



Strategy and Finance Division

Investor Relations

OTP BANK

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Transcript

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PRESENTATION

László Bencsik – Chief Financial and Strategic Officer

Thank you very much. Good morning or good afternoon, depending on where you are, and thank you for joining us today on the conference call following the first half results presentation. As usual, you have access to the presentation, that we are going to use today on our website, but we are also showing you while I'm talking. The setup is the usual, I will attempt to give you a short summary presentation following this deck and after that you can ask your questions.

The key highlights regarding OTP Group have not changed significantly, and there's nothing substantially new on this slide.

But on page 3, you can see the recent results. There's some noise in the first half results. We already faced this problem during the first quarter. I will show you the details shortly. But fundamentally, the situation is that there are certain expenses, namely the extra profit tax in Hungary, the bank tax in Hungary and supervisory charges and deposit insurance fees, typically in Bulgaria, which must be accounted for at the beginning of the year. They appear in the full amount in the first quarter. In this regard, they are not accrued. Now it's even more complicated with the windfall tax, i.e. the extra profit tax because it is initially booked as the maximum amount. Then as the year goes by and we fulfil the requirements month by month, which are required to reduce this amount due to the level of Hungarian government bonds increasing in our portfolio, we can reduce this amount over the year. In case of the windfall tax, it's not just the accrual problem, it's also the magnitude of this expense, which gradually decreases over time.

Now in order to better understand what's going on, we provided you with the numbers which are more on a pro rata or accrual basis and better reflect these expense items related to the period we consider. Therefore, I'm pretty sure it reflects better the actual performance. On this slide and some of the following slides, you can see two sets of numbers. The one on the top is adjusted, pro rata or accrued numbers. On the lower part, you see in grey the raw reported numbers.

If you allow me, I will try to explain performance following these adjusted numbers. If we compare the first half result of this year to last year, then profit after tax grew by 10%. The biggest driver of this growth was operating profit, which increased by 20% y-o-y.

The reason why we did not have 20% increase in profit after tax was that risk costs also increased compared to the first half of last year. I'm going to elaborate on this change and the major drivers of risk cost increase, which is also reflected in the ratios, what you can see on this page: the four potentially most important indicators.

The prorated return on equity in the first half of this year was 23.2%, pretty close to the number what we had for the whole year last year, 23.5%. Net interest margin was rather flat, and it has been stable for almost two years now. This is in line with what we expected in the management guidance. Where we see improvement, it is the cost-to-income ratio, it was less than 39%. So far this is clearly better than what we guided for. If you remember, the original management guidance was that "maybe the cost-to-income ratio could be somewhat higher than last year". So far so good, it's actually somewhat lower.

Then on the portfolio quality side, there are mixed messages because if you just look at the quality of the portfolio per se, then it's actually quite stable and the gradual decline of the Stage 3 ratio has very nicely continued into the first half of 2025. However, we did provision more, so we had a higher credit risk cost than in previous periods and especially the credit risk cost rate ended up being somewhat higher than last year and definitely higher than the first half of last year. I'm going to elaborate more on this phenomenon during the remaining pages of the presentation.

Maybe the more technical details on page 4, trying to explain this difference between the reported and the prorated numbers. If you look at the first six months, the difference between the HUF 519 billion, which was reported and HUF 592 million, the number, which we explain when we try to understand the business performance. Here, you see that line by line. I'm not going to go into details. It's basically reflecting what I just told about this difference.

Now let's see a bit more details what happened in Hungary in our core business on page 5. Again, a similar problem appears in the Hungarian numbers, and we looked at these prorated numbers as it's probably better to explain performance following these numbers. So, 4% y-o-y improvement in profit after tax. Basically, the overall special banking charges increased, especially the windfall tax. Last year, it was HUF 7 billion, this year we expect HUF 54 billion. That's a big increase in this regulatory charge, and we managed to compensate that with higher operating income despite risk cost increased. Basically, strong growth in operating income offset the increase of risk costs and the higher regulatory charges.

This was supported by the net interest margin improvement. As you can see, this gradual normalization and improvement of the net interest margin has clearly continued after hitting the bottom 3 years ago. Since then, we have been gradually improving. Three years ago, we hit this minimum and then we have been improving steadily. The expectation is that some minor, marginal improvement can continue in the future.

If we move on the next page, page 6, some further information regarding the Hungarian retail segment. It's going well. So, contractual amounts increased by 11% in mortgages, by 40% in cash loans.

