OTP Q4 2014 RESULTS CONFERENCE CALL

Moderator: Paul Formanko
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Operator: This is conference # 951777.

Thank you for standing by and welcome to the OTP Bank Group Full Year 2014 Results Conference Call. At this time, all participants are in a listen-only mode. There will be a presentation followed by a question-and-answer session. At which time, if you wish to ask a question, you will need to press star one on your telephone. I must advise you that this conference is being recorded today, Friday, the 6th of March, 2015.

I would now like to hand the conference over to Paul Formanko. Please go ahead.

Paul Formanko: Hello, everyone, and good afternoon. This is Paul Formanko from J.P. Morgan in London. It is our great pleasure to host this conference call. From Budapest, joining this call is Laszlo Bencsik, Chief Financial and Strategic Officer.

Hi, Laszlo. The floor is yours.

Laszlo Bencsik: Thank you, Paul. A very good afternoon to all of you or good morning if you happen to be in that time zone, and welcome on OTP Group's 2014 fourth quarter and therefore annual interim report conference call. I hope you have had the chance to download or access the presentation, which is uploaded to the Web site. As usual, we go through – I go through one by one more or less the pages. And then you will have a chance to ask your questions.

So, starting on page two, you see the overall summary of the results. In 2014, as far as I can remember, something happened which has never happened before. That's OTP became loss making for the full year, despite the fact that the last quarter was slightly positive on an accounting basis, HUF11 billion plus.

Now, this was caused primarily by or 100 percent by one-off items. This non-recurring one-off item, which we are more or less used to now, and that's the bank tax, which was HUF30 billion, quite similar to previous years. In fact, this is going to go down next year and in two years. I'm going to talk about this later on.

And there are two large elements here which appear first this year. One is the expected effect impact of the regulatory changes related to consumer contracts in Hungary. So, these are the results of the court cases regarding the FX margin and the unilateral conditional changes. And both of them were ruled unlawful, and therefore, we have to pay back to customers and settle with customers. And on top of that, we are also converting FX mortgages to HUF. And there's some impact of that already included in this one as well.

All in all, the expected amount is HUF156 billion after tax, which is slightly better than we estimated after the third quarter. And so, there's a HUF12.5 billion improvement on this line during the fourth quarter.

It's still an estimation. The settlement is going to happen during the next two months basically. And the final terms and the very final numbers will only be understood after the first quarter. But this is our best estimate at the moment for the amount which we will lose due to these measures.

And then the third big element in the one-offs is the extraordinary provisioning and cost we had to incur due to the problems in the Crimea region of Ukraine, where we had to stop operating as a banking entity, and also the losses coming from Donetsk and Luhansk, where you obviously know that unfortunate situation developed which impeded us from banking or did not allow us to do banking activity in this region. So, more or less, we went up close to 100 percent provisioning levels in these two regions.

And then this leaves us with the kind of adjusted profit number for 2014, it was HUF118 billion for the whole year and HUF10 billion for the last quarter. On a yearly level, there's a 19 percent decline.

So, if we flip through page three, we see more details about the P&L distribution of this result, the pretax adjusted results in 2014 and the last quarter. Now, if you look at particular the last quarter, you see strange numbers, especially in net interest income, which declined quite strongly and also in the total income, which declined quarter on quarter by 7 percent and mainly driven by the other non-interest income decline.

Now, there are two stories I'd like to tell you here. One is the FX – the impact of the changes of the FX rates, namely the ruble-HUF and the hryvnia-HUF rates, which changed quite substantially during the last quarter, and therefore, the revenues seem to be lower in HUF and also the cost.

So, we included one column, which is called fourth quarter 2014 FX adjusted, where the before-tax profit without one-off items is HUF8.4 billion. And if you look at this column there, the net interest income is HUF165 billion, actually increased compared to the third quarter. These FX adjusted numbers were calculated on a constant ruble and hryvnia exchange rate based on the third quarter.

So, if – let's say, had the exchange rate not changed, this would have been the result. So, in fact, the net interest income increased, but there's still a sizable decline in non-interest income, which I'm going to explain the coming page.

You also see increase in operating cost. That's the usual seasonality which we tend to have. And the FX adjusted total risk cost number is higher than the factual number obviously because most of this risk cost came from Russia and Ukraine.

In Hungary, you also see the P&L numbers in the last quarter as well, brought some decline in total income. And most of it – and it came through the other non-interest income line, which I'm going to explain on the following page, page four.

You actually see, from the Group level, we compare the fourth quarter and the third quarter other net non-interest income numbers. And the difference is HUF13.6 billion negative. And on this slide, we attempted to explain you why this decrease happened and break it down to the different influencing factors.

And as you can see, some of these changes happened due to reclassification from other non-interest income into net interest income or net fee income. Looking from the right, these are the third and the second columns. And some of these which are marked with asterisks in the text on the left side are actually items which refer for the full year. So, we actually reclassified items from other net non-interest income to interest income for the entire year kind of retrospectively.

So, in fact, this reduction, HUF3.8 billion, was a reclassification – out of the HUF13.6 billion difference between the fourth and the third quarter, HUF3.8 billion was a reclassification to net interest income, and HUF1.6 billion was a reclassification to net fee income. Again, out of these five numbers you see here in these two columns, actually four of them except the top one apply for the entire year. So, the recurring impact was a much lower, only one-fourth of the sum of these.

