OTP 1Q 2015 RESULTS CONFERENCE CALL

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Thank you for standing by, and welcome to the OTP Q1 2015 results conference call. At this time, all participants are in listen-only mode. There will be a presentation followed by a question answer session, at which time if you wish to ask a question, you will need to press star 1 on your telephone. I must advise you that this conference is being recorded today, Friday 15th of May, 2015.

Now I’ll turn the conference over to your first speaker today, Paul Formanko. Please go ahead.

Paul Formanko: Hi, everyone, and happy Friday. Thank you very much for joining us on this call this afternoon. This is Paul Formanko from J.P. Morgan in London, and joining from Budapest, Laszlo Bencsik, Chief Financial and Strategic Officer at OTP Bank. Laszlo, the floor is yours.

Laszlo Bencsik: Thank you very much, Paul. Good afternoon, or good morning depending where you are, and thank you for joining us on this conference call, which is about OTP Bank 2015 first quarter results. The presentation is accessible on the website as usual, so hopefully you've been able to download it.

And as usual, I'm going through one by one the pages, and try to succinctly and briefly present them, and then after that obviously you have chances to ask your questions.
So starting on page 2, there's a summary of the accounting results, which was all together HUF1.9 billion in the first quarter. And the adjustments which we consider one-offs and distort the usual performance, so if you take out these adjustments, then the adjusted profit was HUF28.3 billion, a considerable increase on a quarterly basis, and some decline on a year-on-year basis.

Now if we go through one-by-one the adjustments, then the first one is the usual one, which comes in the first quarter similar to the last couple of years, and this is the bank tax and the after tax impact of the bank tax.

Just to remind you, we have to book the entire annual bank tax in the first quarter, that's why we have this sizable number appearing here, and there will be no further items like this starting from the second quarter, except some very low amount regarding Slovakia, which is also a country where we have to pay bank tax.

The second item here is a HUF1.6 billion plus, that's the result of the badwill. We announced last year that we acquired Millennium Banca, and the transaction was done below the book value of the entity. So there's a badwill coming through our books when we consolidated, and the consolidation happened during the first quarter, so by the end –of first quarter numbers, we actually see the fully consolidated impact of this acquisition.

The original badwill was HUF9.4 billion, but we were cautious and created additional provisions on the assets and loans of the new entity acquired in the amount of HUF4.5 billion, and we also created provisions for M&A related expenses, which according to accounting standards can be booked as part of the transaction against the badwill, and there was a small tax impact as well. So all in all, this resulted in HUF1.6 billion badwill positive.

There's another positive item, HUF7.4 billion, which is related to this realized and expected losses due to the settlement with consumers in Hungary and also related to the conversion of FX mortgage loans to local currency.
What happened here, our original expectation was too pessimistic, and as we get closer to the actual numbers, and in fact a big chunk of the settlement already happened physically, and we booked part of the losses as opposed to having just provisions, so we further adjusted the expected total loss, and the expected total loss declined by HUF7.4 billion. So this is a good news, and it turned out as a positive item here as well.

There was a small further provisioning related to the Donetsk and Luhansk areas in the amount of HUF1.2 billion after tax. And finally, there's an item which we haven't talked about before.

We have a small life annuity business in Hungary. We started it more than 10 years ago. It used to do very well before the crisis and was very promising, but then obviously the crisis hit this business line, and it has certain difficulties. On top of that, from the 1st of January this year, the regulation changed, and only insurance companies can conduct this type of business.

So we had to discontinue every new activity and sale, so we can either sit on the portfolio that we have, or we can sell this to an entity which is eligible to conduct this activity. We are exploring opportunities for actually selling this entity.

Consequently, in line with the lower franchise value due to the regulatory changes, we also revalued the whole portfolio, and ended up having a lower franchise value, which we had to cover with provisions, the after-tax impact here was HUF5.5 billion.

Now having talked about the adjustments, on page 3, you can see the adjusted pre-tax profit, and the P&L items. One-offs were not material. We didn't have any major buyback or revaluation of swaps or anything else, or this is almost close to nothing.

So the pre-tax profit without one-off items represents HUF30.9 billion, which is a considerable improvement compared to the last quarter, but reflects a 21 percent decline year-on-year.
Now I must warn you that the foreign exchange rate is playing a role here, because there was a further weakening of the average ruble rate and the average hryvnia rate compared to the forint, vis-à-vis the last quarter.

Therefore we included here the FX adjusted numbers as well, which are more comparable to the last quarter actually. But even the FX adjusted revenues, the net interest income was down by HUF5 billion all together, the non-FX adjusted suffered obviously a bigger decline due to the translation effect coming from Russia and Ukraine.

This HUF5 billion decline was partly due to the Hungarian operation, which I'm going to explain later, and partly due to the Russian operation, where the volumes declined and the cost of funds increased. The good news is that after the losses on other non-interest income, which was basically the FX losses during the last quarter last year, we managed to have some gains on it in the first quarter.

Operating costs, obviously the unadjusted amount is quite promising, HUF94 billion, but even the FX adjusted amount, HUF98 billion, which is comparable to the last quarter and the first quarter last year, shows some early results of the cost reduction efforts we have been making.

And the risk cost, again the FX adjusted was pretty much close to the last quarter results in 2014. Most of this risk was just coming from Russia and Ukraine, but again, there will be more on this later on.

Turning to the page 4, the trend which we observed during last two years continued in the first quarter this year, namely further separation of the diverging paths. CEE countries, including Hungary and Bulgaria, leading the group from our perspective, where the performance is actually quite promising, and the macroeconomic environment is supportive, actually improved further.

We have quite optimistic expectations regarding these markets, and the potential loan growth across the region. And not surprisingly, we've seen in the first quarter a quarter-on-quarter increase here, and I think we are about to see another strong year of profitability in this part of our group.
Unfortunately, the Russian and Ukrainian performance did not improve in the first quarter, especially Russia deteriorated further, which is due to high risk costs, lower performing volumes, and also high cost of funding, which is due to the extreme rate hike which happened at the end of the year, and has already come down quite nicely.

New term deposits are back to the levels where we were before December last year, but obviously the high rates starting from December had a strong impact on the first quarter cost of deposits, and will have a further impact in the second quarter, and it will slowly phase out, and get back to normal levels as we go along this year.

And Ukraine was difficult because the currency depreciated. If you remember – we finished the year around 15 UAH to USD rate, and we closed the first quarter with 24-25-ish exchange rate, and we immediately have to provision according to the increasing loan to value numbers and higher expected LGDs, so that resulted in higher risk cost in Ukraine, despite the portfolio deterioration was actually not that bad.

