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Moderator: Paul Formanko
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Operator: This is conference # 957828.

Operator: Thank you for standing by, and welcome to the OTP Bank Q4 2015 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 will need to press star and one on your telephone.

I must advise you that this conference is being recorded today, Friday March 4, 2016.

And I would now like to hand the conference to your first speaker today, Mr. Paul Formanko. Please go ahead, sir.

Paul Formanko: Thank you, operator, and hello everyone, thank you very much for joining us on Friday afternoon. This is Paul Formanko from J.P. Morgan in London and from Budapest, joining Laszlo Bencsik, Chief Financial and Strategic Officer. Laszlo, the floor is yours.

Laszlo Bencsik: Thank you, Paul. Thank you. Good morning or good afternoon depending on where you are and thank you for joining this conference call, which is about OTP Group 2015 Annual Results. As you see the presentation, - which I'm going to use during this conf. call - is available on the website.

So I hope, you've been able to download it. And as usual, I'm going through briefly the presentation and then you will have chance to ask the questions. So, starting on Page 2, you see the overall results. The accounting profit shows is a nice come back after 2014, which was negative due to the one-offs we had to book. Most of them in 2014 were related to the settlement with the FX mortgage and other retail customers in Hungary.

So, 2015 again is back to positive numbers with HUF63 billion and if we go through the one-offs, we had the bank tax, which was booked in the first quarter and it was pretty much the same amount what we had for the last six years, and I will explain later that is going to be reduced substantially this year.

The other bigger negative items we have booked in the third quarter, namely the cost or provisions related to our conversions of the Swiss mortgages to local currencies or euros in Romania and in Croatia. During the last quarter we had two sizable positive one-offs, too: one was related to goodwill or revaluation of the investment in Ukraine, where according to stand-alone Hungarian accounting standards we had to write-off of certain amount which has generated tax shield under IFRS. So that's a positive impact on the cost side. And the other sizable number here is the HUF7.6 billion positive number, which is related to the settlement with retail clients in Hungary.

Basically, by the end of 2015 we closed the entire procedure with all customers. So the entire process ended and we have calculated the final impact and the release of provisions, which remains in the books – this whole exercise is done and closed and that is the final balance you can see here.

So if you go to the following page, to page 3, you see the after-tax adjusted profit which on an annual basis was HUF 120 billion, a slight improvement compared to 2014, which was HUF118 billion. And in the fourth quarter it was HUF16.6 billion which is lower q-o-q.

So it's worth looking at the lower part of the page, which shows the pre-tax profit without one-off items, which again on an annual basis reflects a 2 percent increase. If you look into the details of this increase, the picture is more mixed. Overall, revenues and total income declined by 9 percent, operating costs went down by 5 percent and total risk cost decreased by 20 percent.

And the revenue decrease and the cost decrease is partially attributable or actually to a great extent attributable to the weakening of the ruble and hryvna therefore in Hungarian forint being less. But apart from that we have the contraction of revenues, especially in Hungary. I'm going to take a back to later on.

And if we just focus on the last quarter, the fourth quarter, again, you see a lower total income driven by lower net interest income and other net interest income and somewhat higher operating cost, which is the usual seasonal event, so that's not so surprising. In terms of the revenue decline this is stemming from again, Russia and Ukraine, partially due to the exchange rate and also lower revenues in Hungary and Romania what I'm going to explain a bit more in detail later on. So looking at the big picture on Page 4:

This represents a division of the Group into a profitable and improving profitability CEE part and the loss-making Russian and Ukrainian business which unfortunately, continued throughout 2015. There was an improvement in the CEE numbers by 3 percent, whereas in Russia and Ukraine we had even slightly higher loss than in 2014. Having said that, we have to remark here that 2014 part of losses in Ukraine were actually shown as one-off items. So, the loss in 2014 is in fact was much more due to the Ukrainian loss.

So then, moving to Page 5, you see the details of earning developments by Group members. Maybe starting with the Russia and Ukraine: as you can see we made a kind of methodology change in Russia, accordingly starting from last year we are going to show the results of Touch Bank separately, which is our online mobile banking brand, an operation in Russia.

It's legally part of the Russian Bank, but technically, organizationally, operationally separate and also we have a separate management and a different business model and different targeted client group. So, it should be right to show this as a separate entity.

So here you can see that the Touch Bank loss was HUF4.8 billion last year, whereas the bank itself made HUF15 billion loss, for the whole year. It is worth noting that the fourth quarter was already close to breakeven in Russia. So that kind of gradual quarterly improvement which we had expected earlier in fact came to life.

And Ukraine, again we indicated that we were going to provision a big amount during the fourth quarter and this actually happened. So we've reached a level of coverage there, which we are quite happy with and we believe that this is going to pay for the past, but in 2016 Ukraine won’t be loss making.

