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**Moderator: Simon Nellis**

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Operator: Good day and welcome to the OTP Bank Q4 2018 Conference Call. Today's conference is being recorded and at this time, I would like to turn the conference over to Simon Nellis, please go ahead, sir.

Simon Nellis: Thank you. Hello, everyone online. I am Simon Nellis at Citibank. I head up the CEMEA, banks research team here. We are honoured to be hosting OTP's full year 2018 results Conference Call and I will hand over the call to Mr. László Bencsik, the Chief Financial and Strategic Officer.

László Bencsik: Thank you Simon. Good morning or good afternoon to everyone depending where you are, and thank you very much for joining us today to the annual numbers presentation of OTP group. The presentation I am going to use is available on the website since a few hours. I hope all of you have been able to download it and you can follow me. As usual, I intend to present at least the first part of the presentation, which is more a kind of high-level overview and then I am sure you will have very detailed questions and you will allow me to elaborate on the more detailed levels of financials.

If you start the story on the first page of the presentation, there are five headline messages we think are important to convey. First and foremost, we achieved all time high profits and outstanding level of return on equity last year. Number two is our organic growth because in fact last year we did not include any newly acquired entity in our books so the entire growth manifested last year was organic, and the organic growth itself was quite dynamic, altogether 15% y-o-y performing loan volume growth for the whole group.

Third one, despite growing so strongly and therefore needing to provide capital for the organic growth, the capital position is quite strong: 16.5% Common Equity Tier 1 ratio; and needless to say, our liquidity position is also excellent. As Hungary remains the most important part of the group, it is especially positive to see that the Hungarian market is doing very well and the Hungarian growth even outperformed the group level growth, it was 18% and the profitability in Hungary was growing year on year.

Finally, I will elaborate on the macroeconomic conditions. We believe that given the supportive economic environment, we expect the positive trends in 2018 to continue mostly in 2019, as well.

So, a bit more elaboration on the first topic, profit and profitability. Accounting profit was HUF 318 billion and adjusted profit HUF 325 billion, both results were all time high. Here is a small remark: today is the 70th birthday of OTP, as such it was established 70 years ago on this very day, so I think it is a nice way to celebrate this day to publish the highest ever level of profit.

If you look at the next page, page four, we can see that the actual 18.7% or close to 19% ROE seems to be quite at the higher end of the European spectrum of sizeable internationally operating banks, so we believe that we delivered rather well compared to other banks in Europe. On page five, you see further details on how this profit was made, and I would like to draw your attention to a one-off item we booked in the fourth quarter. This is the MIRS, which is the acronym for the IRS, the monetary purpose IRS, which was provided by the Central Bank last year to all banks and the distribution was based on assets, so it was rather a kind of automatic allocation depending on the size of each bank. Originally we started to accrue over the lifetime of the IRS's the results, but in December the Central Bank came up with a guidance and they suggested that banks should account for it as a one-off, which we did and then in the fourth quarter you see this after tax HUF 18.8 billion one-off. At the same time, in 4Q we took out the accrued amounts in the previous three quarters, but they were very small, they were not material at all, so they are not even worth mentioning.

If you look at how this HUF 325 billion profit was distributed among the group members, you can see that Hungary is still dominant, and Hungary grew 7% year on year. Bulgaria was stable. Russia was somewhat lower and then Croatia was much better, obviously also part of the nominal growth was strongly boosted by the acquisition as well, because in 2017 Splitska banka was included only for eight months in the P&L, the first four months was not included because we consolidated it from May. The most extraordinary performance we saw last year in Ukraine where the organic growth of profits was 73%, and this is by far the highest return on equity generating unit within the group, and also growing fast after so many difficult years. There we seem to be able to finally generate returns, which I expected on that market.

Where we have declined is the fund management operations in Hungary. In 2017 we had a very large one-off bonus for the exceptionally good performance compared to the benchmark, the asset management company received a performance bonus from the funds they managed. Last year they were closer to the benchmark, so nevertheless they received a one-off bonus, this was much less than in 2017. Fund Management still did well, I would say.

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Page seven; you see the P&L numbers, year on year, quarter on quarter. Obviously, here the acquisitions introduced a certain level of noise especially if you compare 2017 to 2018. Therefore, we inserted two columns: one with that acquisitions numbers and another one where we took out Splitska banka in Croatia and Vojvodjanska banka in Serbia from both 2017 and 2018 numbers. These columns are the ones which best gauged the annual organic development of the P&L. As you can see, operating profit year on year went up by 3% and total income grew by 6% without acquisitions. The other kind of big chunk, which moves the bottom line was obviously the risk cost and this is where we substantially outperformed the original guidance, because the nominal risk cost and the risk cost rate ended up being much lower than we had expected back in 2017. This is more or less the first statement I made in the beginning: all time high profit and outstanding ROE.

