TRANSCRIPT – Conference call

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Moderator: Catherine Pamplin
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Operator: Thank you for standing by, and welcome to the OTP 2014 Q1 results conference call. At this time, all participants are in a listen-only mode. There will be a presentation followed by a question-and-answer session at which time, if you wish to ask a question, you'll need to press star 1 on your telephone. I must advise you that this conference is being recorded today, on Friday, the 16th of May 2014.

I would now like to hand the conference over to your moderator today, Paul Formanko. Please go ahead.

Paul Formanko: Good afternoon, everyone. This is Paul Formanko from JPMorgan's banks team in London. Thank you very much for dialing in on Friday afternoon, and sorry for the short delay. From Budapest joining us are Laszlo Bencsik, Chief Financial and Strategic Officer, as well as Sandor Pataki, Head of Investor Relations and Debt Capital Markets.

Gentlemen, the floor is yours.

Laszlo Bencsik: Thank you, Paul. Good afternoon, and good morning, depending where you are. I'm Laszlo Bencsik, the CFO. Sorry for the delay. There seemed to be a technical problem on the operator's site. Hopefully, you have all been able to receive the presentation. Unfortunately it's not yet on the website, because the website itself had some technical problems, but it has been mailed to you, to your email address. So hopefully, all of you have got it.

As usual, I go through the presentation page by page, and at the end you will have plenty of opportunities to ask questions. So starting on page 2, the consolidated profit was HUF5.9 billion, which is above analysts' expectations.

We had one big adjustment item. As usual, in the first quarter, we had the bank tax booked for the entire year, so the after-tax impact of that, plus the smaller bank tax paid in Slovakia can be seen here as adjustments.

And that leads us to the adjusted after-tax profit line, which was HUF35.3 billion, year-on-year underpinning some decline, but it's much higher than in last quarter. There were very few, actually none, specific one-off items. There were no buybacks as such. The only kind of interesting item, which needs some technical explanation, is the tax shield.

As usual, the HUF rate actually moved against some of the currencies where our subsidiary investments are kept, and therefore, we have had a tax shield of HUF3 billion, which actually improved the tax line in the first quarter.

All these lead us to page 3. On the top of page 3, you can see the before tax result without one-off items line, which is HUF39.2 billion. Again, quarter-on-quarter one can see an improvement, while year-on-year there was a decline with reasonably stable operating profit levels and some decline in total income.

That is actually coming through the net non-interest income line. As you can see there, the quarterly result is only HUF5.7 billion, which is roughly by HUF4 billion lower than the usual numbers in previous quarters. The difference is coming from the Russian and Ukrainian operations, where the FX results and the fixed income bond portfolio results were negative in both banks, and that actually resulted in this lower quarterly number. This is not a recurring event, hopefully. We hope there won't be similar landslide changes in these two markets in terms of the currency. But if they happen, hopefully we will be even better prepared.

And then, there is another item, which is important here, and that affects the net interest income line in 1Q in Hungary. Similar to last year, this year as well, we booked the entire impact of the FX protection scheme under NII. That was HUF2.8 billion negative. So that is basically missing from the first quarter net interest income line.

Haven't we had these kinds of events, we would have a much higher total income line on a consolidated level.

Costs were reasonably in line with our expectations. There's a moderate 2% year-on-year growth, and quarterly there's a decline. But that's usually seasonal, so there's nothing surprising about that.

Risk costs were lower than the last quarter. Year-on-year there was some increase, mainly due to the higher Russian and Ukrainian risk cost levels.

I just got the news that the presentation is uploaded on the website as well, so you can access it there as well, if you haven't received it by email.

So continuing on page 3, basically, you can see the Core numbers. The Core result was better than anything what we have seen during the last couple of years, and that is basically due to the total risk costs line, which is as you can see, HUF6.4 billion, translating into lower than 1 percent risk cost rate in

Hungary.

Portfolio deterioration slowed down and we are quite happy with the coverage, except there was one item, which I kind of introduced during the previous conference call, a big project finance loan which went into 90 days past due category. You will see that when we look at the numbers.

For instance, on page 4, part of the main indicators, or KPIs, there are the coverage and the NPL ratio, and as you can see that the NPL ratio went up, and also the NPL formation was markedly higher than in previous quarters. But again, out of the HUF69 billion, HUF25 billion is attributable to this single item, which went into 90 days past due, the Hungarian project finance loan, which had been properly covered by provisions already. So it did not actually increase risk cost. However, it does count in the NPL. If we had taken out this item from the NPL ratio, then it would have been 20.7 percent instead of 21.2 percent, which was the consolidated level number at the end of the first quarter.

In terms of total income margin and net interest margin, on a quarterly basis they were pretty much flat with 8.3 percent total margin, and 6.4 percent net interest margin. The latter even increased somewhat. I will later on explain why.

On page 5, we have some kind of announcements, which we regard as potentially important and interesting for you. First and foremost, a guidance for Ukraine and Russia. Obviously, Ukraine made losses in the first quarter. It was HUF7.5 billion after tax, as well as Russia, which was HUF4.7 billion. Without going into too much detail here, which I will do later on, we indicated that we expect, on an annual basis, Ukraine to be negative this year, and we estimate the potential loss to be between HUF10 billion to HUF20 billion on an annual basis after tax.

In Russia, given the results of the first quarter and the portfolio quality developments, which have not been as good as we previously anticipated, we believe that it's actually unlikely that the Russian bank will have a positive contribution to Group earnings.

Ukrainian goodwill is obviously a question. Some of the analysts actually indicated, or expected, that the goodwill write-off happens during the first quarter, at the end of the first quarter. It has not happened yet. We still attach the highest probability to a scenario, where Ukraine is going through a consolidation process, and that consolidation process should lead and result to a better economic environment mid- to long-term. And pretty much, the valuation models are driven not by short-term, but mid- to longer-term expectations.

Having said that, it's obvious that the last few weeks events actually decrease the probability of this relatively positive scenario. We will continue to monitor the events closely, and by the end of the second quarter, in July, we will be through the elections. We'll see whether there is a new government in Ukraine which is endorsed domestically and internationally, and accepted domestically and internationally, and if that government actually settles or commits to a program together with the supranational institutions, namely the IMF and EU, and if they make a commitment, a firm commitment to institutional reforms, then we still believe that this positive scenario can manifest, and then there should not be a need for major adjustment in the company value there.

However, if this is not going to happen, then obviously we'll have to make adjustments to the company value, to the investment value, and therefore goodwill write-offs might happen in the future.

With regard to the FX mortgage issues in Hungary; there has been some development on the legal side around this issue, namely two events. One was that the Constitutional Court in March basically announced a decision regarding the question if the legislator can or cannot interfere into the contracts. The decision was that under special circumstances it can be done. However, if that happens, it has to take into consideration the interest of all the parties involved and the specific legal relationship.