And the rest of the countries, Hungary profit declined by 10 percent, Bulgaria went up by 34 percent, pretty much balancing the decline in Hungary and then the smaller banks did reasonably well and almost all of them improved. Their profit contribution to the Group is promising for the future.

On page 6, you see some miscellaneous remarks and items. Page 6 is about the FX mortgage conversion and settlement issues. I already talked about the Hungarian situation, so we closed the entire process and the final impact was solid and HUF151 billion after-tax loss and the ongoing impact is around HUF10 billion, and 75- 80 percent of this HUF10 billion revenue decline was already present in 2015. So it's not going to have a huge impact between 2015 and 2016 and ahead. But if you compare 2015 to 2014, this is pretty much explaining the lower revenues there.

Romania, you probably remember the provision during the third quarter for covering this program, which we set up in Romania with the aim of converting Swiss Franc mortgages into local currency. It's a voluntary program for the bank and for the customers as well. On the other side, this was the least painful solution and option for us, because if we had not done it, we would end up having in our calculation much bigger losses due to the legal cases against the bank.

Now, again, the programme seems to work well and we've already received a positive feedback from around 80 percent of eligible customers saying that they would like to participate in the program and we are making the new contracts with these clients. And hopefully, we can get to the end of this process by end of April.

Here we should expect an ongoing impact, as well. We expect roughly HUF3 billion annual negative impact on the net interest income, which will be presented from the second half of this year.

Croatia, again, we have announced this program, which was mandatory by law. And we provisioned accordingly. While the de facto execution has been postponed by the legislation, this is going to happen soon.

And in Ukraine, there is always newer and newer proposal typically from certain parts of MPs in the Parliament to have various actions related to the FX mortgages there. But so far, nothing has reached the level of legislation and so far we haven't seen any negative coming out of this on the bank.

Page 7, other interesting remarks. First starting with Hungary, the bank tax has been announced for 2016 and we are paying HUF16.1 billion, which is HUF13.2 billion after-tax. So this is what we're going to book in the first quarter this year.

And then we have these various funds, the Deposit Protection Fund, Securities Protection Fund and Resolution Fund and all together we expect HUF10 billion contributions this year, which means roughly HUF3 billion increase year-on-year. And this we book as part of the expenses, so that's part of our regular P&L result.

And there is one you might remember last year we had problems with these brokerages going bust in Hungary and then there was one particularly worrying case related to Quaestor where losses, which are not usually covered by Securities Protection Fund, were by legislation decided to be protected and it wasn't clear exactly how the settlements of these claims will be done.

By now that it is clear that the banks will have to contribute to the fund which at the end will settle these claims with customers. But all the contributions will be deducted from the nominal tax paid by the banks.

Again, this is a deduction from the tax payment – and not it from the tax base. Therefore, the net impact of these contributions will be zero to the banking sector. So this, for us is neutral basically and we are going to do it on a yearly basis, on an ongoing basis; the tax deduction will happen from the nominal tax payment, the same year as we make the contributions.

We had a fine, the Hungarian Competition Authority ruled against the Banking Association for the Banking Association operating the database, which included various data amongst the banks in Hungary and the Banking Association and such was found kind of wrong in doing that and the fine was HUF4 billion.

So, we have to support and back-up the Banking Association. The payment is going to be HUF800 million roughly from our side. We booked it in the fourth quarter as one-off item.

And just one more element, which is not there yet in the P&L, but it's in the balance sheet and the equity.

Visa Europe shares are being sold to Visa Incorporation and lots of European banks are going to get a payment and we expect in the second quarter HUF10.5 billion equivalent of income related to these shareholdings, which we are going to book as one-off items during the second quarter.

And then on this page, we listed the other kind of regulatory contributions in the EU countries related to the deposit protection funds and resolution funds for 2015 and 2016 as well. Obviously, it is smaller amounts than in Hungary, by the way in Bulgaria, the amount is small, but we are large payer there.
And then, there has been certain decision by the Hungarian Central Bank related to capital requirements, they want to deal with the various capital buffers under the CRD and the summary of these, you can see on Page 8.

So, there will be a capital conservation buffer starting this year at 0.625 percent and this is going to increase and multiply each year and reach 2.5 percent by 2019. Systemic risk buffer specifically in Hungary, this is going to be applied to certain project loans, if their volume is more than a certain percent of the Pillar 1 capital requirement. And this is our expectation is, this is not going to apply to us. So, we won't reach this limit. And for the counter cyclical buffer, the Central Bank said that they were not going to introduce it this year. And if in the future they decide to do so, they would give one year notice to do so. Then the systemic buffer, which is going to be applied to OTP, is expected to be 2 percent and this should come to force in 2017. So these are just some additional information.