On page 5, you can see further breakdown of the results by each material subsidiary in the group. Hungary did reasonably well, close to HUF30 billion in the first quarter. Again, I'm going to detail later on. Bulgarian DSK Bank achieved a stellar performance during the first quarter, the highest ever record performance, close to HUF18 billion.

Having said that, the risk cost there was negative, and the coverage ratios somewhat declined, so part of the provisioning we created earlier actually turned back, and the expectation in Bulgaria that we are going to see a kind of high profit, low risk cost, and even increasing revenue environment in the coming quarters.

The rest of the smaller CEE countries did reasonably well, showing positive results, but obviously they are not big enough to attract too much attention to them, at least not on the profit side yet. The Romanian numbers already include the merger effect, and they show the consolidated numbers. Obviously
here, we have the substantial task ahead of us to realize the cost synergies which were one of the key considerations behind the rationale acquiring this entity. This is going to take time, and while we are doing that, obviously the profitability will be under some pressure.

And then Russia and Ukraine: Russian losses went up quarter-on-quarter, but even on year-on-year there's a substantial increase, and if you look at ruble numbers the increase is even higher, so actually the weak currency during the first quarter played on our advantage in Russia. Recently the currency has started to appreciate, actually, our HUF numbers will not benefit from this, despite the fact that the ruble numbers might look considerably better. With regard to Ukraine, again, high losses due to weakening currency basically, and therefore extra provisioning.

There's not much development in the capital base. The core Tier 1 capital adequacy ratio is down to 13 percent, which is coming from two parts, one is the revaluation results and equity decrease. That's mostly due to the Ukrainian equity being revalued further down, and we had an increase in market risk capital requirement, which is basically related to our Bulgarian long euro position what we have there.

On page 7, you can see the liquidity position, which is extremely good. Actually it's too good, it's getting so good that it's almost bad. This is certainly not the level of free liquidity which we need to run this bank targeting profitability. And our hope is that we are at a turning point at least regarding the CEE loan volumes, and from now on, as we are over with the settlement in Hungary, we should see increasing volumes and also the – it's clearly not the target, we further increase deposit volumes. Repayments are close to zero, so there's not much exciting information on this.

Now going a little bit more into the different income lines by subsidiary, total income, as you can see on the quarter-on-quarter basis, declined by 3 percent. There was a decline in Hungary, Bulgaria improved, and that improvement is actually quite considerable. And it goes in line with a slight increase in loan volumes and strong increase in deposit volumes on a year-on-year basis.
Russia is down, and here you can see the unadjusted and the FX adjusted numbers, so even in ruble terms, the decline was 19 percent in the first quarter.

In Ukraine, actually the revenues quarter-on-quarter and year-on-year improved. This is basically due to an FX gain, which they realized in the first quarter this year. They happened to be on the winning side of the devaluation when it happened, which was a positive event, but obviously this is not something recurring, so we don't expect this to continue in the following quarters.

Croatia, revenue-wise, did well, Slovakia continues to increase, and in Romania there was a one-off big increase, but again, this is due to the consolidation, so without the consolidated impact of this new entity there was a slight decrease. Also, there was some decrease in Montenegro due to slower volumes basically, and in Serbia due to base effect, we had a quarterly decline.

Net interest income, on the next page, it's basically the same story, but just a level deeper. You can see the Russian and Ukrainian declines, and some decline in Hungary. By the way, most of this decline in Hungary is explained by the settlement.

We indicated on our last conference call that we expected the total annual impact on the net interest income of the settlement and conversion to be around HUF12 billion. Part of that impact is already here in the first quarter, and actually this is the major driver behind the lower amount in the first quarter.

By the way, we now seem to be somewhat more optimistic, gauging the expected ongoing impact on NII, and we rather estimated around 10 – or closer to HUF10 billion than to HUF12 billion on an annual basis. DSK improved, and then for the smaller subs there's not much happening.

As for net interest margin, some decline in Hungary, but again this is in line with the expected impact of the settlement and the conversion. Russia:
considerable decline. That's basically due to the increased cost of funding through the higher cost of deposits.

We had to make a painful decision at the end of last year. We wanted to continue Russia to be self-funded, to be self-standing in terms of funding, which we knew was going to cost us considerable amount in terms of higher term deposit rates, so we chose that scenario as opposed to starting to fund Russia from Hungary.

With hindsight, we were probably too cautious and too pessimistic because if I were to make that decision today, I might actually have decided to start funding for interim period from Hungary, as the situation seemed to stabilize and even slightly improve in Russia, so it's certainly not at all a kind of doomsday scenario what manifests there. But we didn't know obviously at the end of December.

Bulgaria looking strong, and improved, and Ukraine improved as well. There's some noise in the Ukrainian net interest income, as you can see this kind of annual peaks, and lows, which is related to some technical adjustments, and accounting natures of the core systems we have there. So it might not be as good in the second quarter as it was in the first quarter.

Net loan to deposit ratio, it's worryingly low, it's getting close to 73 percent, which is extremely safe and stable, but on the other hand, from a profitability point of view, not good at all, especially if you look at Hungary, where it's 51 percent, so we have twice as much deposits than net loans, which is certainly not the right leverage we would like to achieve in long term, so we very much hope that we can actually start growing our Hungarian business volumes soon from now on.

On page 12, you see the loan volume changes across the group. Group level consolidated was 2 percent minus in the first quarter, and we had typically negative numbers, especially in Russia and Ukraine, which is according to strategy, I would say.
There's this big increase in Romania, due to the consolidation, and there are negative numbers in Hungary in consumer loans and mortgages. This is primarily due to the settlement, we also put up the numbers there what had happened without the settlement and conversion, and as you can see, the consumer volumes actually would have increased, had not been conversion and settlements.

There is an unusual negative number in the corporate volume development as well, minus 6 percent. This decline was due to basically one large corporate client early repaying, so this is really one of the big accounts where the margin was small on this, and this doesn't have any impact on our core kind of mid-small size corporates in Hungary, which actually continued growing.

Page 13, group level deposit volumes, there was no growth. Again, the strategy is clearly not to grow further the deposit base, as long as we have such a low leverage. We try to optimize cost of funding, and bring as much down deposit rates as possible, but at the same time, keeping the customer relationships, which we don't want to lose.

So the challenge here is to reduce term deposit rates, potentially also reduce volumes of term deposits, but not to lose the customer relationships, which is challenging, and obviously you have to make all the time a compromise to maximize customer value generated, even if it means that you have to pay for term deposits which are not necessarily needed on a group level.

