
OTP Bank Conference Call**Friday, 03 March 2017**

Paul Formanko: Hello, everyone. Thank you very much for dialling in. This is Paul Formanko from JP Morgan in London. It's a great pleasure to have Laszlo Bencsik, OTP Bank's Chief Financial and Strategic Officer, with us today. Laszlo, over to you please.

Laszlo Bencsik: Thank you, Paul. Good afternoon, or good morning depending where you are, and thank you for joining this conference call, which is around the full year results of OTP Group in 2016. We have the usual set up here, so first I'm going to briefly go through the presentation, which is available on the website, and then you will have time to ask your questions.

The presentation starts on page three with a section on the overall investment rationale, which consists of five pillars. This we introduced two conference calls before, I believe, so I'm not going to bore you with the same storyline again. Just to reiterate the most important messages on page three; it may be worth spending a few words on this part of the story, as well.

The return on equity has returned to attractive levels indeed. In 2016 we made 15.3% return on equity, and this is on total equity, accounting profits over total equity. If we were to adjust to the leverage ratio, or the Common Equity Tier 1 ratio, which we targeted at 12.5%, so assuming 12.5% Common Equity Tier 1 ratio, it would have been 17.9%. So, that would have been the return equity if we had this higher level of leverage on equity.

I believe it's a pretty good performance and we continue to uphold this target. Originally, it was meant to be for 2017. If you remember, we communicated this target in 2015 and it was meant to be for 2017, but we are very happy and satisfied that we actually managed to deliver on this target already in 2016.

Point two: structurally low-risk environment has commenced. Indeed, if you look at our risk cost rates last year, it dropped down to 1.1%, which is structurally lower than the previous levels above 3%, which we used to have for quite a number of years, starting in 2009 and ending in 2015. And the first year was last year when the ratio dropped down again to a more normalised level for the cycle to 1.1%.

After years of the de-leveraging, loan volume growth starting in Hungary. This is probably the best news we had last year, and that is that loan growth, indeed, started in Hungary and it was not modest at all. Even without the impact of the acquisition we made, performing loan volumes grew by 5% last year in Hungary. This is a sharp difference to the gloomy years we used to have before last year and that actually, indeed, opened a new era of low growth in Hungary.

Strong capital and liquidity position: the year-end Common Equity Tier 1 ratio, the reported one, is 13.5%, but this does not include the 2016 results and the expected dividends, because we can include, according to the new regulation, audited numbers, which are approved by the AGM, and this is going to only happen in April. If last year's unaudited results were included, then we would have had 15.8% Common Equity Tier 1 ratio, again, by including last year results minus the intended dividend payments.

As for digital: yes, we do continue on digital developments. We are coming out to the market with various initiatives in Hungary, which we believe continue to deliver an additional layer to our customers.

Jumping to the more kind of detailed and the merry part of this presentation, starting on page 14, where we detail the annual and the quarterly results. On page 14, you see the overall accounting profits, which more than tripled last year, and the adjusted number, which is basically related to the core business activity of the group. The growth was 67%. Obviously, adjustments turned into slightly positive after a hefty negative number back in 2015, as you can see in this chart. That obviously helped the accounting profits to improve.

In terms of the core business activity, as you can see also in this slide, if we separate the group into two sub-groups, one being Russia and Ukraine and the other one being the rest of the CEE countries, then the CEE countries more or less delivered the same result, even with a slight decline. Whereas, there is a substantial turnaround and improvement in the case of Russia and Ukraine, where the previously very negative minus 60 billion number in 2015 turned into positive 25 billion in 2016.

Obviously, this helped the growth of the contribution of our non-Hungarian businesses to the overall group results, which increased to 38%. We used to target, years ago, roughly 50%. And last year, we made, again, a step forward in order to get to this more balanced structure in the group.

On page 16 you see the individual results. The Core, OTP Hungary, remains basically flat. Bulgaria, DSK Bank, somewhat declined but this is mostly due to the one-off provisions we made, the risk cost we incurred in the last quarter. Romania slightly improved. Croatia improved, actually, a lot compared to itself. Slovakia and Montenegro turned again negative.

We decided to put extra provisions next to the loans, which are in our factoring companies in these countries. These are the long-time non-performing loans, which we have not been able to recover so far, and with the time lapsing, the probabilities of returns on these portfolios actually declined, therefore we made an adjustment. So, these are not related to the recent deteriorations in the portfolio quality, but more to kind of old events, where we changed the expected probability of returns and the expected returns themselves at the year-end.

Leasing, which is mostly the Hungarian car financing business with Merkantil Bank, had a very good year last year and made more than 100% improvement in profits. Asset Management did a very good job, again, especially in Hungary, despite the quite difficult environment with the low rates. It's not very easy to make a fund investment prove attractive in such an environment in Hungary, but they made quite a good result last year. And then, Russia and Ukraine, which is obviously a very good turnaround story, I'm going to detail this all in the following part of the presentation.

Going to page 17, you see the one-off items. Last year there were a couple of changes compared to 2015. The one very important change was that the bank tax declined substantially in Hungary, and instead of being close to 30 billion it went down to 13.9. By the way, this also includes the bank tax we pay in Slovakia. The other big difference is that we did not have items we had in 2015, namely the extra cost of converting the Romanian Swiss franc mortgages or converting the Croatian Swiss franc mortgages, or the likes. These types of events did not happen. In fact, we had one positive event, and that was the Visa transaction, you probably remember, which created revenues.

And then we had, as you can see here, three items which are more related to tax. These were basically the goodwill write-offs and their positive tax shield impact on the overall results, which we made primarily related to our foreign subsidiaries. And there are two items, one already appeared in the third quarter that is related to shifting from Hungarian Accounting Standards to IFRS in Hungary.

