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OTP Bank Conference Call **Friday, 12 May 2017**

Paul Formanko: Hello, everyone. Thank you for joining us. This is Paul Formanko, from J.P. Morgan. It's a great pleasure to host this call. From Budapest, I would like to welcome Laszlo Bencsik, Chief Financial and Strategic Officer of OTP Bank. Laszlo, please, over to you.

Laszlo Bencsik: Thank you, Paul. Good morning or good afternoon, depending where you are, and thank you for joining OTP Bank's 2017 first quarter results conference call. I hope you have all had the opportunity to access the presentation which is available on the website. And as usually, I'm going to go through the potentially most important pages. And then later on, you will have a chance to ask your questions, and I'll do my best to answer them.

Today, the presentation hasn't changed any structure. We have the first chapter, talking about the key pillars of the OTP investment rationale, starting on page three. We have discussed this couple of times, and there hasn't been any fundamental change in our trajectory, or strategy, or the underlying narrative of the story. Nevertheless, there might be maybe three, four slides in this chapter which I might like to highlight for you in this presentation.

The first one being slide four, where we talk about the return on equity trajectory and development. As you can see, this first quarter was 15% return on equity for the entire group. And that's the accounting number, so this is the bottom line, without any adjustments. This is also calculated on the total balance sheet equity. And if we adjust this with the leverage, which we indicated two years ago, that we were going to target the 12.5% Common Equity Tier 1 ratio, so if we renormalize the return on equity to this basis, then it would have been 18.3%.

This 15% in itself, I think it's a pretty strong number, especially if you consider that we accounted for the entire Hungarian bank tax in the first quarter this year. This is what we do each year. We book the entire bank tax for the full year. The first quarter result included that. With the entire bank tax for the year, we managed to get to 15% ROE, on a much lower leverage than our target. I think this is, overall, not a bad result.

On page five, which might be another slide to look at, you see the ROE decomposition, and again, just a few remarks to highlight. One to look at is the total revenue margin, which remained reasonably stable. If you look at the first quarter number, it actually slightly improved compared to last year's number. So, compared to last year's 6.75%, we had five basis points improvement, to 6.80% in the first quarter. Obviously, the net interest margin has continued to decline. But nevertheless, the total revenue margin actually remained flat or even slightly improved compared to last year.

Cost per total assets remained the same, and there is a big improvement in terms of the risk cost rate in the first quarter compared to last year. It went down to 65 basis points, which pretty much was the range during the second and third quarter last year, and only the first and the last quarter were higher. So, those made the annual risk cost rate higher than 1%, to this 1.14%.

And then maybe one more slide worth looking at in this section, and this is when we talk about the capital adequacy calculation, on page ten. On the upper left corner, you see the Common Equity Tier 1 ratio development, the end of

2016 and the first quarter 2017 numbers. And here, there's always some confusion about the reported and the actual numbers because the year-end numbers reported in the previous interim report was 13.5. But even then, we indicated that if we included the entire year results minus the dividends, the number would be 15.8%. After the audit, the audited numbers confirmed that number.

So, this was the year-end number for last year: 15.8%. And that 15.8% increased to 16.0% without the first quarter results. So, this 16.0% was reported in the first quarter results. This is the official number because we can only use interim period profits in the capital adequacy calculation and the ratio calculations if they are audited. So, the reported official number is 16.0%, but if it included the first quarter results minus the proportional intended dividend payments, then the ratio would've been 16.6%. So, that's the number which is actually representing the real situation, in terms of for capital position, including the first quarter number.

After these remarks on the overall story, I suggest to start to closer examine the first quarter financial performance. Go to page 14, which is the first page of this section. Overall, we made HUF 53 billion in the first quarter - 52.9, being more precise. And the adjusted number was 66.8. Both of these numbers show considerable 45% and 40% improvement compared to the first quarter last year. In terms of the adjustments, there isn't much difference. Aimilar items appeared a year ago in the first quarter, and their numeric value also seems to be similar.

In fact, the bank tax which we pay decreased a little bit due to the decrease of the ratio of this, down to 21 basis points. But, because on this page and in our numbers we show the after-tax impact of the bank tax, and the corporate tax rate decreased to 9%, starting from January this year the after-tax impact is somewhat higher than it was a year ago. However, the gross amount paid is actually somewhat less than what it was a year ago.

Now, if you look at the decomposition of these adjusted numbers, the story last year, if you remember, looked pretty much that the CEE countries were more or less flat. So, when we compare 2015 to 2016, CEE was producing more or less flat profit. And then all of the uplift in the profit came from Russia and Ukraine, doing better last year than in 2015. This year the growth is more balanced, and we do see considerable improvement in the CEE countries' numbers, as well; and further improvement in Russia and Ukraine. Obviously, both of these are primarily driven by risk cost normalisation.

Going to page 15, you see the group member by group member presentation of after-tax adjusted results. So, if you look at the first quarter, OTP Core was HUF 40.8 billion. Considerable improvement quarter on quarter, year on year. You will see, or you have already seen that this was primarily driven by risk cost normalisation, especially quarter on quarter; revenues actually declined.

DSK Bank, Bulgaria, pretty much flat year on year. Romania improved. I'm going to talk a bit more about Romania today. Croatia turned to negative, and this is related to one corporate group in Croatia which is in trouble, and we had to provision in the first quarter. Additionally, provisions for this client group resulted in negative profit in Croatia for the first quarter. Our smaller banks have not contributed much to the group profit. Serbia, Slovakia, Montenegro was close to zero, but at least they were not negative.

Leasing did very well on a group level. This was due to positive risk cost and good dynamics in risk. Fund management was year on year flat, and quarter on quarter lower, but that's because of performance bonuses coming in each year in the last quarter. So, the fourth quarter included these performance bonuses which the Fund Management company received due to excellent performance compared to the benchmark, and this obviously did not appear in the first quarter. Russia continues to do very well, both in quarter on quarter and year on year comparison, and Ukraine exceptionally well, I would say.

And we also see improvement in the case of Touch Bank, our mobile or internet banking in Russia, which does not yet translate into improvement in profits. But you will see that in terms of volumes, in terms of our ability to attract customers and issue loans, it has started to show considerable results and promising signs.

Going a bit more into detail of the consolidated P&L, page 16, you see the one-offs again. The one big negative element was the special bank tax in Hungary, which we accounted for the entire year.

Page 17, you see the consolidated adjusted after-tax profit, and then some other adjustments, which were basically zero. And then the first quarter without one-off items result, where we can see that total revenues declined quarter on quarter, but improved year on year by 6%, and that's very important. You can also see the considerable improvement in risk cost, which actually made the first quarter result much better than the first quarter last year, or the last quarter last year.