One can see kind of stable market share in deposits somewhat declining market share in mortgage contractual amounts. That's due to the fact that there's very fierce price competition. Some of our competitors are pricing new fixed-rate mortgages below sovereign yields and it's hard to understand how they can make profits on that. We are not following this pricing strategy, and therefore, there was some erosion in our market share, but it's a rather small one. We firmly believe that we are maximizing the value potential in this portfolio by maintaining our pricing discipline.

On the corporate side in Hungary, you probably remember that we had two years, 2023 and 2024, with very limited or no growth at all. As shown on page 7, the portfolio did not grow. This trend seems to be reversing, at least in the micro and small enterprise segment. As you can see, micro and small corporate loans increased by 9% in the first six months of the year. These are typically Hungarian companies, and apparently, there's some growth in demand, which is definitely a positive sign.

On the large corporate side, we also saw 2% growth, but I don't believe this is a sign of a major turnaround in the trend. We still experience muted demand from large corporates for new borrowing. However, on the back of this increase in the micro and small segment, our market share has improved quite considerably, and we have almost reached our previous peak, close to 20%.

If we look at the performance of the foreign banks in the group on the next page, overall, we can characterize it as stable. In the euro or quasi-euro countries, Bulgaria, Slovenia, Croatia, and Montenegro, we are certainly facing a kind of margin headwind due to the rather sharp decrease in the euro rate, which we have seen over the past few years. This has obviously created pressure on margins, and this is what we are seeing in these countries: margin erosion. To some extent, this is also reflected in the return on equity figures. But all in all, we are very satisfied with the performance of our non-Hungarian subsidiaries and so is the Board.

Maybe just a short tour of the net interest margin story on page 9. It's pretty flat, and you can see the major drivers. Hungary is somewhat improving, while there is some erosion in Russia and Bulgaria. That's the overall breakdown of the NIM development.

In terms of rate sensitivity, the HUF rate sensitivity continues to be very small, at least in the 1-1.5 percentage point range around the current base rate, which is 6.5%. By the way, we expect this level to remain more or less unchanged until the end of the year i.e. we don't expect a rate cut in Hungary. Therefore, there is limited sensitivity around this level.

However, on the euro rate, there has been higher sensitivity, and we have actually felt the impact. Most of this sensitivity has already materialized, as the euro rate has dropped, we are now down to 2%. That's already reflected in our numbers. But looking forward, the remaining sensitivity is around EUR 125 million per 100 basis point decline. It's asymmetric, meaning that the loss from a rate cut is somewhat larger than the gain from a potential rate hike. The loss is less than it was at the peak, but certainly not at a historic minimum either.

What we have now is growing deposits, and now that we are down to 2% ECB rate, the probability of a further cut is much lower than when we were at 3.5%. When we adjust our rate sensitivity, we do so by modelling expected outcomes and trying to maximize profits under different scenarios and their probabilities. Obviously, another 100 basis points decline in the euro rate is less likely now than it was two years ago. We are taking a somewhat larger interest rate risk, but it's not significant. I think the minimum sensitivity was around EUR 95 million.

In terms of volume development, in the first six months we saw 7% total growth for the group, FX-adjusted. That's certainly an acceleration compared to last year. Last year, the full-year growth was 9%, and this year we are already at 7% in just six months. These numbers are not annualized, that's the actual growth in six months. The guidance was for potentially higher growth than last year's 9%, and based on the current trajectory, we are well on track to meet that guidance.

If we look at some of the more interesting developments, certainly the biggest turnaround happened in Uzbekistan, at Ipoteka Bank. You may remember that last year, consumer loan growth, which is the most profitable segment in the market, was explosive. There was a surge in volume growth last year. Unfortunately, we were not in a technical and physical state of operations to follow that market growth due to the lack of IT capabilities. Thanks to the diligent efforts of our colleagues, we have managed to fix the IT infrastructure. It's not fully complete yet, but it has reached a level of development that allows us to safely increase new production volumes and it's not just about increasing volumes, but it's also opening up to a broader scale of client segments.

As you can see, this 4% six months growth doesn't look very high. However, if you look at the bottom of the page, first quarter was 0, second quarter 4, and June was 2%. It's pretty much kind of backloaded. There's a strong acceleration in volume growth. You'll see some more information on the following page.

But first, let me say just one word about the Ukrainian consumer loan growth, which is another segment where, after the war started, most banks, including us, slowed down loan production. However, about a year ago, at the

beginning of last year, we decided to reinvigorate our lending activity, and that strategy continues. So, we are actually increasing the consumer loan portfolio, and also the corporate and leasing portfolios are expanding quite dynamically in Ukraine. Obviously, still from a low base, but the growth rate reflects our trust in the future of the market and a certain level of optimism.