The second one, the outstanding loan volume expansion supported by organic growth. I mean this chart is comparing us to some of the banks in Europe and I think it is clear that this 15% organic growth of performing loan volumes is so much special that not many institutions are growing at the same rate across Europe.

On page 9, you can see where this growth came from and we included a nominal growth number, so the total volumes of performing loans grew more than HUF 1 trillion or HUF 1,000 billion. As you can see, Hungary was particularly strong and it had quite a big share with its 18% nominal growth rate and HUF 462 billion nominal growth. Especially the corporate sector was very strong but I think very good news last year was that housing loans and therefore mortgages started to grow in a meaningful way, so housing loans themselves grew by 11%. Home equity, the general purposes mortgage loans continued to declined and that resulted in 6% overall mortgage growth.

DSK was okay at 11% and we have four countries with at or above 30% growth: Russia, Ukraine, Serbia and Montenegro. I think the most outstanding performance is probably Serbia where we achieved this growth rate while doing the merger. The colleagues are extremely busy merging the two banks together and it has not finished yet this process; and during the merger activities, they managed to achieve this level of growth rate, which is I think quite respectable.

On page 10, you see the quarterly growth rate. I think here the most important number is Russia. In Russia the fourth quarter is typically, as usual every year, seasonally strong, so we had 10% growth there, which is I think okay.

On page 11, you see the deposit growth for the group. Percentage wise it was a bit higher than half of the loan volume growth rate at 8%, but nominally, it was actually quite strong, HUF 852 billion nominal growth, obviously because we have a different base: the net loan to deposit ratio was still at only 72%, so we have nominally much more deposit than loans.

Deposit volume growth rates were relatively balanced, and this is good for two reasons. One is that it drives asset growth and it creates the liquidity needed for the new performing loan growth, and these deposits come typically very cheap because we don't pay much for deposits and therefore we continue to grow so much in deposits also suggests that clients like us and are satisfied with the services, the transactional services we provide because price here is less of a factor.

Quarterly change is not tremendously exciting, I think we have good performance across all countries except Croatia, but Croatia is very seasonal, I mean the year-end and usually the fourth quarter is specifically negative.

Despite the fact that last year we did not as such included any new entity into the group, but we were quite busy and preparing and doing the acquisition processes, and as a result in January we closed the Bulgarian deal, we acquired ExpressBank from Societe Generale. The transaction was closed mid-January and now we are in possession of the asset and working hard to integrate it and merge it with our existing bank. You will see the numbers of ExpressBank in the first quarter results within the consolidated figures.

We also announced four more acquisitions where we reached the stage of agreement and we started the process of applications for approvals from the relevant authorities and we expect to conclude these acquisitions during the course of the year, so by year end all of these should be included in our consolidated numbers. The story here is gaining market share, primarily on the markets where we had already been present and we went up from 4% to 11.3 in Croatia; in Serbia in two steps, we are going to reach 14.5% market share in two steps, up from 1.5%, through two acquisitions, and I think that is quite remarkable. If we get there then we will have a very well established and strong position in Serbia with a size that allows us to run the operation there with the required level of profitability, which is going to be tremendous improvement from what we did there for the last 15 years.

The other good story there is obviously Bulgaria where we get close to 20% market share with this acquisition we did. We are in the number one position in terms of market share together with UniCredit. Montenegro, it is a small country and in small country you are either big or it is not obvious why you are there; we believe Montenegro is interesting from long term perspective. We do an acquisition there and we go up to about 25% market share. There are two further countries; we also entered Albania and Moldova.

Here you see the book value on this page. I am sure you are interested in how much we paid or we are going to pay for these banks and we announced the purchase price for the first two, for Splitska

and for Vojvodjanska bank when we did those acquisitions, it was EUR 425 million for Splitska and EUR 125 million for Vojvodjanska. For the remaining five on this page, according to the requirements of the seller, we are not going to disclose the exact amount of the purchase. But what we can tell you is that for this group of banks all together, we pay almost exactly one times price to book. The whole price for these assets equals the book value, which technically means that we have to allocate roughly the amount of capital that would have been anyway needed for building up these exposures in these countries.
Okay, so this was the second point.

The third point is the strong capital and liquidity positions, it is quite a short story, we had 16.5% Common Equity Tier 1 ratio by the end of last year. I think we can agree that it is a strong level which allows further organic growth and, obviously, it is also needed for concluding these acquisitions because the five entities we presented on the previous page have not been concluded yet, we have to pay and obviously, they will have a negative impact on the Common Equity Tier 1 ratio. The EBA stress test went well, OTP closed with strong results.

