments to become visible? And what scope is there to restore positive operating leverage in 2027? What could be the key levers to drive positive operating leverage?

László Bencsik – Chief Financial and Strategic Officer

You highlighted our most important management focus at the moment. This we certainly identify as a problem. We do not want to have negative operating leverage or negative jaws, and we want positive ones. This is something we are working on hard to remediate or amend in a short period of time. That is certainly strongly in the focus of management. How much we can do next year, we will elaborate on the next conference call when we talk about 2027 expectations.

Jovan Sikimic – Oddo BHF SCA

I have a question on Serbia and Croatia. I mean, given what has been happening in Serbia, similar to what happened in Hungary in April, and there was some smaller banking, I would not call it a crisis, but some local players stumbling. Has OTP experienced anything unusual when it comes to deposit outflows? How do you see your corporate loan book in terms of quality? Maybe if you have some public loans in your portfolio in Serbia, do you see any potential risks coming from that angle?

On Croatia, the margin was a bit, I think, contrary to the development of other euro area countries. Maybe you can explain the reason. Also, higher cost of risk. Is it like a single case, or was it anything or you revised models and you simply just increased the overlays going forward? That would be my question.

László Bencsik – Chief Financial and Strategic Officer

Indeed, in Serbia there has been a landslide change in the leadership of the country. Indeed, this is similar to Hungary, at least in terms of the outgoing administration's features. The incoming is rather different. In Hungary, we had an opposition which was led by a very strong political figure, whereas in Serbia, this is a very different organization and movement. It's much less clear what economic policy and general policy plans they have, or indeed who the leaders of the new political regime will be in Serbia.

What's clear is that, in terms of rule of law and strengthening the judiciary and the independence of the judiciary, and fighting against graft, in that sense, they seem to be on the same side as in Hungary. We have already seen, more rapidly than in Hungary, a longer string of events in terms of making people accountable in Serbia. So that is very interesting to see.

In general, we believe that rule of law is positive for market activities. Specifically, what policies to expect in Serbia, there's very little we can tell. We are optimistic, but we don't know much, and I think not much is known.

No, we haven't seen irregular deposit activity, so that is reassuring. It's a country where we are a well-established, rather large bank. Usually, these disruptive events tend to be positive for us. But no major event.

In terms of portfolio risk, we have not been able to identify any meaningful changes in risk of exposures. We don't know much about the intentions of the new government or the new government itself. Fundamentally, we are expecting improvements, assuming that they can establish a management or government which is in control of all the policy questions. Why wouldn't they be able to? This can be a positive turnaround in Serbia, but there's very little known so far.

Croatia, there hasn't been any specific development, meaning last year risk cost was HUF 3 billion; now it's HUF 5 billion. The third quarter was somewhat higher. There was one corporate exposure where we created risk cost on. We released provisions in the second quarter related to previous litigation cases, which we created years ago. These were the two kinds of events in the second and third quarters which resulted in a somewhat bigger difference between the quarters in Croatia, but nothing extraordinary happened. Croatia seems to be quite a stable and well-run country, so to say, and certainly the summer was strong. The tourist season was quite strong. They are doing well.

The problem we have there is our size. We are only number four in Croatia, and that is not ideal. Croatia is not a huge country. Obviously, for us, it's very important and big, but in terms of this, Croatia as a banking market is not ideal to be number four. In some markets which are large enough, number four is okay. In Croatia, this is not.

This is our other strategic pain point, that in some of these countries we have not managed to grow our market shares to be number one or number two. That would be the ideal situation, which we have achieved in Slovenia, in Serbia, in Montenegro, obviously in Bulgaria and Hungary, but not in Croatia, not in Albania and not in Moldova. In these three countries, we don't have the optimal size. That shows in the returns. Croatia's return on equity is somewhat lower than the group and lower than in Slovenia and Bulgaria. This is unfortunately a size problem. There's no quick fix to this.

Jovan Sikimic – Oddo BHF SCA

May I maybe add another one on the group level, or maybe on Hungary better?

László Bencsik – Chief Financial and Strategic Officer

Please.