Now on page 11, there's more detail on what happened in Uzbekistan, specifically at Ipoteka Bank, in the cash loan segment, which has been the fastest-growing and most profitable segment in the market over the past two years. As you can see, unfortunately, our loan portfolio market share declined, but the good news is that the June monthly figure already showed improvement. In June, our stock market share increased.

Here you can see the volumes: in June this year, we sold three times as much as in June last year. That reflects our increased capacity. And as I said, it's not just about volume and number of loans, it's also about our ability to cover potentially higher-risk segments. These are segments where risk management is more complex, you need more data, more analytical capacity, and the ability to assess whether you want to lend to a client and at what rate. This capacity to differentiate and to run sophisticated models based on data, has reached a level where we can open up to new segments.

Obviously, this development is ongoing, there's still a lot to do in this continuous effort, and the management team is committed to further increasing market share in this segment during the remainder of the year. But again, this is not just a promise, we already saw it in the June numbers, which marked the first month in 1.5-2 years when our market share increased.

Regarding deposits, we saw 5% overall growth across the group. Given our net loan-to-deposit ratio of 75%, this is quite similar to loan growth. However, in nominal terms, we had HUF 50 billion more in deposit growth than in loan growth over one year, despite the growth rate being lower in deposits than in loans. Now, this chart highlights two very important segments: retail in Hungary and Bulgaria, especially Hungary, where deposit interest rates are very low or close to zero. From a profit generation perspective, these are extremely important segments. In Hungary, retail deposits grew by 7% in the first six months, that's a very strong number. If this trend continues, it can further contribute to the net interest margin in Hungary.

The red figure in the middle of the page, representing Uzbekistan, requires some explanation. As you can see, there was a decline: the fourth quarter was strong, the first quarter was negative, and the second quarter was flat. Last year, we increased liquidity aggressively, collecting deposits to create a liquidity base for expected lending growth this year. However, that lending growth materialized later than expected, so we didn't want to hold expensive retail and corporate deposits unnecessarily. We let some volumes go, and once loan growth, especially in retail, started to accelerate in 2Q, we stabilized deposit volumes. This was a deliberate move, aligned with our profit maximization strategy, and the result reflects that.

Now moving to portfolio quality and risk cost, page 13: the good news is that portfolio quality remained stable across the group, and the Stage 3 ratio continued to decline, which is very positive and in line with our guidance that portfolio quality this year may be similar to last year. What happened is that we provisioned more, especially on the performing Stage 1 and Stage 2 portfolio. As you can see, our coverage ratio on performing loans is 1.9%, which is close to HUF 500 billion in provisions, equivalent to three to four normal years of provisioning. This level is three times that of RBI and almost ten times that of KBC, so it reflects a very conservative approach. Even on the Stage 3 portfolio, we have consistently applied conservative provisioning, which has always been our practice.

On page 14, you can see more detail on why actual risk cost was higher and where the additional provisioning occurred. There were two items not related to credit risk: one was the rate cap extension in Hungary, resulting in HUF 4.4 billion in credit-related provisions, and the other was the continued provisioning for Russian bonds in Hungary and Bulgaria, HUF 5.1 billion among other provisions. With these additional provisions, our coverage increased to 79%, which is HUF 99 billion nominally. If the war ends and some sanctions are lifted, it's possible that some provisions could be released. I wish that the war ended today or tomorrow, but that would only be a short-term potential positive impact if this very unfortunate war ends.

In addition to that, we provisioned in Hungary based on credit risk. On a granular, client-by-client basis, our colleagues reviewed the corporate portfolio and assessed which clients might be negatively affected by potentially higher tariffs and made additional provisions for the performing part of the portfolio, as well. This increase in Hungary does not reflect a general model-based provision increase, but rather a detailed review of the portfolio in terms of potential risks from higher tariffs. You probably know that Hungary, among CEE countries, has one of the highest levels of direct exports to the US. Plus, together with other CEE countries, there's a secondary impact, especially through German companies exporting to the US, which could have a spill-over effect on many CEE countries, including Hungary.

On top of that, in Serbia, we had IFRS 9 impairments. We adjusted macro expectations downward due to recent domestic political tensions, which, combined with global geopolitical and tariff disputes, resulting in a larger adjustment. That immediately translated into higher IFRS 9 provisioning. In Russia, it's partially IFRS 9 provisioning and partially due to the increase in consumer loan volumes, which carry a relatively high normal risk cost rate, leading to higher provisioning.