Now, a few words about Hungary because I think it is quite an interesting story. Here, we had seven sour years where our performance was rather disappointing, actually very negative. We lost a significant portion of the performing loan volumes, the growth started only in 2016, but 2017 accelerated, and in 2018 I really think we reached a very good level of volume growth. Growth is back full speed in Hungary and this is reasonably well balanced between corporate, unsecured retail and housing purpose mortgages. This developed into a quite strong story. The good news is that it is not just the volumes, which are growing; it is also our market shares, which get stronger and stronger. I think this is especially important that we tend not to be very aggressive in pricing so we are rather conservative and we usually don’t try to increase market share through pricing. We use better services, better products and try to achieve better customer experience and that is how we believe we can on the long-term build up satisfaction from the side of the customers, which can eventually manifest in market shares. They did manifest in market share growth last year, we managed to further increase our market share in new mortgage loan origination, also in new cash loan origination; and the stock market share in household savings increased quite considerably. Such positive trend is also true for corporate lending and for corporate activities. On page 17, you can see that we increased our market share last year and it is up again to 14.6% from 13.9%, which was the level in 2017.

Also, talking about Hungary, maybe a few words about the guidance for this year. We have tried to be very specific, again, thus we have written down in full sentences the exact communication what we intend to use. I am sure you will have questions and ask me to further elaborate them; these are the very words, which we intend to convey to you. I hope you will be satisfied with that prospect.

First of all the macro: last year's performance was very good in case of OTP group, primarily because the countries where we operate did well last year, especially Hungary.

On page 18, you see the GDP growth number, 4.8%, the good news is that today, the statistics office revised the numbers upwards, so the official growth for last year was 4.9%, which is I think is a reasonably strong number. What is equally important is that it does seem to be a well balanced growth: consumption is growing well, fixed capital formation, investments are growing fast and exports continue to grow, so it is a reasonably balanced growth. If you look across these countries, it looks great. I think in all of these cases, the countries did well or slightly better than expectations. Russia did okay, Croatia was somewhat slower actually. Here, we have the recent official numbers, which came up recently, and it was 2.6%, somewhat lower than the expected and earlier published numbers. Other countries seem to be okay. If you look into 2019, at least in Hungary, we are quite positive and optimistic, we expect close to 4% GDP growth rate, and continuously dynamic loan volume expansion. Bulgaria 3.3% growth forecast, which is quite a good level for Bulgaria. As for Romania, we are somewhat more pessimistic and somewhat unsure where the recent developments are going to lead, and these numbers here are under revision. We find it difficult to figure out what the end game of this exceptionally high bank tax is and other measures coming from the government mean for the country for this year, or if at all they come through as published.

The rest of the countries of the Group again seems to continue to grow reasonably steadily. We expect the environment to be similar this year than the last year in these countries, and therefore, not surprisingly, we expect the trends we witnessed last year to continue into 2019 in most cases, which are important.

Page 20 and 21 are really quite interesting two pages, i.e. the guidance. We follow the well-established tradition not to give a point estimate of the expected profits or profitability. We maintain the ROE target that we have set couple of years ago, above 15%; we have been able to outperform this target for the last couple of years.

Regarding the one-offs, the Hungarian bank tax, Slovakian bank tax and the acquisition related one-offs, and the Romanian bank tax, which at this stage we don't dare to quantify because we find this rather unclear or not 100% certain what the tax will eventually be– I think the fact that there will be a tax is quite likely, but the exact amount we hope is not going to be most pessimistic what we could understand potentially from the evolving regulation, which would mean 1.2% on total assets on yearly basis.

Growth rate, we expect around 10% performing loan growth; this is without acquisitions. It is important to know that there will be acquisitions, we have already concluded one, and most likely, other four will happen, too. That will have a major impact on how the balance sheets and the loan volumes are going to look like by year-end. If we take all this out, then there may be a 10% growth.

Here, just a side note, we changed methodology. We changed how we are going to present performing loans. For the last ten years, it was less than 90 days past due (DPD0-90) loans and now we moved to the new IFRS9 terminology, so from the first quarter this year we are going to talk about performing loan volumes in terms of Stage 1 and Stage 2 volumes under IFRS9. We included two pages at the end of this presentation just for the sake of clarity. Therefore, for the second, third and fourth quarters last year we showed FX adjusted, DPD0-90 and the Stage 1 and 2 volumes for the same periods on page 32 and 33. This guidance, the 10% increase, is related to this Stage 1 and 2 expected volume growth.

Net interest margin, this has been a big topic for a long time –the guidance for last year was 10-15 basis points decrease compared to fourth quarter 2017, and we ended up losing only 7 basis points from 4.38%, we lost 7 basis points last year compared to the last quarter 2017. We did last year somewhat better than we originally expected. What we see here, again without the effect of acquisition, i.e. putting aside the new banks we are going to acquire, that this very fast NIM decline which we used to witness and experience in the previous years, it slowed down and then flattened out more or less last year. The second quarter last year was 425 bps and the third quarter already improved somewhat. We believe that this year will be somewhat similar to last year. Despite the fact that it is becoming increasingly difficult to say on basis point level what the margin is exactly going to be, our best estimate is that it is not going to be lower than the lowest point last year, which was 4.25%.