Page 14, operating costs, year-on-year 8 percent decline. If you take the FX adjusted, then it's actually a 2 percent increase, and there was 1 percent decline in Hungary, and then the only material increase in FX adjusted figures happened in Romania. Again, this is due to the consolidation of this new entity, and its costs coming through our P&L starting from the first quarter this year.

So this is the general part, and I’d like to say a few words about Hungary, Russia, and Ukraine, the most pronounced story at the moment. Hungarian macro continues to be very promising and strong, and not just strong, but I
think has a very stable funding base as well, so it does seem to be a robust, sustainable growth trajectory, which the country started to follow.

As for GDP growth expectations for this year our forecast is actually getting higher and higher, and we expect 3 percent or even above 3 percent growth rates, so with some luck it can be materially above 3 percent this year.

Household consumption continues to improve and grow even better than last year. Export growth continues, and if you look at the balance indicators, it doesn't seem to be a stretched target at all to reach 2.3 percent budget deficit, and the current account should be in an even stronger surplus than last year, and gross external debt continues to fall.

We see strong signs of revival in the housing sector in the real estate sector as real estate prices are going up, transaction volumes increase, and sooner or later, investment activity and house constructions will start as well, we believe.

On page 16, you can see the P&L summary of the Hungarian Core business, or the Hungarian operation. If you look at net interest income, there was close to HUF3 billion quarterly decline, and again, most of this decline is explained by the conversion and settlement issues.

If we look at net fees and commissions, there was a HUF1.6 billion one-off item that's related to the financial transaction tax. Now we have to pay an annual flat fee on core transactions, and the whole thing was booked in the first quarter in the amount of HUF1.6 billion negative against the net fees and commissions.

So this is not going to be repeated in the subsequent quarters during this year, so that actually means some improvement. In other income, there is a realized gain on the AFS portfolio up to HUF3 billion in other net non-interest income, and we had some losses in the FX trading as well back in January.

Operating costs were flat on a yearly basis, quarterly lower, but the last quarter is usually seasonally high, so it shows a kind of stable cost base. Risk cost HUF4 billion, part of it is actually other risk costs and not related to
loans. As we indicated before, we expect a low risk cost environment to continue in Hungary, so I think this type of low risk cost levels should continue to reoccur during this year.

Page 17 is a few highlights depicting our business activity. I think the most important one is the mortgage disbursement, which increased by 50 percent year-on-year, so we sold 50 percent more mortgages in the first quarter this year, than a year ago. And our corporate market share further increased to 13.1 percent, despite this one big early repayment, which actually pushed the volumes lower.

On page 18 and 19 and also 20, we try to summarize and explain as much as we could the impact of the settlement with customers, and the conversion. It’s a process which takes considerable time.

During the first quarter, we have made the settlement in terms of FX mortgages, and FX consumer loans. We informed customers and we paid back where we had to pay back, and we decreased the loan amounts where there was an existing loan.

And there are still things to do in the second quarter. It has already happened, but it is going to be booked in the second quarter, namely the settlement with the FX car loan holders, and there’s a small real estate lease operation where we also have to make the settlement.

And the third quarter, we will have to start focusing on the HUF loans. I must tell you that it has been an enormous operational challenge, and just try to describe you the magnitude of this task, we sent out 530,000 letters where in each letter we explained one loan contract where we had to recalculate for each and every month since the inception of the loan, the amount due, and the amount paid, and the difference, and then the final settlement amount.

So this is – per customer is potentially a 10 to 20 pages document what they receive. It's immensely complicated, it was all together 70 tons of letters. Obviously it was costly to do, and it took a lot of time and effort from our colleagues, but the bulk of the problem is behind us.
Now we look at the financial impact on page 19. This is how this amount was spent. The HUF185 billion in this page is the pre-tax impact, and the HUF148 billion is the after-tax impact. That's what is booked at the end of the first quarter.

Part of this amount is already booked, part of this amount is still a provision. So the first two lines, starting from the top, is the refund to existing loan holders, which happened typically with principal reduction, that took HUF85 billion and then HUF25 billion went – typically in cash payments - to those customers where the loans already expired, and they don’t exist anymore. And then we have three items, which at the end of the first quarter remained as provisions.

So we have HUF22 billion for the car loans, HUF5 billion for the real estate lease contracts, and HUF12 billion for the HUF loans, and we do the actual settlement for the first two, for the HUF22 billion and the HUF5 billion during the second quarter, and the HUF12 billion during the third quarter, respectively.

There’s an element equal to HUF36 billion, which is actually not related to the settlement, but related to the conversion to local currency. And these are IFRS related items. They come from two sources. One is that we had accrued amount related to fees which occurred at inception of these loans. And also there were items related to the hedging transactions, as we did the swaps, which we used to hedge this portfolio, and there used to be an accumulated fair value adjustment amount of these hedging positions, which if the conversion did not happen, would materialize during the remaining time line of this portfolio.

So during the next 15 years or so, gradually they would come through the net interest income basically as negative. So this is one type. The other type is a fair value adjustment, which we had to make for the new HUF loans, because for the new HUF structures, we also changed not just the currency, but the interest rate as well. And for each contract basically, we had to prove to our auditors that the new interest rate is above the prevailing market conditions, and in some cases we could not, so where the new interest rates were below
the assumed market rates, we had to do a fair value adjustment, one-off negative.

And these two types of adjustments add together HUF36 billion. And this is a one-off negative now, but obviously this – relatively speaking, improves the NII in future periods, so when I actually said that the expected annual impact of this is lower than HUF12 billion, and it was actually closer to HUF10 billion than to HUF12 billion, then this difference is primarily coming from the impact of these IFRS items, which we booked as a negative item.

There's one more thing, it's more technical, but customers, who are not performing anymore, and loans are owned by our factoring company within the group, because the bank sold these non-performing loans to this factoring company. There's all together HUF20 billion claim, which might have to be settled later to these contacts if the customers request it, and we expect them to request it. Now this is not going to have an impact on the P&L.

Because this is not going to reduce the net amount of these loans, only the gross amount, and obviously the provision, because the recovery expectations don't change to this end, and the impact is actually much smaller than the provisions which we have already created for these loans. So this is going to improve the position of those clients who are already in default, but will not have any impact on our P&L.

And the last slide about this story is page 20, where we try to explain the impact on volumes of settlements and conversion. So here on the upper part of this chart you can see the actual figures at the end of the first quarter, and the relevant figures here are obviously the mortgage loan volumes and the consumer loan volumes.

Now in the middle, you see the changes due to settlements and conversion. So gross loan volumes all together in Hungary declined by HUF178 billion, and there was a provision decline, and therefore a net loan decline, and a
DPD90+ volumes decline, and decline in performing loan volumes. And therefore the ratios, the non-performing ratio and the coverage ratio changed as well.