Jovan Sikimic – Oddo BHF SCA

I haven't found the figure, or let's say the share of FX commissions in total fees, which might become at risk in case Hungary goes fast toward euro adoption.

László Bencsik – Chief Financial and Strategic Officer

Yeah. I don't think this is going to impact next year or the next two or three years, given the plans of the government. Now it's 2032 that seems to be the earliest. If they fulfil the Maastricht criteria in 2030, or Hungary fulfils them, then the decision can be made in 2031 and the actual joining of the eurozone on 1 January 2032. That's probably the most realistic timeline. This is not a short-term question, to be honest.

Not big in Hungary, to be honest. It's much lower than in Croatia, for instance. In Croatia, which is so strong in tourism, that used to be a sizable, material part of noninterest income, but less so in Hungary. Hungary is more like Bulgaria in that sense.

I think Bulgaria is a good example. Bulgaria maintained and even improved the overall margin and the net interest margin and the total revenue margin as well, despite joining the eurozone, and the positive volume impact by far outweighed the margin compression. That's a potential scenario.

Anne Caris - Pictet Wealth Management

I was wondering, what is the rationale for you to be invested in Ueno Bank in Paraguay? Do you do this kind of investment regularly? I am aware of the size and the limited impact, but I am more wondering about the rationale behind this kind of investment, and then the extent as well.

László Bencsik – Chief Financial and Strategic Officer

Yes, it's a relevant question. In a way, we are asking this. This was the first of this type of investment where we decided to invest financially, again, by no means strategically. It was purely a financial investment, less than 10%.

We had zero impact on the running of the business and no one representing us in the asset. Geographically quite far, but in a very exciting and reasonably close-to-us industry, neobanking, digital banking. This entity, in terms of its retail banking, digital banking activity, has been extremely successful. That presented a very attractive picture in terms of having some exposure to neobanks as a financial investment and to a different continent. It

turned out really badly, but not from a business point of view of their operations, but due to a huge fraud event. I'm sure you follow the news, and it's shocking what happened, and the ramifications for the country are quite serious and quite sad. Obviously, we are a victim of this situation.

It doesn't so much discourage us from continuing to potentially consider similar positions, albeit similarly low and small amounts and as financial investments. But this is not something strategic. We are clearly not looking for more of these types of investments, but I don't think it would be good to say that we are never, ever going to do anything like this.

Certainly, if anything, we will be more cautious, even more than this. However, I doubt we could foresee these major fraud events, since the underlying business of the bank was very successful and strong. This is really a very sad story, and also, obviously, it's sad for us because we had some losses. Any loss is bad. Compared to our size and earnings, this is not a material number, but it's very painful, and we take it quite seriously. This is an unfortunate, sad event.

Anna Zaslavskaya – JP Morgan

I wanted to ask three questions, please. The first one is, given the strong NIM growth in the third quarter in Uzbekistan, could you please share some more colour on the drivers behind it? And how you were able to achieve such growth? And whether or not you view this level of margins as sustainable going forward?

My next question is on Hungarian deposits, which fell 2% quarter over quarter. Could you please share what was the reason behind this? And how do you think about the outlook for deposit growth going forward in the country?

My last question is once again on deposits in Bulgaria. The deposit growth there was just 1% compared to 4% loan growth quarter-over-quarter, with a loan-to-deposit ratio of 83%. Was tougher competition the reason behind this deposit growth? And how high are you comfortable letting the loan-to-deposit ratio go?

László Bencsik – Chief Financial and Strategic Officer

In terms of margin improvement in Uzbekistan, we started to optimize the cost of funding and better optimize the pricing of deposits. We are fundamentally deposit-funded, and marginal deposits are very expensive in local currency in Uzbekistan. The right pricing and right structuring of term deposits can yield margin benefits, and that's what we did. It was optimizing the cost of funding, primarily deposit pricing. Obviously, when loan growth accelerates and we are going to need more marginal local currency funding, then our ability to further optimize deposit pricing will be less and less and might turn backward somewhat. But that was the reason. In the very short term, this is stable. It wasn't a one-off.