Having said that, obviously, there are a lot of moving parts here, and now that there is no clear trend in the margin, the composition effect is extremely important. The relative growth rate of the different portfolios with different margins, for instance the Ukrainian or the Russian portfolios, which have much bigger margins than let's say Slovakia or Hungary. The exchange rate, the Rouble and UAH exchange rates have material impact too.

Going on to the risk cost, this is a line where we saw last year a much better performance, much lower risk level than we originally expected. In our best estimate, we don't see fundamental reasons to expect markedly different levels of risk cost or risk cost rates than what we saw last year. We expect similar environment and situation to continue.

Finally, the cost; everyone likes and we do as well to deliver good news. I think all these lines were better than expected by us, except the cost growth, which we originally guided for 6% and during the course of mid-year we believed that it could be possible to get to the level, but eventually we ended up higher; last year it was 8.2%. There were one-offs at year-end, namely we paid a one-off extra bonus in Hungary in order to help retain talents and boost morale given the exceptionally good performance for the Group and for Hungary.

After this rather robust cost growth last year, we expect a more moderate increase this year. The guidance is 4% FX-adjusted year-on-year increase of operating expenses. It is important to note that this is without acquisitions. Obviously, when we're acquiring new entities, they will add up to the overall costs.

Now, dividends, expected payments after 2018. Allow me to remind you that the guidance for 2018 in terms of dividends was given by the Chairman himself on the AGM and we kept on repeating this guidance in our presentations. The original guidance was that there was no guidance. It was said that we would reveal what we believe was the appropriate level of dividends in this situation when we come to this stage where we are today, i.e. the first quarter of 2019. There is no as such dividend guidance for last year. We suggested paying the same level, the same amount we paid after 2017, so the dividend should stay flat year-on-year. At least, this is our proposal to the AGM. If you consider the speed of organic growth, 18% growth in performing loans, which is exceptionally high in Europe, and you also consider that we are acquiring five banks this year which need to be paid, and these five banks are going to contribute substantially to the profitability and to the profit nominally and obviously to our presence in these countries, so I think that's a reasonable proposal.

Talking about expected dividends after 2019, we would like to follow similar approach what we did last year. At this stage, we are not going to provide any concrete guidance for the expected level of suggested dividends. We are going to do that in the first quarter next year, so a year from now. Given the acquisition path, and given the organic growth, we are going to propose to our best knowledge the most appropriate level to the shareholders. Nevertheless, technically we are going to continue to put this aside on a quarterly basis, so there will be a number which always technically appears as a number within the earnings dedicated for dividends and technically that number is going to be flat over the course of 2019.

That was the kind of the gist and the most important part of the presentation; the trends and expectations. Then in the rest of this pack you see further information on cross sections basically on the P&L lines with explanation, as usual. Net interest margin on the quarter-on-quarter basis declined only one basis point, and then compared to the fourth quarter 2018, as I said, it went down by 7 basis points; so, on page 25 you have further details; and on page 26 you see the bigger banks and their margin developments; and then the fee income, page 27, and other income on page 28. Operating cost, I think this is particularly important because there we were higher in terms of the growth rate than we originally indicated. The FX-adjusted increase was 8.2%, the non-FX adjusted was 7.5%. This was basically driven by a very dynamic activity increase related to sales and servicing customers. Also, extremely high levels of wage inflation played a role. The nominal wage inflation was around 8-10% in the financial sector in most of those countries we operate. Plus, we continue to invest heavily into digital and IT transformation. Finally a few slides about portfolio quality which I'm not going to present in detail. But should you have questions on those, I'm more than happy to explore these topics further, as well.

This was the presentation I intended to tell you just to start and to warm up the discussion. I am very sure that you have very good questions, as well. So, please, I would like to ask the operator to open the floor for questions.

Operator: Yes, sir. Ladies and gentlemen, if you'd like to ask a question you may signal by pressing star one on your telephone keypad. If you are using a speakerphone, please make sure your mute function is turned off to allow your signal to reach our equipment. Again, that is star one for your questions. We will take our first question from Sam Goodacre with JP Morgan.

Samuel Goodacre: Good afternoon. I would say thanks very much for the call. I've got a couple of questions. The first one is really related to, but in fact both are related to Hungary. The first one is related to the new stance from the central bank and finally the fact that they are ready to gradually normalise policy. Could you talk to us a little bit about your expectations for rates in Hungary?