If you go to page 18, you see some miscellaneous items we wanted to talk about, which seem interesting. First of all, Splitska banka acquisition, the financial and closing last year, so now we have full control over this bank. We also disclosed the purchase price. We started the very intensive and hard work of merging these two entities into one. The first impressions are really positive. We have engaged with the local management of Splitska banka last week, and it seems that we do have a common understanding of where we want to go and how to achieve our common goals from now on.

You might've heard about this Hungarian National Bank's proposal to introduce a label or rating approval of housing loans in Hungary being customer friendly. The details of this have not been disclosed, and there are discussions - intense discussions, actually - between the Hungarian Banking Association and the national bank, how this might work in practice. It's going to be interesting to see what the end results is going to be, and I'm hopeful that it is not going to strongly distort the market situation in Hungary.

We have introduced some methodology changes in calculating certain indicators, where in the denominators we have volumes or balance sheet volume numbers. Previously, the methodology was very basic, I would say, we just took the average of opening and end-of-period numbers. Now it has become more sophisticated. Within each period, we take the sub-periods, and then we weight them by the calendar days, and this is going to result in more precise numbers.

All the numbers you see in this presentation and in the interim report itself, we have updated these numbers for last year, this year, and we also have the 2015 full-year numbers, likewise, in the Analyst tables. But in the interim report, there's one page which actually compares all these indicators and gives the numeric values, according to the old methodology and also to the new methodology. So, you can compare them and decide which one you want to use. I suggest to use the new ones because they give a better representation of the actual underlying events and content in the bank.

There's another technical note. Increased the size of OTP Core within the consolidated group. We included some entities in the Core, which have always been members of the consolidated group. So, there's no impact on the consolidated level, only the Core unit increased due to this. There's one entity, OTP Real Estate Lease which actually has material business volumes, namely HUF 22.7 billion gross loans, which now are part of the Core. They used to be among Other Hungarian companies, so you have to take that into consideration when you look at the numbers.

Going in more detail into the numbers, page 19. This is about total income. If we try to understand what happened on a year-on-year basis, where we actually had 6% growth, and a quarter-on-quarter basis, where we had 3% decline, then here are the details. It's clear that Russia is a strong driver in the overall total income story, and it has basically two sources. One is the underlying performance of the Russian business, which can be captured in the rouble numbers. And then on top of that, we have the impact of the rouble appreciation, which actually increased or improved the results in HUF, in the reporting currency terms, further. So, that's why you have, actually, two numbers here.

Year on year the Russian total income grew 11% in rouble terms, but in HUF terms, the growth was actually 43%. And that is the equivalent of this HUF 10 billion growth year on year, which actually was actually fundamental in terms of the year-on-year difference. But also, quarter on quarter, we have 3 billion growth. That is +10%. And part of it came from the rouble appreciation.

Digging a bit deeper into the lines of the P&L and trying to understand what's going on, on page 20, you see further details on the net interest income, which on the quarter-on-quarter basis slightly negative, 1% decline, or HUF 1 billion. There was a decline in Hungary, in Bulgaria, in Merkantil Bank, which is the leasing company in Hungary, and eliminations improved.

In order to understand these numbers, we actually have to go back to the fourth quarter last year because some reclassifications or technical or one-off events happened there. First of all, at OTP Core there was this 1.9 billion item which increased the NII in the last quarter, which was a reclassification between other non-interest income and the NII - related to structured products or financial products. Therefore, this technical item actually made the first quarter look lower. Then there's another obvious event, that the first quarter is a shorter quarter than the previous quarter is, and this actually has a material impact. So, if you add these two together, then basically, they explain the HUF 3 billion decline in the Hungarian net interest income.

Obviously, there have been other factors which strongly influenced the NII, namely the further decrease of the reference rate, which is now down to 15, 16 basis points. On the positive side, we had actually purchased more Hungarian government bonds, therefore increased the return on our liquid reserves. Plus, the AXA portfolio, the positive impact of the AXA portfolio was only there in the incomes for two months, for November, December during the last quarter; in the first quarter, obviously, we had this positive impact for all the three months.

In Bulgaria as well, roughly half of the decline in nominal terms, was explained by change in the methodology. This is the reclassification of derivatives-related revenues and cost. In the case of Bulgaria it decreased the NII, and this explains half of the decline there. Likewise, in case of the leasing company in the fourth quarter last year, there was a 1.5 billion one off plus, and this explains the difference, the decline, mostly from the last quarter to this quarter, and the eliminations as well. It's a more technical event which happened during the last quarter.

These technicalities actually have an impact on the NIMs of the group, and OTP Hungary, the Core, and Bulgaria as well give slightly more flavour to what's going on.

If you look at page 21, the net interest margin development, I'm sure, apart from the volume development, this is the most interesting part of the story in short term or in fundamental terms. The first quarter NIM on a group level was 4.76%, and if we compare that to 2016, 4.78%, there was a two basis point decline. You might remember that we indicated that for 2017 we expected around 15-20 basis points year-on-year decline.

In the light of that forecast it looks rather positive that in the first quarter the margin declined by two basis points. It would be too early to say anything for the year-on-year expectations, other than what we have said during the previous conf call when we talked about our forecast. But actually, at least it makes me somewhat more optimistic on the overall NIM development during the year.

Hungary continued to decline, and Bulgaria continued to decline. In Hungary, I believe we are close to the bottom of the NIM cycle, because now, as I've said, the reference rate is down to 16 basis points. It seems unlikely that it further declines in the foreseeable future, and eventually, it will turn into growing, as inflation kicks in, and might get closer to the base rate, which, by the way, stays at 90 basis points. And then volume growth started in Hungary, which also helps the NIM. So, I'm hopeful that we are seeing the end of this rather swift NIM compression we have seen in the last two, three years.

Obviously, competitive factors might further pressure NIMs in Hungary, but the rate environment itself and so on, hopefully, will not have further pressure on NIM. In Bulgaria the situation is, unfortunately, somewhat different. In Bulgaria, in the case of DSK Bank, we still expect further erosion of the net interest margin, due to the continuous refinancing and repayment of retail loans: mortgages and consumer loans alike. And obviously, the new volumes have lower margins than the older ones. And here, we have not reached the end of this process. Croatia, Romania seems stable. Likewise Ukraine, Russia. So, in the other markets it seems that there's less immediate change in these numbers.

And then the volume story. In the first quarter, the total consolidated performing loans grew by 1%, which is driven basically by corporate. As you can see on page 22, corporate volumes in the first quarter grew by 3%, and the total growth was 1%. In Hungary, corporate grew by 6%, which is an excellent result, I believe. Mortgages, depending whether you account for this real estate leasing company volumes, which were included in OTP Core in the first quarter, you get plus or minus 1%.