There's another set of numbers which explain exactly the same categories, but from a different dimension, and not by product but by entity. And what is important here is bottom line on this page.

These are the loans which are in factoring, these are the non-performing loans. Here we had to actually net out, because we had to de-recognize these loans. Part of the conversion was that we had to de-recognize them, and book them again as HUF loans.

And through this, due to IFRS requirements, we had to net them out. So here, as you can see, this is just a pure netting exercise, netting out gross loans to provisions, whereas what happened within the bank and the mortgage bank is actually related to the settlement.

So there we decreased the volumes, the gross volumes by 86, we released some provisions, and a big chunk of this reduction in principal actually happened on non-performing loans, these are the loans which are above 90 days past due, but not yet sold to factoring.

So these are typically the loans in 120, 150, 180 days past due, or where the customer is actually paying, but they missed out three or four installments a few years ago, and they have not caught up, and so on and so on.

So typically these were small, overdue amounts, where the actual principal was much higher, so here the recovery is actually quite considerable, because if you compare the provision release to the amount of DPD90+ volume reduction, then it's not high.

Now going to Russia first, on this slide you can see in ruble terms as well, the P&L lines in the first quarter. And as you can see in ruble terms, it was not good either, but the decline, for instance, in net interest income, is much less than it was in local currencies, so in ruble terms the decline was from RUB6.6 billion to RUB5.5 billion.
Now we have two type of problems or actually three, as you can see on the page in the right upper corner, performing loan volumes declined considerably. They went down from RUB109 billion to RUB95 billion.

And the other problem we have is that as the deposit rate increased, you can see on this chart, deposit rates went up, average deposit rates went up from 6.2 to 9.5. Around 6 percent deposit rate used to be pretty much stable for at least four to five years, and now we have this kind of spike.

And the risk cost was quite aggravated, especially in credit cards and cash loans, as you see they were higher than 20 percent, and even POS loans, which did reasonably well last year showed some deterioration. So this was a really difficult quarter for us in Russia.

Usually seasonally the first quarter is high in terms of risk costs, and difficult for collection and so on and so on, but apparently this first quarter was extreme in this sense, and we pretty much believe, and the early indicators show that already for April, that we are going to do better than in the first quarter for remaining part of this year, and there's improvement. First of all cost of funding should come back, and the risk costs seemed to peak in the first quarter as well.

If you go to page 22, this negative volume trend is not only visible at our bank but across the market, so the market volumes for POS loans declined by 15 percent first quarter, cash loans 6 percent, and these are the gross volumes, not the performing volumes, so as far as we understand, the other kind of consumer lending players are having particularly difficult time as well in the first quarter.

On page 23, there's further data on new production, and the most telling figure is the RUB8 billion disbursement in POS loans. This brings us back to 2010, where we had this level of activity, and if you look at the cash loan disbursement at the bottom of the page, then you can see that in the first quarter, it was zero because we actually suspended cash loan sales in the first quarter.
We have reintroduced it and started again in April, so this is going to come back slowly, and credit card volumes decreased as well. Now giving a few more data on deposits, the average deposit rate, here you can see the average term deposit rates, the previous page was average deposit rates, including the current accounts as well. This is just term deposits, and you can see this sharp increase in January, February, and March whereas at the bottom of the page, you can see the current deposit rates in April for instance, this is what we are paying for new deposits coming to the bank, and in the first column these are the the rates which we paid in January.

And as you can see already by April, we have pretty much come down with the new term deposit rates, so therefore it seems that it was only for this quarter, but obviously there's the spill-over effect will come through the second quarter as well, and to some extent to the third quarter this year, but the coming quarters should look better, because the new term deposit rates are actually much, much lower than we had to pay at the end of December and in January.

And the page 24, just to remind us of the two initiatives we have in Russia. One is the cost reduction program. We targeted RUB9 billion OPEX for '16, so we are going through a major, drastic cost-cutting exercise. Last year nominal ruble OpEx was RUB11.9 billion, and the target is to bring it down nominally to RUB9 billion by next year.

This is in line with the lower volumes and the more difficult operating environment. Basically we believe that by the end of this year, we are going to get to a size of operation which is appropriate to this less positive environment in Russia, and will enable us to operate profitably in the future there once we get to this size of operation.

The other thing is this Touch Bank, the online bank which we launched, it's already operational, and we are in a kind of experimental mode. There's a pilot in four towns. We are not actively marketing it, but there's already some noise about this bank, and we have a few hundred customers, who've found us.
It seems to be an interesting proposal, and so far the feedback is positive. Obviously we are adjusting the value proposition, and trying to learn from the customer feedback we get, and the kind of country-wide big bang this should happen somewhere at the end of this year.

Ukraine, the other difficult story we have within the group at the moment, looking at the first quarter numbers on page 25, again we have the numbers in HUF and in hryvnia as well. The provisions for loans were extraordinarily high, close to UAH2 billion in the first quarter.

Here you can see the other non-interest income being positive, which is obviously a big contrast to the last quarter last year, when we lost on the FX position, and we apparently gained on it. The the volume trend is clearly negative, so we continue to lose performing loans, and continue to deleverage on the bank.

The group funding further declined from HUF140 billion to HUF132 billion equivalent, and what is interesting actually that in the first quarter for instance, the portfolio deterioration was not strong at all, but we nevertheless provisioned strongly.

On page 26, there's some further data on Ukraine. Again here you can see the loan volumes as well including the Donetsk and Luhansk Crimea, there's only HUF2.8 billion remaining in Donetsk basically, and some in Crimea.

Now regarding Ukraine, there was a very interesting development this year, which did not capture so much global attention. I don't quite understand why, because John Kerry actually had a very long meeting with Lavrov, the foreign minister of Russia, and then immediately after that, another very long one-on-one meeting with Putin.

After these eight hours' discussions, actually both of them reported on better understanding each other's position, and having a much better mood and turn of the discussions, which can be a first sign of a potential change in the relationship towards Russia globally.
And this might ultimately help Ukraine as well, and the situation to improve there as well and stabilize there as well. So actually there's some faint hope that we eventually might be able to actually recover something from these three regions, and not everything is lost forever.

On page 27, the risk indicators, the 90 days past due ratio on a group level declined to 18.4, but this is due to this technical impact of the settlement, and without that it would have been up to 20 percent.

Coverage increased as well. It's close to 89 percent, so I would say it is extremely high, and makes us feel very comfortable indeed. Obviously the risk cost rate was high in the first quarter due to Russia and Ukraine.