The second one was the decision coming from the European Court of Justice. The question there was related to the FX margin of the FX mortgages, so the conversion margins, which have been applied by the banks, whether they were fair or unfair. And it seems that the European Court of Justice basically pushed the whole issue to the Hungarian Supreme Court, and said that the Hungarian Supreme Court should decide whether that was lawful or not by the banks to apply these FX conversion margins.

Now, the Hungarian Supreme Court, which we call Curia, announced that they will have a uniformity decision potentially during the fall, so in the autumn, and not before that. So that is a kind of further delay in this process during which, at some point of time, we will hopefully have a clear understanding what the legal framework regarding these loans is.

There's another event which happened quite recently: the Parliament decided to extend an eviction moratorium, so basically a foreclosure moratorium on mortgages. Each year we have it during the winter months, and then it is lifted from spring to autumn. Apparently, the Parliament now decided to extend the moratorium.

We had this before, if you remember. Starting from 2009, I think, until '11, there was a moratorium for a prolonged time. I suppose this is going to be also part of the discussions with the government at a later stage how to handle this issue in relation to other potential solutions targeted to the non-performing FX mortgage holders in Hungary.

Another topic is the capital adequacy and the ratios under the new legislation. We switched to the Basel III methodology now, more or less 100 percent. So from now, we only talk about Common Equity Tier 1 ratio and that ratio was 16.4 percent at the end of the first quarter. Again for us, in fact the change from Basel II to Basel III has not meant too much difference. Therefore there's no major deviation between the two numbers.

Last on this page, there are some monetary policy measures coming from the Central Bank, namely the National Bank decided to replace the two- week national bank bills by two-week national bank deposit facility, and that entails certain changes. First, the two-week deposits cannot be incorporated, i.e. they don't count for the liquidity ratios. Therefore, the banks are incentivized to move from this into government bonds.

And the second difference is that the foreign institutions can't place deposits into this facility. So that will potentially reduce the foreign holdings of these instruments. The impact on us is expected to be twofold. The net interest income might increase, because if you increase the level of government bonds as opposed to National Bank deposits, then this should provide a higher yield.

And as we understood from the National Bank, the National Bank is going to provide an interest rate swap facility, plus a repo facility. Thus by having more government bonds, our liquidity at least should not increase, but we would have somewhat higher yields in these liquidity reserves.

On the flip side is that obviously the sovereign exposure would increase, and that could have some impact on the risk profile of the bank.

Now, after this kind of longer explanation, going quickly through the coming pages. On page 6, you can see the details of the capital adequacy. Again as I said, the Group level Common Equity Tier 1 ratio was 16.4. On a standalone basis in Hungary, the Common Equity Tier 1 was 20.9.

And as you can see in Russia and Ukraine, there was a decrease in the capital adequacy ratios according to local rules and definitions. Obviously, this is partially related to the profit developments, i.e. due to the loss, but also due to the changing legislation and higher capital requirements behind the newly disbursed Russian consumer loans.

Page 7, the liquidity position, there's no material change there. Still very strong liquidity reserves at OTP Core, still close to EUR6 billion equivalent.

Going through page 8, you can see the profit before tax. And here, actually, the Group has split into two subgroups. One is Russia and Ukraine. Both countries of those banks are going through difficult times, and in these two cases we have had losses.

On the other hand, the other part of the Group, which includes Hungary, Bulgaria, and the rest of the Central Eastern European countries, where we have smaller operations, they certainly excelled in terms of performance. In Bulgaria, DSK Bank has achieved an historic high quarterly profit, and Hungary was very strong as well.

All the small banks, in particular Romania, did very well, and compared to their size, they made a remarkable turnaround during last quarter Serbia, for instance which have been loss making for a couple of years, actually managed to turn into positive during the first quarter this year. Likewise Montenegro, Slovakia, Croatia were all positive.

So, the CEE countries, and the CEE banks are doing better. This is obviously not surprising given that the economic environment around us in this part of the world is improving. The GDP growth rates are going up in most of these countries, and there seems to be increasing demand, as well, for banking services, as opposed to Russia and Ukraine, where the developments are quite in the opposite direction.

Page 9, total income. Again, on this slide, you can see the magnitude of change in the smaller banks. Actually, I think that's the most interesting on a year-on-year basis. In Romania, total income actually grew by 27 percent year-on-year; in Serbia it was 19; Montenegro 17; Slovakia 17 percent, respectively.. And the good news is that Hungary and Bulgaria managed to grow as well.

Ukraine grew as well, and here you can see the growth rates, which are based on the HUF reporting currency numbers. But if you look at original currency, which excludes the impact of the exchange rates, the weakening of these currencies, namely, the ruble and hryvnia, then actually Ukraine grew by 23 percent.

Russia went down 19 percent in HUF terms, but only 7 percent year-on-year in local currency terms, and that is related to the lower level of interest bearing, or performing loans, because the total gross loans increased in Russia, but the performing stock has actually started to decline.

On page 10, you can see the net interest income dynamics, which certainly support the total revenue numbers and kind of help us to dig deeper why the total revenues increased or decreased the way they did on the previous slide. Some important notes here. I already referred to the HUF2.8 billion impact we had in the first quarter at OTP Core, which is related to the cost of the FX protection scheme. So, that actually contributed to the decline. Without this, we had actually an increase.

And Bulgaria improved, too. That's due to our ability to continue to reprice deposits, and increase deposit margins there. I think these are the main points.

On page 11, the net interest margins. Hungary went down from 4.3 to 4.2 percent. But again, this number is affected by this HUF2.8 billion one-off impact in the first quarter, and this is the non-recurring part. The recurring part obviously is the continuing margin pressure based on the lower level of base rate environment in Hungary.

Russia improved, Ukraine improved, too and that might be surprising. Some of it is actually technical, because in this ratio, in the net interest margin, the nominator, the net interest income, there we use the average FX rate. And then for the denominator, the volumes, we calculate the average volume by dividing the beginning and end of period numbers.

Now obviously, when there's a strong deterioration of the currency at the end of the period, then it somewhat distorts these numbers.

But anyway, in Ukraine the increasing share of higher margin consumer loans contributed to this continued increase in net interest margin. And in Russia, again, part of this increase was actually technical.

Bulgaria improved and that's an intrinsic fundamental improvement, again, especially on the deposit side, where we managed to increase the margins.

Page 12 is about the loan-to-deposit ratios. Further decline happened during the first quarter, it went down to 88 percent. This is a trend which has started two, three years ago, and it seems to continue. And on page 13 and 14, we can see why this trend continued in the first quarter.

As you can see, overall quarter-on-quarter changes in total loan volume was minus 2 percent. This is FX adjusted, and then there are some numbers here which are worth of closer inspection.

First of all, in Russia the consumer loan growth was zero. In fact, if you look at the FX adjusted performing loan volume change, it was minus 4 percent. So it's already started to decrease, the performing loan volumes in Russian consumer lending. And that's basically in line with our previous expectations and indications as well.

In some of the other countries, on the other hand, the consumer loan activity continued, namely in Ukraine, Romania, Slovakia especially, but in Serbia and Montenegro, as well.