And then going back to the results, page 9, you see the total income and again there is an annual 9 percent decline, which was related obviously also to loan portfolio movement, the loan book contracted by 5 percent and the group level driven mostly by the Hungarian decline, which was again related to the settlement, because the settlement happened through principal reduction. So that certainly had an impact in Hungary. And then Russia and Ukraine, here you can see the difference between the ratios of decline in the Russian and Ukrainian revenues in terms of Hungarian forint and local currencies. So, in roubles, the decline in Russia was 16 percent, in Hungarian forint equivalent it was 37 percent and likewise in Ukraine, in fact in local currency in hryvnia, revenues increased in Ukraine by 22 percent, while in Hungarian forint terms, they declined by 21 percent.

And if you go on page further ahead, we see the quarterly changes in total income. There was an unusually big negative change equivalent of HUF9 billion, minus 4 percent. And it was of split between various countries. In Hungary, it was HUF3 billion, of that HUF1 billion was related to a reclassification of fees, which basically agent commissions, used to be in net fee income and we reclassified into the net interest income. So this is going to stay there, but it doesn't have impact on total revenues as such. The rest of the decline is business-related.

And in Russia and Ukraine again the currency weakened considerably throughout the year and quarter, so for instance the 6 percent decline was attributable to the weakening of the rouble in Russia and likewise in Ukraine with 12% decline in HUF terms and only a 9 percent decline in local currency. By the way, this 9 percent decline again as you can see on Page 11 was related to the restructuring. When we restructure, we have to book the NPV difference if it's negative against the net interest income. Other than that there was one potential bigger one change in total income, it was Romania. In Romania, total income went down by the HUF2 billion q-o-q, out of this HUF0.8 billion was related to assets write-offs and closures of branches which we do because of the merger activity related to the new acquisition there. Another HUF0.9 billion negative in the total income was basically counterbalanced by lower risk cost and again, this is related to the portfolios, which we acquired through this transaction.

On page 11, you see what I just explained, related to the net interest income, those issues were the driving factor behind the revenue decrease in the fourth quarter.
Page 12 shows the margins of the four largest Group members. In Hungary, there is a small decline from 3.7 percent to 3.6 percent again this was explained by this reclassification of agent commissions. Russia, in fact we have improvement and this is mostly related to the lower cost of funding. You probably remember that end of the 2004, beginning of 2015, because of the central bank rate hikes, we had to increase very sharply and suddenly deposit rates in order to protect our liquidity base in Russia. And by the end of 2015 these deposits phased out and therefore, result in lower cost of funding, which ultimately improve margins. Bulgaria, is a quite sharp decline, but part of it is related to a methodology change. We changed the way we book recoveries on non-performing loans. Previously, we used to start to reduce the off-balance sheet items and the accrued interest from the recoveries before touching the principal amount and now we changed the orders. Now we start with the principle and later on with the interest income. The net impact of this change is that we have a lower risk cost and lower net interest income, as well. And then, Ukraine, again a slight increase, but overall quite stable levels.

Page 13, you see the loan to deposit ratios and the dynamics, unfortunately, we have continued the downward journey and now we're down to 67 percent net loan to deposit ratio on the Group level. And in Hungary, it's down to 47 percent. Obviously, this doesn't show an optimal balance sheet structure and we’re trying hard to turn this trend around and we are quite hopeful that this turn around actually happens during the course of this year, i.e. in 2016.

And early indicator of this change might be seen on Page 14. As you can see the quarterly loan volume growth was 1 percent on the consolidated level! It has been a long time since we've seen even on a quarterly basis any loan growth. So, this is certainly positive and it was the Hungarian Corporate which was particularly strong. So, we are quite happy about this 5 percent increase. Consumer book was more sluggish in Hungary for the last quarter, but that's usually seasonal because at the end of the year typically, bonus and other payments went to the clients. And therefore, they reduced the consumer loans or credit card balances at the end of the year.

Other than that Bulgaria did reasonably well with 1 percent growth. In Russia, we continued to decline in the mortgage and corporate books. Ukraine going down by 5 percent again related to corporate and the rest of the Group did reasonably well with Serbia growing by 10 percent, driven by corporate growth which is certainly promising in this small market.

And then on page 15, you'll see the comparable numbers for deposits: 3 percent group level growth, again seasonally end of the year deposit volumes go up. Certainly this is not our intention to continue to grow the deposit base, but obviously it's also an indication of our success in terms of attracting retail clients, we don't send away these new clients. And savings as you can see pretty much across the Board in the bigger markets, we had an increase in the last quarter.