Likewise, consumer, either 2% or 1% growth, but consumer was growing anyway. Usually, the first quarter is not a very strong one, in terms of seasonality. This still, I think, supports our expectation what we foresee here for the entire year. In corporate we might be actually more optimistic than what I was during the previous conf call, regarding potential growth in corporate. DSK was overall flat. Corporate better, retail somewhat slow. Russia, the first quarter is always seasonally slow or even negative, so we have not been surprised that there was a negative loan growth in the first quarter. That's the normal seasonality there. It already stopped, March was actually growing, and April is growing. So, it is rather January, February, which is generally low in terms of new consumer loan sales because the peak is in November, December, and there's a trough in January, February.

Touch bank, as you can see, just in one quarter, volumes quadruped, which is great. This is obviously starting from a very low basis, but it shows that we started to find ways to issue loans to our customers, which, hopefully, will make this activity profitable by selling bigger and bigger volumes of unsecured loans. Ukraine, flat on volumes. Romania, flat. Croatia, decent growth results; again, this is without Splitska, so it's still just our own old bank. The Splitska numbers will be consolidated during the second quarter, and then you will see the full impact of this acquisition. Slovakia, small minus. Serbia, small plus. Montenegro, small plus.

All in all, I think the story in the first quarter was, basically, Hungary doing rather well, especially in corporate. And across the board, corporate being strong. And Russia having the usual seasonality in the first quarter. We expect improvements in Hungary and Bulgaria in terms of in the retail segment for the coming quarters.

Just to give you a different perspective on volumes: if you only look at the overall volume growth, then you actually miss the point how active we are in selling loans and originating new loans. So, page 23 talks about the growth in terms of new retail loan originations, in mortgages and cash loans. This is the year-on-year growth, compared to 1Q 2016 showing how much we increased loan origination in these segments in different countries. As you can see, we actually sold 48% more mortgage loans and 71% more cash loans in Hungary than we did a year ago, and the numbers apply for all the other countries.

I have to admit that these numbers also include refinancing, and top-ups. A big chunk of the the Bulgarian activity, which increased 39% year on year, was actually related to remortgaging. At the same time we typically also increased the volumes to these clients: who remortgaged those added top-ups. I think this slide shows how active we are, and how much demand is actually growing in the region, despite the fact that the old volumes remained almost flat due to growing repayments from the old volumes. The overall volume numbers show, obviously, a less spectacular growth story that they have showed so far, which I hope might change in the future.

Page 24 is about deposits. In this field, not much happened in the first quarter. Minus one percent q-o-q, but year on year 6% deposit growth. There are only a few markets, namely, only Ukraine, where we have a strategic intention to grow local currency deposits. In all other countries this is not a priority. But despite the fact that they don't pay much interest on deposits, or sometimes, they don't pay at all, we have increasing deposit volumes. This shows the commitment of our clients, and also the fact that we seem to be able to attract customer savings and relationships, and obviously, at the end of the day, we generate fee revenues through increased transactions. So, it actually makes sense.

Talking about fee and commission income, it was down quarter on quarter, due to, basically, two or rather three factors. One, in Hungary, each year, we pay the financial transaction tax for card transactions in a lump sum payment for the whole year , and this comprised 1.6 billion in the first quarter. So, this item explains the decline compared to the fourth quarter. If this hadn't been there, we would have had growth. Furthermore, at Fund Management in Hungary performance bonuses were paid to the fund management company by the funds due to the performance over benchmarks in the fourth quarter. That resulted in a decline on a quarter-on-quarter basis. And finally, in Russia we had a technical reclassification, which resulted in some increase.

Other non-interest income. The changes here are basically, related to the base again, I mean to the fourth quarter 2016. These are the same adjustments or one-offs which I talked about on the net interest income slide. These items basically moved in the last quarter between these two P&L lines, namely the net interest income and the other non-interest income.

Operating costs were up by 8% year on year. But FX adjusted only by 4%. Obviously, the big FX adjustment here is the Russian one. The rouble appreciated a lot, and therefore the revenues and the costs seem to be higher in local currency numbers. So, the FX adjusted costs increased by 4% year on year. It's in line with our guidance of 3% to 4% growth for 2017. And the fundamentals which drive them are, basically, wage inflation in most of these countries, especially in Hungary. It's quite strong. Wages and salaries increased by 4%. And when we do new hires, we do have to adjust it to the market conditions. Plus, we have some slight increase due to the AXA merger, which we did last year, and there was some cost increase related to this. And we have increasing business activity in our Russian businesses, which fundamentally drives costs somewhat higher.

This ends the section about the group as a whole and the cross section part. Maybe a few thoughts about the bigger group members, starting with OTP Core. Again, I've talked about the P&L lines. On page 28, you see the OTP Core P&L. Important to note is the lower tax rate. Again, from 1st January, the corporate tax rate went down to 9%, and that has a positive impact on the after-tax profit numbers, and the risk cost was actually positive in the first quarter, so we had write-backs which bolstered the first quarter results.

On page 29, you see some data related to our retail and corporate activities in Hungary. The good news is that, overall, as I already showed, the business activity was growing. In mortgages we have a continuous growth in disbursements and activity, and our market share is actually very strong: above 30% in new origination and also in savings. We cemented about 30% market share in household savings. Corporate volumes look good, as well. Again, our market share has stabilised above 14%. The growth, as I already talked about, looks strong.

Overall, Hungary seems robust in terms of the overall GDP dynamics, consumption growth, and real wages growth. As for real estate sector developments, we expect transaction numbers to grow this year by 20%, and real estate prices continue to grow. The sector seems to continue to drive demand in housing loans and in mortgages.

Bulgaria, on page 30. In Bulgaria we continue to struggle with the refinancing of the back book, which is almost inevitable. It's a gradual process, which will continue to drive the NIM somewhat lower. So far, we managed to balance this revenue decline with lower level of risk cost. If you look at the risk cost rate, finally, Bulgaria dropped as well to this level, which was 16 basis points in the first quarter. It is more reminiscent of the good years, similar to what we have in Hungary. Therefore, the return on equity seems to be stable.

Russia, despite the fact that the first quarter volume dynamics weren't very strong, the year-on-year volumes actually show very good dynamics. 19% increase for POS volumes, 20% growth in cash loans. Only the credit cards are negative by 21%, but this is a strategic decision because we want to reduce the share of credit cards as they are much more difficult to manage in terms of risk than POS and cash loans. Despite the fact that last year consumption in Russia kept on declining, we managed to grow these volumes year on year. Consumption started growing only by year end last year and into this year, which it paints a reasonably attractive or optimistic picture in terms of potential further growth in volumes, because once consumption starts growing, consumer loan demand should obviously grow, as well.

Profitability improvement comes from the risk cost rate normalisation, which you can see. The return on equity was above 20% territory, actually 23% in the first quarter. There are some further details on page 32.

Ukraine, I think this is quite remarkable what we see on this page This is the return on equity in Ukraine. In the first quarter return on equity was 52.4%, which is the result of fairly stable margins, stable volumes, and already normalised risk cost, and this makes us quite happy. After many difficult years, it seems that we can earn back at least part of the losses which we had to suffer in Ukraine.