So yes, risk costs are higher, and risk cost rates for the full year may be higher than last year. In this sense, we are changing the guidance. But most importantly, we do not see deterioration trends in the underlying portfolio quality. This higher risk cost is not due to portfolio deterioration, but rather to extra conservatism and forward-looking provisioning based on somewhat worsened macro expectations in the region, which I'll talk about later.

On page 15, some information about the capital situation: 18% Common Equity Tier 1 and Tier 1 ratios, as shown in the chart, well above regulatory requirements. In the waterfall chart, you can see what happened since the end of last year: eligible profit minus the potential dividends, which are calculated based on EU directives and do not reflect our actual intentions regarding dividend payments. It's not a target number, just the result of the calculation. Nevertheless, it includes HUF 132 billion in dividend deduction, so eligible profit less dividend resulted in a 1.4 pps uplift. Then we had Basel IV at the beginning of the year, we discussed this after the 1Q results and the impact on capital and risk-weighted assets more or less offset each other.

Then, the 7% growth in the total loan portfolio consumed 60 basis points of capital. Finally, we accelerated the share buyback: we completed HUF 60 billion in 1Q, and then we received approval for another HUF 150 billion buyback. We had to deduct this from capital on the day we received approval from the central bank. Altogether, for this year so far HUF 210 billion has been deducted from regulatory capital due to share buybacks.

Now, there's always a discussion about how high capital adequacy ratios are. To facilitate that discussion, we included page 16, where you can see some of our peers. As we always say, the most important thing is to be well above regulatory requirements, and all banks across Europe are above those thresholds. So, one can say that is not very informative. Therefore, our approach is to ensure we look well-capitalized compared to our peers. Here are some of the peers we consider to be relevant multi-country banking groups active in the same region as we are. Since we don't have Additional Tier 1 instruments, for us, Common Equity Tier1 and Tier 1 ratios are the same. This comparison is typically made at the Tier 1 ratio level, which was 18%.

Now, if we include the transitional adjustments, which will phase out by the end of the year, that's 23 bps. If we adjust the 18% number with these transitional effects, we get 17.7%. That's probably the right number to use when comparing Tier 1 ratios with other banks.

We look okay, right? UniCredit is exactly at the same level, Raiffeisen, after deconsolidating Russia, is somewhat higher, as is Erste, but their numbers do not yet reflect the expected decline due to their ongoing acquisition. After that acquisition, they will likely fall below our level. KBC and Intesa are somewhat lower. So overall, this looks okay, we are at the top of the range among comparable banks, which is a comfortable position. But there's still room to go lower temporarily, for example, in case of an acquisition. That would be acceptable.

We also like to show external perspectives, and the more objective they are, the better. On page 17, we present one example, the results of the recent EBA stress test. In the previous round, we ranked No. 4; this time, we ranked No. 13. We typically look at the reduction in the Common Equity Tier 1 ratio under the stress scenario, the smaller the decline, the better the performance. Compared to regional peers, we still compare well, although the ranking is somewhat lower than 2 years ago. This is not because our stress resilience declined, but because others improved. The euro rate is higher than it was during the previous test, and margins are better for Eurozone banks. They have higher profits, so their starting point of the stress test is stronger. We have greater risk and loss absorption capacity due to higher recurring earnings and margins, which is a positive sign. In general, our interpretation is that this is a good development, the European banking sector is stronger and better able to absorb losses in case of a stress scenario.

Now, the other external source we started to look at, especially since last year, is S&P Global Market Intelligence, part of S&P Global. They compare the 50 largest listed European banks, based on a broad and relevant set of KPIs. Last year, based on 2023 performance, we were ranked No. 1 on this list. This year, based on 2024 annual performance, we are ranked No. 2, which is still a very strong result. This provides another objective external view of our relative performance compared to other European banks.

In terms of liquidity and DCM activity, our liquidity position is strong. As you can see from the ratios: Liquidity Coverage Ratio (LCR): 230%, Net Stable Funding Ratio (NSFR): 152%, Net loan-to-deposit ratio: 75%, Leverage Ratio: 10.3%, a very low leverage. These numbers compare very well and conservatively to other banks in the region. We also have a modest call date profile if you compare it to total assets, which are now well above EUR 100 billion, the amount we need to repay in the coming years is much less than our annual earnings.