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This has already happened. So, 1st January this year we switched to IFRS accounting in our local books, as well, so we no longer publish Hungarian Accounting Standard statements. And that actually eliminates this difference between the two accounting standards, which had the biggest impact on our profits. And that is the treatment of investments in other companies, which were treated differently and, therefore, created a difference in the tax regime. This difference had to be eliminated because of a switch from this system to another. We have this impact of 5.8 billion negative, or additional tax payment.

The other thing which you can see here as re-evaluation of deferred taxes recognised in the P&L due to corporate tax rate cut. In Hungary, you probably know the tax rate was cut down to 9%, and therefore the deferred tax assets and liabilities had to be re-evaluated according to this new rate, and that resulted in a 6.1 billion negative effect coming through the P&L. On the other hand, there was a 3.4 billion positive impact, which did not come through the P&L, only appeared in the equity. That's related to the revaluation of deferred taxes related to gains on the available for sales portfolio. You have to know the two in order to get the total amount, but 6.1 appeared in the P&L.

Going forward to our P&L and the main lines. Total income year-on-year declined by 2%, and quarter-on-quarter it was up by 5%. The total income decline did not come as a surprise, as we expected margin compression within the whole group, especially Hungary and in Bulgaria, and this actually happened. So, this is a combination of compressing margins and increasing volumes. The good thing is that, fees and commissions and other income increased and somewhat balanced the negative impact of the NII decrease.

Cost increase was 2%. This we more or less indicated before as our expectation. And risk cost dropped dramatically; instead of 220 billion, we were down to 93 billion last year. And, actually, there was a kind of peak or a spike in 4Q, in the magnitude of 48 billion in the last quarter, which brought up the annual number to this level.

I'm going to talk more detail about these items in the course of the presentation and give you much more flavour on these changes.

Miscellaneous items: all these were quite important, but there was one coming from the regulatory changes in Romania related to the Swiss franc mortgages. There was this new legislation coming from the parliament, the

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outgoing parliament before it was dismissed last year, before the elections. And it actually stated that we had to convert all the previously existed Swiss mortgages into local currency at the exchange rate when these loans were originated. Now, the constitutional court annulled, cancelled the whole legislation, so it was not just amendment; it has actually cancelled and made invalid as a whole, which means that we do not need extra provisioning for this problem.

Two very good events happened on the front of acquisitions. One was the conclusion, as you can see on page 20, of the AXA merger. Here, we actually acquired portfolios and entities, so we have not bought a bank; we've bought portfolios. And these portfolios contributed to our mortgage volumes, primarily in Hungary, which we are quite happy about. This increased our market share by almost 3 percentage points, and it does contribute to a sizable amount of our mortgage book and will have quite positive effects on the earnings going forward in Hungary.

The other important event on the acquisition front was, as you can see on page 21, we made an agreement with Societe Generale that we acquired the bank in Croatia. It's called Splitska banka, which covers mostly the Istrian peninsula, the northern part of the Adriatic coastline. As you probably know, our bank is stronger in the middle and southern part of the Adriatic coastline. So, by this acquisition, first of all, we will jump from number eight to number four bank and our market share will increase overall in the country from 4% to 11%, and therefore create a bank which we believe will be sizable enough to provide the returns, which we require from our performing group members. And, actually, in the region, in the coastal region, our regional market share will even be higher than this 11%. And this is a part of the country which is certainly quite prosperous and developing, and this is where most of the tourism revenues are generated. So, we are quite content with this strategic move and we believe that this really changes our standing in Croatia, and definitely contributes positively to the overall group performance and profitability.

In the following few slides, as usual I'm going to say a few words around the P&L line items, broken down by the countries where we operate. Total income: as you can see, year-on-year decline 2%; quarter-on-quarter up 5%. The annual decline was the composition of somewhat lower income in Hungary, Bulgaria. There was a decrease in Russia in HUF terms, but in local currency terms, actually, there was an increase.

And then, we had Croatia actually increased by 12%, which was very good, and we had a few countries, Romania, Serbia, and Montenegro, where we had a bigger decline. In Romania it is primarily related to this conversion of the Swiss franc mortgages, which we started back in 2015. This decision was made in the first quarter, or early second

quarter, and we converted almost 75% of the portfolios into either local currency or euro loans, but with a lower margin. In Serbia, basically, this was due to the NIM compression, which was driven by the lower rate environment.

Now, going further to the net interest income, there are a few points which are important to make in order to fully understand the dynamics here, and we basically listed them on this page. So, there are some technicalities to be understood in order to fully understand what's going on.

We had a 1.9 billion item appearing in the NII of the Hungarian Core division. And also in the Core, there's a similar negative amount in the other net non-interest income if you look at page 25, and these come in pairs. It's related to the structural change we made in the P&L. On exhibit 16 in the analyst tables, you will see that there was a new line created called *Gains and losses on derivative financial instruments*. Basically, we grouped within the P&L all the items related to gains and losses on derivative financial instruments. A negative item was taken out from the NII, and this actually increased the NII in Hungary. So, this is a one-off structural event which happened.

There was a similar, in its nature a one-off event in the Hungarian Merkantil, the leasing company, in the amount of HUF 1.5 billion. This was related to the accounting standard changes, as we recognise in the P&L the previously off-balance sheet accrued interest revenues. So, this had a one-off 1.5 billion impact.

And there's another one here on the Corporate Centre line, which is not a one-off. It's going to be a recurring item at the Corporate Centre, that's where we have, basically, the group financing and certain elements of our group-level liabilities, which were originally created for financing the expansion of the group, namely the Lower Tier 2 bonds which matured in last September, the ICES, and the Perpetual bonds. Now, we paid back the LT2 funding. At the ICES and the perpetual bonds, in both cases there was a coupon step-down, so they turned from fixed to variable rate loans and there was quite a material decrease in the amount of interest we have to pay. And the cumulative impact of this lower cost of funding is actually HUF 2.4 billion. This is going to continue in the future, this difference, so this was not just a one-off.