Page 16, operating costs, again the yearly changes – these are the quarterly numbers on a yearly basis and as you can see there's a difference between the nominal and fixed adjusted numbers. It's better to talk about the fixed adjusted numbers, which increased in Hungary and Bulgaria, but also in Romania. In Hungary, the whole annual increase can be can be explained by the increase into these funds. Because it's not just that we have to pay more to the deposits securities and restructuring funds in 2016 compared to 2015, but also in 2015 we paid more than in 2014. So this was one factor. The other factor is the kind of usual year-end increases in marketing and in consulting and other IT cost. But in Russia and Ukraine, as you can see even in a FX adjusted basis there is a 19 percent and 11 percent decline year-on-year as a result of our cost reduction efforts, which we had succeeded within these two countries. Despite actually quite high inflation rates in those markets, we managed to cut the nominal cost in a big way.

And here on we have a few slides about the bigger markets and some more detailed information. So page 17 is about the Hungarian OTP Core results, these are the pre-tax profits without one-off items. As you can see this overall decline of 9 percent year-on-year was driven by lower revenues which were driven by a lower net interest income. At the same time, net fees and other income actually increased and operating cost increased slightly by 2 percent and we had somewhat higher risk costs. Now again these operating costs incur, sorry for this, the numbering of the lines is not fully aligned, the number two should be the operating cost, number three the risk costs and not as it is here on the slide, but anyway. So the cost increase on a yearly basis was driven by the HUF3 billion extra contributions to these protection and resolution funds.

And the revenue declined, the net interest income decline was partially attributable to the lower margin due to the lower interest rate environment and partially to the settlement we had to do and the conversion, we had to do related to the mortgages and other consumer loans. And as we mentioned before the annual impact is around HUF10 billion altogether. So most of that was already present in 2015.

The overall economic environment in Hungary is quite promising, we had a very strong performance year last year and we expect similarly strong figures this year. The balance indicators look very solid, budget deficit well below 2 percent, current account balance about 5 percent surplus, gross external debt plummeting and net debt to GDP is going down.

At the same time, there seem to be a well-balanced growth based on continuously strong exports, growing domestic demand and reasonably OK levels of investments. And as we expect to continue during 2016, there might be a bit of a slowdown in terms of overall GDP growth getting closer to 2.5 percent. This is mostly due to lower levels of new EU funds coming to Hungary this year.

In terms of loan demand, we expect growth in corporate and in retail. And in mortgages, there are various subsidies for new house building under which the Government offers a quite sizable support to families with kids.

If you have three kids you get actually HUF10 million plus HUF10 million very preferential loan. So that's a HUF20 million for a new real estate buying and it's a substantial amount as for HUF30 million you can get two or three bedroom flats in Hungary depending on location.

On page 19, you see a few facts about our performance last year. Left side some highlights in retail. Mortgage lending going up by 33 percent and our market share being strong at about 26 percent and increasing market share in retail savings and in corporate. We continue to increase our market share especially in SMEs, we had quite a strong growth, lending growth was about 11 percent.

And then a few words about Bulgaria. Bulgaria, we had a stellar performance last year. The ROE even went above 20 percent. We actually achieved an all-time record in terms of nominal profits in Bulgaria within the banking sector. As a whole we posted HUF53 billion HUF equivalent profit. Loan dynamics were fairly strong. And as you can see here on this page, mortgage origination grew by 76 percent, but I have to add that it also includes the refinancing of the existing book, which was quite substantial. The form of a repricing of these loans in Bulgaria is basically refinancing. And then we were growing in corporates, as well as you can see our market share increased there and this is a strategic priority.

Russia is on Page 21. Again, the last quarter was close to break-even basically which is a refreshing change after many quarters or almost two years of losses in Russia and this is due to the risk cost normalization. On this slide there is a very important set of numbers in the lower-right corner: POS loan risk cost rate went down to 8.6 percent, credit cards to 15.3 percent and cash loan was 8.1 percent which is quite promising especially if you compare these numbers to the previous quarters there is very clear and visible improvement here.

Unfortunately part of the story is also the much lower volumes as you can also see on this page obviously as the situation became worse last year and loan demand dropped considerably.

Next page you can see further details about our sales activity, we started to send out credit cards in December. So, last year we didn't do much in this sense, but this year we plan to come back, obviously with moderate amounts and in a quite cautious way.

And on this slide, you can also see what I mentioned before that the cost of funds, cost of term deposits is going down. You can see average costs where interest rate on total stock was down to 9.3 percent whereas we actually paid in the first quarter last year 11.2 percent. Also, the new term deposit placements were close to 10 percent, while they were up to close to 15 percent in the first quarter last year. So that's an improvement and obviously this shows up in the net interest income, as well.

I'm sure you know the story of the other players: it wasn't just us last year having difficult time! Pretty much all our competitors went into very serious situations – probably the only exception was Tinkoff that managed to stay positive, but all the others had considerable losses.