And then in the last column on the right, these items which are more as one-offs, the biggest one is related to Ukraine, but also in Hungary, we have had some lower trading income, basically lower treasury margins. And also, the FX conversion which in fact happened in November last year and the subsequent hedging with the national banks of the existing swaps which we have actually resulted in an FX conversion result plus actually took us somewhat longer to close the Swiss franc and the Japanese yen positions through the end of the year. So, those resulted in roughly HUF0.6 billion, HUF0.8 billion loss. And the rest of this HUF1.8 billion is offset by a similar positive item in the net interest income in Hungary.

And then we have HUF2.3 billion one-off losses in Ukraine which are related to, for instance, assets and cash write-off in the branches which we had in

Donetsk, Luhansk, where we basically lost contact and as we wrote-off these branches and then some smaller items as well.

So, altogether, out of this HUF13.6 billion difference in other non-interest income, HUF5.8 billion was related to more or less one-off items, which only appeared in the fourth quarter. So, we don't expect them to continue to happen, to recur in subsequent quarters, whereas another HUF5.4 billion was related to reclassifications to net interest income.

Now, if you flip on page and go to page five, there you can see the total results by entities in the group by markets. Overall, we had on a yearly basis 19 percent decline in consolidated adjusted after-tax profit. But if we look into the details of this change, then we can identify two very different trends and scenarios. One is related to the CEE operations of OTP Group, which includes Hungary, Bulgaria, and the other five countries where we have smaller operations. If you look at the adjusted after-tax profits of these entities, then the year-on-year increase was actually 32 percent, which includes 20 percent improvement in Hungary and 30 percent improvement in Bulgaria. So quite strong dynamics, positive dynamics, I would say. And also, we're quite happy that none of the smaller banks are loss making anymore. And we don't expect them to turn into loss making either during 2015.

The other kind of strong performer here, next to the Hungarian banking operation and Bulgaria, is the fund management in Hungary, which had a very good year. Now, unfortunately, this positive trajectory and trend was counterbalanced by negative results coming from Russia and Ukraine. So, in Russia and Ukraine in 2013, we made HUF9.1 billion. Just to remind you, in 2012, we made close to HUF50 billion plus profits. And in 2013, it was HUF9.1 billion. And last year, in 2014, they turned into loss making, HUF58 billion loss.

Now, obviously, in Ukraine, the loss was even higher if you add on the items which we classified as one-offs. The HUF33 billion, which I showed you in the first slide, then the loss there was actually much higher, HUF76 billion.

So, the group performance in CEE was unfortunately counterbalanced by this negative development in these two countries.

On page 5, we listed some miscellaneous items, recent developments. So, one development is obviously the settlement itself, which we have to do with retail customers in Hungary. We are sending out letters to the mortgage customers until the end of April. All of them should receive – I'm talking obviously about FX mortgage customers – the letter which will detail exactly the settlement with them and the new principle amount after the settlement and the new conditions after the settlement which we are offering.

This is an enormous operational exercise. Each customer receives a 20 pages long letter. And each of these pages are different because this is – each and every customer, each and every contract, the numbers are going to look differently. So, this is a monstrous exercise we are doing at the moment. And so, it will keep us busy and most of the banking sector for at least the next three to five months. Again, the very, very final impacts, we don't know yet. We only have good proxies of the losses. But we believe that we have quite adequately provisioned for the potential losses related to this settlement exercise.

Now, there have been other developments in Hungary since which are actually quite positive and came from the regulatory front. And that is that EBRD and Erste Bank signed an agreement with the Hungarian government, which was signed by the Prime Minister himself. And in this agreement, the Hungarian government made commitments to actions related to the banking sector, which should be favorable for all the banks in Hungary, namely the reduction of the bank tax.

The ratio of the tax will be reduced from the current 0.53 percent, so basically 53 basis points to 31 basis points next year, and 21 basis points the year after. So, this should mean for us 38 percent reduction in the bank tax, which we are paying and another reduction down to 61 percent total reduction in two years.

So the other – there were two more very important parts of this agreement. One was that the government assured the sector that they were going to refrain from implementing new laws or measures that may have negative impact on the profitability of the sector. And they have committed to ensure fair competition between and equal treatment of all financial institutions active on the market, regardless of their ownership structure.

So, these are very good news I think. And this will further bolster the very good growth perspectives actually what we see in Hungary. Later on, I'm going to talk about the macro situation as well briefly. The very strong macro coupled with these positive regulatory changes I think create a very positive and prosperous environment for future growth in Hungary.

Now, the other measure which was announced recently was the extension of the funding for growth program of the central bank. And they not just extended the time frame of this program and the amount to be disbursed, but they also introduced a new element, namely a resharing by the central bank. So, the central bank is taking 50 percent of the risk up until 2.5 percent risk cost on a portfolio basis of the loans which are issued under this scheme.

Now, a few words about the outlook for 2015. But, before going to that, I'd like to tell you the results of our considerations about the proposed dividend payments after 2014. The management will suggest the AGM to pay the same amount of dividends as we paid last year after the year 2013. So, that will be roughly HUF146 per share and a total amount HUF40.6 billion, which equals the 3.4 percent dividend yield. Comparing that to the risk-free annual rate in Hungary, it's almost twice of that. So, I think this has actually quite strong dividend yield.