Page 34 gives you potentially good representation how well our bank does in Ukraine. In the upper left side, you see the ranking by size, by total assets, of the banks in Ukraine, and we are number 13 there. But if you look at the same ranking by nominal after-tax profits, then we are number three, after much bigger banks. This is certainly a very good result. And the other good side of the Ukrainian story now is that the group exposure in terms of intragroup funding has gone down to really low levels, so it doesn't impose on the group higher risk than its equity itself.

And then, finally, we included Romania here. Currently we see the Romanian bank in the group getting closer to the required level of return. As you can see in the first quarter, they made 12.2% return on equity, without any kind of sizeable one-off event. What we see here is, basically, stable margin and improving cost-to-income ratio. That's the result of the acquisition we made in 2015 when we made the Millennium acquisition. By the end of last year the whole merger process was concluded, and therefore, now, we have a more efficient cost base and a bigger portfolio. We are hopeful that we can continue on this path by making further acquisitions, which then will push the overall profitability of the Romanian activities to higher and higher levels.

Finally, one page about the risk cost. I think it's worth talking about page 36, the overall portfolio quality. The risk cost rate, as I mentioned, dropped down to 65 basis points. Last year, we had ups and downs; the second and third quarter was 87 and 56 basis points respectively. So, this 65 seems to be in that range where we were in the second and third quarter last year. I think it's fair to expect that in the coming quarters we can be around this level. We will see. Obviously, this is potentially difficult to foresee, but the overall fundamentals of the existing portfolio look good: if you look at the deterioration of the portfolio, the growth of non-performing volumes was only HUF 3 billion in the first quarter this year, which is, I think, a historic record in terms of being so low. The DPD90+ ratio went down to 14.1%. And total provisions divided by DPD90+ loans, actually, are close to 100%. It's 98.8%.

So, this was the presentation or additional information which I intended to share with you, along with the presentation material, which you can have access to. If you have any questions, please ask them. I'd like to ask the operator to open the floor for Q&A.

Operator: Thank you, Laszlo. Ladies and gentlemen, if you'd like to ask a question, please press star followed by one on your telephone keypad now. If you change your mind and wish to withdraw your question, that's star followed by two. And when preparing to ask your question, please ensure that your phone is unmuted locally. Again, that's star one, if you'd like to ask a question. Laszlo, you first question today come from Pawel Dziedzic of Goldman Sachs. Pawel, your line is open. Please, go ahead.

Pawel Dziedzic: Thank you for the presentation. I have two questions. First, I wanted to follow up on your comments on your margin outlook. You mentioned that, so far, it looks maybe a little bit more optimistic than 15 to 20 basis points decline guidance that you gave us before. And I appreciate that it is, perhaps, early to be sure, but would you be able to help us better understand what is changing for the better? So, for instance, for this quarter, the flat margin, does it reflect better performance of lending spread, or perhaps, it's driven by the change in the growth and mix of your high and low margin regions? And to what extent it's affected by the FX?

And then, secondly, if you are looking at Hungary, and if you strip one-offs as per your slide 21, you showed a second consecutive quarter in which NIM fell by around eight to ten basis points. So, perhaps, can you give us a commentary, if you expect this pressure to continue or, perhaps, ease in the coming quarters?

And then I will have a second question, and it's just on your… perhaps not remarks that you made now, but you made before, on M&A. And you, obviously, mentioned that you're looking at the opportunities across some of your home markets. I'm not sure if you would be able to tell us where you stand on them, but perhaps, if you could clarify what happens if those transactions do not materialise? I would be particularly keen to understand if you would be looking to broaden your search, perhaps, to the markets where you currently have no presence, and at what stage you would look to increase your dividend. Thank you.

Laszlo Bencsik: Okay. As I said and as you said in your question, it's too early to deviate from the forecast we made regarding the expected development of the NIM, and I don't want to do that. It's obvious that the two basis points decline in the first quarter compared to what we had on average last year, numerically, raises some hope that it might not decline overall as much as I said before.

Fundamentally, what is changing is the outlook for the reference rate in Hungary. We believe that we are reaching the end of the decline of the reference rate. First, there was a precipitous decline on the base rate during a number of years, it happened before September last year, and it ended with 90 bps. Then from then on, the base rate remained the same, but the reference rate or the interbank rate, due to various measures of the central bank, has decreased down to around 15 basis points. It's actually 16 today.

We see much less room for the reference rate to continue to decline, right? So, this is important. It's not impossible, but I think it's not very likely that there will be further material decline in the reference rate. Therefore, this interest rate environment-driven NIM compression in Hungary should end.

On the other hand, we have started to see loan growth, primarily in corporate, which does help somewhat on the overall NIM and NII, but not so much, because typically, corporates loans are lower margin, especially large corporate loans which typically generate the bigger chunk of the volume growth in corporate. But we continue to see consumer lending growth in Hungary, which is a high-margin product, so that should have positive impact on the NIM in Hungary. And then, finally, sooner or later, we'll see the mortgage volumes start growing as well, and again, that would be accretive for the NIM in Hungary.

The strong negative influence which has so far come from the base rate and the reference rate decline, which we have witnessed over the last couple of years, should end. On the other hand, there are some other factors which might have positive impact. Now, you have to balance this with your expectations regarding the competitive environment, which is the most difficult to forecast and foresee, to which extent margins will decrease because of competitive pressures or because of the actions of the central bank, for instance, coming from this customer-friendly labelling of the housing loans.

So, I think looking forward expectations can be mixed. But I think there are good reasons to believe that the long story of Hungarian NIM compression is getting to its end, and maybe it has already reached its end in the first quarter. Bulgaria will continue to decline, and that, hopefully, will be counterbalanced by other factors, namely the Russian growth story. So, these are the overall factors, plus, we are going to have our new member consolidated in the second quarter, Splitska banka. That's going to have an uplift of the total earnings, obviously, and you'll see the impact on the overall margin as well.

So, that's more or less. I know this is not as direct and succinct as you would expect, but that's the best I can provide you at the moment, and again, it is too early. I think after the first half we will have a better basis to fundamentally argue for more exact NIM dynamics, both on the consolidated and on the entity level in the group. I think it wouldn't be very serious to do that just after the first quarter.

M&As, yes, we are very active, we continue to look for opportunities, and there are a number of processes in progress. Regarding your question whether we want to extend our scope of interest above our current footprint, it's not impossible, but it's also not a priority. So, we approach this more in an opportunistic way. We certainly have some guidelines. We want to keep learning from past experience. We certainly don't want to enter into a market with a too-small operation. So, we will not do that.

The problem is that bigger banks are typically not for sale, or if they are, they are too big on too big markets. This is not necessarily a ground for us to develop, but never say never, we are open opportunistically to consider these options. Where we really focus is our current footprint, and within our current footprint, the countries where we don't have the right scale in order to reach the required level of profitability. So, that's our first priority.