And in Ukraine as we've indicated before we made larger provisioning in the last quarter, despite the fact that the portfolio is not worsening so much and we believe that we have pretty much done with the provisioning cycle there. We expect this bank to turn into positive this year. The good thing is that in the meantime, Group Funding has gone down considerably and the senior funding last year comprised HUF100 billion equivalent, which is a great relief. Because, if you probably remember in 2009 when the crisis hit us, this was a big burden on the Group, when we had close to HUF400 billion equivalent of funding there, but this is not any more the case.

And on the next page, you can see how small actually the Ukrainian operation became within the Group. I mean it's now just 4 percent of the entire loan book and in terms of size of the loan book Ukraine is smaller than for instance the Slovakian business. So, it's not anymore a defining part of our portfolio.

And very importantly, you can also see that the coverage ratio increased, and now is more than 118 percent. So we believe again, that we created sufficient level of provisions and given that the NPL ratio is close to 50 percent this is quite a sizable provision level.

When talking about provisioning and portfolio quality on Page 26, you can see the details of some indicators related to risk cost. The DPD90+ ratio was 17 percent and more importantly, the coverage went up to 93.4 percent, which does seem to be quite a high level. And then if you go one page further, again this is really very important. This slide shows the quarterly portfolio deterioration. And the last quarter last year was only HUF4 billion so, considerably lower than anything before.

In Hungary, in fact, we had write-backs of HUF10 billion. But even Russia was down to HUF16 billion, we haven't seen this this levels for years in Russia. So, this is promising! Ukraine was stable and the other countries were reasonably stable except Romania, where we had HUF3 billion deterioration, but the other smaller banks were rather improving or close to zero.

This makes us quite relaxed in terms of the risk cost expectations going forward. And then on Page 28, 29 and 30, you see further details about the risk costs. Page 13 shows that we are doing restructurings in Ukraine in retail for the remaining mortgage portfolio. By the way, I mentioned that it has a certain impact on the net interest income, as well.

And probably the most important page is the last one and I'm sure you might be interested in this. These are the kind of expectations what we decided to share with you for 2016.

So the first one being that we see this year as a step, as a progression towards to the targets which we indicated last year, namely above 15 percent return on equity on a fully loaded basis, so including one-offs, based on a 12.5 percent Common Equity Tier one capital adequacy level.

And then the details of this, the one-offs, again the bank tax, I've talked about, when I’ve talked about the Visa, the income from the sale of Visa Europe which actually will be quite comparable amount to the bank tax. So, these are the two sizable one-offs we expect for this year, nothing else.

In terms of loan dynamics, we expect the previous trend for years, this declining trend to break and finally see the end of this declining loan book on a consolidated level, what we had seen in the last quarter last year. So this makes us hopeful that this is actually possible.

The NIM, that's probably the one of the biggest questions and drivers. Overall on a year-on-year basis, we expect slight moderation in the NIM, probably around 20 basis points and this stems form different factors, one is that the share of the Russian and Ukrainian revenues and higher NIM will be lower this year. And also because of the expected NIM contraction in Bulgaria, due to the repricing of the existing loan book and potentially further slight NIM pressure in Hungary, but again the overall number we expect to be lower by around 20 basis points.

The other very exciting dynamics is risk cost. When I said that we were not expecting further losses coming from Ukraine and Russia, it obviously means that the risk cost of these two countries should be considerably lower. So, in Russia and Ukraine, we expect quite sizable and large decrease in the risk cost rate. But, we also expect further improvement in Bulgaria and in Hungary in the OTP Core, which will probably end-up with risk cost rate below 2 percent.

So, the guidance we can make for this year is that the overall consolidated level risk cost rate will be probably below 2 percent.

In terms of OpEx, we expect similar kind of dynamics of last year, so potentially the same or similar levels of FX-adjusted OpEx dynamics.

And then again just to reiterate what we have said many times that if things go according to expectations and our Russian and Ukrainian Bank will not be loss making. And here I have to make remarks.

This doesn't apply to Touch bank, the bank, our online bank. It's not going to be profitable this year, that's very clear. It still in the early phase of development and we still have to continue to invest in building out the client base, which is actually going well. By the end of last year, we had already 20,000 transacting clients, active clients. And basically, we have number of clients growing by at least 100 per day. And so, we are on a reasonably good track to achieve what we decided to do there, a few years ago.

So, this was it, basically, the formal presentation had end. Now, I'd like to open the floor for questions. So, please, operator, you go ahead.

Operator: Thank you very much sir. As a reminder, if you wish to ask a question, please press star and one on your telephone keypad. That's star and one if you wish to ask a question. Your first question comes from Gabor Kemeny with Autonomous.

Gabor Kemeny: Hi, thanks for the presentation. Let me start with the ROE guidance actually. I'm trying to compare firstly, your ROE guidance due to an absolute number.