Our DCM activity was somewhat muted in 2Q. At the beginning of the year, we issued a Tier2 instrument, and later we issued offshore Chinese yuan-denominated bonds. These are denominated in millions of yuan, not euros, which can be confusing. In euro terms, it's around EUR 110 million, not a large issuance, but it reflects our effort to diversify funding sources and explore investor interest in Asian markets. This is an important strategic step.

A few words about the future outlook. If you look at the macro forecasts, they have somewhat deteriorated due to uncertainty and tariffs. This is clearly negative. As you can see, there's typically a 50-100 bps adjustment due to the expected lower growth in the new global tariff environment. This has affected almost all countries where

we operate, except Uzbekistan, which seems less directly affected and continues to show strong growth. We're very happy to be present in that market, and our performance there is improving significantly.

In Hungary, 0.6% GDP growth is now our best estimate. That's a significant downward revision, not long ago, before seeing 1Q GDP numbers, we expected close to 2.5% growth. That's no longer realistic. Our current estimate is based on detailed modelling, not just a guess. Hungary and Slovenia are slowing down, but the rest of the countries still show robust growth: Bulgaria: 2.5%, Croatia: 2.9%, Serbia: 2.8%, Montenegro: 2.8%, Albania: 3.5%. These are strong GDP growth rates in several CEE countries where we operate.

Finally, a few words about the guidance. Going through the deck, it's clear where we made minor adjustments. Loan growth can be potentially higher than last year's 9%, and after a strong 7% performance in 1H, this guidance remains valid. Margins are expected to remain flat, and this continues to be our view. Cost-to-income ratio: we were somewhat pessimistic in the original budget. Last year it was 41.3%, and given the 1H performance of less than 39%, we now modestly revise the guidance to say we expect it to be close to 41.3%. Portfolio quality: the previous guidance was that "portfolio quality indicators may be similar to last year". Now we clarify this: in terms of underlying portfolio quality we expect stability, but in terms of risk cost, we expect somewhat higher risk cost rates than last year's 38 basis points.

That's pretty much what I wanted to present. I hope it was useful. Please feel free to ask your questions, I'd be happy to answer them.

QUESTIONS AND ANSWERS

Operator

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

The first question is from Máté Nemes, UBS.

Máté Nemes – UBS

I have two questions, please.

The first one is about the Hungarian net interest margin. It's clear that we are seeing a consistently improving margin trend, and there are also strong inflows on the deposit side, particularly in retail deposits. Could you share your expectations regarding these deposit inflows - how long they might continue, and what impact they, along with other factors, could have on the net interest margin in Hungary?

The second question concerns loan growth. We are seeing robust growth across the retail segment, including consumer loans and mortgages. However, in some of your larger markets, notably Hungary and Bulgaria, corporate lending growth appears to be lagging. Could you provide some insight into the current pipeline, and when we might expect to see more meaningful growth in the large corporate segment?

László Bencsik – Chief Financial and Strategic Officer

Yes, I'm here, Máté Nemes.

Regarding the Hungarian retail deposit growth, we continue to see strong momentum, and we don't expect any major changes in the short term. Next year is an election year, and if anything, we anticipate further loosening. We don't foresee consumer tightening in the next 12 months.

The labour market remains solid, not as tight as before, but still resilient. Inflation has moderated, and overall, we see no immediate reason for this trend to reverse. If conditions remain stable, deposit inflows could continue at the current pace, or at least at a similar level. In this sense, we are quite optimistic, and this should translate into gradually improving margins in Hungary.

Now, regarding large corporate lending in Hungary: As shown earlier, perhaps not on this slide, but the one illustrating Hungarian corporate growth, the 2% growth in 1H is not a trend reversal, but rather statistical noise. So, we don't yet see a turnaround in large corporate lending in Hungary.

The positive development is in the micro and small enterprise segment, which has started to grow. These are primarily Hungarian-owned companies, not multinationals, and that's probably also driven by services and retail and trade flows and things like that. So, on that side I think we can say that something started to grow and happen. The key question is whether we've reached the bottom of the investment cycle. I wish I could say the situation has radically improved, but we're not there yet in Hungary.

Bulgaria is a different story. The pipeline there is strong, and with Eurozone accession expected on 1st January, we anticipate upgrades, increased investor confidence, and higher private investment. In Bulgaria, there is real momentum, and we're seeing excitement and potential on the ground. Therefore, I'm more optimistic about large corporate growth in Bulgaria over the next 12 months than in Hungary.