What measures, if any, we will take if we don't find any meaningful acquisition target? Which, I admit, can happen. I can only repeat what we have said before, that we will come back to this question during the second half of this year. We will update our capital strategy during the course of the second half of this year, when we know better what we can expect in terms of M&A activity, prospective M&A activity in the future. We will share the results of these updates with you. Obviously, if we are unable to spend the excess capital in a meaningful way, which creates additional value for shareholders, then we will find a way to return to shareholders part of it to get closer to our targets. There are, obviously, various ways to do that.

We are not prepared at the moment to discuss that in detail or in concrete terms. This is something we'll do, potentially, around November, maybe during the course of the third quarter conf call. Around that time, I think we will know much better, and already we will have made our internal thinking and decisions.

Pavel Dziedzic: That's very helpful. Maybe just to follow-up. You mentioned that you might be looking at markets where you're currently not present. Is it fair to assume that it will be still very closely in the region, or you, perhaps, you will look beyond the neighbouring countries, where you already have your operations? And secondly, you mentioned that the scale of purchase of any entity would be important. Is it fair safe to assume that the scale would be limited by your excess capital? In other words, if opportunity presents itself, you will not be looking to raise capital to achieve a, let's say, large-scale acquisition. Thank you.

Laszlo Bencsik: We are not actively looking at opportunities beyond our current footprint. If we do, we have stronger motivation to do that closer to our home markets. That's fair to say. Having said that, we just received the approval from the Chinese authorities to open a Representative Office in China, which we are going to do in few weeks. That means that we are going to have two representatives in Beijing. That's the activity we are going to have there. It's very formal and there's no business activity related to this. We must have two years presence of Representative Office, and can only apply for licenses then. I'm not saying that we decided to enter the Chinese market soon or have any concrete plans, but this is an interesting development you might find useful to know.

In terms of the size of acquisitions, we haven't faced any dilemma where we had to consider this. We haven't seen any acquisition opportunity which we seriously consider worthwhile pondering on, which involve any increase in equity. This is not in our framework of thinking or mind-set, certainly. Everything we have looked at so far, and what we continue to look for, fall into the category which we can digest using our existing excess capital, or which we can finance from the excess capital which we generate, because this is also a sizeable amount, what we generate on a yearly basis.

Pavel Dziedzic: That's very interesting and helpful. Thank you.

Laszlo Bencsik: Thank you.

Operator: The next question today comes from Sam Goodacre of Morgan Stanley. Sam, your line is open. Please, go ahead.

Sam Goodacre: Hi, Laszlo. I've got a very short question, just on a point you mentioned at the very beginning, which was related to the endorsement of the consumer product in Hungary. You did admittedly say that, you know, it's, kind of, work in progress. We don't really know the outcome. But is there any more colour you can give us to that, and what you think the most likely outcome is? And given that you have, in the slide pack, spoken about impressive pick-up in mortgages and good disbursements, etc., how much under threat is that product, and what sort of dent to profitability are we potentially looking at? Thank you.

Laszlo Bencsik: I understand the question and your curiosity, and I, personally, I would be also quite happy to find you the answer. But this is work in progress, and again, an on-going discussion between the National Bank and the Banking Association in Hungary. I don't think it makes sense to share interim stages of discussion. The good news is, actually, there seem to be a drive for consensus. The central bank seem to take it seriously that they want to engage with the banking sector, and they seem to have an earnest desire to improve lending and mortgage lending in Hungary in general, and create an environment which further accelerates and fosters lending.

I think this basis is certainly a good one, and there is a dialogue. I don't feel at all comfortable sharing information which would only represent interim stage of a seemingly long discussion, which discussion, by the way, is between the Banking Association and the Central Bank. I think pretty soon we will have public announcements related to that, and then we will know more about the details. I'm sorry for that, but I'm not in a position to share with you much detail on this.

Sam Goodacre: Okay. Thanks very much.

Operator: Laszlo, your next question today comes from Andrew Keeley of Sberbank. Andrew, your line is open. Please, go ahead.

Andrew Keeley: Good afternoon. I have a question on the Hungarian business and the asset quality. You had four straight quarters now, I think, of provision releases, and I'm just wondering if you could give us a little bit more colour on what's driving these? Are there particular segments where you're seeing the strongest, kind of, potential for releases? Any colour on the provisioning coverage by different parts of the portfolio, be it mortgages or SME or large corporates? And, I mean, any thoughts on how we should, kind of, think of this going forward? I mean, you're at 84% coverage. Is there a level you think this may go to, where you'd feel comfortable? Do you think there's likely to be more to come in terms of provision releases? Thank you.

Laszlo Bencsik: It's not that we intentionally release or create provisions, right? What happens is that the portfolio doesn't deteriorate, so the new defaults are very few, if any. At the same time, due to the on-going collection and workout efforts, we do have recoveries on the non-performing part. We have not sold in Hungary our workout portfolio. So, we keep this in the group. We have this dedicated unit, which we call factoring to do the workout and hard collection, and they continue to work on these portfolios, which have been adequately provisioned. And the results of their collection and workout activities actually result in provision releases.

That's pretty much fundamental. The positive risk cost reflects this situation that we have a fairly conservatively provisioned existing non-performing portfolio, which we have not sold, but we continuously work on it, with quite a strong dedicated team and effort. And that effort and work has certain results. And on the other hand, the performing portfolio seems very stable, and there are very few new defaults.

As long as this situation continues, I'm not saying that each quarter will have positive risk cost, but we should see lower risk cost, or even positive, in the foreseeable future. This is going to last until this old non-performing portfolio disappears, or the marginal return on this portfolio goes down to very low, which still has some time for that because, I mean, it's lower than 10% now, but still I think we're at 9%. The 90 days past due ratio is exactly 9.1% in Hungary.

The other factor is how long it will last that we have such a good environment in terms of GDP growth, in terms of real wages growth, in terms of consumption growth, and housing prices going up, and FDI coming again and so on and so on. We have a very positive economic environment. Typically, in these environments the performing portfolio quality is usually very stable and sound. As long as the economic environment continues to be so positive, and as long as we still have this material volume of non-performing loans until they don't go down to below 5% or 4%, these factors will continue to exist.

Andrew Keeley: Okay. Thank you. That's very helpful. My second question is just coming back to the customer-friendly housing loan certification. I appreciate you can't really share too many details at this stage. I'm wondering whether you can just give us some thoughts as to your understanding of the rationale of the national bank to be looking to introduce this measure? Do they feel that, basically, the market isn't working very efficiently, or interest rates are seen as being too high? Are banks making too much money on this product? And, I mean, are you seeing any impacts on your demand on originations, given that the population might start thinking that once this change comes in, rates are going to fall in the future? Thank you.

Laszlo Bencsik: I might be wrong, but I don't think the public or the potential customers are very much aware of this at this stage. So far, it has been kept in experts' circles pretty much. It's public that something is being cooked, but I don't think that the customers at large are expecting this, and therefore they delay or change their decisions to take a loan now or they don't.