And then, finally, there's another item, which relates to the net interest income and also the other net non-interest income. And it's basically related to an elimination. There's an intra-group transaction swap agreement between OTP Bank and DSK Bank. Overall, it doesn't have any impact on the total revenues, but it does have an impact on its structure. So, we made the eliminations for the entire year in the last quarter, and decreased net interest income

and increased other net non-interest income by the similar amount, roughly 4.1 billion. So, this is, again, a one-off structural change we made in the statements.

Now, going to the net fee and commission income: two interesting developments here, which were material, I would say. One is that we booked, in the last quarter the entire refunds, or cash-backs, what we paid on the credit cards for the entire year. And then, our fund management guys, as I said, did a good job last year and there was a success fee they received from the funds they managed. So, that had an increase in their performance in the last quarter. This is seasonal. The success fee comes each year in the last quarter. Sometimes it's higher; sometimes it's lower. Last year's was quite exceptionally high, I would say, which reflects the good relative performance to the market.

Other net non-interest income: again, there's this 1.9 billion negative, which is related to the previously explained change in the P&L structure. In Bulgaria we had a 1.4 billion positive one-off. Again, this was related to the accounting methodology change, and this was related to the factoring volumes and their recognised income. Again, this is a one-off item and it's related to accounting methodology change there.

And there's finally this line, which I also mentioned. These are the eliminations of the FX swaps between OTP Core and DSK, which also appear in the other net non-interest income. So, these are just flavours or certain add-ons for you to better understand, the dynamics on the revenue side.

Having all this in mind, if we turn to page 26 we see the net interest margin development. That was fairly stable in Hungary on a quarterly basis, and the annual rate was 3.36%. Now, this actually highlights one interesting feature of the way we calculate these ratios because if we look at the period and we calculate the net interest margin, obviously, the NII is clear: it's the daily basis accounted net interest income. But, on the other hand, the denominator is the beginning and end of period numbers' average, and that creates this funny result that the annual number was actually 3.36%, whereas each of the quarters were above this ratio.

And by the way, this is also true if you look at the group net interest income margin. It's ended up being 4.74%, despite the fact that all quarters were higher than this number. We might change this, in the foreseeable future to another way of calculating these numbers, besides the way we show them now.

Nevertheless, if we just look at the quarterly developments, it was stable in the Core in Hungary; Russia slight improvement; DSK Bulgaria, continued to decline, and unfortunately, this trend will not stop here. We expect this to continue into 2017, as well. Ukraine was, on a quarterly basis, fairly stable.

If we look at the performing loan volume dynamics on page 28, you can see the quarterly developments in the upper part of the page and the yearly changes in the lower part. So, in the lower part, on a yearly basis, as you can see we grew by 6%. Now, if you take out the impact of the AXA acquisition, then it was only 3%, but this 3% was actually great compared to the previous years. We are extremely happy about the 5% growth in Hungary without the acquisition, which is primarily driven by corporate growth.

As you can see on this chart, it's very obvious that corporate was the primary driver of loan growth last year: 14%, Hungary; 14%, Bulgaria; Russia, 20%, but unfortunately it's a very small volume, but nevertheless it started to grow; 7% Ukraine, 6% Romania; 14% Serbia. So, almost across the whole group, we had quite a strong corporate performance, whereas the whole year mortgage was still negative, and consumer was kind of okay, especially in Hungary, 4%. And we are quite happy that, actually, Russia was plus 1 due to the very strong last quarter. Fourth quarter showed 10% growth, which makes us believe that the market is getting back to growth again, after a very sharp adjustment which we saw in the previous two years.

Moving to deposits: year-on-year growth was 6%, mostly coming at year-end. This was partially due to the fact that in Russia, Ukraine, payments came earlier, before the year-end, and there were different one-offs here and there. But, all in all, I think we can say that especially our retail customers are quite fond of OTP, especially in Hungary and Bulgaria, where we don't really pay any interest on deposits. And despite this, we see a continuous in-flow of deposit volumes, and that shows that our customers are happy with the services, the transactional and account services we provide, and they trust OTP Group, even if we don't pay very lucrative rates on their deposits.

Costs, page 30, overall 2% up. The nominal growth, if we adjust for the exchange rate changes, then it was higher, 4%. In Hungary, part of this came from the payments to these different protection funds, the Deposit and Investor Protection Funds, the Resolution fund, and so on, which increased by 3 billion last year. And across the board, we had to start increasing wages as wage inflation kicked in quite strongly in most of these countries. Obviously, we enjoy the benefits of this trend on the revenue side by higher sales and higher transactions, and also due to higher consumption. But, on the other side, we clearly have to adjust our wages and try to be in the competition for talents in these countries, which is actually getting tough because some countries, especially Hungary for instance, is a good

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example for shortage on the labour supply front. So, this is going to be an on-going pressure on our costs. I believe it was not just last year but it will continue into this year and coming years, that successful organisations which are growing will have to pay an extra in order to retain and grow their talent base.

Ukraine was exceptionally high growth and Touch Bank in Russia was exceptionally high cost growth. The Russian online bank is ramping up its operation, so it's related to that. And in Ukraine, the inflation was actually 14%, so compared to this, actually, in real terms, costs decreased not increased, in real terms.

And then, in Romania, again, a 16% decline was due to the results of the merger process. We acquired, previously, Millennium Bank in Romania and we concluded the merger last year, and this resulted in a lower level of cost base.

A few words about some larger and more important subsidiaries or group members, starting with OTP Core in Hungary: here you see the P&L lines. I've basically talked about all of these, and the one-offs, which appeared on previous slides. I think it's important that the before tax profit without one-off items actually grew year-on-year by 3%. So, the 3% decline in revenues, and the increase in the operating costs were actually balanced by the positive risk costs we had last year.

If we look at the business performance, page 32, just a few highlights. In retail, the growth of the mortgage activity increased, disbursements grew by 40%, and new applications by 70%. Here you can also see our market share in new production. It went above 30% in the last quarter. We are extremely happy about this. It's actually a quite tough market. All our competitors are very keen on mortgage lending, and this is clearly a very strong priority for all the banks in the country, and despite this we managed to further increase our already quite high market share in the new production.