We believe that the fact that we pay the same amount as we paid last year reflects this ambivalent situation which we are in at the moment, namely that we have a very positively growing and quite dynamic Central and Eastern European part of our businesses. And on the other hand, we have Ukraine, which the situation is still not satisfactory and still holds stress and uncertain potential, further difficulties definitely for the group. And we also have Russia, which is obviously not comparable in the sense to the type of problems that we have in Ukraine. But still Russia has not turned into profitability, and to our best estimates, it is not going to turn into profitability either this year. So, in a sense, we believe that paying out the same amount suggests and embodies this ambivalent view we have and the cautious approach which we usually have towards dividend payments.

So, a few words about the outlook. The CEE countries, again, positive trends. We believe that, hopefully, in all of these countries, we can continue to grow volumes. And we hope that, in Hungary, we will be able to turn the trend after the settlement which happens with the customers during the first quarter, which will definitely result in a one-off decline in volumes. But after that, we hope to be able to turn the trend.

We expect a slight pressure on margins, especially in OTP core in Hungary, due to the conversion and the settlement, which has a negative impact on the NII. The amount we expect is basically HUF12 billion on a yearly basis year on year. That's going to be the negative impact on the NII in Hungary of all these measures. And operating costs we expect to be flat year on year in CEE.

And then Ukraine and Russia is obviously much, much more difficult to forecast, especially Ukraine. Obviously, the recent couple of weeks were quite difficult, even more difficult than we could imagine. The exchange rate reached levels, extraordinary levels, about UAH40 to the dollar.

It's hard to tell exactly what's going to happen after the hopeful approval of the IMF Board on the agreement with Ukraine and the disbursements of the first tranche because what happened technically in Ukraine during the last three, four weeks after the technical agreement was made with the IMF, but no money was given to Ukraine, and there was no disbursement from – and program was officially not approved, that basically the FX reserves of the country were depleted. And they ran out of more or less dollars. And that resulted in this weak currency. So, hopefully, some level of consolidation will come after the IMF starts disbursing the loan. But where it is going to lead exactly is hard to tell.

Obviously, there are two factors which influence our results there. Mostly, one is the state of the military conflict, whether it is leading to peaceful end and consolidation, in which case, we could even write back provisions from the ones which we created in Donetsk and Luhansk. Obviously, that would be a positive development. On the negative side, if there's further escalation of the military conflict, obviously, that's a very bad scenario for Ukraine.

And the other one which is obviously related to this is the exchange rate. We originally planned this year back last year in November at no weaker than UAH15 dollar rate. Again, we have seen rates above UAH40 during the last two, three weeks. So, this is clearly a different environment than what we planned.

Our original plan, by the way, was around breakeven. So, we believed back in November that, by appropriately provisioning for the year end and with a stable currency not weaker than UAH15, we could more or less break even this year. Now, obviously, this is daydreaming now. And it's clear that with the current situation ongoing, we will have further losses in Ukraine.

Russia, obviously, the situation from a macro perspective has not improved. And there were some hectic times so to say around the year end last year, which was started in abrupt rate hikes, which put the bank under some stress. But it was only some few days.

So, operationally, it's basically normal there. POS is doing reasonably well. And we slowed down the lending in the other segments. So, overall, we expect volume decline of the performing portfolio in Russia, pressure on margins due to higher cost of funding because of higher cost of deposits especially during the first half of this year.

Now, on the other hand, we are implementing cost cutting and operational improvement measures, quite drastic ones, both in Ukraine, by the way, and in Russia, which will yield to cost savings in both of these countries. And there's a new development in Russia. We are launching an Internet bank, Touch Bank. I'm going to talk about it a bit more later on during the presentation.

So, sorry for not being so much more specific. But, first of all, we don't want to break the now established tradition that we are not giving numerical targets for a year. But, on top of that, I think, at this point of time, especially regarding Ukraine, it would be extremely difficult to say, to tell even a range where the year-end results for this year can be.

Obviously, the worst case is more or less known. If we had to write off the entire operation tomorrow, which we obviously don't have to, then the immediate impact on the capital adequacy would be 1.4, 1.5 percentage points negative on core common equity tier one ratio. So, even if this happened tomorrow, we would not be lower than 12 percent common equity tier one.

So, even a very, very drastic negative immediate scenario would not result in any stress situation regarding our capital. We would still be in a quite comfortable and robust capital position if that happened. We don't expect this to happen, just to be clear on that.

So, going on more details on page eight, you see the capital level of the Group. The common equity tier one ratio at the end of the year was 14.1 percent consolidated level. Now, given that the accounting profit last year was negative, technically we could not include the dividend payments into this ratio. We can only do that when they become effective and the AGM decides to do so.

If it does, so, if we will be able to pay out the dividends, which I hope is going to be the case, then actually the ratio will be lower by 60 basis points. So, including dividend payments, the Group level common equity tier one ratio would be 13.5 percent. Also in this page, you see one by one the Group members according to local regulatory standards and regulatory requirements. Obviously, the most interesting is Ukraine because that's where there's a potential danger of capital shortfall.

Now, I have to tell you that the regulator actually suspended the capital requirements in the sense that banks don't have to fulfill them if the nonfulfillment is due to the weaker currency or any weakening of the currency after the 6th of February. That means that even if this ratio goes lower than 10 percent, which is the regulatory minimum, we won't have to inject capital. And this kind of moratorium applies until the beginning of 2019, which means that our kind of baseline strategy that we can – that we overall try to reduce the exposure and, if necessary, we convert existing funding to equity or subdebt should work. And as such, we don't expect further exposure growth related to Ukraine. It's quite the opposite. We expect the exposure to further be reduced.