There's one quite big negative number here within Hungarian corporate, minus 6 percent. Just to remind you, this includes the municipality volumes, and during the first quarter this year, the municipality exposure consolidation by the central government was finished and concluded.

So during the quarter, basically HUF64 billion municipal loan was repaid to the bank, and another HUF38 billion was refinanced. So at the end of the quarter, we had altogether in Hungary HUF145 billion remaining exposures, which were originally municipality exposures. But in fact now out of the HUF145 billion, HUF137 billion is a sovereign exposure. So that pretty much explains why we had this large 6 percent quarterly decline.

If you turn one page and look at the deposits dynamics, then again, there are some numbers which require further explanation. You see minus 10 percent in Russia, and minus 8 percent in Ukraine. These changes are related to the events which took place in these two countries. However, during the period after the first quarter, actually, these numbers improved considerably and I will show you further on what happened since the end of the first quarter up until today. Basically, this deposit withdrawal stopped, and deposit volume started to increase in both countries.

And there's another sizable number here, minus 26 percent in Romanian corporate deposits. This is related to one single client which had a large deposit with us, and basically due to pricing consideration, we decided not to continue having this client deposit. The deposit rate at which they would continue with our bank was not acceptable to us. And given our Group level liquidity position, we became much more kind of conscious of the deposit rates, which we are willing to pay, even for large ticket deposit items.

On the following, we have a few slides about Hungary, Russia, and Ukraine. So, I start with Hungary, and I have to start with the macro on a few points, which I think are really important. Yesterday, the new GDP growth number came out, and it was 3.5 percent annual growth, which was much higher than expected, actually higher than our predictions as well, despite the fact that we have – we tend to be on the optimistic side regarding growth. So, now, we adjusted upward our GDP expectations in the range of 2.7 percent, even plus 2.7. My personal kind of guess is actually higher than 2.7 percent, but our official research forecast is 2.7 percent, but it can be even up to 2.8, 2.9 percent if things continue to develop as they have so far.

This very strong, I mean, compared to previous years at least, very strong GDP number is based on high industrial production growth. As you can see, 7.5 percent industrial production growth year-on-year. Investments started to grow, 9.4 percent growth year-on-year. Obviously, we have to make the remark that it is primarily public sector investment, and the private sector investments have not started to grow in a similar way as the public sector.

Just as important is that the household consumption started to grow. Again, this was expected, given the increasing real wages in Hungary. Real wages started to increase because, actually inflation dropped below zero, so the last inflation number was minus 0.1 percent. The base rate is at 2.5 percent. My guess is that this low inflation number will create more room for the monetary policy decisions.

Unemployment dropped. If you look at the content of it, it's not obvious that the fundamental improvement was as much as this number shows, because it includes public works, and those who work outside the country. But nevertheless, the fundamentally improvement is there. Maybe the magnitude is not as strong as these numbers suggest, but the trajectory is certainly positive.

So, with this backdrop, with this positive macro environment trajectory in Hungary, we are becoming, actually more optimistic regarding the market opportunities in the country, and there are a few indicators which already show that it is right to expect better demand characteristics in Hungary than before. And one early indicator is the new mortgage loan applications. We had 24 percent more applications in the first quarter this year than last year. So there's 24 percent growth. Obviously, the base is quite low. But nevertheless, this is the first time when, for many years, where we actually see such a robust growth on this line.

Corporate continued to grow. Our market share increased to 12.5 percent, and compared to the 2008 number, this is, again, a quite remarkable improvement, and we hope and we strive to continue to improve in this respect year-on-year.

Corporate loan volumes to Hungarian corporate customers were 7 percent. Again here, the market still was in decline, a similar number, but minus 7 percent. Now given that investment started to grow and demand – I mean, consumption has started to grow, hopefully this number will look somewhat better as well for the entire market. And certainly for OTP, we are striving for similar growth rates for this year as well.

In terms of our retail market share in savings, in household savings, we kept up the good performance, 28.2 percent market share altogether, which is actually improvement on the 2012 year end number and continues to be strong.

Now the following three pages basically give more flavour and detail for these Hungarian developments, but I think I managed to communicate the most important messages, so I'd like to jump to page 20.

Starting with page 20, we have a few slides about Russia. Obviously, here starts the more difficult part, the Russian and Ukrainian story. In Russia, on page 20, you can see the volume dynamics. So, first of all, on the markets you see a very fast deceleration of the consumer loan market growth, which you have witnessed for the previous decade basically. POS actually declines, and credit card and cash loan barely grew on the market. Again, these numbers are the gross loans, but given the fact that the NPL ratios are going up, the non-performing part of this portfolio has increased. I assume that's true for the market, as well that the performing loan volumes actually declined, if we had these numbers.

Now, for us certainly, the growth volumes in Russia POS declined by 7 percent, credit card went down by 4 and cash loan by 7 percent, respectively. But if you look at only the performing loan portfolios, then actually POS declined on a quarterly basis by 13 percent, credit card was flat, and cash loans increased only by 5 percent.

On page 21, this is a slide we also used during the previous conference call, and we still don't have the first quarter numbers for most of our competitors, so it doesn't serve very much its full purpose. I might just skip it, and going to page 22, there's more flavour on portfolio dynamics. Namely, on the left side of this page, you can see the new disbursement numbers, and as you can see here, there was a huge drop in point of sale loan disbursements, 34 percent in the first quarter on a year-on-year basis, while credit card no new volumes, and cash loan disbursements were still – I mean credit cards went down year-on-year, but cash loan was still reasonably flat compared to the two previous quarters.

And then, I think what is probably more important is the deposit story. As I've said, the first quarter, retail and corporate deposits declined in Russia, both in ruble and in dollars for FX terms, or FX deposits. Having said that, if you look at the period after the first quarter, so since the first of April up until very recently, then we can see a change in the trend. So, both in retail ruble and dollar deposits, we have experienced deposit volume increases.

And in corporate, the ruble volume still declined somewhat, but the FX volume started to increase. So, it seems at the moment that this trend, this withdrawal only happened in the first quarter, and it pretty much seems to stabilize in the second quarter in Russia.

Now page 23, which is probably the most important and interesting set of numbers for Russia, shows the risk cost rates for the three product categories, three main product categories we have in Russia: point of sale loan, credit cards and cash loans. Now unfortunately, these numbers don't convey a very positive message. In POS loans, risk cost rate was 14 percent. And this is the product group where we actually see improvement, and that improvement actually translates into somewhat moderating risk cost rates.

Having said that, actually January and even February was quite difficult and unexpectedly bad in terms of NPL formations, and as far as we understand from other market participants, it happened to them as well. So it hasn't been only an OTP specific issue. January, February was worse than anybody expected.

Now, this might resonate with the deposit developments, so certainly there was a negative turn in sentiment in Russia in the first quarter, and that's materialized in deposit withdrawal from banks and certain flee of capital from the country and also a lower proximity to service the loan requirements of customers.