Does that 12.5 percent refer to your end 2016 capital? And if it's so, am I right that this does imply your ROE guidance about HUF100 billion and at least the HUF120 billion net profit is roughly fair?

Laszlo Bencsik: It doesn't imply HUF120 billion.

Gabor Kemeny: What is your, how shall we think about a conversion then?

Laszlo Bencsik: What conversion?

Gabor Kemeny: How shall we try to convert the ROE guidance to a net profit number?

Laszlo Bencsik: I mean, you have to assume certain the level of profit and certain level of capital, right.

Gabor Kemeny: Yes. I was just asking, shall we just start with the end of 2015 capital CET1 capital. Is that what you assume in this target?

Laszlo Bencsik: No, it's not what we assume. And first of all the CET1 ratio at the end of last year was 13.3 percent. And this did not include the 2015 profits and it doesn't include dividends. By the way the dividends, this is another thing I should talk about. I will answer the questions, now that it came to my mind. There hasn't been yet a decision obviously about the dividends but the intention of the management is to suggest HUF46.2 billion equivalents of dividend payments. This number you can actually see in the detailed analyst table, which is available for you. And this translates into HUF165 dividend per share. And if you take into consideration the treasury shares that is HUF167 per share. There hasn't been a Board decision about this and obviously the final decision will be made by the AGM, but this is the likely amounts of the dividend.

So going back to your question. The 13.3 percent CET1 was last year and it did not include last year profits and it didn't include last year the dividends for the last year. So we are going to change it. And then we will get to a certain level of capital next year and obviously you can have various assumptions.

But we decided to communicate our targets or expectations in the form of a ratio, which is the return on equity and that's how it is. So you can obviously translate our model and have various scenarios and think about this. But from our side, the communication is related to this ROE number which we set for 2017.

And the 12.5 percent is a question whether we will be actually at 12.5 percent that depends on various things; there certainly is a possibility to be there. But I can't give you further details on profit because we decided just simply to communicate an ROE expectation.

Gabor Kemeny: OK, that's very clear. Maybe if we go to the line-by-line guidance here and especially the margins, you are saying that your margins could drop by about 20 bps. And if I assume like flattish loan volumes that gives me something like HUF20 billion NII impact. I guess… my question on the margin guidance would be. So I guess you are starting from the 2015 number, but if I compare the full-year number, so you were already at minus 20 bps in Q4. So are you basically assuming that you'll maintain the Q4 level of net interest margin in 2016?

Laszlo Bencsik: I mean last year annual number was 5.1 percent, right?

Gabor Kemeny: Yes.

Laszlo Bencsik: So that's the basis on which we suggest 20 basis points.

Gabor Kemeny: Yes. So you were almost 20 bps below this already in Q4. So you think you will roughly maintain that Q4 level of net interest margin in 2016? Is it fair or is this reasonable?

Laszlo Bencsik: The last quarter was 4.94%.

Gabor Kemeny: OK, I guess my question would be why you assume roughly flattish margins compared with Q4. I think you mentioned business mix effect that the Russian and Ukrainian consumer loans are coming down and you also mentioned the mix effect in Hungary; I guess my question is, where do you see the improvement which should help your margins in 2016?

Laszlo Bencsik: Beg your pardon. I mean, compared to the last quarter last year, 4.9 percent is less than 4.94 percent.

Gabor Kemeny: OK. So you only would assume a couple of basis points from all these mix effect and portfolio changes?

Laszlo Bencsik: Maybe I wasn't clear enough. So what we're trying to say here, when compared to last year, which was 5.1 percent. We expect slight overall decline, which probably will be around 20 basis points.

Gabor Kemeny: OK. Let me ask you briefly about credit quality and higher, can you maybe comment on why was there is a difference between EBAs non-performing exposure in that transparency exercise and what your reported NPL number? And I was wondering whether you could give us some colour here.

Laszlo Bencsik: I'm sorry.

Gabor Kemeny: Yes, I mean I don't have those two terms, in this EBA transparency exercise, it came out with the non-performing exposure number and I recall, this was a different so, it was actually higher than what you report in NPLs, I was just wondering whether you could give us some colour why was this different?

Laszlo Bencsik: That's probably due to the difference in the definition of non-performing loans. Here in these interim reports we use the 90 days past due definition. And the definition on the EBA has probably richer than that.

But right now, I don't have in front of me the exact numbers of this this report, but if you sent a specific question to my colleagues, I'm sure they would be more than happy to answer it.

Gabor Kemeny: That's very helpful and just lastly on your Corporate Center. This is high. So there was that an increase in negative result that I guess this is partly seasonal, but can you give but can you give us some sense how shall we model, this corporate center results going forward?