On page nine, you see the liquidity situation. Liquidity reserves went up to EUR7 billion equivalent. That is extremely high. I don't think I should elaborate more on that.

On page 10, you see the total income year on year. Group level was 9 percent decline. But, obviously, this decline is also partially explained by the FX movements, especially the hryvnia and the ruble movements during the year. So, if the exchange rate had not changed, then the decline would have only been 4 percent. And indeed, if you look at the Russian number, in ruble terms, actually revenues increased. Total income increased by 10 percent as opposed to the 14 percent decline in HUF, which is our reporting currency, whereas in Ukraine, the decline in HUF was 60 percent compared to the 38 percent decline in hryvnia terms.

Bulgaria, Croatia, Slovakia, Romania, Montenegro, and Serbia did very well. And typically, we have had double-digit growth in these countries. And in Hungary, we had a 5 percent decline. That's basically attributable to the 12 percent decline in volumes, which I'm going to later on explain. Most of it which had actually impact on the revenues was related to the decline in mortgages and personal loans – sorry, in consumer loans in Hungary.

On page 11, it's talking about the margins. There was a slight decline during the last quarter in Hungary, which is mostly due to the fact that the balance sheet increased at the end of the year. That is partially related to deposits of subsidiaries in Hungary increased, deposits increased, and the closing the position related to the FX mortgages also resulted in some increase in the balance sheet.

In Bulgaria, as well, a small decrease, which is also related to the quite high growth in deposit volumes during the last quarter. Retail deposits grew by 9 percent actually during just one quarter. This is obviously related to the fact that there was a bankruptcy in Bulgaria, an unfortunate one. One of the bigger banks defaulted. And the profit guarantee fund started the settlement with the customers. And obviously, a sizable part of these payments came to us, came to DSK Bank.

Russia decline, which was due to increase in the balance sheet number yearend, in fact, total income increased in ruble terms by 7 percent during the last quarter. Again, this was more a kind of liquidity management event at the end of the year in order to be very safe that we were prepared for every possible course of events, which didn't happen, obviously. So, it was not necessary at the end.

And there's some increase in Ukraine during the last quarter. That's partially related to the reclassification, which I attempted to explain you on page four. So, HUF1.8 billion equivalent of revenues were reclassified from other to net interest income. And that resulted in this increase, which is not going to last long, unfortunately.

On page 12, you see the loan-to-deposit ratios. On Group level, we are down to 75 percent. And this is certainly very far from having an optimal level. The leverage is, frankly speaking, too low. And we do hope that this will – since we are going to be able to change this trend, at least regarding the CEE countries.

If you look at the chart, basically, in each case, we see year-on-year – well, not in each case actually because, in Slovakia and Croatia, not, but in Croatia, it happened due to the acquisition which we made and the consolidation of that entity. But, other than that, typically, we have had decline in these ratios.

In Hungary, the ratio's down to 53 percent. It means that we have basically twice as much deposits and retail funds than loans, than net loans. And again, the net loans volumes will further decline due to the settlement.

Luckily, in Hungary, we are making a considerable amount of money on deposits as well, given that the base rate is well above our average cost of deposits. So, this is actually a good business still, but obviously not long-term optimal for a bank.

Russia is down to 117 percent. It's self-funded. There's basically zero funding at the moment going to Russia from Hungary. So, the net funding is zero. And then if you look at Ukraine, there has been a quite drastic reduction, 83 percentage points reduction in the net loan-to-deposit ratio during one year. And it's down to 137 percent. And it should continue to decline during the course of this year. So, the bad news regarding Ukraine is that we are making losses. The good news is that Group exposure is getting smaller and smaller.

On page 13, you see the details of the loan developments. The most interesting part, I think is the lower part, which explains the year-on-year changes. I'd like to highlight that these numbers depict the performing volume changes. So, it's less than 90 days past due performing loans which are here, and it’s FX adjusted as well.

So, overall Group level, the decline was 6 percent; in Hungary, 12 percent. In consumer and mortgage there was quite strong decline. And in corporate, there's 20 percent decline, which is a misleading number actually because it also includes the municipality exposures, which were consolidated by the central government and partially repaid – partially became loans to the sovereign. But more importantly, the part within this, the loans to Hungarian corporates, grew by more than 4 percent. So, growth was 4.2 percent.

Bulgaria, overall 2 percent growth, fuelled by decent corporate growth. Russia, we managed to keep the performing volumes flat on a yearly basis. And there was a slight increase in consumer loans. Ukraine declined by 24 percent, obviously not surprising. It's – behind us, we obviously have increase provisioning as well as more reined in, so to say, lending activity or more cautious lending activity.

Romania, more or less flat with decent consumer and corporate growth and mortgages clearly not a priority for us in Romania. It's very hard to make any profits in that segment. Croatia, strong growth, 15 percent, but this is partially explained by the acquisition we made. And the 39 percent growth you see in consumer is due to that.

Slovakia, 4 percent growth, strong consumer performance, obviously, from a low basis. Serbia did very well actually last year. And in Montenegro, the only part where we are growing is consumer. In the other two segments, we are more cautious.

Turning to page 14, you see the deposit volume growth, which was 11 percent, Hungary 13 percent, very strong. And the 21 percent in corporate is partially explained by the increased deposits from mutual fund managers. You probably, know that there was a regulatory change. So, the central bank now provides two weeks deposits as opposed to bonds. And therefore, the fund managers, mutual funds have to channel through the banking sector the national bank placements.