In household savings we increased our market share. Again, this is a very good development. I've already mentioned that we don't pay much interest for deposits, and in spite of this we managed to increase our share in household savings. Not just in the deposits, but that includes securities, as well.

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On the corporate side, again, we are very happy that we continue to increase our market share in corporate lending. We're very close to 15% now, and very close to actually doubling our market share which we had in 2008. So, this is, again, according to strategy and we'll continue on this path forward, and I've already said that there was a quite remarkable growth in corporate volumes last year.

Bulgaria: I think the most visible event in the fourth quarter was the high provisioning, which can be seen here. It came in two fronts. One was related to on provisions for loan losses. Here, we changed the methodology. We made it even more prudent and increased provisioning for the restructured volumes, which are not necessarily 90 days past due.

And also, we created other provisions for potential losses coming from certain legal cases. This is, again, a very conservative approach we took year-end when we looked at all the potential future liabilities, which might come from this angle. And that has further increased the provisioning level and the coverage on the portfolios there.

I think the biggest concern in Bulgaria at the moment is a continuous decline in the margins, and there's not much we can do. The portfolios get re-priced and refinanced, and the competition is very strong and in a low rate environment it is almost inevitable to experience further compressions in the margins.

Russia: a very happy story last year, and we are quite content with the performance of the bank. It's not just the normalisation of the risk cost; it's also the volume growth we managed to achieve. As you can see on this slide, POS volumes grew by 17%, cash loans 7%, other loans 6%, and only credit cards declined. And this happened in a recessionary environment where consumption growth was still negative. So, consumption growth was still negative last year, and in spite of these difficult and not very supportive circumstances, we managed to grow these portfolios, this makes us quite happy with the performance of the bank.

As you can see on page 35, I think there's one number which is interesting. Here, there is 33% increase in POS loan disbursements, year-on-year in the last quarter. So, the fourth quarter 2016 compared to fourth quarter 2015 increased by 33%. This is the most important part of the season (Christmas season), and this increase makes us believe that hopefully this year, in 2017, when GDP growth comes back and also consumption stops declining, hopefully we'll see even stronger dynamics in volume growth in Russia.

Ukraine: after many years of struggles, we seem to have a stable situation there, stable environment, and it seems that it is going to actually improve this year, and we will see a kind of material GDP growth. But, already, last year was decent because the previous long-term decline in loan volume stopped, and we managed to pay back, basically, all of the group funding we wanted to pay back. So, there's only a small amount remaining outstanding there. So, the overall risk exposure to Ukraine has tremendously declined and, obviously, given the very low level of portfolio deterioration and risk cost, now this actually turned into very, very profitable business, and we are quite hopeful that it will continue to be so this year.

On page 38, some highlights of the risk indicators. Overall, we had 1.1% risk cost rate last year. It peaked in 4Q, which I think was more like a one-off than the kind of usual seasonal pattern, which you could see in previous years. Portfolio deterioration was quite okay, and actually you see all the details on page 39. The actual deterioration was only 10 billion because 15 billion came into OTP Core in Hungary due to the AXA acquisition. So, the AXA volumes: obviously, part of those volumes was non-performing, and they came in as non-performing volumes to our portfolio, but this was not related to business events. So, the portfolio was stable in Hungary.

We had the lowest level of deterioration in many years in Russia. There was some in Ukraine, and the rest was basically zero or even negative, so this is quite okay. And this is reflected in the overall 90 days past due ratios, and in the overall levels of provisioning.

Coverage ratios showed, what you can see on page 40, increase with the exception of Hungary. Hungary declined due to a technicality, namely the non-performing volumes related to the AXA acquisition. We booked them net, so net of provisions. So, only the net exposure was booked, and therefore their coverage is technically zero. But, that doesn't mean, obviously, that there's not a quite high level of coverage on these, typically mortgage, exposures.

And finally, probably the most interesting slide, which talks about our expectations related to this year, to 2017. All in all, we expect quite favourable economic environment in all the countries where we operate, and marginal improvement year-on-year in each of these countries. That makes us believe that we can deliver on the at least 15% ROE target, which was set back in 2015, based on the 12.5% Common Equity Tier 1 ratio. So, that remains our baseline target; hopefully, we can do better than this.

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One-offs we don't expect, other than the Hungarian banking tax and the Slovakian banking tax. We are not aware of any other potential developments, but one-offs have this kind of peculiar nature that they are typically not foreseeable.

In terms of volume growth, the group grew last year by 3%. We believe that this ratio, the growth rate, will increase this year, but remain single digit.

NIM erosion will continue, primarily driven by Bulgaria, and also to some extent by Hungary, and we expect between 15 and 20 bps decline on a year-on-year basis, using the existing methodology of calculating these ratios.

Credit quality, given the good environment and the improving asset valuations of collaterals, increasing real wages, typically, in most of these countries, and very good coverage of the non-performing portfolios, we believe that we have every reason to think that risk cost this year will be lower than last year. So, we expect improvement on that line.

Operating expenses: between 3% and 4% growth, similar to last year, driven basically by wage inflation, and also the investments we have to make into developing digital capabilities.

In terms of broader strategic objectives, we continue to pursue acquisitions. We continue with this goal to try to grow in the countries, primarily where we are present, and where we don't have the required size, operational size, in order to get to the return levels that we expect from ourselves. Obviously, it's hard to predict exactly what's going to happen but certainly the intention is there, and we are very busy looking into different opportunities in these countries. So, hopefully there will be other deals we will be able to talk about during the course of this year.