March was better, but we'll see how it's going to develop during the second quarter. Nevertheless, as I've said, the POS loan number for the first quarter, 14 percent, is acceptable and it's in the range, actually, we expected. However, it's at the higher end of the range what we expected, and that's due to the January, February difficult months.

Credit cards didn't improve, and actually here January, February was worse than what we previously expected.

And cash loan, that's the product where we did not expect much improvement in the first quarter, and it did not improve either. So in cash loans as well, you can see a quite sizable increase in risk cost rates.

Now, the obvious question is how it's going to develop in the future, how these rates are going to develop? I don't have the precise answer. It all depends how fast the cycle will pass us, and have how much time this wave of deteriorations will take to settle down.

Looking at the more detailed vintage level numbers, there's no indication in the direction of further worsening, at least. So we expect the second quarter to be somewhat better than the first quarter, basically, at least overall, but certainly in POS loans, but we will see. Because again, actually the mood and the propensity to pay the loans depend on the overall environment, as well very much on the overall mood in the country.

At least the deposits numbers we disclosed here, show that certainly trust increased in the country, at least from retail participants on the market.

Page 24 shows the usual credit quality indicators: soft collection, hard collection. Soft collection efficiency actually dropped in the first quarter, and hard collection didn't improve, and that is obviously goes in line with the higher risk cost rates, which we have seen on the previous page.

The POS part of the business is actually, as you can see, improving on the short time frame indicator basis, as well. And that gives us further hope that it will continue to do so in the coming quarters. This is a portfolio where we feel the most confident in terms of future improvements, and in terms of our ability to forecast the future developments of the risk cost indicators.

So that was the story in short about Russia, and now switching to Ukraine. This is a page you have seen before, basically, adding some more information. In Crimea we used to have eight branches. We closed all of them. Under the Ukrainian banking license we are not allowed to operate in Crimea. So, that leaves roughly $33 million net loans still outstanding to Crimean clients, and that's 2.5 percent of our total net loan portfolio in Ukraine.

Obviously, the status of these loans is difficult. Part of this portfolio is corporate: few of these corporates actually operate in other parts in Ukraine, and active in other parts in Ukraine. That's the part of the portfolio where we are quite hopeful that we can continue the client relationships, but it's not clear what we can do, for instance, with the retail exposures, what we have left in in Crimea.

There are two other regions where the recent problems emerged, Donetsk and Lugansk. In these two regions, we have altogether 17 branches and we had to suspend operations in two of them, basically for security regions. It was just not safe to continue to operate these branches for the personnel working there and for the clients who were to come to the branches.

But other than that, the rest of the branches are open and operate. In Donetsk we have 3.8 percent of the total net loans, and in Lugansk we have 1.5 percent of the total net Ukrainian loan portfolios. So even these two regions are not constituting a major part of our activities in Ukraine.

Overall, talking about our business activity and lending activity, cash loans, we stopped in April. So, we are not issuing more cash loans. We stopped cross-selling credit cards, but we continue with our POS business except these three regions, Crimea, Donetsk, and Lugansk. Obviously, we've lower levels and more strict risk conditions, but we continue to operate our POS business.

And corporate lending goes on, obviously, with much more caution and consideration in terms of which clients and what to do.

On page 26 you can see the deposits dynamics in Ukraine. As you can see, if you look at the period from the end of January until 5th of May, then the deposit volumes total actually increased by 6.6 percent, and within this hryvnia deposits increased and FX, primarily dollar deposits, decreased somewhat, but overall deposit volumes actually increased.

So that shows that after the first withdrawals in January, we have actually managed to increase the deposits base in the country.

And the other interesting number is obviously the portfolio quality. So far we don't see, at least in the 90 days plus due volumes a major deterioration, the increase was very limited at the end of the first quarter. But we already see deteriorations in the earlier buckets in the 30 to 60 and 60 to 90 days buckets. But it's quite obvious that the high level of provisioning happened not because of the immediate deterioration of the portfolio, but rather due to the fact that the currency weakened.

Basically, the closing rate at the end of the year was 8.3, but the dollar hryvnia cross currency rate went up to almost 11 by the end of the first quarter, so this was a quite sizable weakening of the currency, plus the downgrade of the sovereign forced us to increase coverage. As a result, the coverage ratio in Ukraine increased from 80 to 86 percent. But obviously this we had to do in anticipation of portfolio deteriorations, and also in order to maintain loan-to-value numbers in the FX non-performing portfolios.

Now, finishing the Ukrainian and the Russian stories, there's one page on operating costs. There hasn't been any real exciting developments here. The year-on-year growth rate was 2.0%, which is better than we used to have in previous years. Obviously, the weakening of the ruble and the hryvnia helped, and therefore, in foreign currency terms we actually have lower numbers.

In Russia in HUF terms we had a year-on-year growth of 1 percent, but the actual growth was 5 percent if you look at the original currency in ruble, which is related to two activities that increased:, one is the collection activity. There was one slide previously which showed the number of collection personnel, which increased. At the beginning of last year it was around 200, now it's around 400. And the other one is that we actually opened new branches during the course of last year, and they all contribute to somewhat higher cost levels.

Page 28, the most important risk indicators. I've pretty much talked about them. So I don't think there's further need for explanation.

Page 29 is potentially more interesting. Here we detail the altogether HUF 69 billion increase in NPLs, and out of the 69, 25 billion is attributable to this single project finance loan in Hungary. Without this the total number was only 45, which is not far from the trend we started to experience last year. And if we look country by country, then Hungary after taking out this project finance, it would have been 8 billion, which actually fits nicely to the previously declining trend.

And where we had a pretty big number, it's Russia. It was 26 billion, which equals to the historic highest number, which we had during last year, the second quarter, and certainly did not improve compared to the last quarter. And the rest of the portfolio shows fairly low numbers. The only potential exception is Serbia where we had few corporate clients; old corporate clients going into default, but the rest of the Group demonstrate very decent and smaller numbers, around zero.

Page 30, you can see the risk ratios indicators for the four largest markets. In Hungary and Bulgaria risk cost rates went below 1 percent. That's quite good. Previously we indicated that in these two countries we expect the run rate to be in the normal times around 1.2 percent. It went even lower than that in these two countries.

It doesn't mean, however that we'll have this below 1 percent levels for the whole year for these two, but certainly it's a quite positive indicator in terms of potential expectations that the risk cost rates in these two countries can be lower this year than last year.

Coverage in Hungary and the NPL ratio have obviously been affected by this project finance loan. As you can see the coverage actually decreased quite substantially to 80 percent.

And in Ukraine, again, there was a big change in the coverage ratio, which was due to the weakening of the currency, and that resulted in this very high risk cost rate.

Page 31, you can see further details, portfolio quality, but there's nothing new on this page, I believe. And page 32 shows the restructured retail volumes, which did not increase. So they kept on being at 2 percent. Here we might see some increase in Ukraine as we have, again, the weakening cycle of the currency. The bank started to refocus on restructuring and trying to assist those clients who went into payment problems, but are willing to cooperate with the banks. As a result, in Ukraine there might be some increase in the coming quarters in this number. For the rest of the Group, there's no reason to expect any major change.