Bulgaria, 14 percent growth, again, very strong, partially related to the turbulences which we saw on the market last year. Russia, 4 percent decline, mostly in corporate. But, the last quarter, where most of the disruption actually happened in the market, we grew by 3 percent. Just before Christmas, there were a few days when there were concerns about deposit movements in the sector. And these were the days when the central bank hiked the rate, increased the rate up to 17 percent. And despite all these turbulences, we actually increased our deposits in Russia during the last quarter. Obviously, it wasn't cheap. So, we had to increase our deposit rates in line with other market participants.

Ukraine, you see 9 percent growth annually. I think this is quite unique. We don't know any other bank where actually deposit volumes increased during last year. Now this shows the relative strengths of our bank in the country. In fact – unfortunately, there are less and less banks which are able to operate and provide full services to their customers. So, we are one of those few. And certainly this attracted sizable, especially corporate client base on a transactional and deposit front, which obviously helped us on a Group level to reduce our exposure to Ukraine.

Romania and the other countries as well, quite sizable growth. Serbia, kind of outlier with 47 percent annual growth. And in Montenegro, we are actually trying to reduce the deposit base because it's costly and it's costly to keep.

Operating cost, Group level, 1 percent decline. Obviously, in this case, the currency movements of the ruble and the hryvnia played on our advantage. And they were 6 percent and 24 percent decline, but in local currency terms, actually, the trend was the opposite, 8 percent and 17 percent growth. As I mentioned before, we initiated cost reduction projects quite aggressive in both of these countries, which should bring some fruits during this year. So, we hope that these numbers will not increase on the opposite in nominal terms. We plan to reduce in local currency the operating cost of these entities.

Other than that, in Hungary, there was a slight increase due to two factors, the National Deposit Insurance Fund contribution increase, and there's another new fund, The Resolution Fund, which we had to start to contribute to. And we had certain one-off personnel expenses related to the reorganizations and operational improvement in Hungary.

Now, talking about Hungary, on page 16, I think a few words about the macro are worth making. I think it's quite a spectacular growth story what we see to unfold in the numbers here. First of all, the balance situation is quite encouraging, budget deficit 2.4 percent, the same level as in 2013, well below the 3 percent Maastricht criteria. Current account is in surplus. And the gross external debt declined quite considerably since 2010 and now is down to 85 percent.

The debt-to-GDP ratio declined as well just a little bit especially using the very recent GDP growth numbers, which came out today in the morning. So, the GDP growth was 3.6 percent in 2014. That's a very strong number across the EU. And the good thing is that, now that this growth, GDP growth is more balanced. Export growth is still strong, 8.7 percent, investments started to grow last year. So, the investments-to-GDP ratio increased somewhat after quite some years of below 20 figures. And the good thing is that, due to the low utilization and real wage growth this year, consumption started to grow.

And the trend we expect to continue in 2015. Obviously, I don't think we can reach real GDP growth numbers above 3 percent, but somewhere between 2.5 percent and 3 percent is quite expected and possible. Continuous growth in household consumption, actually, this number should go higher up during the course of this year. And also, the construction sector and the housing sector and the real estate sector is in a revival mode, which actually you can see on the following page a few numbers about the Hungarian market.

If you look at the upper left corner, you see the annual growth in new mortgage applications in Hungary for OTP. It was 37 percent growth year-on-year. And if you compare the last quarter year on year, then the growth was 55 percent. So, it's a kind of growing, but at the same time, accelerating trend. What we see here, which is quite positive, and in this environment, we managed to grab a quite sizable market share from new mortgage disbursements. The last quarter, it was about 30 percent.

Again, our market share from household savings continued to increase as well. The year end was 28.7 percent. And the most spectacular performance we have had during the last couple of years happened in corporate lending. Our corporate lending market share is up at 13 percent, which was down to 7.5 percent in 2008 when the crisis hit. And last year, our loan volumes to Hungarian corporates increased by 4.2 percent, despite the fact that the market without OTP contracted by 3.5 percent.

So, again, these trends, we believe, we'll be able to continue during the course of this year. This year as well quite, we have quite ambitious plans to continue to grow in corporate. And we very much hope that, after the settlement, we can turn around the declining trend of the mortgage stock volumes in Hungary. And in line with the increasing consumption, retail consumption, the consumer loans will start to balance. And the previous decline will stop, and maybe some growth will manifest as well.

A few words on Russia and then later on, on Ukraine. In Russia, the situation basically didn't change much during the last quarter compared to the previous one. So, I can't report any drastic change. There is some further small improvement in the POS risk cost rate. But credit cards and cash loan risk cost rates remained elevated as you can see on this chart. Overall, the risk cost rate was around 15 percent, which is actually at the lower end of the market. And we managed to have 3 percent growth of the consumer book in Russia.

Overall, we had HUF14.5 billion loss, which was fueled by high risk cost. But if we look back historically what we made in Russia, the balance is still quite positive. So, the accumulated profit has been close to HUF110 billion. And the following slides give more details on the situation here. I think page 20's probably interesting. It shows the disbursement amounts on a quarterly basis in our three main products. And as you can see, actually, POS disbursements were higher somewhat than in the last quarter last year than a year before. So, in this segment, we are doing fine. And the risk cost is under control.