Based on what we hear from the Central Bank, they would like to further boost the lending activity in the country, and especially mortgage lending. I think they would welcome lower spreads and margins on mortgages. And obviously, this is in the area where we have a strong disagreement with the central bank. I mean, by we, I mean I think most of the banking sector participants.

From our point of view, it doesn't seem that Hungary is an extremely profitable market in general, especially if you take normalised, over the cycle risk cost rate, because last year, not just us, but the entire banking sector released a lot of provisions, and therefore, optically, the profits and returns looked very strong. But this is unlikely to be sustainable at that level what we saw last year, at least for the foreseeable future.

I don't think I'm the right person to articulate the views of the Central Bank, or comment on them. I'm sorry, but I'm not very much in the position to further inform you on this point. I think your curiosity will be fulfilled soon, because I'm sure that, in the foreseeable future, there will be some type of consensus on this issue between the market participants and the Central Bank, and there will be a clear communication of what it means.

But even then, obviously, will be a question whether… Because this is not going to be compulsory, it's just going to be a label which can be used by banks. Banks can then market their products officially as customer friendly, according to the guidelines of the Central Bank. But it doesn't mean that we will not be allowed to give other loans with completely different characteristics. It's not going to be a regulation or something compulsory. It's rather an additional label which the consumer might use to be better informed, something like that. But exactly how it's going to work and to which extent it will be part of the customer choice, even if you know the parameters, maybe in a few weeks or when it's communicated officially, we will not know exactly what impact will be on the market.

Andrew Keeley: Okay. Fair enough. Thank you very much, Laszlo.

Laszlo Bencsik: Sure. Thank you.

Operator: The next question today comes from Simon Nellis. Simon, your line is open. Please, go ahead.

Simon Nellis: Hi. Thanks very much for the presentation. Just a follow-up question on margin. I think in the past, you said every ten basis point move in BUBOR is equivalent to a 1.5 billion impact on net interest income. I guess that relationship also works when BUBOR would be rising, right? That'd be my first question. And second would be, how much of the decline in BUBOR has already been reflected in your Hungarian NIM? And is what makes you a little more confident about the outlook more the volume growth than the fact that the lower BUBOR has been factored in? Is it going to take another quarter or two for the full impact of the lower BUBOR to be factored into the margin? That'd be my second question on margin. And then I'll have one more follow-up on cost of risk.

Laszlo Bencsik: Yes, this HUF 1.5 billion impact is likely to kick in when we have an increasing reference rate environment. There's indeed a delay of one or two quarters, or one-and-a-half quarters, because of the repricing of the assets, so loans are typically quarterly repricing. Therefore, there will be an impact in the second quarter as well. At the same time, since last December or November last year we have purchased roughly 135 billion Hungarian government bonds, which obviously, have a higher yield than the interbank rate.

By the end of this quarter, we'll pretty much have zero liquidity out of the central bank facility. Basically, we don't have excess liquidity in local currency, which we keep at the interbank rate. So, that has a positive impact overall on the NII and the NIM as well.

Simon Nellis: Okay. That's very clear. My second question would be, again, on cost of risk. I guess, from what you were saying before, it sounds like you're saying that the… You'll still have net recoveries in Hungary this year, but maybe less than last year. Last year, you had 14 billion in recoveries. Is that a fair assumption? And I guess [unclear] you can say on what you think is a normalised provisioning level for the market, when you think you might see a normalised operating environment, would be useful. And then last, just on the Croatian case, do you feel fully provisioned, or do you think there's more provisioning to come? Thank you.

Laszlo Bencsik: I think it's fair to assume that at least during the remaining course of this year there will be further net recoveries in Hungary.

Normalised cost of risk, I've been telling around 1.2% for the entire group, assuming volume increase in Russia, and therefore increasing share of this high risk cost portfolio in the overall group. I also said when we talked about this year forecast, that we expected lower risk cost this year than last year. So, I think it's quite likely that we will not reach this 1.2% this year. We'll be lower than that. And overall, we continue to expect lower risk cost than we had last year for the entire group.

Regarding provisioning, we have been as conservative as our auditors allowed in the first quarter for provisioning, to this corporate exposure. Obviously, it's too early. The process just started, so we don't know. It's not impossible that we have to provision further, and it's also not impossible that at the end we can release some provisions.

Simon Nellis: Are you able to disclose your exposure and your coverage? I guess you would've, if you could've.

Laszlo Bencsik: We would rather not. We are not supposed to talk about individual client exposures. Because of the size and the publicity of this, everyone would know exactly.

Simon Nellis: Yes. And then maybe this one last question. You're obviously looking at a lot of M&A. Are there any deals that you're looking at that would actually require you to cut your dividend that you're planning for this year? I think you put a memorandum [unclear] capital.

Laszlo Bencsik: No.

Simon Nellis: Thank you. That's all from me. Thanks very much.

Laszlo Bencsik: Thank you.

Operator: The next question today comes from Tarek Shahin of Manulife Asset Management. Your line is open. Please, go ahead.

Tarek Shahin: Hi. Thanks. Just could you comment on your cost-to-income ratio, the direction there? Thank you.

Laszlo Bencsik: Cost to income. I'd like to decompose that to cost to asset and total revenue margin. The cost to asset ratio seems to be stable around 3.6%. If we assume that total revenue margin will not change materially, which, again, happened… I think I started the presentation with this, which you can see on page five, that total revenue margin even slightly improved if we compare the first quarter this year to the full year last year. If that continues and if there's no change in the cost to asset, which has been fairly stable the last couple of years around 3.6%, then cost-to-income ratio should not change.

This can only be altered materially if we can make acquisitions which improve the efficiency of our operations. It can happen. This is, by the way, the whole rationale of this exercise of trying to execute acquisitions which creates values, that by doing this, we can improve the efficiency of our units by having better scale economies. And this can happen. I would say the only way to materially improve the cost-to-income ratio would be this in the short term.

There's another consideration, that is more long term, five years or above five years horizon, and that's to which extent banking operations are going to change due to digitalisation, to which extent we can substitute or should substitute the physical infrastructure with digital infrastructure, and therefore, switch into an ultimately more efficient and lower cost platform. This is not something which is going to happen in the next one, two, or three years, because first, it actually increases cost because you have to invest. You have to invest into IT, which increases depreciation. You also have to invest in human resources. Actually, this is equally expensive, because in order to change the profile of the bank into a more digital operation, you have to have different skills in-house, which are ultimately more expensive than what you require for traditional banking. So, short term, this rather increases the cost base and then yield benefits only in the long term.

These are the two factors. Short term potential acquisitions can improve the efficiency of the group. Actually, that's one of the reasons why we pursue acquisitions. And more to, kind of, five to ten years, longer term horizon, digitalisation and the way and the extent we change the actual operations of the bank, that's the other factor.