And that pretty much concludes the formal presentation part of this conference call. So I like to give you the floor and ask you to make your questions. So operator, please open the floor for questions.

Operator: Thank you. As a reminder, if you wish to ask a question, please press star 1 on your telephone and wait for your name to be announced. If you wish to cancel your request, please press the hash key.
Your first question comes from Pawel Dziedzic. Please ask your question.

Pawel Dziedzic: Hi, good afternoon. This is Pawel from Goldman. Thank you for the presentation. Just a couple of questions from my side. The first one is actually on Ukraine. Would you be able to give us a little bit more sensitivity on this 10 billion to 20 billion loss estimate for the year? You mentioned in your presentation that this estimate assumes that the conflict with Russia will settle relatively shortly, and that would have positive implications for your performance. Can you perhaps tell us what level of deterioration in asset quality you have assumed in the current guidance and what level of losses we could see if the situation simply does not improve?

Perhaps, in other words, it would be helpful to understand, and if you could quantify that for us, what a material negative impact means when you refer to this risk of Ukrainian subsidiary value on the medium-term view. Is it just a method of writing off goodwill, or perhaps the level of losses can have capacity to impact your tangible book value?

And the second, and to some extent similar, question on Russia and your guidance for negative results this year, you mentioned that the bank is expected to return to profitability in the fourth quarter. So, firstly, if you can please comment if this reflects improvement in market conditions, or perhaps it's driven by internal clean-up and restructuring?

Also, can you share your thoughts on how do you think, how long it might take before the Russian operations actually return to some level of more reasonable profitability, let's say low- or mid-teens ROE? And what would have to happen before that takes place? Thank you.

Laszlo Bencsik: Very easy questions you have. Ukraine, actually the short-term indication of 10 to 20 billion loss does not assume a short-term improvement in the environment. It doesn't assume further serious escalation either. So, let's see, if we all translate everything into the exchange rate, and exchange rate around 12, which is also the current rate, would lead us to this level of loss.

Now this – our reference to normalization is more related to the mid- to long-term expectations, because even if there is normalization in the environment, the short-term impact won't be very positive. We don't expect for the exchange rate, for instance, to go back to 9 to the dollar, even if there's a positive turn of events.

So, basically, the HUF 10 to 20 billion loss does not assume a fundamental short-term improvement. If that happens, then we can actually do better than this range. But on the other hand, it doesn't assume a further escalation of the conflict, either. The scenario we expect is a continued disruption in these two regions of Ukraine and continued tensions with Russia, but obviously no outright military conflict as such, for instance, between the two countries.

Now on Russia …

Pawel Dziedzic: Perhaps just before Russia. Medium-term impact, this significant impact that you refer to, can you somehow quantify that for us, and again, is it just possible write-off of your goodwill, or is it actually something more meaningful that you have in mind?

Laszlo Bencsik: I mean the goodwill itself is meaningful. It's HUF27 billion.

Pawel Dziedzic: Can you confirm that that would not have impact on your capital ratios?

Laszlo Bencsik: The goodwill write-off would not have impacts on the consolidated capital ratio. It would actually have a positive impact, because we would have a tax shield applied to the write-off. And that applies to the investment value as well. On the consolidated level, the investment is not there. It's only in local books. If that was the case, which I don't know, that we have to write off not just the goodwill, but also part of the investment itself, that investment is there in the local books, and that would actually create a tax shield.

But the investment and the goodwill, the total amount in the local capital calculations, and the goodwill in the consolidated one is already deducted from the regulatory capitals. In this sense, there would be no impact on the capital adequacy ratios.

But I don't know. The process is actually such that at the end of each quarter, we make a value assessment, right. We update our long-term cash flow models for these banks, our profitability models for these banks, and then we have a certain result which we then discuss with the auditor. I mean, if there's a change, it can be less, same, or more than the goodwill, or there may not be any change.

Was it clear?

Pawel Dziedzic: Yes, that's clear.

Laszlo Bencsik: OK. Now Russia, in a sense it's even more difficult what's going to happen in Russia, or – not even exactly what, but when. Because the credit cycle is turning, right, and it's clear that now we are at the adjustment phase of the credit cycle. So the question is where the negative adjustment will peak, and– at what levels and when? And have you already reached that peak or not? Honestly, we don't know exactly, because it depends on our customers' willingness and ability to pay.

Now obviously the slowing down of the GDP growth there, actually is not helping and Russia might actually slip to slight recession, but the most important number here is the unemployment rate, and we expect the unemployment rate to increase somewhat, and the question is if this increase will be moderate or actually be much more than what we expect. We expect 6.6 percent unemployment level at the end of this year.

Now if unemployment starts to grow, then the credit cycle adjustment will take longer. So I can only say what I've said during this presentation. What we can read out from the data, there is no indication that further worsening should happen compared to what we've seen in the first quarter. And we actually expect the opposite.

But again, what happened in January and February, we didn't see in November and December. There are certain things which we are unable to predict just looking at the kind of historical behaviour of the portfolio.

So our best guess or best estimate is that what we have said: on a yearly basis Russia will probably not be able to have a positive contribution to the Group profits. On the other hand, we expect a quarterly improvement, and then hopefully by the end of the year, by the last quarter, the bank will turn into positive.

And this is just related to this cycle adjustment taking place and the wave of defaults going through the old portfolio. Because the new vintages from the second quarter last year, show much better characteristics than the old ones. And that's the reason why, for instance, in POS you already see improvement. There the portfolio turns around in a year, but we still have the old portfolios in in credit cards and in cash loans, and their behaviour is less predictable.

So that's more or less, what I can say related to this.

Pawel Dziedzic: That's very good. Thank you.

Laszlo Bencsik: Thank you.

Operator: OK. The next question comes from Gabor Kemeny. Please ask your question.

Gabor Kemeny: Hi, a question on your capital ratios. You say in the presentation that you had roughly minus 50-basis point capital impact from a negative revaluation results. Can I assume that this is related to the devaluation of the hryvnia and the ruble?

Laszlo Bencsik: Yes.

Gabor Kemeny: OK. And you had, on the other hand, a positive impact from lower RWA in Russia and Ukraine. Was this driven by the lower asset base because of the devaluation of the currencies, or did you change your risk weights there?

Laszlo Bencsik: No, no. That's due to the devaluation of the currency, especially the Russian portfolio is quite big and it's all in rubles. So the whole thing is related to the risk weighted assets' decrease.

Gabor Kemeny: OK. It's clear.

Laszlo Bencsik: Also it's due to the net volumes actually declining in both countries, because as we start provisioning more, in standard method, you actually apply the risk weights to the net volumes.

Gabor Kemeny: OK. That's clear.

Laszlo Bencsik: Minus provisions, and as we provision more and the gross volumes don't grow so much, the net volumes actually get smaller. So the risk weighted asset decline is primarily coming from Russia and Ukraine. Having said that, in most of the other markets, namely in Hungary, we had negative loan growth, so that had some impact as well on the risk weighted assets.