Then also perhaps a little bit of colour on your securities book, any potential positive impact of refinancing there? Generally, just what you expect the Hungarian NIM to be doing? Related to that, we all obviously saw a much lower NIM in Hungary q-o-q in the fourth quarter. Some of that as you say is related to quasi one-off type things. But is that effectively the new NIM of which we are growing as we go forward? Start with the first question. Thank you.

László Bencsik: Okay. Indeed the Central Bank revealed its preferences, they were quite clear that they wanted to follow an inflation-targeted monetary policy. The inflation target is 3%. The communication is that when core inflation exceeds this target level, they will start to act.

We have started the year with the interbank rate around 15 basis points. This is the BUBOR rate, which is the reference rate for our variable loans. This is the rate, which is important. We don't think that there will be much change in the first and the second quarter. We expect the reference rate to start to increase from the beginning of the third quarter.

Our internal estimate is like maybe the reference rate quarterly going up by 20 to 30 basis points, but this is just an estimate, so we don't know. So far we have only seen rate cuts from this monetary policy setting. I think it's very difficult to tell at what speed and how cautious they are going to be.

But it's clear that they seem to be open to the idea. Our expectations are such that in the third and fourth quarter maybe 20 to 30 bps quarterly increase in the interbank reference rate may happen. They are not going to touch the base rate which is currently 0.9% - it's not very relevant because we don't have anything related to this rate other than the compulsory reserves which we keep at the central bank.

We tried to explain what were the most important reasons behind the quarterly fall in the NIM in Hungary on page 26. It was due to the reference rate: it went somewhat higher in the second quarter and it dropped down in the third quarter, and there is a kind of one quarter repricing.

The third quarter NIM increase was due to higher reference rates, as you could see. The third quarter NIM last year increased compared to the second quarter primarily due to this, since there was some increase in the second quarter in the reference rate and then it went down. There were some other effects we tried to explain. This is potentially the most important piece of information, which moves the NIM. It was quite visible last year.

This means that if the reference rate doesn't increase, then the NIM will continue to be smaller and smaller with small numbers. I wouldn't say it's a decline, but further erosion. This is not what we expect, the expectation is that rates start growing. As for the impact, the first ten basis points would bring up the NII on an annual level by HUF 2.2 billion. But it's obviously not linear. The first ten basis points increase in the reference rate will imply +HUF 2.2 billion NII per annum, but then it gets less and less. So, for instance, should we assume that the reference rate goes up by a hundred basis points, then the annual NII impact would be roughly HUF 15 - 16 billion positive on an annual basis.

If all goes well, in the second half of this year, we should see a normalising and even slightly increasing NIM in Hungary should the central bank move according to these expectations. If you want to read the sensitivity not in Forint terms, but in basis points, then ten basis points increase in the interbank rate would mean a potentially 2.5 to 3 basis point increase in the Hungarian NIM.

Again, this is not linear, it's not true for each ten basis points. The impact gets less and less. But the first ten basis points increase in the Hungarian reference rate would result in 2.5 to 3 basis points growth in the Hungarian NIM. Does it satisfy you?

Samuel Goodacre: Okay, thanks. Yeah, that was very thorough. Thanks, László. The second question I had was on your Hungarian mortgage business. Obviously, you've got a growing and strong market share. But as I understand you have in the regions or the countryside a sort of an above natural market share.

Basically, other competitors have retrenched outside of the urban areas. So, could you give us a bit of colour on your business throughout Hungary, touching on the regions? Could you give some colour on things like property prices, collateral values, demand outside of the bigger urban centres? Thank you.

László Bencsik: I don't have at hand the regional split, and we don't have market share break downs. There's no available data to assess our regional market shares. I think it's true what you said that we have a higher presence in the regions than banks just because we have not reduced the number of branches in the franchise. Therefore, what we see now is that the turnaround of the real estate market that started to happen three to four years ago, it started first in Budapest. Then it gradually spread to the biggest cities. Now it is spreading to the rest of the country gradually.

From this perspective, you could say that our relative position gets better and better, because as more growth manifests in the regions, our bigger market share there in terms of the franchise puts us in a better situation. Indeed, you could argue that part of our market share growth in terms of new mortgages is related to this one, that the real estate market growth is more evenly spread.

In terms real estate price indicators, in real terms we are close to the levels where we were in 2003-2004. Compared to the lowest point which was in 2012-2013 the real home prices went up by 30-35%. In terms of construction, we are still very far from the levels of what we saw in during the boom years of 2003-2004-2005-2006. We are much lower than that.

I think what we should expect here is less growth in the real estate prices, and probably a moderation of growth or a kind of flattening of the real estate price index. But in terms of the constructions and the dynamics of the real estate market, it's reasonable to expect continuation just because of the measures the government recently announced. They have this demographics boosting programme: they increased and enlarged the previous house subsidy programme, and have strong preferences for the regions and for the smaller settlements if people buy houses or real estate there. I think this will continue to fuel or give impetus to a continuous level of real estate activity. The price levels are not going to grow so much from the levels where they are. Then new construction will be more normally spread because they extended the deadline for the preferential VAT rate in case of new constructions. That is taking somewhat off from the overheated construction sector activity which was quite a phenomenon last year and this year and can be more evenly spread during the course of the next three years. I don't know if this answers your question.