On this slide as well, you can see the deposit volume changes during the last quarter. As you can see, basically, the ruble deposits increased, which the retail ruble deposits, which are close to 60 percent of the total deposit base. And then a few word about this new initiative which we have in Russia, which the name is Touch Bank. It's an online bank, an online banking proposition. It operates under our current license. So, it's not under a – it's not a different bank from – legally from our current bank. But operationally, it is quite independent. Obviously, we do have synergies with the existing bank. But from a sales and value proposition and customer service point of view, it's really independent and different from the existing bank.

It's targeted to a wealthier segment than what we currently can access with our current operations, which is private base and POS and some branches we have. So, it's more to the mass affluent and affluent customer base in Russia who are open to online banking. We see it as quite an opportunity. Having said that, it's clear that we sought this development two years ago when the market looked – the prospects for the market development looked differently than what we see today, but nevertheless continued with this. And operationally, it became ready, and we are launching this during the next months or two months.

Now, obviously, it costs some money. So, last year, when developing the actual platform, the negative contribution to the Russian results was HUF2.2

billion, as you can see on this page. And obviously, it's unlikely that it's going to turn profitable this year. But, actually, we expect this to break even quite soon.

On page 22, you see some flashes of the brand and the visual image of this value proposition. We are quite excited about this actually. Maybe the timing is not the right to do that. Maybe it is the right timing to do. In fact, it's much easier to break in or break through with these types of value propositions where the base rate is higher and when you can actually have quite attractive deposit rates and still make money on them. Plus, it's unlikely that many new startups like this will start soon in Russia. And as some – quite a number of banks have difficulties during the current environment, we actually believe that this is a good time to acquire a customer base which is exciting and kind of complementary to our current operations and not competing with them.

And then further on, you see the usual slides, which we used to include in our Russian section of this presentation. I don't think there's anything remarkably new on this.

Page 25, you see again that POS improved a little bit in the first quarter as well as credit cards and cash loans. But, still, this is not – it's very far from profitable. It's far from profitable operation in credit cards and cash loans, whereas POS is doing very well. So, that's about Russia. In the – earlier, I tried to explain our expectations regarding the results in Russia.

And then a few words about Ukraine. Overall, I think the most important factor on this slide is the one which is in the lower left corner, which shows the total Group exposure, the Group funding and sub debt to Ukraine. It's – it went down to HUF160 billion from the number a year before, which was HUF236 billion. So, this means that, now, we have a lower exposure altogether. But, obviously, it came through, partially through losses which we had to recognize last year.

On page 27, you see that, although it's quite painful what's happening for us in Ukraine, but actually, we are one of the smaller players if you look at the entire playground there. And if you look at the proportion of the Ukrainian operations in our total book, it's only 5.5 percent of the total performing loans. And it's only 3 percent of the total Group level deposit base.

Now, obviously, the portfolio which is most at risk is the dollar mortgage portfolio, where – which is 15 percent of the performing loan portfolio. That is the result of basically 70 percent NPL ratio in mortgages. But, obviously, this amount which remains there is performing is unlikely to remain there very long, at least not at this level if the exchange rate continues to be at levels which we see today.

Also, you see on this chart that we have adequately provisioned for the Donetsk, Luhansk, and Crimea exposures. And it's – they are close to – they're at HUF3.8 billion now. There's some left in Donetsk basically, which we believe we can – which – where we act – where actually, the customer is performing due to the fact that they have other operations across the country.

On page 27, you see the risk indicators. You've probably noticed the decline in the NPL ratio, in the 90 days past due ratio, from 21.8 percent to 19.3 percent. This is due to a technical or methodology change, which was a partial write-off. We're trying to explain this on the coming page, on page 29.

So, what happened was according to IFRS it's possible to write off those non-performing exposures partially where full recovery is completely unlikely. So, what we have done that – for a selected group of exposures, we reduced the gross exposures, and we reduced the provision level with the same amount.

So, the P&L impact of this was zero. But it resulted in a lower gross non-performing loan volume and in a lower provision volume as well. But, again, this had no impact on the P&L. And it had no impact really on the coverage ratio either because the coverage ratio remained above 84 percent. So, it's still quite strong.

If this had not happened, then the NPL, the 90 days past due ratio would have been 22 percent, so in fact, at 20 basis point increase as opposed to this 270 decrease. The overall amount, which we partially written off, was HUF238 billion. You can see the country-by-country split of this amount.

And if you look at the portfolio deterioration on the Group level on page 30, it increased somewhat to HUF58 billion. But out of this HUF58 billion, actually HUF53 billion came from Russia and Ukraine. So, we can pretty much say that, disregarding Russia and Ukraine, the rest of the Group portfolio quality basically stabilized. And there was no material deterioration across the CEE countries, which is certainly a good sign and quite promising for 2015 in these countries, whereas obviously it's quite painful in Ukraine and in Russia. In Ukraine, on top of that, obviously, we expect further acceleration of portfolio deterioration as time goes by and the currency – the impact of the currency weakening translates into non-performing portfolios.

Page 31, you see the risk cost rates and the 90 days past due ratios and the coverage ratios as well. Again, the 90 days past due ratios are not comparable to previous quarters. But if you flip to page 33, where we included in detailed slide which actually shows you these ratios without partial write-off at the bottom right corner, so here, you can see the Group level, 22 percent. And for instance – I don't know – Russia would have been 22.3 percent as opposed to the 14.7 percent.

By the way, in Russia, we’ve not just written partially off loans, but we also sold a sizable portfolio during the third quarter. That portfolio was 100 percent provisioned. And we had some recovery on this, which positively contributed to the last quarter results.