Page 28, you see the portfolio deterioration numbers. Hungary is negative HUF39 billion, but this is related to the improvement due to settlement which happened in Hungary, and this is in line with the number I tried to explain on page 20, so this is the equivalent number to the HUF52 billion decline in 90 days plus volumes.

Now obviously this slide is FX adjusted, so everything here has been calculated on the FX rate back in 2009 in order for the quarters to be comparable for each other, and if we do that, then the HUF39 billion equals the HUF52 billion in an FX adjusted way.

And then for the same reason, in Russia we see an increase to HUF32 billion, which is a quarter-on-quarter basis a considerable increase, but if we had taken the actual exchange rate during the first quarter, then it would have been only HUF25 billion.

So comparing the HUF volumes in the balance sheet of the Russian book to this deterioration number is not adequate, you have to take rather the HUF25 billion, which is with the current exchange rate. Ukraine was not strong at all. We see some decline in Bulgaria. Romania the increase is due to the consolidation basically, and the rest is close to zero.

Page 29, there's further information on risk indicators. Across the board in these big countries, I think the coverage is the most important number, pretty
strong in Ukraine, we are about 100 percent, and in Russia as well we are above 100 percent.

There’s further detail on the 90 days plus due ratios on page 30, and in case of Hungary, in terms of OTP Core, we included the numbers with and without the conversion and settlement.

On page 31, the usual chart about restructured retail loans and potentially the last chart, 32, is worth a few words.

This is the chart which was presented by our chairman, Dr. Csanyi, at the AGM back in April, and I think it's worth elaboration. So we stayed away from giving any factual, numeric forecast and guidance for a number of years now, partially because the operating environment has been quite volatile, and difficult to predict.

And we see a considerable change in that scenario, namely related to the CEE countries. We are pretty confident that the CEE countries where we operate are bound to grow and the environment should continue to improve, and therefore banking markets will continue to develop, and we are going to see number of prosperous years with loan growth and relatively low risk cost levels.

Now this makes us confident enough to actually give a target for not a very short term, but at least for 2017, a return on equity target between 15 and 20 percent. And this is actually true for the accounting all in profit as well, because we believe that actually the government is candid, just today they included the bank tax reduction into the new budget legislation for next year.

So it does seem to materialize, and we don't expect further sizable one-offs, so even including the bank tax, under a quite conservative scenario, we are confident that we can reach 15 percent return on equity, and in a more optimistic scenario, we can go up to 18, 19 percent in two years.

Now there are some assumptions obviously behind this. One is that we still have a reasonably effective capital position, and gearing, so we say around
12.5 percent common equity Tier 1 ratio, and the equivalent capital requirement to that.

Obviously we don't expect further regulatory burdens on profitability. I talked about the CEE environment expectations, and finally this assumes that at least we don't make losses in Russia and Ukraine, and then actually assumes a modest positive contribution from Russia and Ukraine in 2017.

Now this can happen much earlier, and we do expect Russia and Ukraine to look much better quarter by quarter as we go ahead. And in fact you don't have to stretch your imagination too much, because if we had not made losses last year in Russia and Ukraine, but we would have had some moderate positive numbers, then the adjusted return on equity would have actually been last year in this range as well.

Consequently you don't have to actually dream too much to get into these numbers. So that was pretty much it, and that was the formal part of my presentation, and I’m more than happy to open the floor to your questions, and I'll try my best to answer them …

Operator: Thank you, sir.


Operator: Thank you. If you wish to ask a question, please press star 1 on your telephone, and wait for your name to be announced. If you would like to cancel your request, please press the hash key.

Your first question comes from the line of Pawel Dziedzic of Goldman Sachs. Please go ahead.

Pawel Dziedzic: Hi, good afternoon, and thank you for the presentation. Just couple of questions from my side. I actually wanted to start with the – with the slide that you just talked about, so you’re 15 to 20 percent ROE guidance. Can you perhaps comment a little bit more on the key assumptions that make the difference between your conservative and your optimistic scenario?
And just to confirm, your assumption is that Russia and Ukraine will not generate losses, but maybe if you can give us a little bit more idea what level of returns would you see at those two subsidiaries by 2017? And then I have one more follow-up – one more additional question later on.

Laszlo Bencsik: That's the other reason we stayed away from numeric targets, because once we give some, you start asking a lot of questions, and then it's hard to resist to actually give more. So I hope I won't sound disappointing, but really I don't want to go much into details, because the purpose here is not to give a point estimate of the Russian and Ukrainian results, it was to share with you our firm belief that even if Russia does somewhat better or somewhat worse, in two years we can reasonably, safely get into this range. So if you'll excuse me, I won't give more information on that…

Pawel Dziedzic: That's fair enough. Can I maybe just ask the same question slightly differently? Without giving us maybe any numeric values, I know this might be not what you want to do at this point in time, can you give us at least what are the key assumptions that drive the difference between the conservative scenario or optimistic scenario? Are those the growth rates, you know, are you referring to interest rates, or what is actually driving the difference in your – in your analysis? If that's possible, if not then I understand.

Laszlo Bencsik: The total – I mean numerically the difference is basically HUF20 billion after tax profit, right, across the whole group. Obviously, we have a quite sizable model which backs this up. But unless I start to explain it in detail, it doesn't make a lot of sense to say more than what we actually said. It assumes further improvement in the CEE operating environment in line with current macro consensus forecasts.

Pawel Dziedzic: OK, that …

Laszlo Bencsik: It also assumes a moderate scenario in Russia, which means that after a heavy GDP decline this year, starting from next year the GDP won't decline, and there might be a very low growth.
Pawel Dziedzic: OK, that's very helpful …

Laszlo Bencsik: And it also assumes that the situation in Ukraine will very slowly but consolidate and improve, and we won't see a further escalation of the military and territorial conflict in the country.

Pawel Dziedzic: That's very helpful, thank you. And my second question is actually on the improving outlook for loan growth in Hungary, and also most of your CEE units. This is something that you talked about in your statement. I was wondering if you could comment when essentially you expect the growth trends to be more prominent, and what scale of growth in terms of loan volumes rather than GDP you are referring to?

You know, if we look at the growth rates this quarter, and if we strip out the FX and conversion and settlement process of OTP Core, it still looks that for most of the markets and most portfolios, the growth rates are negative or close to zero. I think Romania is the only exception.

And yes, I would just throw in one more detail, I was wondering if you can comment if you expect any noticeable reshuffling of the market shares in Hungary as a result of this potential repayment of loans that is possible over next three to six months.

Laszlo Bencsik: If you go to page 12, and if you look at the annual growth rates, in Bulgaria we grew by 2 percent last year, and in Romania it was basically flat, but we made the acquisition, in Croatia we grew 15 percent due to the acquisition, but even without that there was a slight increase.