Now, there's also this kind of expectation from dividend growth, which is a 15% nominal growth, similar to the last two years. And we say this is the baseline scenario, assuming that we can go further with additional acquisitions during the course of this year. And, obviously, if nothing seems to be on the horizon there, we might revisit this somewhere in the second half of this year. But, this is not the baseline assumption. The baseline is that we're actually going to nominally increase it by 15%, and, additionally, we also do further acquisitions, which will get back our capital position to closer to the target of 12.5% Common Equity Tier 1 ratio.

All in all, this was part of the more formal presentation, and I'd like to ask you to ask your questions if you have any. So, please, operator, open the floor for questions.

Operator: To ask a question on today's call, please press star one on your telephone keypad. To remove yourself from the queue, press star two and please check you've unmuted yourself locally.

The first question today comes from Pawel Dziejdzic from Goldman Sachs. Pavel, please go ahead.

Pawel Dziejdzic: Good afternoon, and thank you for the presentation. Just two questions from my side, and they were both related to the things that you just mentioned in your conclusion.

So, the first one perhaps on M&A: you gave us some information about your acquisition of Splitska, but this mainly relates to the balance sheet size and market share. Can you provide maybe a little bit more insight into what capital and earnings, and profitability impact the acquisition might have, or any reasons why, so far, you've been holding off perhaps on this information?

And separately, can you maybe detail a little bit more which markets you are currently looking at in terms of this further M&A? And can you rule out fully a scenario... And I know this is perhaps a hypothetical one, but can you rule out a scenario in which, actually, you raise capital in order to complete acquisition? Your share price now is a little bit more allowing for such things to happen.

And then a second question is just on NIM, and your guidance for 15 to 20 basis points decline. Would you be able to reconcile this, maybe a little bit more in detail, with NIM trends that you showed us on slide 26, per your core markets? You mentioned that you expect further pressure in Hungary. It seems that, on a quarterly basis at least, that the trends are stable so maybe the extent of decline there would be very useful to know your thoughts on.

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And also, you know, how do you really think about the further pace of declines in margins in Bulgaria? Thank you.

Laszlo Bencsik: Okay. So, details regarding the Splitska transactions will come in their due course, when we actually have control and we start kind of including this in our financial statement. Actually, Splitska, Croatia, is a very transparent bank. You pretty much have all the public access to all the information of this bank. And so, I don't think it's very difficult to kind of combine the two but we have not yet, indeed, presented a very detailed forecast related to the impact, but we will do in time. So, this will not be neglected, I promise.

Which markets? I mean, there's no secret about this. We have been quite open that we want to grow, primarily in the countries where we are under-represented or where the banks are too small: Romania, Croatia, also Montenegro, and you might add Slovakia to this but there's not much in terms of acquisition opportunities being visible there. So, primarily, Romania, Serbia, Montenegro where we are smaller, and also in countries like Hungary or Bulgaria where we are big, and where we can potentially realise large cost synergies. So, these are the countries. I would not entirely rule out the others but they are certainly not in our focus now. There are no short-term plans, and there are no kind of on-going processes outside of our current footprint.

Capital increase: we haven't encountered any opportunity which would justify an increase in capital, so basically, there's nothing on the horizon which would entail a capital increase. Regarding the margin forecast, indeed, this is a group-level one, and if you go to page 26, you can see that it's likely that, as I said, this trend is going to continue in Bulgaria, so the decline is going to continue in Bulgaria into 2017. And there will be some further erosion in Hungary, but the quarterly changes suggest what we can expect for this year, so there's some erosion but not drastic.

In other countries like Ukraine, if anything, margins will be somewhat lower as the environment improves. Normally when inflation comes down, likewise in Russia, there's some minor potential decrease in the rate environment. And in all the other countries, which have potentially smaller impacts and then the change will be also smaller, but typically in all the other countries we face this headwind of the declining rate environment.

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So, across the board, biggest change continues to happen in Bulgaria. I think that's all I can say. We decided not to be very specific one by one, our guidance for each bank, but, obviously, there's a level of probability here. The overall 15 to 20, I think this is a good range in which we can expect the overall development and we will have somewhat higher and lower ups and downs compared to what we expect country by country but, really, we'll probably end up in this range on a group level.

Pawel Dziedzic: Thank you very much. That's very clear.

Laszlo Bencsik: Thank you.

Operator: The next question comes from Simon Nellis from Citibank. Simon, please go ahead.

Simon Nellis: Hi, Laszlo, thanks for the call. I guess my first question would be on the provisioning. There was a big increase in the other provisions but I didn't see much disclosure in the release on what was driving that. If you could give some backdrop to that. I'd also be interested in knowing how you think things will pan out in Russia. I think they've proposed higher risk rates on high margin consumer loans. Has that gone through yet? Do you expect it to go through, and what the impact could be on the business, and how much capital, additional capital, you might have to send to Russia? Those would be my first two questions.

And the last question, just maybe if you have any visibility on the impact of IFRS 9 and then some of the provisions, the extra provisions that you've taken this year; is it related to IFRS 9, or not? Thank you.

Laszlo Bencsik: So, the other risk cost was, which you mentioned, basically centred around two entities: one in Bulgaria, and I touched up on this in the presentation. So, these are potential legal claims, which are not actually in progress at the moment but are potential, and we exercised extra caution here and created provisions against those.

The other one was, actually, in the Corporate Centre and it's related to certain tax risks related to the previous financing of our subsidiaries. So, in the case of one country, the tax authorities questioned our tax treatment, so to say, and this is a potential liability which might come through as a negative line, and that we've provisioned for this. Nevertheless I'm quite hopeful, and we are working very heavily on pursuing our interest and actually avoid paying this extra tax.

Capital regulation: I'm sure you refer to the new regulation which came to force actually 1st March, which increases the risk weights for the higher APR loans in Russia. This is obviously a forward-looking regulation, so it applies only to the new disbursements. We definitely don't foresee any additional capital requirement for the Russian bank. We believe that the level of capital it generates and the current level of capitalisation is more than enough to cover these extra capital requirements there. But, indeed, this is going to result in a kind of lower level of capital adequacy ratio in Russia in the future, but we believe that it will not entail capital increase in Russia.