Deposit growth in Hungary and Bulgaria: in both countries, we had surges, very strong growth in retail deposits over the first quarter and the last quarter of last year. In Hungary, this was related to the pre-election revenue transfers and fiscal transfers to retail clients. In Bulgaria, it was related to joining the eurozone, when people put their cash into banks. There was double-digit growth in a quarter in Bulgaria. This is a wave to calm down and just the normalization or smoothing of deposit growth, especially in Bulgaria.

In Hungary, there is also seasonality. Usually, the third quarter is the most difficult for households in terms of cash flow because they spend money during the summer on holiday, and then school starts in September. Each year, you can see seasonality in retail deposits between the quarters, and typically the third quarter is the weakest, unless it is Montenegro or Croatia, where they are the strongest months because the Hungarians who go on holiday spend their savings in Croatia, and the Croatians get that as income and put it in the banks there. There is this event. Nothing particularly major.

On top of that, in Bulgaria the macro situation started to soften somewhat. They went up to a 5.7% budget deficit and 5% inflation, and now finally this year they managed to form a government which has a majority in parliament as well. Some fiscal consolidation, some slowing of wage inflation and potentially slowing consumption may happen in Bulgaria. This strong loan growth continues, and the surge in deposits is not going to be repeated. Plus, the government started to issue bonds, which had not been the case for quite a long time. Now retail clients have access to sovereign bonds as an investment as well. This is, again, a competitive asset class to deposits, so to say, which is starting to emerge in Bulgaria.

Maybe in Bulgaria there might be somewhat lower deposit growth structurally than we have seen during the last two or three years, but not drastically. We do not expect negative deposit growth or something like that. This weak third quarter was more just the levelling-off of the extreme surge at the end of last year and the beginning of this year.

Gabor Bukta – Concorde Securities

I have one question on Bulgaria. There was some news about the proposed Bulgarian bank tax, and there was a table in the presentation where you detailed the special taxes, especially in Hungary, and then the other countries like Bulgaria and Slovenia, on slide 4. Just wondering how much could be the potential impact of the proposed bank tax in Bulgaria next year?

László Bencsik – Chief Financial and Strategic Officer

It's quite a pertinent question. It is still in a discussion phase. The impact is expected to be much less than, for instance, in Hungary. It's in the magnitude of EUR 20 million to EUR 30 million. The profit after tax in Bulgaria is more than EUR 500 million this year. Hopefully, it will continue to grow. That's the magnitude.

We put some information on this. If you read the actual interim report, the long Word document, on page 14 we have some details on the rules and what we know so far. It is painful, but the level of pain is going to be much less than what we have to suffer in Hungary. I think what they came up with is more in line with practices in CEE, and certainly not as much of an outlier as what we have in Hungary. Nevertheless, this is going to be negative.

Gabor Bukta – Concorde Securities

One more question, if I may, about capital allocation. I mean, you are running a share buyback program right now, which may finish in the next couple of days. Can we expect that you will continue the buyback program following the full execution of the ongoing one?

László Bencsik – Chief Financial and Strategic Officer

Specifically on buyback programs, we announce them on the day when we receive approval. Specifically, we do not announce them ahead. We announce them when we get approval. More conceptually, this is an element which we intend to use in the future in the mix of capital policy measures.

We do not have set payout ratios or level targets, but we have an acquisition coming which is going to have a somewhat negative impact, a welcome negative impact, on our ratios. Depending on what else we find, we may do more or fewer buybacks. We equalize, in a way, or fine-tune our capital ratios through share buybacks.

The more acquisitions we can do on top of the Luminor one, the less shares we are going to buy back. The less acquisitions we are going to be able to do in the future beyond the Luminor one, the more we buy back. But specific programs and volumes we announce when they are approved, and we will continue with that policy.

Operator

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

László Bencsik – Chief Financial and Strategic Officer

Thank you very much. Thank you for listening to the presentation and thank you for your participation and for your very good questions. I hope you are encouraged to join us on our next conference call again on 5 March, as usual, when we will present our annual results and talk about our expectations for 2027 as well. I wish you all the best for the rest of the year and beyond.

Operator

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

Note: unabridged transcript with minor English stylistic corrections.