Slovakia 2 percent growth, Serbia 26, and the only country where we went down except Hungary was Montenegro, but very honestly we don't have much risk appetite in Montenegro, and this is in any case very small.

So what is going to turn the needle regarding CEE? It's Hungary. If Hungary stops declining, then the CEE volumes can turn into growth trajectory. And this is what we expect starting from the second quarter. And the consumer volumes already – in the first quarter, on the same slide you see this 1 percent
growth in consumer lending, just in one quarter, the first quarter, without the impact of settlement.

Mortgages still declined by 2 percent, but this we believe should actually change, so this is where the biggest turnaround should happen during the course of this year. We see a strong increase in the real estate market, real estate market prices started to go up.

A lot of people were waiting for this settlement and conversion. The indebtedness of retail customers declined due to the massive repayments. I mean in the banking sector, all together returns were close to EUR3 billion equivalent of HUF wealth transfer to retail customers during this exercise, right.

And then the corporates again, there was a one-off big early repayment, but other than that, the corporate volumes have been growing in Hungary in our case already. So it's – what should really turn this around is the Hungarian mortgage trajectory.

And unfortunately, it's not going to be a spectacular short-term growth, but even stopping the bleeding, and starting to grow low single-digit in mortgages would change tremendously the outlook, and would put us into a much better situation.

And then we have Russia and Ukraine, where the decline is in a sense deliberate, right, and strategic. So in Russia we are downsizing the business, and trying to get to an operational size which is appropriate to the current operating environment, and that operational size is smaller than we used to have last year. And actually in Ukraine, the lower exposure we have, the happier we are short-term. I'm not sure if this answers …

Pawel Dziedzic: No, that's very clear, thank you. And just the – maybe your thoughts on the potential repayments of loans, and if that can create opportunity for you to take some market share away from your competitors.

Laszlo Bencsik: Yes, this is certainly something we are trying to do. So next week we are launching our new products, which are targeting refinancing customers,
because part of this settlement and conversion exercise is that customers will have a 60 days time window where they can decide to switch and remortgage with another bank without any additional costs. And so next week we are coming out with new products targeting specifically this segment and this demand, and we are very hopeful that we will actually gain volumes from this exercise.

Pawel Dziedzic: That's very clear, thank you.

Laszlo Bencsik: Sure.

Operator: Your next question comes from the line of Simon Nellis from Citigroup. Please go ahead.

Simon Nellis: Hi, Mr. Bencsik. Thanks for the call. I have a few questions. I guess the first one would be on Ukraine, where I see that you have negative equity now of HUF31 billion. I'm just wondering if you need to convert more group funding into equity, how much, and over what time period? That would be my first question, and I have a few others.

Laszlo Bencsik: Yes, the bank still has a positive equity, the bank's capital adequacy ratio is 8 point something, it's actually on page 6, you can see it's 8.6. The minimum is usually 10, but capital requirements were suspended basically, and now you only have to be higher than 5 percent.

So the bank doesn't require capital or conversion. On the other hand, the equity of our factoring company is usually negative. This is not a financial institution, so capital requirements are not there, but obviously we should have positive equity.

So yes, we will have to convert part of the funding to our factoring company in Ukraine if we want to sustain its operation. The reason we have not done it is that technically it's rather difficult, and you expose yourself to exchange rate risk while you're doing it.

And so it takes roughly two, three months, because you can't do it one step, you actually first have to increase capital, and then put the dollar, which then...
convert to local currency, and then that local currency you have to exchange back to dollars, and then you can early repay your loans.

Up until this is the technical way of doing it, we are not willing to do it, because we are not willing to expose ourselves to an open FX position due to a transaction like this for a longer period of time, so that's why we have not done it, but we are in discussion with the authorities there, and if they allow us to do it in one round, and without any cash movements, then we will do, and the magnitude will be potentially HUF20-30 billion.

Simon Nellis: But that would only get you back to zero equity, right? So that …

Laszlo Bencsik: Yes, so I mean there's …

Simon Nellis: … not sufficient to run that business?

Laszlo Bencsik: The factoring – I mean on the asset side, you have the non-performing loans, and then on the liability side you have our equity plus our funding.

So it doesn't have any other sources of funding basically, so it doesn't matter a lot whether we converted it or not to equity. Especially that – I mean for instance, the first quarter collection activity was not very successful in Ukraine for obvious reasons, therefore it's difficult for them to actually generate the cash flow needed for paying the interest on these loans as well.

Simon Nellis: OK. My second question – thanks for that. Second question would be on the increase in resolution contributions, and deposit insurance, and the Beva contributions. You said that I think there's a HUF7 billion increase expected this year versus last year. I guess how much of that incremental increase has already been seen in the first quarter?

Laszlo Bencsik: The total amount is HUF7 billion, and last year we had HUF3.6 billion, if I remember right, and the quarterly increase was HUF800 million, so close to HUF1 billion.

Simon Nellis: OK, so the annual delta is around HUF4 billion, or HUF3 billion I guess.
Laszlo Bencsik: It's HUF3.5 billion, right …

Simon Nellis: HUF2.5 billion.

Laszlo Bencsik: HUF3.3 billion …

Simon Nellis: And …

Laszlo Bencsik: HUF4 billion actually, and one-fourth of this, 0.8 actually, appeared in the first quarter. We have it somewhere in the presentation actually, when we talk about I think expenses.

On page – on page 14, yes, it’s on page 14, the first comment it says the quarterly deposit insurance fee grew by 0.2 billion, and the resolution fund contribution 0.6, so all together 0.8 growth happened in the first quarter, and the annual delta will be roughly 3.5.

Simon Nellis: Got it, OK. And I think there's also potential risk of contributions to some special fund for Quaestor clients. What's the latest on that saga?

Laszlo Bencsik: The latest is that there's a legislation which ruled that this fund has to be set up, and then those entities that contributed to the securities protection fund, should contribute to this new fund as well. And the contributions will be tax deductible, from bank tax and from corporate tax.

And at the moment, the debate is about when this tax deductibility should happen. The original intention of the regulator was that these contributions should be recognized as a kind of early payment, or loan to this entity.

And then when the whole litigation process ends, which might be in 5, 7, I don't know, 10 years, then there will be a settlement and the real tax deduction can only be done at that time, which the sector is very strongly against. So this debate is ongoing.

What is clear is that it's going to be tax deductible, the additional contributions to this entity, but the current debate is on when this should happen. By the way, we believe that the whole structure is unconstitutional, so we are going
to the constitutional court and try to achieve a ruling against this. It's a very weird structure.