IFRS 9: yes, as much as possible, we do kind of gradually prepare for IFRS 9. And, indeed, some of the changes in methodologies try to kind of pre-empt the IFRS 9 changes to the extent it is allowed in the current standard. The current standard specifies IBNR provisioning. There's a broad definition of this but, under this umbrella, we try to already get closer to provision levels what we expect under the IFRS 9. And the overall expectation is that we will not need additional provisions due to the introduction of IFRS 9.

We're actually quite advanced in our calculations and methodological developments, so now we have, actually, more ground and numbers to justify this expectation. But, obviously, this is an on-going process. The methodology is not rock solid yet. We are in very active discussions with the regulator and our auditors to finalise all the details of this method and do the calculations. But, high level, I can tell you that we don't expect additional provisions coming year-end due to switching to IFRS 9.

Simon Nellis: Okay. Actually, on the first question, I see that also on OTP Core you had a 6 billion other provision, which... Could you say what was behind that? And then, on the Russian risk weights could you tell us what the average risk weight is for your newly disbursed loans, on average, roughly?

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Laszlo Bencsik: Regarding the Hungarian other risk cost, this was related to shifting to IFRS. IFRS treated these items differently; we had to change our accounting methodologies to recognise certain expected losses due to other items. So, that was a kind of one-off.

In the Russian book, the current average risk weights... I don't know it by heart, actually. And, again, the increase is coming gradually, so it's not that from one day to another we'll have to increase the risk weights of our assets. It comes through new production.

Now, to give you a flavour of the potentially expected impact, it's between 2 and 2.5 percentage points, based on the capital adequacy ratios. So if, let's say, by the end of next year, more or less, the whole impact of this increase of risk weighted asset comes through the portfolio, so basically in two years, this is the magnitude of the expected impact. Obviously, it will depend on the type of loans and the APR levels of these loans. This is changing all the time, and the kind of allocation to different APR categories changes all the time. But, the overall magnitude we expect to be in this range, between 2 to 2.5 percentage points, in a two years' time horizon. So, the change will happen through this two years period, gradually.

Simon Nellis: Okay, thanks very much.

Laszlo Bencsik: Thank you.

Operator: The next question comes from Margarita Streltses from UBS. Margarita, please go ahead.

Margarita Streltses: Hi, thank you very much for the presentation. Just to quickly follow up on the previous question, do you expect this new risk weighting actually to impact the net interest margin in Russia, because it seems to discourage the high yield lending?

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And in Hungary, can you give us an indication for the average rate on HTM book? I think last year it was around 5.8%. Can you maybe let us know what it is at the moment, and also what proportion of net interest margin pressure next year you expect to come from this? Thank you.

Laszlo Bencsik: Okay. So, Russia: Indeed, in Russia the purpose of this regulatory change is obviously, I think, to discourage high APR lending, or make high APR lending more difficult or more costly, or only allow high APR lending to entities which are well capitalised. There's a trend on the market, and we try to follow this trend to try to focus more on lower APR and lower risk products because, higher APR is usually higher risk, and lower APR is usually lower risk. It's not necessarily true that a high APR product is more profitable than a lower APR product.

Having said that, just because of these changes, short-term we don't change our product portfolio or portfolio mix. We are very well capitalised in Russia and we also make at, or above, 20% return on equity. So, we are quite comfortable in terms of our capital position in Russia, and this has a lot of room and it allows to continue our current practices, if otherwise this is justified, businesswise. We don't change immediately the product mix, but, nevertheless, we do intend to, if possible, lower the APRs and actually target a better quality customer segment, and at the same time continue, or even improve the level of profitability.

As I understand, your second question was the hold-to-maturity portfolio's average yield, right?

Margarita Streltses: Yes, that's correct.

Laszlo Bencsik: Well, that was... In the last quarter, it was 5%.

Margarita Streltses: And what proportion of net interest margin pressure in Hungary next year do you expect to be driven by the declining rate on HTM book, and what proportion should come from like negative interbank rate? Just roughly, you know, if you...

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Laszlo Bencsik: There's a relatively small amount maturing from the hold-to-maturity portfolio. Most of the margin pressure on a year-on-year basis comes from the lower reference rates, so that's the problem. The reference rate today is between 20 and 30 basis points, which is considerably lower than a year ago, and all of our variable loans, most of the Hungarian corporate book, and most of the mortgage book is variable and it is linked to a reference rate, which is the interbank rate. And it's much lower than it was, on average, last year, and this is the most important factor.

Margarita Streltses: Okay, thank you very much.

Laszlo Bencsik: Thank you.

Operator: The next question comes from Anna Marshall from JP Morgan. Anna, please go ahead.

Anna Marshall: Good afternoon. A couple of questions from me please. So, firstly, on lending growth: so, your overall guidance is that loan growth is expected to accelerate, and you've made some comments about Hungary and Russia, but could you please further discuss dynamics by country?

And the next question is on Touch Bank. Could you provide an update on this project? Are you happy with the progress so far, and when could it turn profitable?

And the final question is on Ukraine. So, now that the subsidiary is profitable and it has paid back most of the intergroup funding, what are your plans going forward, and how do you see the banking sector in the country develop? Thank you.

Laszlo Bencsik: Sorry to disappoint, but I'm not going to give you exact loan growth forecasts for each group member. On a kind of broad, high level, some highlights. Obviously, we've talked about this trend change in Hungary regarding mortgages. We had seven years of negative loan growth in mortgages, which stopped in the second half of

last year and we are quite hopeful that this will turn into growth. So, this is going to be one difference compared to last year.

Other than that, we expect consumer lending to be strong across the board, especially improving in Russia. Last year, we had only 1% overall growth, but this was the result of the first two quarters being very negative and the third quarter being more or less flat, and the last quarter being very strong at 10%. So, here, we are quite hopeful that we'll see much higher growth than what we saw last year when it was 1%. So, that can be one driver but, across the group, consumer lending should be reasonably strong, given the real wages growth, consumption growth, which we expect in all of these countries.