Tarek Shahin: Thank you.

Laszlo Bencsik: Thank you.

Operator: The next question today comes from Marina Davies of Pioneer Investments. Your line is open. Please, go ahead.

Marina Davies: I just have a very quick question. Can you share with us any plans regarding your subordinated debt? Thank you.

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Laszlo Bencsik: We paid back the subdebt.

Marina Davies: You have a perpetual bond?

Laszlo Bencsik: Yes. That, we have. We have the perpetual bond, and we have the ICES. They're classified today as tier two, but fundamentally, they are more subordinated than that. So, we have the perpetual, and then we have the ICES, the one which used to be convertible. And I'm sorry, but I'm not in the position to disclose anything related to these.

Marina Davies: Okay. Thank you.

Laszlo Bencsik: Thank you.

Operator: The next question today comes from Andrzej Nowaczek of HSBC. Andrzej, your line is open. Please, go ahead.

Andrzej Nowaczek: Thank you. I have two quick follow-up questions on the issues that were already raised in this call. One is on Croatia. You said earlier that you expected Splitska to contribute to profits, but one would assume that they also have exposure to this troubled borrower. And if only for that reason, there should be a top-up to provisions you made in Q1. Would you agree?

Laszlo Bencsik: Yes, they had to provision as well, potentially for any exposure to clients which are deteriorated during the first quarter. What I can say is that the opening balance will reflect our judgement on the value of the assets which we consolidate, and therefore, the required level of provision on these exposures. This is not going to have a P&L impact because this is going to come through the opening balance sheet and through the consolidation what we are going to make in the second quarter.

Andrzej Nowaczek: Okay. And the other question is on… It's not really on the mortgage company. It's on your mortgage application and approval stats. Is it true what you said about the mortgage cut uncertainty, in that it doesn't lead to delays in borrowers' decision? Should we expect an increase in the volume of applications or approvals in the second quarter?

Laszlo Bencsik: Compared to the first quarter, yes. The real estate market is growing, and the real estate market itself is expected to grow by more than 20% by us. So, this is our expectation for the entire market. On a growing real estate market, loan demand for mortgage loans should continue to grow. We had this almost 50% growth in terms of applications and new loan generation in the first quarter compared to the first quarter last year. If you look at last year, the quarters of last year, actually, the first quarter was quite low. The real kick in came in the second quarter. There was a big step up in the second quarter, and the third, fourth continued to grow.

In the second, third, fourth quarter, the year-on-year difference between the quarters will be less than 50%. That's for sure. For the total year we'll have less than 50% growth of total originated volumes. Last year the market growth was 27% in terms of mortgage loan origination growth. But having said that, yes, the new origination is going to continue, and eventually, this is going to turn into stock volume growth as well, both in the market and for us as well. So, this trend is going to continue.

Andrzej Nowaczek: Thank you very much.

Laszlo Bencsik: Thank you.

Operator: Our next question today comes from Olga Veselova of Bank of America Merrill Lynch. Olga, your line is open. Please, go ahead.

Olga Veselova: Thank you. I have two questions. One is about your cost growth. When you give us your forecast of 3% to 4% growth year over year, is this before consolidation of Splitska?

Laszlo Bencsik: Yes.

Olga Veselova: Before. And my other question about cost is, was there any other reasons for the spike of expenditures in Russia in the first quarter, or assets was the only reason for the spike?

Laszlo Bencsik: If you go to page 27, there's a side note, number two, and it says that the reclassification of deposit protection fund contributions from other income to operating expenses pushed up the first quarter opex by HUF 0.3 billion. So, out of the HUF 3 billion growth, 0.3 billion was related to this technical reclassification of deposit protection fund contributions. The rest was related to increasing business activity, and also the strengthening of the rouble. So, if you look at the HUF numbers, you always have to take into consideration the strong appreciation of the rouble, and that had an impact on the opex as well, in Russia.

Olga Veselova: Yes. Thank you. My second question is about Splitska consolidation. Is price finalised, or it is still not finalised and it can be impacted by this one-off problem exposure, which appeared in the first quarter?

Laszlo Bencsik: We actually disclosed the final price.

Olga Veselova: And my last question is about new consumer lending regulation in Russia. There is an increase of risk weights on loans with high effective yields in Russia, and I was wondering what would be your response to this new regulation? Would you like to sacrifice level of capital adequacy which is very good in Russia, or you would not want to sacrifice it and you would prefer to cut interest rates and enhance effective yield?

Laszlo Bencsik: As I said last time, this is, indeed, this is going to reduce our excess capital, and I think I even indicated that it's going to be between 2% and 2.5 percentage points increase in the capital requirements due to this. It's not going to happen overnight. This is a cumulative impact which we expect to happen during the next two years. So, by the end of 2018 that's what we expect. The new regulation applies only to new volumes, not the existing ones; therefore, it's not a, kind of, immediate impact.

We don't intend to change our pricing or business strategy due to this. We rather take the additional burden of higher capital requirements. Having said that, the market is moving towards lower rates, and there's, obviously, a fierce competition there, and then we have to be competitive. Only partially due to the regulation, there's a tendency for lower APRs on the market, and obviously we take part in that story.

But I think this is okay, given that the normalisation of the risk environment, and then, hopefully, it will be counterbalanced by volumes. Because of lower APRs, you have higher demand, and as consumption starts growing again in a healthy way in Russia, demand should materialise as well. This is part of this positive shift in the entire environment, in terms of lower risk and in terms of increasing demand. In this environment it's actually okay if APRs go down somewhat. By the way, the rate environment is going lower as well, the reference rate and base rate. And therefore, cost of funds also decrease, and that's in line with this trend.

Olga Veselova: Thank you very much.

Laszlo Bencsik: Thank you.

Operator: Laszlo, your final question today comes from Alan Webborn of Societe Generale. Alan, your line is open. Please, go ahead.

Alan Webborn: Hi. Thanks for the call. Two things, if I may. Firstly, could you explain a little bit more on the, sort of, the change to, sort of, fee expense accounting in Russia, in the first quarter? Clearly, there was quite a big change, or it looks as if it's quite a big change. Is that going to impact, sort of… Was that a one-off change, or are we going to see, sort of, second and fourth quarters also, sort of, perhaps, higher than we'd have expected, and then the thing will even out next year? Just to understand how that works. I think there was a note, too, on slide 25 on that. So, that was just one thing.

And then I suppose on the, sort of, corporate loan growth in Hungary, clearly a strong number in the first quarter. Was there any impact of the fact that the, sort of, the funding for growth schemes had to have, sort of, contracts concluded by the end of March, as you point to in your report? Was there any anticipation of that? And so does that mean, therefore, things will be a little calmer in the second or third quarter? Or was it as much that you're getting contracts that haven't been drawn down, and that gives you better visibility in terms of how you can be a bit more positive about lending growth? Could you just, sort of, tell me whether that's at all relevant? And what you think the driving factors for Hungarian corporate loan growth are? And perhaps, also, what you think about the margin trends in that business? Thank you.