Simon Nellis: OK, and any indication of what the magnitude might be? I mean obviously you'll get the money back maybe in the future, but initially you'd have to take some kind of charge on the P&L, right?

Laszlo Bencsik: We don't exactly know, because there's not much clarity at the moment on the actual amount which will be part of this. What we know is that our share to the contributing this will be 26 percent, which is our normal share to contribute to this securities protection fund.

In the worst case scenario, the total amount can be up to HUF100 billion, not our contribution, that's the total, right. And that means that HUF25 billion for us, but again, this fund is supposed to take loan from the central bank basically, or by issuing bonds.

And therefore the contribution to the fund will be gradual, so it's not that we have to pay this as one amount. I mean assuming, which is not sure at all, we really question of this existence.

The second point is that assuming the unsure amount of this to be around HUF100 billion and out total contribution to be HUF25 billion, we potentially have to do that over 10 years …

Simon Nellis: Yes, OK.

Laszlo Bencsik: … so the annual would be HUF2.5 billion, and then the debate is on whether we can deduct it from taxes along the way, so as we contribute we immediately deduct, or we can only deduct at the end.

Simon Nellis: And then just one last question, sorry to keep dragging on here, on the new mortgage lending that you're doing in Hungary, where you see kind of I guess the brightest outlook for growth, what are the spreads, and do they incrementally improve your margin, or are they lower than the back book?

Laszlo Bencsik: Spreads between 4 and 4.5 percent.
Simon Nellis: Margin on new …

Laszlo Bencsik: Yes, margin.

Simon Nellis: … forint mortgages.

Laszlo Bencsik: Yes, which is a little bit higher than our current net interest margin in Hungary.

Simon Nellis: I mean that's much higher than what you find in other countries in Central Europe. I mean aren't you at risk of further regulatory action against you?

Laszlo Bencsik: No, but the competitive pressure might increase.

Simon Nellis: Yes. OK, thank you.

Laszlo Bencsik: Sure.

Operator: Your next question comes from the line of Gabor Kemeny of Autonomous Research. Please go ahead.

Gabor Kemeny: Hi, it's Gabor from Autonomous. Thanks for the presentation. I have a few questions. The first one on provisioning, clearly a very solid performance in Hungary and Bulgaria, and the environment is supportive. But can you maybe give us a sense of your normalized provisioning levels in these countries, and when would you expect to get there?

Laszlo Bencsik: As I previously said, I mean in these countries we expect the kind of couple of years to be around 60 basis points risk cost rate, but it can be temporarily even lower than that.

Gabor Kemeny: OK. So you're saying that over the coming quarters, it could be below 60, yes. My second question is on Hungary and net interest income, so if I adjust your Hungarian NII in Q1 for the – for the FX protection scheme, I estimate that it declined roughly HUF5 billion? It would give me an annualized, roughly HUF20 billion decline before any impact from lower base rate – from base rate cuts. Is this roughly fair?
Laszlo Bencsik: No, I mean we've said it that the annual impact from the – from the settlement and conversion, we previously expected it to be around HUF12 billion, while I said today that it seems to be closer to HUF10 billion than HUF12 billion.

This is the all-in impact, which includes the termination of the FX protection scheme, which used to cost us HUF2.7 billion annually, so this was discontinued in the beginning of the year, so this is not there anymore.

The other factor which modifies your calculation is the IFRS charge which I attempted to describe, maybe I was not clear enough, on page 19. So we actually booked HUF36 billion one-off loss, I mean you could translate it into basically for 15 years, annually HUF2 billion plus.

Because if we didn't do that, then the whole HUF36 billion would have come through the net interest income over the next 15 years as negative. Because according to IFRS, we had to amortize these – part of this.

And the other one is a fair value adjustment related to the expected lower interest rates, which we had to kind of account for now, but it means that the NII would be actually higher, because the amount with which we reduced the volumes have actually come back. So these are the two adjusting factors to the base calculation of the kind of interest rate going lower.

Gabor Kemeny: OK, sorry, just a follow up on this, so the calculation I made is I simply added back the FX protection scheme to your Q1 '14 NII, and looked at the difference between the two. I guess there could be some other factors in your NII apart from FX loan measures.

Laszlo Bencsik: … Q1 ’14?’15 Q1 impact of the whole thing was roughly HUF2.5 billion.

Gabor Kemeny: OK, just another follow-up, can you maybe give us an estimate what would be the impact of the base rate cuts, let's say if the – if the base rate declined to 1.5 percent, what would be your impact on your Hungarian NII?

Laszlo Bencsik: I'd say HUF2 billion, that's like 50 basis points decline would be HUF1.5-2 billion annually.
Gabor Kemeny: Annually.

Laszlo Bencsik: Yes.

Gabor Kemeny: OK. That's very helpful. And just finally on your Russian NII, you have somewhat stronger ruble, which may help revenues I guess, but you mentioned that the portfolio is running off, and I guess your cost of funding may slowly normalize. Maybe can you give us a sense how further could your – could your Russian NII drop over the coming quarters, or what evolution of NII do you see in Russia?

Laszlo Bencsik: Net interest margin should recover, so as we asserted on page 21, you see that the interest rates on loans didn't change so much, and if anything they should actually go up. And the only thing which happened, which brought down the net interest margin, was this higher cost of term deposits. And the margin decline was actually quite substantial in Russia, it went down to 13.6 percent from 17.2.

And the entire decline was due to this higher cost of funding, which again, this wound is going to heal gradually in two steps in the second and the third quarter, and then we should come back to a 17-18 percent net interest margin level.

The other factor which decreased the NII was the volume impact. Now in this, we don't expect recoveries soon, and I think on an annual basis we are going to see at least 20 percent decline in performing volumes, maybe even somewhat more.

Gabor Kemeny: OK, so would you expect your NII to drop because of further lower volumes?

Laszlo Bencsik: Yes, but that's inevitable, so basically …

Gabor Kemeny: So from Q1 levels, I mean.

Laszlo Bencsik: In Q2, the NIM – the net interest margin will be somewhat better, because the deposit rates would be lower, but the volumes will continue to decline, yes.
Gabor Kemeny: I see. OK, thank you.

Laszlo Bencsik: You're welcome.

Operator: Your next question comes from the line of Andrzej Nowaczek of HSBC. Please ask your question.

Andrzej Nowaczek: Thank you. I wanted to ask about dividend. I noticed that the amount of dividend accrued in the first quarter was the same as in the first quarter of last year. And also it seems to me that the 2017 ROE targets rely heavily on your expectations of risk weighted asset growth. If you don't get to those loan growths you hope, will you consider an increase in the payout ratio?