Laszlo Bencsik: It's basically a technical entity which we created when we're started to have a large group and this includes the financing of the Group and also the investments in the Group's subsidiaries. And as the financing part declines, it's the investment which remained there, so there's a kind of lower revenue in the corporate center and the cost side remains because all the subdebt which was meant to cover these purchases 10 years ago, we also booked there.

So this is the fact that you see a growing number there is basically the result of our loans to Ukraine being smaller and the revenues of this corporates center are getting smaller.

As long as this continues the technical losses there should increase, but we might revisit the way, methodologically, we treat this because as long as it's plus/minus a relatively small amount what we'll see there, it's OK. But we certainly don't want to show a material number on this, because that's make the overall picture that's clear.

So if this is going to develop into the direction, we might actually revisit the methodology what we apply. But it's just a virtual entity. So it's not real.

Gabor Kemeny: Sure. So as you let's say convert anymore sub debt into equity. In Ukraine, we should see a bigger numbers here, but on a consolidated level this should be neutral. Is the right way to think about it?

Laszlo Bencsik: Yes, pretty much.

Operator: Your next question comes from the line of Robert Brzoza from PKO BP Securities.

(Robert Plasoza): Thank you for the presentation. I have a few quick questions. First of all, could you comment on the Bank's sensitivity to a potential 25 bps the rate cut in Hungary, and whether you have incorporated any such assumptions in your NIM guidance?

Laszlo Bencsik: Just a second. So – 25 bps would be around HUF2.5 - 3 billion.

(Robert Plasoza): Negative?

Laszlo Bencsik: Yes, of course, negative, yes.

(Robert Plasoza): OK. And is that incorporated in your NIM guidance or that would come extra?

Laszlo Bencsik: That's on the margin of our NIM guidance.

(Robert Plasoza): Sorry?

Laszlo Bencsik: That’s the around part. We said around 20 basis points. We anticipated some decrease in rate environment. But, it can be more, and it can be less.

(Robert Plasoza): You have provided some explanation, some colour on the developments within the capital requirements. Could you provide, if you have any guidance on where do you think the minimum capital adequacy ratio as well as Tier1 ratio could be for 2017?

Laszlo Bencsik: Yes, you see the buffers on page 8. Based on this we should have capital conversion buffer of 1.25 percent and the SIFI systemic buffer of 2 percent.

So these would be the applicable buffers for 2017 and this is what you have to add to the 8 percent, I mean the CET1 would therefore go up to 7.8 percent next year. By the way, which is still less than the 9 percent required from European banks. So these buffers won't be very much effective next year.

(Robert Plasoza): OK. And if I may ask one more clarification on the ROE guidance. If I understood correctly, please confirm the earning portion of kind of figure is based on earnings adjusted, which means the banking tax is excluded. Is that correct?

Laszlo Bencsik: No. It's included. It includes everything.

(Robert Plasoza): OK. Yes, that's it from me. Thank you very much.

Laszlo Bencsik: Thank you.

Operator: Your next question comes from the line of Anna Marshall from J.P. Morgan.

Anna Marshall: Good afternoon. Thank you for the presentation. Couple of questions, please. So, the first one on Bulgaria, which did well in 2015 with 21% ROE – what is the outlook for 2016 and given that you expect lower margin, for example, and what sustainable level of ROE should we expect going forward or in medium term?

So that was the first question and the second one, on dividends. What is your dividend policy going forward, especially given the extra capital buffers, which are not required? Thank you.

Laszlo Bencsik: In Bulgaria, indeed we expect the pressure on the NIM and it's very visible in the last quarter last year.

And it's coming from the refinancing of the existing portfolios, which will continue throughout this year. Part of this pressure can be counterbalanced with lower risk cost. We believe that the risk cost rate can be lower than what we had last year. And so that's room there to what extent, this is going to rebalance the revenue decline. That's we will see.

The dividend policy, we try to stick to the plan, which we are applying basically last year or even previously that we would like to show kind of continuous nominal increase in dividends. So we hope that next year, we can continue to increase the nominal pay-out.

Anna Marshall: Thank you. And any update on M&A, so you recently acquired AXA operations or rather announced, the intention to anything else to give us there?

Laszlo Bencsik: There's nothing I can talk about at the moment. Indeed we recently agreed with AXA to acquire their Hungarian banking operation. And this just keeps us very busy in Hungary, because obviously it's operational, i's quite challenging and we hope to conclude the whole merger by the end of this year. It seems that be sizable. The impact is going to be more than 20 percent increase in our mortgage volumes in Hungary.

But other than that, I'm not in a position to talk about anything. Maybe just to reiterate, we continue to look for opportunities, we haven't stopped looking for a suitable targets and then it remains our intention to continue to grow through the acquisitions, if you find a situation, which is value creating from the shareholder perspective.