Samuel Goodacre: Again, László that was very thorough. Thanks very much. Thank you and have a great weekend. Bye.

Operator: And again, ladies and gentlemen, that is star one for your questions at the time. We'll go next to Gábor Kemény with Autonomous Research.

Gábor Kemény: Hi, thanks for the presentation. I have two questions please. The first one on M&A. I guess you are gaining experience with purchasing and integrating the targets especially in the Balkans. Can you give us a sense of what sort of synergies would you assume in the case of the new acquisitions where you already have presence in the market? I'm thinking about Bulgaria, Serbia or Montenegro for example. I mean based on the evidence you have seen with the recent acquisitions.

László Bencsik: I think it's a very fair question. On the other hand, we are not at the end. We still in the future may want to acquire. It's a very sensitive number, I mean the cost synergy you expect from an acquisition. If I tell you this, you can more or less know what price I put on a certain asset. I won't tell you this number exactly.

It's clear that we expect synergies. I think you don't have to wait long in order to see it in case of Croatia. There we concluded the merger at the beginning of December. From December on, we have one legal entity and one IT environment. Now we are working on realising the cost synergies. This is going to be very visible over the course of this year.

I can talk about general statements like the bigger the two banks are, the more cost synergies probably you can have. Then also the more retail oriented these banks are, probably the more cost synergies we have versus a more kind of corporate oriented bank. The more corporate banks tend to be more efficient. These Bulgarian SocGen Expressbank on a standalone basis had a 1.7% cost to asset ratio last year, which is quite efficient. It depends on many factors. I am sorry, but I'm not going to give you the benchmarks we usually use, because then people would be able to figure out how much we put on certain assets as valuations. This is going to be more or less clear as we go through this year: you will see how much we realise in Croatia.

Gábor Kemény: That's fine. And my other question is I would come back to your margin and growth guidance. If we look back to the past few quarters, you managed to have kind of stabilised your margins. Even though you increased your corporate portfolio a lot quicker than the retail portfolio, I think twice as quickly in 2018.

Now you expect this to change. You expect – you showed in the presentation you expect a quicker growth in the retail segment than in the corporate segment. I guess you are assuming a positive shift in the business mix. Given this, the margin guidance sounds a little bit cautious. Can you perhaps talk a bit about the downside and the upside risks you see to your margin guidance?

László Bencsik: Okay, that's a good point. I have to clarify; I think you referred to page 19 on the presentation where we showed the loan growth. This is not our own volume forecast. This is the market. That's not the expected growth rate for OTP volumes. These are the market growth rates. Last year corporate growth rate was probably 13% or 14% on the market. We grew close to 30%.

I think this is very relevant. It shows that we expect more market activity in retail than in corporate. But it doesn't mean in itself that we are going to have higher retail than corporate growth, because again last year the market grew 14-15% in terms of corporate volumes in Hungary, and we grew by 30%. So, we doubled the growth rate of the market in the corporate segment. I'm not suggesting that this is going to happen this year.

We do expect a much lower growth rate in corporate than last year.

Just purely from this number which we presented here is not obvious. These are not our numbers, these are the market numbers we expect. I hope that we are cautious, but we like to be rather cautious than disappointed.

What we try to suggest is that last year we have seen this flattening out and margin erosion slowing down in Hungary. But we don't have a new trend yet. It's not that we already have or see growth in margins. It's not there. We still have a flat interest rate environment. We are hopeful that this is going to change in the second half of the year in Hungary. If it increases more than what I just said, then it certainly has an upside potential for our Hungarian margins.

We are also quite sensitive to the euro rates. Especially through our Bulgarian business, due to the currency board they move together with the euro rates. If the euro rates went up to zero at some point, that would have a very much positive impact. Not very different from the level what we have in terms of sensitivity to the HUF rate.

Gábor Kemény: Sure, so you would most likely –

László Bencsik: There are a lot of uncertainties. If all things develop for the better, then it's too conservative. But there's equally a potential scenario where everything goes wrong, and then it's not so conservative at all.

Gábor Kemény: Yeah. So, you would most likely need higher rates to go up from here to have significantly higher margins than what you have.

László Bencsik: That is absolutely clear.

Gábor Kemény: Okay, thanks.

László Bencsik: Thank you.

Operator: And gentlemen, currently there are no further questions in queue at this time. I do apologise. We did receive another question. We'll go to Stefan Maxian with RCB.