Operator

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

Jovan Sikimic – Oddo BHF SCA

It's Jovan Sikimic from Oddo BHF. I have a question regarding the recently announced home loan program in Hungary. What do you see as the main benefits for the bank? Where do you expect mortgage or housing lending to pick up, and what is your initial assessment of the program? Have you already factored this into your loan growth guidance for this year? Because I'm not sure whether this is more of a story for this year or rather for next year, I'd appreciate your thoughts on that.

A follow-up question, also related to loan growth: You clearly mentioned that you downgraded your economic assumptions across almost your entire footprint. But still, after a 7% ytd performance, a 9% full-year target seems relatively conservative. Do you already see signs of a slowdown in any specific markets, or is this simply a cautious assumption?

László Bencsik – Chief Financial and Strategic Officer

Well, just to clarify the loan growth guidance was “more than last year”. Last year’s loan growth was 9%, and while we didn’t specify exactly how much more we expect this year, the intention was to signal that this year’s growth will exceed that level. I wasn’t suggesting that 9% is the expected figure for this year rather, that the previous guidance of “more than 9%” now seems very likely, and it could well be significantly higher. And yes, we don’t see any signs of a slowdown, so loan growth above 9% is very much achievable.

Now, regarding the specific home loan program: it will be launched in September, and it’s very attractive for eligible clients. It offers a 3% fixed interest rate and can be used for both new developments and existing property purchases. There is a price cap of HUF 100 million, and while there are some eligibility criteria, the scope is relatively broad. We expect strong demand, although the initial uptake may be gradual. I don’t expect September figures to spike immediately, but within two to three months, the program could reach full momentum in terms of volume growth.

It’s also likely to push property prices upward, given that supply cannot adjust quickly. From the bank’s perspective, this is a profitable product, and we are fully committed to supporting it. We’ll make a strong effort to reach all eligible and interested clients, and we see this as a positive contributor to both volume growth and earnings.

Jovan Sikimic – Oddo BHF SCA

Yes, super great. If I may add just maybe one on margin outside Hungary, particularly in the euro area. I mean there was some erosion, as you stressed., At what point would you see kind of stabilization maybe thanks to deposit repricing and so on.

László Bencsik – Chief Financial and Strategic Officer

Well, it depends. I mean if there are no further rate cuts, then I think not much further margin erosion is expected.

Operator

Gábor Kemény, Autonomous Research

Gábor Kemény – Autonomous Research

I have a few basic questions, if I may, apologies if I missed anything, I joined a little late.

First, regarding provisioning: Could you share your views, and any sensitivities related to the possibility of the US introducing secondary sanctions against Russia? I understand that Hungarian exports could potentially be impacted, and I’m wondering whether you’ve already made any provisions in anticipation of this, or if you could share your risk assessment and sensitivity analysis around this scenario.

Second, on capital strength: You’ve reported a very solid 18% CET1 ratio again, which is impressive. Could you share your latest thoughts on the M&A pipeline? Are there any active opportunities or strategic directions you’re currently exploring?

Finally, regarding András Sebők’s appointment as Deputy CEO: Could you elaborate on his role and responsibilities? Péter Csányi mentioned an increased focus on digital banking, and I’d be interested to hear your perspective on how András Sebők’s appointment fits into that strategy.

László Bencsik – Chief Financial and Strategic Officer

Regarding your first question: sanctions and provisioning, could you clarify where exactly?

Gábor Kemény – Autonomous Research

Yeah, I mean, Hungary’s macro being potentially impacted by the secondary sanctions against Russia. I mean, the indirect impact that would be the question. I believe the way I understand this would impact Hungary’s exports. That’s why that was the origin of the question.

László Bencsik – Chief Financial and Strategic Officer

Oh, yeah, higher tariffs, okay, yes. Well, I don’t know, we actually looked into it very thoroughly. Our risk team did. In this case, we went through the Hungarian corporate clients and assessed the potential impact coming from primary or secondary tariff effects. Hungary actually has, among CEE countries, one of the highest level of direct exports to the US as a percentage of GDP, plus there’s a secondary impact through core European exports to the US, and Hungary is part of that supply chain.

The risk colleagues reviewed the portfolios and applied actual provisions on a case-by-case basis. This is the reason why you see most of the credit risk increase in Hungary. So that’s exactly the result of this exercise. We

did that to the best of our knowledge, and it's already reflected in the second-quarter numbers. Indeed, the Hungarian risk cost was higher than usual in 2Q.