Corporate, last year was really incredible performance, especially in Hungary and Bulgaria. It would be great to repeat this. It will be, actually, difficult to repeat this. We try hard but there is obviously very increasing competition driving down the margins, and in some cases to levels where we don't feel comfortable in the kind of risk benefit comparison. So, we'll see how far we can get. So, the demand is there; the question is how much appetite we have in terms of going to very low levels of new corporate lending in terms of margins.

Touch Bank: the very recent results, December, January, February, seem quite promising, especially compared to what we had seen up until December last year, which were not very encouraging. So, to be very honest, the initial results we were not very happy with what we had seen up until November, December last year. But the last couple of months, actually, looked much, much better.

Obviously, what we are struggling with is customer acquisition and the price of customer acquisition. We believe that by now we have a very good and very high service level operation and great proposition. It's actually working very finely and the customer satisfaction levels seem to be very good, so the users like it and we have a lot of interest in using it, and a growing number of transactional customers.

What we have not been very successful with, and this was part of the original business plan, is selling unsecured loans: basically, credit cards and cash loans, or cash-on-card products. This, we have not been able to solve yet, how to attract good quality demand, because, we have quite a high level of demand but the quality is not what we exactly expect. So, this is the front where we have to find other ways and new ways to tap into quality demand client groups. So, this is an on-going challenge.

Last year, we shouldn't forget that GDP growth was negative; consumption declined. So, last year was not a very prosperous year for Russia. And as the calm environment improves, as consumption is going to improve this year we expect increasing amount of consumer loans, unsecured loans. And then, this will hopefully create further demand for our services there.

The very recent experiences are more and more encouraging, and operations seem to be good and the services seem to be quite okay, so we're quite happy with that. That's more or less where we stand.

When we break even, that's difficult, and honestly, I wouldn't be very specific on this because the business product and the revenue stream changes quite fast. I hope that during the course of this year we'll be able to better gauge the prospects of this business and have exact and, hopefully, very precise expectations how it is going to develop.

Ukraine: we are quite happy with what we have at the moment there. Again, group funding is done to a very low level so the overall risk is quite contained and limited. It's extremely profitable at the moment. It doesn't need group funding; it doesn't need capital. It actually generates capital.

The business is quite tilted towards local currency lending so we, at least in retail, technically don't have any FX loans, and even in our corporate books we have a majority of the lending now in local currency. And we are regarded as one of the very reliable and strong banks, and certainly our customers seem to value the stability which we provide, and the reliability which we provide. And there's a lot going on in the market. I mean you know the developments that happened in the last quarter with one of the banks having serious problems. So, this is a quite dynamic environment where we stand as a stable and reliable partner for our customers.

And the short-term expectations for the Ukrainian economy seem quite promising, so we hope that they will materialise, and then we can continue to generate these good returns there. But no immediate plans, other than continuing what we are doing.

Anna Marshall: Thank you.

Laszlo Bencsik: Thank you.

Operator: The next question comes from Andrej Novaczek from HSBC. Andrej, please go ahead.

Andrej Novaczek: Thank you. My question is on the smaller markets. We rarely talk about Serbia, Slovakia, or Montenegro, but it looks like these operations are not getting any better; losses in Slovakia and Montenegro in Q4 are probably the evidence of that. I just wonder... Obviously, as you say, you'd like to buy more assets in these countries, but if you fail to get engaged in M&A, would you be willing to sell these operations, and are there any prospective buyers?

Laszlo Bencsik: Today, we are more in the buying mode than selling. And there are buyers of assets in Serbia and Montenegro, certainly, and probably also in Slovakia, but there are not much processes on-going. So, there is interest for assets certainly. Again, our strategy at the moment is to grow through acquisitions.

We believe that we are at the beginning of a growth period in the region, with actually quite stable and relatively high growth potential, reasonably contained low risk. Asset valuations are still in a meaningful range, so we believe that this is actually the time to buy, and not necessarily the time to sell. We believe that asset valuations will go higher; actually, we believe sooner than later. And then, that can create an environment where we might consider other strategies, as well, especially if we don't succeed in buying anything.

At the moment, the strong focus is on acquisitions and we believe that all the factors support that, and we hope that we will make the right moves. We don't buy everything that comes to the market. I mean you probably heard about a recent bigger transaction, where we did not win the tender for that asset. So, those events happen. So, we don't buy for any price and we are quite selective.

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Andrej Novaczek: And more specifically on Montenegro, what happened there in the fourth quarter? It looks like the loss is quite substantial. And, of course, back in 2010, you were making huge losses in Montenegro. Small market, but a problem market.

Laszlo Bencsik: Yes. As I said, in Montenegro and Slovakia there was high provisioning last quarter in both of these countries. This provisioning was related to, especially in Montenegro, it was related to old defaults, where we had certain expectations towards recoveries on these exposures but they have not yet materialised. And we decided to revisit this, and actually adjust our level of conservativeness to the experience that we have had during the last couple of years. So, this was just a re-evaluation of the long time ago defaulted assets, or exposures in Montenegro. And it's not related to recent deterioration of the portfolio or recent events.

Andrej Novaczek: I see. Thank you very much.

Laszlo Bencsik: Thank you.

Operator: The next question comes from Gabor Kemeny from Autonomous Research. Gabor, please go ahead.

Gabor Kemeny: Hi. A follow up question on Hungarian margins: you gave us some useful sensitivities on the previous call on the potential impact from the higher reference rates, from the higher interbank rates, and you just mentioned that this is an issue going forward. Can you... I think you said like 1.5 billion NII impact from a ten basis point drop; is this, firstly, your best estimate?

Laszlo Bencsik: Yes, if you only look at this variable; yes.

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Gabor Kemeny: Okay. I guess the BUBOR dropped something like 60, 70 basis points in the last few months, so shall we then assume something like 9 billion NII impact in Hungary from this? Would you consider this a fair estimate?