Stefan Maxian: Yes, one or two questions related to your M&A activity. First, you specified that the price book ratio for the acquired entities in total should be roughly one time. So, is that excluding the two entities that you have already acquired, meaning Splitska and Vojvodjanska, right?

László Bencsik: No, this is including. Everything what you see on page 13, all these seven banks altogether.

Stefan Maxian: All these seven banks. Okay, that's fair. Then can you share some thoughts on potential consolidation going on in Hungary, I mean especially with regard to Budapest Bank; will you look into – can you look at it from your perspective?

László Bencsik: Given our market shares, I mean we have 30% to 40% market shares in the retail products, especially in new sales we have 32% market share in total retail household savings. With this level of presence, I think it would be very difficult to convince the authorities to allow us to buy a sizable bank. This is a sizable bank. I think it's quite unlikely that we would be the preferred buyer for this asset just because of our size in the country. I'm more inclined to say that if something similar came up to what we bought few years ago, I mean the AXA financials portfolio which was a not too big mortgage portfolio. We acquired that portfolio. I think these are the type of transactions where we might have a chance. I don't think we could buy a sizable bank.

Stefan Maxian: And the other question, has something changed on your target M&A region as you pointed out in the last quarters saying that you look more or less in the region South of Hungary? You could also look at Slovenia that was a target market that was mentioned several times.

László Bencsik: Yes.

Stefan Maxian: Is there something new in that communiqué?

László Bencsik: No, there's nothing new.

Stefan Maxian: And then finally maybe on the dividend, I mean in the last conference call you flagged that you would come up with a kind of a mid-term dividend policy by the end of the year or meaning actually right now. What made you right now to not do that or to not come up with a more detailed guidance on your dividend?

László Bencsik: I'll try to recall what I said. I don't remember exactly I was saying that. Nevertheless, what I can tell you now is that on page 13 we have the banks which we have to pay for this year. Plus, we're growing quite fast. And this will end up somewhere at year end, and then we'll see what else we can do in terms of acquisitions. We mentioned Slovenia. I think what I've been telling all the time was that basically we set this range between 12% and 18% Common Equity Tier 1 ratio. This was back in autumn 2017. We said that we wanted to grow. The primary target is growth both organically and through acquisitions. If we're not successful with acquisitions, then, obviously, we will pay out substantially more dividends or returns otherwise to shareholders. There will be a quite sizable step-down in our Common Equity Tier 1 ratio after paying for these banks.

Stefan Maxian: Right. But on the other side, I mean you're still generating, I mean --

László Bencsik: We do, yes. I think the guidance which we made in the second half of 2017 remains. In terms of Common Equity Tier 1 ratio long term, we would like to be around 15%. We're very happy to oscillate between 12% and 18%. The level of the dividends is coming from that. Now, with these acquisitions and the current level of growth, we are going to fall below 15% by the end of the year.

Stefan Maxian: Okay. Already including your assumptions for capital generation?

László Bencsik: Yes.

Stefan Maxian: Okay, thanks a lot.

László Bencsik: Thank you.

Operator: We'll go next to Robert Brzoza with PKO BP Securities.

Robert Brzoza: Hello everyone. I have a question regarding the business in Russia because we've seen a quite sizable increase in provisioning level in the 4Q. So, my first question is where does it lead to? What's the sustainable cost of risk in the Russian business? Secondly, the data from the central bank is showing that there was a decline in the average consumer loan rate on the market in the fourth quarter 2018. At the same time there was a marked increase in the average deposit rate on the market. And here I am asking you perhaps to provide some midterm outlook for the interest margins in Russia; and some perhaps outlook on how do you assess the monetary policy, where is it going to, in which direction and how does it affect your business there. Thank you.

László Bencsik: Russia provisioning, the level which we provisioned in the last quarter, I think you can regard it as a one-off. If you're interested in the run rate of the risk cost rate then I suggest to look at the first, second and third quarter numbers and get the average of those.

In the last quarter, the IFRS 9 methodology which we introduced last year, we continue to develop this together with the auditor. As always in the last quarter, we tried to be as conservative as possible. We revisited the methodology and the parameters and everything in Russia and this resulted in a one-off adjustment in the level of provisioning there. It doesn't mean that the portfolio started to behave irregularly, or it doesn't mean that all of a sudden in the fourth quarter we experienced a deterioration in the fundamentals of the portfolio. It's more like the models what we build up interpreting the last five years' data and the assumptions behind that, and the fact that we tried to be as conservative as possible within the range provided by the standard and obviously closely monitored and approved by the auditor. This is not a run rate provisioning. The level of the risk cost rate or risk cost in the fourth quarter should not be considered a run rate at all. Take the previous three quarters, I think that's much more relevant.