Operator: As a reminder, if you wish to ask a question today, please press star and one on your telephone keypad. Your next question comes from the line of Alan Webborn with Societe Generale.

Alan Webborn: Hi, good afternoon. Thanks for the call. Could you just briefly go through the main business areas in Hungary and in Bulgaria and give us some idea about the growth momentum that you're seeing currently even on a collective basis. Just give us an idea of the dynamics that you're seeing in those two local markets? On the retail and on the commercial side, that would be really helpful.

And I guess secondly, looking across the different geographies. Where do you see potential risks, you clearly talk to us about 2016 being a cleaner year in terms of lower adjustments, certainly on the negative side. But other areas where, for example, there are some political things going on in Romania. Do you see any other risks that we should be thinking about that potentially has some risk for you going forward? Thank you.

Laszlo Bencsik: If you go to page 14. That's probably the best way to start for understanding the dynamics in different portfolios. So, Hungary, OTP Core. As you see the year-on-year volume dynamics were quite negative, but in the consumer and mortgage part it was explained primarily by the settlement, which we had to do with customers because that settlement happened through principal reduction.

And if you take the last quarter, as an example still we had some decline in mortgages. We do see a continuous improvement in loan demand for mortgages. And the real-estate market is coming back, activity is quite increasing. Prices are increasing and there are various subsidy plans by the government trying to boost a new house construction which is at very low level.

So, it's still quite low. Below 10,000 new residential properties per year being constructed and at the peak you see close to 50,000 and the kind of normalized level should be around 25,000. So, last year was just 8,000, so there's a lot of room there for improvement. Therefore we are hopeful that mortgages can continue to improve throughout this year.

By the way on the page 19, you can see the new mortgage disbursements, even last year they went up by further 30 percent year-on-year compared to 2014. So there's already a momentum in building up mortgage demand and then we hope that this is going to continue. Consumer is less active, consumption increases whereas saving rates are very high and disposable income increases, real wages increase and if you look at saving rates of the retail, it's exceptionally high.

So there doesn't seem to be any reason why we should see strong consumer growth. Again, the last quarter here was just usually year-end seasonality. So this is going to be more like flat for next year. And the bigger growth driver in terms of our stock volumes in Hungary might be Corporate.

We see a lot of dynamics there, mid-corporate, large corporate as well and our positioning in the segment improved a lot during the last couple of years because, let's say 10 years ago we were much weaker in corporate lending and we are close to being the market leaders. So this has changed a lot strategically and in terms of positioning.

In Bulgaria, last year was 1 percent up and the last quarter was reasonably strong again here. Volume wise, it's potentially corporates, which is the most dynamic. There is a lot of activity in mortgages, but we have a similar problem to Hungary that the repayments of the old portfolio are very big.

And there's an extra problem in Bulgaria that does a lot of refinancing of existing loans and clients going between banks also to the refinancing. So despite the fact that there's a lot of activity in providing mortgages, the stock is flat.

So this is more as the kind of portfolio dynamics what we see at the moment in these two markets.

Regarding your second question where we see, if anywhere we see other risks, not really. So now that we got rid-off our Swiss franc mortgages in Romania and in Croatia as well. We already converted every FX retail loan in Hungary to local currency. The remaining Ukrainian dollar mortgage group is actually quite small.

And in Russia, these big waves of defaults have gone through us so we absorbed the impact of the external shock. And obviously being a bank, we are always exposed to the changes in the environment.

So, anything can happen anytime as we see, but honestly, I don't see any potential danger or risk in the portfolio.

And actually there is a problem at the moment is that we don't have enough risk in the portfolio. I mean if you look at our leverage it's very low, both in terms of capital and in terms of overall balance sheet.

So at the moment, it's a low risk portfolio which is not necessary optimizing the kind of long-term profitability, which you'd like to achieve.

Certainly, you can have a long discussion about Russia. And when we planned for this year, last year, we were slightly more optimistic regarding the oil price. And then, it was kind of surprising how low it went by the year-end and early this year.

So I mean, if there's another 50 percent down in oil price, it will certainly make life miserable in Russia.

I don’t think it’s likely but I'm not the right person to try to guess price developments, but if we take the forward oil price rates then and Russia should soon recover and then certainly, we reached a level of operation and size of and type of operation in Russia, which is sustainable given the current environment.

So unless there is a very drastic deterioration, we should be fine.

Operator: Thank you very much. You have no further questions at this time. Gentlemen, please continue.

Laszlo Bencsik: OK, well thank you very much. Thank you for listening to the presentation and thank you for your very good questions. I hope to welcome you again on our next conference call, which is going to be 13 of May. Hopefully a fortunate day for us. And I wish you all the best. And everybody have a nice happy weekend and good bye.

Operator: Thank you very much. That does conclude our conference for today. Thank all for participating. You can now disconnect.

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