So, I think this is pretty much it as a general presentation. So, I'd like to encourage you to ask questions. And I'll try to answer them as much as I can. So, thank you for listening so far. And please ask your questions.

Operator: Thank you. As a reminder, if you wish to ask a question, please press star one on your telephone and wait for your name to be announced. If you wish to cancel your request, please press the hash key. That’s star one on your telephone keypad, if you wish to ask a question.

And your first question comes from the line of Margarita Streltses.

Margarita Streltses: Hello. Margarita Streltses from UBS. Thank you very much for your presentation. A couple of questions from me, please. Can you comment on how would you expect the credit cost in Hungary to develop further? Of course, we've seen a couple of quarters of strong asset quality performance and, also, in light of new asset management company, which I've heard is planned by the government to be launched regarding the corporate loans.

And my second question is about the capital position. If you can just clarify, when you were referring to 1.4 percent to 1.5 percent capital impact, were you referring just to Ukrainian operations in your theoretical scenario or to Ukraine and Russia together? And also, what would be the minimum comfortable level for you in terms of the core equity tier one? Thank you.

Laszlo Bencsik: Sure. The risk cost to Hungary, we had quite an improvement during last year. And the risk cost rate actually ran down to 0.8 percent, which is lower than 1 percent and in line with numbers which we used to have prior to the crisis.

We still see room for improvement here, as the economy is growing, portfolio deterioration pretty much stopped, and there will be further improvement, especially in retail because, one, the subtle amounts with retail customers is obviously costly and painful, but the upside is that their loan servicing will decline on average by 20 percent, 25 percent. So, obviously, the ability to continue to pay the loans will improve.

Plus, there might be some positive results coming from the NPL volumes as well in Hungary, especially mortgages, where the overall exposure will be reduced. And hopefully, this will induce some of our customers to actually either start paying again or have at least a joint agreement with the bank to somehow monetize the collateral.

Certainly, the moral hazard which used to be there in Hungary due to the expectations of retail customers related to potential measures by the government is out of the picture now. So, that's not a problem anymore. Again, this will help some.

But, plus, there's a very important factor that, obviously, the FX mortgage book represents quite a systemic risk and a sizable credit risk in our portfolio as well. Now, this factor is out. So, even the recent strengthening of the Swiss franc, which happened in January, had no impact on these volumes because the prices were – the FX was fixed at the end of November. So, all in all, we expect further improvement in Hungary.

Now, on top of that, there might be some further help coming from this new asset management company which is set up, but we are not counting on it. So, let's say the whole thing should operate under market terms and market conditions. And if they would offer good terms or reasonable terms for some of the non-performing corporate book, we are ready to sell. But, this is not a must. And this is a kind of positive add on.

We don't know what prices they will offer for these exposures. And obviously, we'll only take these prices if we believe that they are the right ones for these exposures. In that case, it might actually result in positive risk cost. So, we might – from these portfolios, we might have write-backs of provisions.

Now, the capital position, I have two remarks. Talking about the common equity tier one ratio, which was at the end of the year 14.1 percent, I made two comments. One was that, if we included the proposed dividend payment, which is altogether HUF40.6 billion, then this ratio were only 13.5 percent. So, that's the effective rate basically for the year end last year if we include the dividend which we just announced today as the proposed number by the management.

Now, and then talking about Ukraine, I said that it was very difficult to actually pinpoint a number where the results for this thing might be. Even a range might be difficult. But, the very extreme bad scenario would be if we had to write off everything.

Now, in this case, it's everything. It primarily means the Group funding. If we had to do that, then the total impact on the capital position would be 1.4 percentage points. So, even if that happened and if we had to deduct 1.4

percentage points from the 13.5 percent, then the ratio would have been higher than 12 percent. And that's what I said that it was still a comfortable level.

So, if you're asking what's a comfortable level, I think that 12 percent core tier one ratio is still a quite comfortable level in terms of a ratio.

Russia is very different. The very extreme scenario in Russia, which I don't consider at all likely, would be – the impact of that would be very, very different for the bank because we don't have funding, net funding to Russia. And therefore, there wouldn't be write-offs related to funding. And therefore, the impact on the capital ratio would be quite small as well.

Margarita Streltses: Thank you.

Operator: Your next question comes from the line of Gabor Kemeny.

Gabor Kemeny: Hi there. I have a few questions one by one, if I may. The first one is another one on Hungary. I think you previously estimated roughly HUF10 billion recurring impact from the FX loan measures. Can you give us an update on this now that we have the legislation on the interest rate of the converted loans?

Laszlo Bencsik: Yes, it's HUF12 billion. But, the HUF12 billion includes everything. So, now, if we only look at the FX mortgages, that's where I said HUF10 billion. And that number today in our best knowledge is HUF9 billion. And there's another HUF2.8 billion potential reduction coming from other changes which we have to make. So, these are – actually, the biggest one is the car leasing. And the – yes, and the other biggest one is the car leasing, which is HUF1.5 billion. And there are really small amounts in all the other product categories, which are involved here. So, the total amount year on year, including every type of retail loans, is HUF12 billion.

Gabor Kemeny: That's very clear. Another question on Ukraine. I understand that you plan to move towards a self-funded business model. And I guess you may want to achieve this by running off the part of the loan book and then the funding side, collecting deposits and mostly by converting most of your parent company exposure potentially into equity. Is this the right way to think about this?