Gabor Kemeny: And finally, you say that lower market risk capital requirements had a positive, almost 40 bps impact. Despite the devaluation of the currencies, you have a positive impact from lower market risk. Can you give us a bit more detail on that?

Laszlo Bencsik: Yes, but it's going to be quite technical. Basically, at the end of the first quarter, we have everything according to IFRS. Previously, the Hungarian part was in local currency. And in local currency we have this open position. That's what you can see – in each quarter we talk about this tax shield related to subsidiary investments. The tax shield is there because if we have an open position in local currency according to local accounting standards, we have an open position, because the local accounting standards treat differently the subsidiary investments than IFRS.

And we close the position in Hungary according to IFRS. So therefore we have an open position according to local accounting standards, and that's why we actually have this tax impact, a positive or negative, in each quarter when the HUF currency rate moves.

But this has an impact on the market risk too, because in the past regarding the Hungarian portfolio we used local standards when we calculated the capital adequacy. And now as it switched into IFRS fully, actually this open position in Hungary disappeared because there's no such position in IFRS. And therefore, the FX open position in Hungary went down considerably, basically decreased by 70 percent or 80 percent. It was a considerable part of the open position we had in Hungary, and therefore, the market risk, the FX risk and capital requirement decreased substantially.

So it has nothing to do with Russia or Ukraine, or the exchange rates differences there.

Gabor Kemeny: That's very helpful. Thank you.

Laszlo Bencsik: Yes. Other questions, maybe.

Operator: Yes, there are still five questions pending actually.

Laszlo Bencsik: Yes.

Operator: The next question comes from Margarita Streltses. Please ask your question. Margarita, your line is now open.

Laszlo Bencsik: Maybe another participant.

Operator: I think so. The next question comes from Andrzej Nowaczek. Please ask your question.

Andrzej Nowaczek: Thank you. I have a question on corporate lending in Hungary. What exactly explains this strong performance relative to competitors? Is it competition getting weaker? You, perhaps taking more risk? And what is your growth expectation for the whole year in corporate lending?

Laszlo Bencsik: This is not a new phenomenon. If you look, at our market share development since 2008, it has been gradually increasing. And that reflects, I think, different strategies. Some of our competitors decided to cut back on their lending activities in Hungary and deleverage and reduce the external funding they provide to their Hungarian subsidiary. So there are a number of banks who have reduced their sales activities in Hungary. Some of them also cut the franchise, the branch network and staff, and so on and so on. And we obviously managed to benefit from this situation.

We have not relaxed our risk standards, quite contrary, actually. We haven't relaxed our risk standards. It's not due to taking extra risks. It's basically due to the fact that we kept on lending and serving customers where some of our competitors decided not to be as active in the market.

This might change. We expect more competition coming on the corporate front in the future, because the macro-environment, I think, is quite promising, and there's a certain level of positive thinking towards the potential policy environment in the future being, maybe, more friendly to the bank sector than previously.

So actually, we sense more appetite for competitors to start again actively corporate lending in Hungary. So in this sense, the competitive environment will be more difficult. On the other hand, hopefully the fundamental demand will be better, because the total market, including us, year-on-year actually declined by 5 percent. So this large improvement in market share happened due to two things. Us increasing volumes, and the rest of the sector actually decreasing volumes.

Andrzej Nowaczek: And I think it's at the time of the AGM that you were talking about 10 percent growth in corporate lending this year …

Laszlo Bencsik: That's the optimistic target, right. That was the target for last year as well. We managed to grow roughly by 7 percent on a yearly basis.

Andrzej Nowaczek: And what about …

Laszlo Bencsik: And we're doing some reorganization and further strengthening our organizational capability to serve corporate clients. So, hopefully this will give the extra energy needed to get closer to this 10 percent target. But certainly, that's the target what we have. Yes, I can confirm that.

Andrzej Nowaczek: And what about mortgage lending, also in Hungary? How do repayments compare to new production? And again, what is the outlook for the rest of the year?

Laszlo Bencsik: Still repayments exceed new production. On page 16, you can see these two numbers. The new applications increased and the disbursements increased in the first quarter compared to last year first quarter, and new applications increased by 24 percent, and actually disbursements increased by 18 percent. But even this increase will not be enough to compensate the repayments. So we don't expect stock growth in the mortgage book this year.

Last year the decline was 7 percent. Hopefully, it's going to be less this year than 7 percent. But still the new production is much less than during the peak times, let's say between 2004 and 2008, so even this sizable year-on- year increase in new production will not be enough to compensate for the repayments and disbursements.

Andrzej Nowaczek: OK. Thank you very much.

Laszlo Bencsik: Sure.

Operator: Thank you. Your next question comes from Margarita Streltses. Please ask your question.

Margarita Streltses: Hi, let me try again. Can you hear me now?

Laszlo Bencsik: Yes.

Margarita Streltses: OK. Perfect. So, thank you very much for the presentation. Three questions from me, please. So, what was driving the strong fee performance, in Hungary specifically, considering that we had some adverse regulatory developments in Q1, including the free cash withdrawals. So, could you elaborate a little bit what fee dynamics do you expect going forward?

The next question is on cost of credit, in Hungary as well. So, we've seen a significant improvement in the quarter. And can you let us know whether you expect similar trends to remain for the full year 2014?

And my third question is more theoretical. If you foresee a potential scenario which may cause you to exit either Russia or Ukraine? Or, you do not consider that at this stage in any case? Thank you.

Laszlo Bencsik: Now, basically the first question related to the free withdrawals. It works in a way that customers have to apply for this, and the first month where it actually happened was from February, so it will have a gradual kind of ramp up. So in the first quarter, you don't yet see the full impact of these free cash withdrawals in Hungary.

Nevertheless, a quarter-on-quarter basis, actually, there was some decline. Now the year-on-year improvement is certainly due to the fact that we repriced as much as we've been legally allowed to, and try to pass on as much of the transaction tax as we could.

Cost of credit, that was your second question?

Margarita Streltses: Yes, in Hungary. Provisions.

Laszlo Bencsik: Provisions. OK. So provisions in Hungary went down to less than the risk cost rate went down below 1 percent, and the risk cost was actually HUF6.4 billion. Again as I've said, this is almost too good, so I don't expect this level to continue for the whole year. As we have previously indicated in Hungary and in Bulgaria, we expect the normalized risk cost rate to be around 1.2 percent. So, this is certainly lower than that.

There are a number of reasons why it was so low. One element is the operation of the National Asset Management Company buying up non-performing mortgages, at least part of them, where the customers are in a difficult socio-economic condition, and when we sell to this entity, we have write-backs, because we have provisioned more than what we get.

And then, in general, the first quarter was reasonably good. I'm not saying it can't continue, but that would be actually better than our previous expectations.