Laszlo Bencsik: I mean it's not only the three months BUBOR what matters, not all the loans are linked to the three-months interbank rate; there are other elements there. So, it's slightly less, actually. But, yes. I mean, in principle, yes. This is the magnitude related to this very particular change.

But there are other changes in our Hungarian asset structure. Some of them are positive. We actually reduced quite substantially the amount kept with the Central Bank at the base rate and at the overnight rate, and we increased the share of government bonds in our liquid portfolio, which has a positive impact, somewhat counterbalancing this. But, yes, I mean basically this holds.

Gabor Kemeny: And when you say your group margins could drop like 15, 20 basis points this year, do you assume that the current level... That the BUBOR will stay at the current level?

Laszlo Bencsik: Yes.

Gabor Kemeny: For around 20 basis points? Okay. And secondly, on capital and dividend, just a bit of a conceptual question. I mean, your dividend guidance, such as that you are kind of accumulating capital for potential acquisitions... I mean you clearly have capacity to increase the dividend more than 15% next year. So, I guess, why would you not pay more dividend and raise equity when you need additional capital for potential acquisitions? I mean your shares are trading well above book value, a quite attractive valuation, and presumably you would buy something at a much lower valuation.

Laszlo Bencsik: I think this is very theoretical. Well, there was one question already related to this. I mean, the type of acquisition targets which we are talking about are in the range, in this kind of size range, which we believe we can cover from the capital that we generate. So, that doesn't justify a capital increase.

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I mean, I don't even fully understand the question. So, you would rather pay, I don't know, 25%... I mean, for what? More dividend and increase capital? I mean, I don't quite get it.

Gabor Kemeny: No, but you pay out your potential excess capital, and once you need any further capital for acquisitions, you can easily raise at a quite attractive valuation, based on what your share price is right now.

Laszlo Bencsik: But I don't quite see the difference from a shareholder point of view. Plus, I mean there's a lot of noise and hustle raising capital, and clearly we don't need it. Thank you for the question but, honestly, I don't quite see it as a feasible alternative to what we suggest now.

I think what we suggest now is, yes, to retain part of the capital we generate for potential acquisitions. And as I've said, if there's nothing on the horizon, then we might even change this as soon as during the course of this year. So, it might happen, if we don't see any target, then by the second half of this year, or by the end of this year we will come up with a different strategy related to our equity. And then, it's not just extra dividends that we might consider. We might consider share buybacks, or other ways to return value to our shareholders.

And this is not in the very distant future. Again, as I've said, we are willing to revisit this if we don't see any acquisition opportunity during the course of this year. This 15% is the baseline that we communicate, assuming that we can, in the short-term, find other value creating acquisition targets during the course of this year.

Gabor Kemeny: Okay, that's helpful. Thank you.

Laszlo Bencsik: Thank you.

Operator: The next question comes from David Taranto from Bank of America Merrill Lynch. David, please go ahead.

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David Taranto: Hello. Thanks for the presentation. My question is related to mortgage spreads in Hungary. What is the current spread on new production, and do you see some sort of risk stemming from the regulation or competition, given the positive differential with the peers in Central Europe? Thank you very much.

Laszlo Bencsik: The new spread is about 4%. This should be the benchmark rather, in the region, than an outlier. I mean mortgage lending can, in extreme situations, go down to very low margin levels, like what we see in Slovakia. That rather scares me, honestly. I think the key to a stable, long-term, sustainable banking sector is margins, which cover the cyclical risk cost and cost of capital, and on top of that provide okay returns to shareholders. So, I think what we have in Hungary, that should be the normal, rather than what we see in, for instance, Slovakia, which is, I think, extreme and potentially not sustainable over a 20, 30-year horizon, because that's what our mortgages are sold for.

Nevertheless, obviously, there's the threat that competitors or even regulatory measures interfere; that, I don't know. I mean we'll try our best to provide the best rates to our customers, and at the same time maintain margins which assure the long-term security of the bank and also the sector, as well, especially in Hungary. I think we have a special kind of extra responsibility in this sense, being the largest bank, to try to protect the safety in and of the sector.

But, nevertheless, you are right that the competition might force us to go into lower margins. Actually, there's quite intense competition at the moment. Every bank is very keen on selling more, and if you ask around our competitor friends, they will say that their prime target in Hungary is to increase mortgage lending, and this is our most important target, as well, for this year. So, I expect very fierce and very intense competition. So, we will see where we get.

Certainly, I don't expect margins to increase. If anything, they will decrease, to which extent I don't know. This depends on our competitors. I hope that there will not be any interference, an intrusion to market pricing. And I very much hope that the regulator does not do that because that usually is not a good thing, to interfere with these methods into a very competitive market. So, we will see.

David Taranto: Okay, thank you very much.

Laszlo Bencsik: Thank you.

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Operator: And the last question today comes from Anubhav Srivastava from Societe Generale. Anubhav, please go ahead.

Anubhav Srivastava: Thanks for the call. This is Anubhav Srivastava from Societe Generale. I just understood that you expect lower risk cost going ahead. So, checking if this includes any write backs, especially in Hungarian mortgages.

Laszlo Bencsik: Yes, indeed we expect, overall, on a group level, lower risk cost in this year than last year. And, yes, in Hungary write backs can happen, and do happen, actually. If you look back last year in Hungary, we had positive risk cost, and we did have recoveries also on the mortgage book.

Anubhav Srivastava: Okay, thank you.

Laszlo Bencsik: Thank you.

Operator: We have no further questions on the phone lines.

Laszlo Bencsik: Okay. So, thank you very much. Thank you for joining this conference call. Thank you for your very good questions, and I hope to have you back during the next interim report conference call, which will be on 12th May. I wish you all the best, and a very good weekend. Thank you very much. Bye.

Note: unabridged transcript with minor English stylistic corrections.