M&A, obviously, I'm not allowed to say anything beyond the usual: we are active, we are interested, and we are engaged in parallel discussions. We are hopeful that we can find a situation where we strongly believe we can create value for shareholders, and then we will proceed. But there's nothing concrete to report at this stage.

Now, regarding András Sebők: he is the successor to Péter Csányi in the role of Head of the Digital and IT Division. He has inherited exactly the same organizational unit, which includes digital banking in Hungary, a mix of operations, development, and retail digital banking, payments, and elements of classic IT infrastructure. It's actually a combination of classic IT and digital, plus some business responsibilities, as well. If this is what you wanted to hear, then yes, that's the scope of his role.

Gábor Kemény – Autonomous Research

Yes. Maybe anything on his objectives near-term objects like your objectives in the areas of IT operations development in the near future. Anything new and notably?

László Bencsik – Chief Financial and Strategic Officer

We are in the middle of a huge IT transformation, and we are changing the core system. We are changing the core security system. We are changing the card back-office system. We developed the digital channel in-house. It's quite a transitional development-heavy period. So that's clearly potentially the primary focus just to deliver on these initiatives and deliver them on time, on budget, and with good results.

These are huge IT changes. I mean, the last time this happened was 30 years ago when the core system was replaced in Hungary. He has to continue and finish these large initiatives. On top of that, obviously, digital, AI better service levels for the digitally transacting clients and higher penetration in that segment. So, yes.

Gábor Kemény – Autonomous Research

Yes, it sounds like a busy agenda.

László Bencsik – Chief Financial and Strategic Officer

He is a very experienced, highly motivated, and genuinely kind person. I didn't know him before, despite our shared background. I mean, he joined McKinsey much later than I did, obviously, potentially more than 10, 15 years difference. But, nevertheless, I didn't know him before. He is a very positive person. I think we will do very well with him.

Operator

David Taranto, Bank of America Securities.

David Taranto – BofA Merrill Lynch Asset

Regarding Russia, could you elaborate on your strategy there. Year-to-date, loan growth has reached 20% in FX-adjusted terms. And in HUF terms, it's much higher. And while Russia accounts for 6% of loans, its contribution to the bottom line is significantly stronger, even surpassing Bulgaria now. How is your lending appetite in this market? And where do you see the sustainable profitability levels in this market.

László Bencsik – Chief Financial and Strategic Officer

I mean, in a sense, being in Russia, we are kind of a hostage of the war situation. In this very difficult environment, we tried to be our best to adapt to the situation. Strategically, since the war started, we have focused on three agendas or three pillars, and that has not changed. And I don't see why this should change until the war is over and the situation changes fundamentally.

First of all, the most important objective is to fulfil all rules and regulations applicable to the activities there. This is by far the most important.

Secondly, we voluntarily reduced the scope of our activities, and that was a strategic decision. We completely discontinued corporate lending, and that continues to be the case. We have zero appetite to finance any corporate or state entity in Russia. We also limited the scope of transactional activity, especially cross-border. We now only transact in euros with European counterparties, and we were among the first to stop all dollar transactions more than two years ago.

Third, we aim to reduce our exposure as much as possible. Our definition of reducing exposure is to repatriate as much money from Russia as possible, including the equity and group funding that got stuck there when the

war started. We have been doing that, and relatively successfully. We were able to repatriate dividends, and the group funding was paid back as early as 2022.

In that context, regulatory compliance, avoiding potentially controversial activities, limiting the scope of operations, and maximizing repatriation, we allowed the bank to grow in consumer lending. Historically, this has been the bank's core profile: subprime mass-market retail lending, including point-of-sale loans, credit cards, and cash loans. This segment is growing, and we are competitive and profitable. We do not offer mortgages.

In addition, we provide transactional banking, including retail and corporate deposits. This has been our strategy for the past 3 to 3.5 years, and there has been no change in that.

Operator

The next question is from Marta Wasilewska, Wood & Company.

Marta Jezewska-Wasilewska – Wood & Company

Thank you for the presentation. I have two questions. First, to elaborate a bit more on Russia and this may be a direct question, but have you been able to receive dividends from Russia this year as well? Or are there any plans for that in the second half of the year?

Second, regarding the CEO's comment from mid-July about a potential acquisition being executed by the end of 2025? Could you share any insights into how you're currently approaching potential acquisitions? Obviously, I'm trying to hint at the sustainability of return on equity, given how much Tier 1 capital is being generated.

Just a final question: How should we think about dividend payments from OTP if no acquisition is completed by year-end? Clearly, the capital ratio is approaching 20%, which seems very comfortable.