Laszlo Bencsik: Sorry again, what?

Andrzej Nowaczek: Will you attempt to increase your payout ratio if the loan growth prospects do not materialize?

Laszlo Bencsik: Yes, I mean our chairman said that, on the AGM, that there are various ways to achieve this level of gearing, and obviously we are going to generate substantial profits, and therefore in order to keep the capital adequacy ratio below 13 percent where we are now today, in case the volumes are not growing rapidly, we will have to do something with the additionally generated profits.

One way of that is to increase dividends, another way is potential buybacks, the third way is to continue to acquire new entities. If the organic loan growth is not strong enough, then we will obviously try to continue with acquisitions in order to bolster up our assets – our loan volumes basically.

Andrzej Nowaczek: OK, thank you. But how likely is it that you could pay a higher dividend this year than last year?

Laszlo Bencsik: Sorry?

Andrzej Nowaczek: Your amount of dividend accrued didn't change in the first quarter. Is that an indication of it being flat for the whole year?
Laszlo Bencsik: If we continue the accrual, which we did in the first quarter, then actually the increase – there will be 15 percent increase, because we cut back on the last quarter, so the accrual last year was not even, because we decided after the end of the fourth quarter, that we were not going to increase dividends last year.

So therefore if you compare the quarterly accruals of dividends, it's not even, so if we continue with this level what we accrued this year, then actually the growth will be 15 percent. It might be more, I mean this is subject to management suggesting something to the AGM, and the AGM is voting on this. So I wouldn't draw kind of far-reaching conclusions from what we accrued in the first quarter.

Andrzej Nowaczek: That's clear, thank you.

Operator: Your next question comes from the line of Ivan Bokhmat of Barclays. Please ask your question.

Ivan Bokhmat: Hi. Thank you for the call. Most of my questions were already asked. Maybe one small technical one on Romania, could you just remind us what would be your projected integration and restructuring costs?

Laszlo Bencsik: I put it on page 2, so actually we provisioned sort of HUF3.1 billion, so that's the amount with which we decreased the badwill.

Ivan Bokhmat: All right, yes, sure. Thanks for flagging this. And secondly, I think it's probably a traditional question, but if you can comment anything on the M&A, any news?

Laszlo Bencsik: Nothing I can report about.

Ivan Bokhmat: All right, well that …

Laszlo Bencsik: We continue our efforts to find targets which generate value for shareholders, and we are involved in actually a number of discussions at the moment, but there's nothing tangible I can report on.
Laszlo Bencsik: The reason behind the drop was twofold. One is that due to the revaluation result, the equity of our Ukrainian subsidiary –within the consolidated equity, you have the revaluation result, which is basically the FX evaluation impact coming from the subsidiaries capital, and this was negative obviously in case of Ukraine in the first quarter.

So that decreased the equity base, and obviously also the regulatory capital. So this was the capital decrease part, and capital requirement increased in case of market risk. That related to our bank in Bulgaria, the Bulgarian bank has an actually quite sizable open position where we are long in euro and short in leva. But there's a currency peg, so it means if the peg is released, and then the currency devaluates, then we have a big gain. This we consider as a natural hedge to the FX loan portfolio, which we have there.

And by the way, we keep this additional euro liquidity in Hungary, and there was an increase in this amount. The extra liquidity of our Bulgarian bank which they convert into euro and then place with the headquarters in Budapest, actually created additional market risk capital requirement.

Now if I started to explain our common equity Tier 1 ratio targets for this year, then I would have to go into how much quarterly profits we are going to make, and so on and so on, which again, we would like to kind of refrain from, and not giving that very specific guidelines for this year. But it's clear that the positive quarterly profits will inevitably increase the common equity Tier 1 ratio.
Now the other thing which actually happened in the capital structure, is that we paid the dividends. And we had two numbers for the common equity Tier 1 ratio for the year, and one was the 14 percent, and the other one was 13.5. The 14 did not include the dividend payments because last year we made overall losses, and if an entity is loss-making, then technically you can't calculate dividend payments in your capital adequacy ratio.

So that's the other one, so the first quarter change, it depends whether you consider the year end as 13.5 or 14. The difference between 14 and 13.5 was the dividend payment we made.

**Martin Deurell:** OK, just a follow-up on that, if the situation don't materially improves in Ukraine and Russia over the next two years, do you think it's prudent to run the bank with the capital level of 12.5? Because that's what you state in your …

(Crosstalk)

**Laszlo Bencsik:** If the situation doesn't improve in Ukraine and in Russia, then in two years we won't have much in Ukraine and Russia. So actually the size of the Ukrainian operation compared to the whole group is getting smaller and smaller.

For instance, the current – if you look at this presentation on page 26, you actually see the share of the Ukrainian performing book of the total portfolio, it's less than 5 percent of the group total. And it's going down fast, right.

So on the same page, you can see that a year ago, the HUF equivalent of our net loan portfolio in Ukraine was HUF414 billion. By the end of the first quarter, it was HUF256 billion, and if the situation continues to be so bad, then in two years, we won't have much in Ukraine, right.

In Russia, Russia is obviously different because first of all the situation is not as bad. Actually in Russia, short-term there has been a lot of improvement in terms of our expectations regarding the environment.

The ruble started to appreciate, and the adjustment which was made in Russia to the much lower oil prices was very abrupt and fast, but apparently efficient.
So what is happening in Russia that we are going to have a smaller bank, that's for sure, so that's why I said that during the course of this year maybe 20 percent decline in total performing loan volumes.

In line with that, we are cutting costs as well, we are cutting 25 plus percent nominal operating costs of the bank, and if needed we will continue to cut it further. So even under a modest, optimistic scenario, we are going to have a much smaller bank in Russia by the end of this year than we used to have.

If things go worse, then there will be another downsizing in Russia. So if things go bad, then in two years, Russia and Ukraine can be fixed in two ways. One is that actually the situation improves there, and these banks come back to normal profitability and show some positive performance.

Even in that scenario, they are going to be smaller than today. The other scenario is that disaster scenario in both countries, but then by 2017, there won't be much in these two countries, right. And yes, I do feel confident that the 12.5 percent is enough, even if situation is not very good in Russia and Ukraine.

Martin Deurell: OK.

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

Laszlo Bencsik: OK, thank you very much. Thank you very much for your very good and detailed questions. I hope we manage to give you some additional information on our quarterly performance. Thank you for your attention. I hope you will join us again in August when we will report about the second quarter results. Have a very nice weekend and take care. Goodbye.

Operator: That does conclude the conference for today. Thank you for participating. You may all disconnect.

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