Our best estimation for most of the year is that there is probably no change in the rate environment. Maybe, closer to the end of the year there might be some easing by the central bank. Regarding pricing of consumer loans, yes, we have witnessed a decline in the APRs. That is reflected in the margins what we have in Russia. If you look at the NIM development, in the last three years it has come down from 18 to 15, 14.5% levels. There has been quite a strong repricing of these very high APR loans. I think it has mostly happened. Obviously, it's a competitive market in terms of pricing, but I don't expect similar large declines in APRs than what we have seen in the previous couple of years.

Also, because the profitability levels get thinner there's less room to further compress APRs and margins there. In terms of our cost of funding, we haven't seen any increase. There hasn't been any irregularity in the deposit rates what we had to pay for funding our portfolio in Russia. We don't see any kind of worrying signs there.

Robert Brzoza: That's clear. Thank you.

László Bencsik: Thank you.

Operator: We'll take our next question from Thomas Unger with Erste Group.

Thomas Unger: Yes, hi good afternoon. And thank you for taking my question. You partially answered the question already. I was going to ask you about the risk cost development in Q4, and what that means, and for the individual countries for 2019. I guess as you said we should treat that as a one-off and use the quarters one through three in 2018 as a run rate.

But is that true for the other countries outside of Russia also? We had some sizable net provision release in Hungary and significant increase also in the risk costs in not only Russia, but also Bulgaria, Romania and Croatia.

László Bencsik: I think if you look at the whole group, then we have a very specific guidance. On page 20 of the presentation, we stated that we expect similar levels of risk cost and risk cost rate to what we had in 2018 altogether. If you take the whole group and then you take the full-year number for 2018, this is what we more or less expect for 2019.

Thomas Unger: Right, but in terms of the individual markets, do you expect more provision releases in Hungary for example?

László Bencsik: That pretty much implies that the trends which we observed in 2018 would continue into 2019 as well. So, yes, Hungary would continue to see positive risk cost, because what we tend to have is not exactly release of provisions but recoveries on 90 days past due loans.

I don't think just because the year ended in December and now we have a new year, I don't see much change in the risk environment. I think there should be a continuation. Yes, Hungary should have positive risk costs while other countries can have more or less similar levels to what they had in 2018.

Thomas Unger: Right. Okay, thank you.

László Bencsik: Thank you.

Operator: We'll go next to Conrad Scheurkogel with Artha Capital.

Conrad Scheurkogel: Thank you very much. Just a quick question, László. On expenses, you've given us a guidance for this year. Could you potentially provide us with the guidance on the way you would like to see your cost to asset ratio by end of the year?

László Bencsik: Cost to asset ratio end of the year? Usually we don't give a guidance on this one. But – if I can get the number – it should somewhat improve. Let us check. Okay, cost to assets for 2019, this should be 10 to 15 basis points better than in 2018.

Conrad Scheurkogel: And the 3.85? And the 3.85 then, okay. Okay, that's helpful. And then the second question; I just picked up on one of the slides, I just want to understand your thinking –

László Bencsik: The cost to asset ratio was 3.57% in 2018. In a good scenario, we should have 10 to15 basis points less in 2019.

Conrad Scheurkogel: Okay, perfect.

László Bencsik: Without acquisitions, right. Obviously, our acquisitions will change all these numbers. So, then we will have to familiarise ourselves again to them.

Conrad Scheurkogel: Yes. Yeah, I was going to ask whether that will include or exclude it. And then the other question I have is just on one –

László Bencsik: That will exclude.

Conrad Scheurkogel: Yeah perfect. The other question I have is just on one of the slides, I'm just trying to understand the thinking you say that the bank is exploring potentially a euro-denominated issuance. Can you tell us what's the thinking behind that?

László Bencsik: We may consider issuing a Tier 2 paper. I mean we have one, which expired in 2016. Then we have the Perpetual, which is treated as Tier 2. We have the ICES, the Opus, the convertible, which is <inaudible> because the period has already expired, which is still temporarily treated as Tier 2.

Given the expansion of the risk-weighted assets due to organic growth and due to the acquisitions, what we have done and what we plan to do, in order to have an efficient capital structure at some point of time, we have to issue Tier 2. Subject to market conditions, subject to acquisitions, and organic growth and other sort of factors, subject to, subject to, subject to, we might consider this.

Conrad Scheurkogel: Okay. Thank you very much.

László Bencsik: Thank you.

Operator: And gentlemen, at this time, there are no further questions in our queue.

László Bencsik: Okay, thank you very much. Thank you for joining us today. Thank you for the very good questions. I wish you all the best, a very good weekend. I hope you will join us when we talk about the first quarter results. I think we are going to have a very exciting and eventful year this year. We are very much excited and looking forward to this. Thank you again, and goodbye.

Operator: Ladies and gentlemen, that does conclude today’s conference. We thank you for your participation. You may now disconnect.

*Note: unabridged transcript with minor English stylistic corrections.*