The third question was under which scenarios we would exit from Russia and Ukraine. In Ukraine, we have seen difficult times, right. In 2009, 2009 it was very difficult, but then in '10, '11, '12, the subsidiary started to make profits, and actually this year seems to be less problematic than 2009 was. Certainly the structure of the bank is much more durable. have The resistance of our operation is certainly stronger as we have much less FX retail exposure and so on and so on.

As long as we have funding outstanding)to Ukraine, it's actually a very difficult decision to decide on an exit. Certainly, I can't really think of scenarios under which we would make that decision. I mean, we are primarily servicing our clients, and the only scenario, if operations are impossible, right, in a certain environment, then clearly we can't continue. But I think we are very, very far from that in Ukraine. So this scenario is not on the table.

Now Russia, we strongly believe that this is the credit cycle, what's taking place in Russia, and eventually the consumer lending segment will come back to profitability, certainly lower level profitability than we had seen before, but acceptable levels of profitability. The question is, who's going to survive and who's not going to survive during this difficult interim period? That's the first question.

The second question is for how long this interim period will last? Now we feel to be well-prepared to survive this interim period, and we have a strong belief that after this credit cycle adjustment is finished, there will be still a quite big and attractive market to be harnessed in Russia. So we still regard the Russian market as a very attractive one, especially if you compare to opportunities in other parts of the region where we operate. The size of the market and the potential depth of the market in Russia has not gone away. It's clear that this adjustment period will be costly for all the players, and it is a question who is going to stay, but we are certainly determined to stay, and believe if we do so, then we will reap the benefits in the future.

What I don't know is, how, when, exactly that future is going to happen. In other words how long this adjustment will take place? So, the short answer is that– it's not a scenario which we are considering, to exit either of these markets.

Margarita Streltses: This is very clear. Thank you very much. Just a little follow-up for me. Can you remind us the details of your FX protection scheme, just the main condition?

Laszlo Bencsik: The FX protection scheme?

Margarita Streltses: Yes, the one that was charged that …

Laszlo Bencsik: We might have actually page – on page 18.

Margarita Streltses: OK Yes, I can see that. Thank you very much.

Laszlo Bencsik: You have a quite detailed – OK.

Margarita Streltses: Yes. So, you do not – there would be no additional charge for this year, right? That's a one-off charge?

Laszlo Bencsik: All the charges are accounted for in the first quarter. The number we booked in the first quarter assumed some growth, some further increase in the participant share rate, but we don't assume the participation rate to go up to 100 percent. If that happens, then actually there will be another kind of proportional impact.

Margarita Streltses: OK. Thank you very much.

Laszlo Bencsik: Sure.

Operator: Thank you. The next question comes from Riccardo Rovere. Please ask your question.

Riccardo Rovere: Good afternoon to everybody. Just a couple of questions. Yesterday morning, a bank in continental Europe was asked to start risk-weighting the sovereign exposure in what they call their home markets. Among those, there was Hungary, too. Can you remind us what is the risk weight treatment of your sovereign exposure so far under the standardized approach? If it is zero percent or if there is some risk weight attached to that?

And the second question I had, from time to time we read in press, and so on, that OTP might be interested in getting bigger here and there. What's the state of the art here? Are you happy with the size you have here? Is the current situation in Russia and Ukraine preventing any kind of movement from your side? Thank you.

Laszlo Bencsik: The risk weight is zero of the sovereign exposure, to the Hungarian sovereign. In terms of acquisitions, certainly we don't have intentions to grow through acquisitions in Russia and Ukraine, and we have not had them before. So in this sense there's no change. And for the rest of the markets, we are quite opportunistic as we have said.

Regarding the smaller banks, we would very much like to make an acquisition, which obviously at the value which we regard as right in order to grow our operational size and reach operating activity level, which is actually optimal. I mean, these other countries are Romania, Croatia, Serbia, Slovakia. We have recently made a small acquisition in Croatia which fits into this picture and strategy.

We don't feel to be hindered by the recent events in Russia and Ukraine in terms of our M&A aspirations. So, no, nothing has changed on this front.

Riccardo Rovere: So, if I understand it correctly – I understand what you stated on the Ukraine and Russia. But if I understand it correctly, what's currently going on in Russia and Ukraine is not, how can I say, let's say serious enough to prevent you looking somewhere else than Ukraine and Russia?

Laszlo Bencsik: That's correct.

Riccardo Rovere: OK.

Operator: Thank you. Your next question comes from Stefan Maxian. Please ask your question.

Stefan Maxian: Good afternoon, thank you. Three questions left from my side, one regarding the corporate loan growth that you talked about. This 7 percent in Hungary, how does this actually refer to the figures of OTP Core's statement, where you had in medium and large corporates, like, 1 percent loan growth year-on-year, and on SME loans, I think it's like 3 percent. So, this 7 percent looks quite high compared to that figures.

The second question, with regard to the mortgage book that you talk already about new production and the repayment, just to remind us what is actually now the margin difference of the new production and the repayments, or the back book, in your overall mortgage book, roughly, right now?

And the third question, you already talked about M&A. But maybe on M&A in Hungary, what are your considerations right now with regard to potential acquisitions, especially with regard to the current bank tax regime there? So, does an M&A make sense if you have to pay that higher bank tax at the moment? Thank you.

Laszlo Bencsik: The first question, the basically Hungarian corporate volume includes municipalities, and that's what I tried to kind of explain, and also what happened to the municipality volumes. They were repaid, partially repaid, partially refinanced by the sovereign. The 7 percent is related to Hungarian corporates, and that number is actually not – I mean, if you look at an IFRS balance sheet, it's not there, because that's according to Hungarian statutory definition of Hungarian corporates. So that's another dimension, these two ratios actually are not immediately reconcilable.

Plus what you see here as corporate volumes in Hungary, it does not just include municipalities, but it also includes those exposures which are not to Hungarian entities, but which are booked in Hungary. So let's say a loan to Montenegro in the corporate, or a project finance exposure, I don't know we don't have much of that kind, but for instance, we might have some booked for instance, in Hungary. And then they are declining, because we are not booking any more new for many years.

So these two numbers, again, don't reconcile 100 percent, because they look at different dimensions. One is just the kind of IFRS product definition, which is a broader category, and the other one is smaller segment representing loans to Hungarian corporate, that includes large, medium, and small, and even micro clients.

So again, there's a difference and smaller segment numbers are not available for the market. So we don't know the SME market as such in Hungary. We only know the total corporate market, including SMEs and large corporates. So that's the best statistical data we have for the market and this is different than our structure.

So hopefully this answers the difference.

Stefan Maxian: Yes. Thanks.

Laszlo Bencsik: Now the margin of the new book and the back book: the spread of the new production in local currency is 5.5 percent and the existing book is between 6.5 to 7 percent.

Stefan Maxian: OK.

Laszlo Bencsik: M&A in Hungary, I would say the bank tax as itself is not holding us back from acquisitions in Hungary. Acquisitions are not good or bad in general. They depend on the price, i.e. what is the price you have to pay for a certain asset, and what's the value you attach to a certain asset. So everything is worth something, or something negative, right? There is a price for everything.