Laszlo Bencsik: As we noted on page 25, regarding how we book the discounts to retail agents, again, we used to account for this in a cash flow basis. As they appear now, we accrue them. Therefore, this is going to have a smoother effect on the revenues. The change you only see when there's a big difference in new origination. This is a one-off when we change the methodology. So, this is not going to have similar effects in the coming quarters.

If there's no major difference between the levels of new origination between periods, then the two methodologies don't produce different numbers. In a fast-growing environment, with the new methodology you have a more even spread of these fees, and therefore, the short-term impact is more positive, so to say, but that's all.

Funding for Growth Scheme in Hungary and the impact of the corporate growth, I don't see immediate connection between… Actually, we ran out of our quota already last year. So, in our case, there wasn't any last minute rush. So, there's no connection between this good growth rate in the first quarter and the ending of the Funding for Growth Scheme. Corporate had a pretty good quarter. There are some bigger tickets which move volumes, and they fell to the first quarter. This 6% quarterly growth actually creates a good platform, and makes me, personally, quite hopeful that we can exceed our previous expectations.

If you talk about the market in general, for the Hungarian banking sector as a whole, in terms of corporate lending we expect this year around 8% growth for the entire market, and it should continue to accelerate. So, potentially 8% this year and 10% next year. That's for the whole market. Obviously, we can do better. We have a lower market share in corporate still than in the retail. Whereas, in new mortgage origination, we have 30% market share. And also, in consumer lending stock, we have above 30% market share. And in corporate lending, we have only 14.5%. We can easily outperform the market, as we have done, by the way, during the last three, four years when we have been growing considerably faster than the market for the last eight, nine years, and that's why our market share increase so much.

Alan Webborn: And in terms of margin?

Laszlo Bencsik: It's not easy, and it's a competitive environment, especially in large corporate. Large corporate margins, they are getting quite tight. SMEs are okay. Mid-caps, okay. And for instance, the agricultural clients, where we are particularly strong, seem to be quite okay, too. Project finance is still at attractive levels. But large, well-established corporates demand quite low spread.

Alan Webborn: And would you say that competition is pretty stable, getting a bit more difficult? Just, sort of, take, say, six months ago and today, what's your view?

Laszlo Bencsik: I don't think expect it to further intensify because it has been quite intensive for the last 18 months, two years. There used to be a period, which roughly ended at the end of 2014… I mean, between 2009 and 2013/2014, there was a kind of lull on the market. Some players were quite reluctant to do corporate lending and started to withdraw, and that's where we could increase our market share quite substantially. But this ended, and it ended few years ago, so this is not a new thing. For two years we have seen quite intense competition, and this is not changing. It remains strong, and it has been strong now for two years.

Alan Webborn: That's very helpful. Thank you.

Laszlo Bencsik: Thank you.

Operator: The next question today comes from Stefan Maxian of RCB. Your line is open. Please, go ahead.

Stefan Maxian: Hello. Just one final question for clarification, regarding the definition of your excess capital. You said you target the Common Equity Tier 1 ratio of 12.5%. Is that based on, like, your year-end audited figure? Which means that would you accept to go below that figure during the year, on a reported basis, as you are not including interim profit?

Laszlo Bencsik: Well, I haven't thought about this one. Technically, we can do audit any time. So, at the end of any quarter, we could audit our numbers, and then the interim results could be justifiably counted as official. Honestly, I don't see this as a major issue. I think the number which reflects the current situation is the one which includes the interim result. So, when I look at the number, I look at 16.6% and not 16%.

Stefan Maxian: Okay. Thank you. That's clear.

Laszlo Bencsik: Thank you.

Operator: The next question today comes from Conrad Scheurkogel of Artha Capital. Please, go ahead.

Conrad Scheurkogel: Thank you for the opportunity. Just want to know, on your mortgage growth, you mentioned 48%, but you also mentioned that includes refinancing and top-ups. Can you potentially break out how much is new origination and the rest? And I might have a follow-up question after that.

Laszlo Bencsik: Yes. Obviously, we are able to do that. I don't think we have done… I'm just checking the…

Conrad Scheurkogel: You can come back to me, if it's not available.

Laszlo Bencsik: We typically don't do that in Hungary. I can elaborate on this verbally. In Hungary, repayments from the existing book continue, and they are substantial. But remortgaging in Hungary is rare. This doesn't really happen. It's quite typical, on the other hand, in Bulgaria. The reason for that is that the difference of the margin is actually quite small between the back book and the new book, because the back book, the old book, consists of two big parts.

One is the, kind of, very old subsidised mortgages, where the banking margins are actually better than what we newly originate, but the customer margins are quite good. So, they are not very different from what they can now take as a loan. And then the other big part is the former FX loans, which we converted into local currency, and the conversion happened at spreads which are not very much different from the spreads where we originate the volumes today. Therefore, there's not much incentive for customers to remortgage; remortgaging is close to nil in Hungary. Early repayment exists, but it's not a big thing. And in Hungary, it's basically just a normal amortisation or repayment of the existing book, which is sizeable.

Now, my remark regarding the top-ups and the remortgaging, maybe I wasn't clear enough, and thank you for this clarification question, was more related to Bulgaria. In Bulgaria most of the activity is related to remortgaging and, or changing the conditions of existing contracts, and that all involves customer contact that make us very busy. So, this kind of remortgaging and top-up story, this - and again, I wasn't very clear on that - this refers to Bulgaria, not to the situation in Hungary.

Conrad Scheurkogel: Okay. Thank you. And do you disclose the ROE that you generate on the various mortgage books? Specifically, Bulgaria and Hungary.

Laszlo Bencsik: No.

Conrad Scheurkogel: Can you?

Laszlo Bencsik: Now? No.

Conrad Scheurkogel: Okay. Thank you.

Laszlo Bencsik: Thank you. By no, I mean we do have these numbers. We actually calculate economic value added by product for the entire group. So, we have it by entities, we have it by product lines across the group, and we have it by country and product. It's not just return on capital, but it's also economic value added. Actually, that's the metrics which we used internally, in our management reports and how we evaluate the performance of these portfolios. We have not so far, and I don't think this would clarify so much. We haven't disclosed that, and I don't think we do so in the foreseeable future.

Operator: Laszlo, we have no further questions registered on the phone lines, so I'll hand back to you to continue.

Laszlo Bencsik: Okay. Thank you very much. Thank you for listening to the presentation, and thank you for your very good questions. I hope it was useful and you get the information you wanted to get from this event. I hope you will join us when we discuss the second quarter results, somewhere in mid-August, as usual. And I wish you all a very good day and a nice weekend, as it's Friday today. So, thank you very much again, and goodbye.

Note: unabridged transcript with minor English stylistic corrections.