László Bencsik – Chief Financial and Strategic Officer

Yes, the Russian entities have paid dividends this year, amounting to RUB 10 billion so far. We expect further payments, as we can typically repatriate around 50% of quarterly earnings. That means the total payments since the start of the war, which began roughly two years ago, amount to close to RUB 52 billion.

Regarding potential acquisitions, I cannot share any specific progress. If I could, we would have already made an announcement. I'm not in a position to say more than what's already known: we continue to work on possible deals, and once any of them reach a stage where announcement is required, we will do so. Closing an acquisition this year would be quite ambitious. Announcing a new deal, meaning a signed share purchase agreement, is possible. But finalizing and closing a deal within six months, especially without an agreement in place, is unlikely, as regulatory approval procedures typically take longer. While closing a deal in 2025 may be difficult, we hope to announce a transaction that will be value-creating for the group and that's our goal.

As for dividends, there's no communication at this stage. We typically make a dividend proposal in February, after the financial year ends. That's when the Board decides, and we share the numbers with you when we report full-year results, usually in March.

Obviously, if no acquisition takes place, there's more room to return capital to shareholders. If we do complete a large acquisition, there's less room. So yes, this has implications for dividend payments, but that's fairly self-evident. Beyond that, there's not much more I can share at this stage.

Operator

Gábor Bukta, Concorde Securities.

Gábor Bukta – Concorde Securities

I have a follow-up question regarding Russia. The equity was around HUF 300 billion at the end of 2024. It was up 34% year-to-date. Is there a plan or how much actual profit is expected to be brought out to OTP Core this year?

The second question is also regarding Russia. On the 25th of July, the Central Bank of Russia cut interest rates to 18% from 20%. We also experienced that the net interest margin has declined by around 30 bps in this quarter. What is the sensitivity for further rate cuts in Russia?

László Bencsik – Chief Financial and Strategic Officer

Yes, certainly, our margin in Russia is sensitive to interest rate changes. Part of the earnings we generate there is based on deposit spreads, which are interest rate-sensitive and depend on the Central Bank rate. I don't have the exact sensitivity figures off the top of my head, but it's clear that lower rates mean lower earnings in Russia.

Also, each dividend payment is subject to Central Bank approval, not specifically the dividend itself, but rather the repatriation of the dividend from Russia to Hungary. You can pay dividends in Russia, but the standard procedure is that the proceeds go to a special locked account, the C-account. To avoid having dividends paid into the C-account, approval is required. There's no guarantee that we'll continue to receive these approvals, but so far, we have. Our understanding is that as long as we maintain our current scope of activities, primarily consumer lending, we can continue operating under this framework.

So, as a rule of thumb, it's fair to expect that around 50% of earnings in Russia can be paid out as dividends to the Hungarian entity.

Gábor Bukta – Concorde Securities

If I may have one more. Today, the Russian court has lifted the temporary freeze of shares held by Raiffeisen, and I'm just wondering if you could make a bid for Raiffeisen Russia, if you can.

László Bencsik – Chief Financial and Strategic Officer

We have not thought about this. I don't know.

Operator

Simon Nellis, Citigroup.

Simon Nellis – Citigroup

Just a quick follow-up on capital return. I know you're probably not going to say much, but can you give us any steer on further buybacks? What's the plan there?

László Bencsik – Chief Financial and Strategic Officer

We have this recent approval of HUF 150 billion equivalent of share buybacks. I think Friday last week, we wrote it in the presentation.

Simon Nellis – Citigroup

It was HUF 32 billion (sic: the right number HUF 33.2 billion)

László Bencsik – Chief Financial and Strategic Officer

HUF 33.2 billion exactly. You are really good with numbers. We have done so far HUF 33.2 billion, and we obviously continue and then we will see, subject to how much money we make, subject to acquisitions and so on and so on. We may or may not continue or apply for another round of buyback.

Operator

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

László Bencsik – Chief Financial and Strategic Officer

Thank you.

Thank you very much for joining us today on this early August day, which, typically, is a time for holidays. I hope you'll be able to take some well-deserved rest before the intensity of autumn begins again. So once again, thank you for joining, and thank you for your excellent questions. We look forward to your participation in the next conference call.

In the meantime, we hope to see many of you in person, we'll be heading to New York, the U.S., and London for roadshows, so we'll be quite active throughout September and October. We hope to meet you face-to-face.

Thank you and goodbye!

Operator

Thank you for your participation. The first-half 2025 conference call is closed now.