Certainly, for us being the largest player in Hungary, the potential synergy is also the largest. The cost synergy, which we could gain from an acquisition is the largest in the case of OTP, and that's a potential value creator.

And the bank tax, that's a fixed cost. When you talk about an acquisition, obviously, it is part of the value. And it just depends to which extent the value is reflected in the price.

Stefan Maxian: Right. But if you would …

Laszlo Bencsik: The fact that we haven't done anything suggests that this is not a very easy process, either.

Stefan Maxian: Yes. But if you would buy a portfolio and not the whole bank, then you would not have to pay the bank tax for that, right, because it's based on I think …

Laszlo Bencsik: But there are no sizable portfolios for sale. Why would someone sell a part of the portfolio and still keep the obligation to pay the bank tax?

Stefan Maxian: No. No. That's for sure, yes. OK. Thank you.

Laszlo Bencsik: Many kind portfolios are for sale, we would be certainly interested.

Stefan Maxian: Yes.

Operator: Thank you. Your next question comes from Hugo Swann. Please ask your question.

Hugo Swann: Hi, there. Thanks for the presentation. I wonder whether you could give us a little bit more guidance in terms of your net interest margin in Russia? As you said, it's been a bit confused this quarter by the volatility in the FX rates. And we've seen it declining over the last couple of quarters. What are you expecting in terms of outlook? And how do you think credit quality is going to continue to affect that? That's my only question. Thank you.

Laszlo Bencsik: The APRs should increase because we are pricing upwards.

In case of all of our products we have been increasing the APRs. The market allows that because all other players are experiencing the same difficulties related to risk cost. Everyone is cutting back on new sales, therefore, there's a room to increase pricing. The only kind of counter-balancing trend is the declining interest bearing assets.

So despite a fact that gross loans actually grow, the performing part is not growing. But the APRs themselves have been growing, and should continue to grow.

Hugo Swann: OK. So, you would expect it to sort of increase slightly, but – well, OK. That's …

Laszlo Bencsik: The trend should be slightly increasing, but even without this technical impact, the margin would have increased in the first quarter, as well. The magnitude was kind of exaggerated by this exchange rate difference.

Hugo Swann: OK. That's great. Thank you very much.

Laszlo Bencsik: Sure.

Operator: For further questions, please press star 1. There is one more question from Riccardo Rovere. Please ask your question.

Riccardo Rovere: Thanks for taking this question again. Just to get back one second on the risk weight. Is there any debate in Hungary whether the sovereign exposure should be somehow, let's say, changed and moved up from the current 0 percent?

Laszlo Bencsik: No. There is not.

Riccardo Rovere: OK. Thanks.

Operator: There is one more question from Pawel Dziedzic. Please ask your question.

Pawel Dziedzic: Hi, just one follow-up question from me, as well. Can you perhaps update us on where you stand with local AQR process? And if the recent decision made by Hungarian parliament that you referred to, that extends eviction moratorium indefinitely, could have any impacts on asset quality, going forward?

Laszlo Bencsik: The AQR started, we started it two months later than the rest of the European banks. But we should be able to finish before the end of August. I know that we have to be prepared for the stress test, but so far we don't have results which we could share with you. In terms of impact from portfolio quality of the moratorium, this is hard to tell. We do very few foreclosures or evictions. If you look back, since 2008 OTP has initiated only 12 evictions or foreclosures. So, the technical impact itself is minimal.

Now, what is hard to quantify is the impact on moral hazard, or the willingness to pay, or the willingness to cooperate during the work out procedure on the side of the client. And this is actually hard to tell. Certainly, there's more credible threat from the bank's point of view in this relationship if there is a moratorium on foreclosures.

Having said that, this happened even before. If you remember it started in mid-2009 when the technocrat government introduced the moratorium for the first time. And then it lasted for at least two years, or two-and-a-half years. In fact there was no deterioration, in 2009 itself. I mean the problem started after the crisis, and after the devaluation of the euro to the Swiss franc, and therefore, the strong weakening of the HUF against the Swiss franc.

How to quantify customer behaviour is difficult, but the moratorium is certainly not helping. Our hope is that this is going to be on the table when we discuss a quote-unquote ultimate solution or final solution for the non-performing FX mortgage holders in Hungary. We are hoping to either extend the operations of the currently existing asset management company, which is buying up these non-performing loans financed from the budget, or have other potential structures to somehow improve the work out process, and then also improve the situation of these clients who are in difficult situation.

So, in my personal opinion, this is something which will be on the discussion table when eventually the government decides to seriously tackle this issue, hopefully together with the banking sector. But the short-term impact, I don't know exactly.

Pawel Dziedzic: That's very helpful. And maybe, could you comment on the timing of this final solution? I mean, is anything likely to happen before the summer or August?

Laszlo Bencsik: The government said that they were waiting for the Supreme Court decision on this pending case. The government has asked the Supreme Court last year somewhere in September to rule and I think there were five or six questions, and two questions remained pending in December last year.

So far what we heard from the government is that they would not do anything until these Supreme Court rulings would come out, and now the Supreme Court actually indicated that they wouldn't make the final decision before autumn this year..

If the government keeps to its deadline and is serious to consider further measures after that decision is made, then actually it can only happen at the end of the year. But that's a guess.

Pawel Dziedzic: That's very helpful. Thank you.

Laszlo Bencsik: Sure.

Operator: We have one more question from Riccardo Rovere. Please ask your question.

Riccardo Rovere: Thanks again, thanks again. Is it fair to assume that the Hungarian AQR is going to follow more or less the criteria used by Mr. Draghi, by the ECB and the EBA?

Laszlo Bencsik: Yes, we are applying the ECB methodology.

Riccardo Rovere: Perfect. Thank you.

Laszlo Bencsik: Yes.

Operator: And the last question comes from Gabor Kemeny. Please ask your question.

Gabor Kemeny: Hello, a follow-up question on the fee income. So, following the central bank's decision that banks are required to compensate customers for passing on the financial transaction tax, what's the amount you are expecting to repay to customers?

Laszlo Bencsik: We have not disclosed that number, but it should not materially impact the overall fee income.

Gabor Kemeny: OK. And do you think that you will – you might have less room to pass on the FTT to customers if the regulator keeps a closer eye in the future?

Laszlo Bencsik: They have very close eye on us. I don't think anything closer than this is technically possible. They have gone through all the repricing which we have done with quite a scrutiny; I can't imagine how much more they could do.

Gabor Kemeny: OK. Thank you.

Laszlo Bencsik: Sure.

Operator: There are no further questions at this time. Please continue.

Laszlo Bencsik: OK. Well, thank you very much. Thank you for participating in the conference call, and thank you for your very good questions. Wish you all the best and hope to hear from you soon again when we have the next conference call, somewhere mid-August when we will present the second quarter numbers. Thank you again, and goodbye.

Operator: That concludes our conference for today. Thank you for participating and you may all disconnect.

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