Laszlo Bencsik: Well, certainly, we don't have much lending activity. We kept POS lending on, but at a very low flame so to say. So, it's just in order to maintain a presence in some of the most important and the most profitable retail chains.

Other type of retail lending we stopped. And in corporates, we don't give out new loans to new clients. We only renew existing client exposures. So, that's the current strategy. And this will only change if we see positive movements in the market.

On the other hand, we continue to increase deposits. Obviously, there are certain limits to this. I probably mentioned that, if you look at the total market, their deposit volumes considerably declined.

In fact, if you look at the banking sector there, there are actually very few banks that still operate, so to say, normally. Some banks are under liquidation. Some banks are under nationalization.

So, in this environment, it's actually not very easy to – and it's certainly not cheap to further increase deposits. But, it is actually coming, especially in corporate because those corporates who continue to operate reasonably normally, they try to move the banks which seem to be kind of staying on firm feet, and we are certainly one of these.

So, I expect further corporate deposits to come to us. And that should improve our funding position and therefore allow us to reduce the funding. And it's unfortunately one of the ways of reducing the funding exposure is to convert some of the funding into equity as well.

However, the pressure to do that is actually less just because what I tried to explain that the regulator announced a moratorium on capital adequacy ratio fulfillment. So, banks are going to be allowed basically to operate under normal terms, meaning on capital requirements, subject to plans of recapitalization plans and so on and so on.

So, I think it's going to be a kind of joint exercise with the regulator across the market. But, the regulator at the moment has enormous problems related to some of the banks, some of the much larger banks than us in Ukraine. So, I don't think they will spend too much time with us actually.

Gabor Kemeny: OK. That's very helpful. And just finally, on Russia, on your online platform, which you proposed, this clearly looks an efficient channel. But, can you tell us how actually do you plan to identify low risk creditworthy customers? And why do you think you can be more efficient with this than with physical channels?

Laszlo Bencsik: Lending customers we plan to acquire through partners, partners being insurance companies, mobile operators, so on and so on. We plan to acquire transactional customers through the – through online channels, at least at the beginning.

I would lie to you if I said that I know exactly how it's going to work out. I don't know. Certainly, the models look promising. And certainly, this is a – it's a large market, geographically disbursed. Access to branches is actually limited and both in terms of access and both in terms of type of banks that you can access on a country basis. Therefore, online banking should start to be important in Russia. Despite of that, there are actually very few online banking players.

Now, this is the kind of market side of the story. Our own side of the story is that we got stock in a sense in this POS segment and in this POS segment customer base, so to say, because, at the moment, POS is the only meaningful profitable product. And previously, we have done cross selling to these clients' credit cards, cash loans. But, that didn't prove very profitable, especially when the downward part of the cycle hit us.

We had one attempt to increase our physical presence in terms of branches. And we actually opened new branches, which we are more or less closing, not the same ones, but probably the same number of branches we close during the next months that we have opened during the last few years.

The branches were different actually physically because the newer ones are typically in better locations or better ones than the older ones. But, it's a quite costly exercise to enlarge your physical network. And it's pretty much hopeless on the scale of Russia. And we would have to build 1,000 more branches.

Now, given that the products which we can typically sell in branches, mortgages, cash loans, are not – doesn't seem to be particularly attractive from a profitability point of view at the moment, and they are also very risky, actually a branch expansion strategy to tap into different market segments doesn't seem to make a lot of sense. And we are actually retrenching in terms of our branch presence in Russia.

So, that only leaves us this strategic alternative to somehow diversify our operations. By the way, the other strategic alternative we are going to pursue is providing more transactional services to SMEs. And that we can do based on our current and future branch infrastructure. This is the type of business we already have. And we want to enhance that, so basically nonlending services primarily to mid and small caps and very selective lending to these guys.

But, again, this is something we believe might work. It looks very promising. We have a very good team. We put together basically a standalone IT infrastructure in one year, pretty much low cost, but state of the art.

There's a lot of momentum in this. There's a lot of energy in this. And we believe it's going to work. I think during the next 12 months, we will see how successful we are. I hope it's going to work. If not, then, obviously, we can use the learnings from this and certainly the infrastructure to enhance the bank's value proposition itself.

So, even if this doesn't work, which is I think unlikely, but if it doesn't, then we can basically merge it back to the banking infrastructure and create and enhance substantially the bank's internet banking offerings. So, that's more or less the story.

Gabor Kemeny: OK. That's very helpful. Thanks very much.

Operator: Your next question comes from the line of Hadrien de Belle.

Hadrien de Belle: Good afternoon. Thanks for the call. I had two questions, please. The first one is with regard to the net interest income in Hungary. I understand you mentioned a slight decline in the margin. But, we see an asset going high – well, increasing quite a lot. Could you maybe clarify what do you mean by slight decline in margin? And perhaps explain us how you reinvested all those deposits. That would be the first question.

The second is on acquisition opportunities. Where do you think OTP stands right now in focusing excess capital if you did have some? Thank you.

Laszlo Bencsik: So, NII in Hungary, the NIM, the net interest margin went down from 4 percent to 3.8 percent, whereas if you look at the net interest income itself, it was flat. It was HUF66.5 billion.

Now, in fact, for instance, the Bulgarian banks deposits in the Hungarian bank increased. That was one element which increased the year-end balance sheet basically that we don't make any money on this. So, that is basically neutral from the NII, but increases the balance sheet, for instance.

Acquisitions …

Hadrien de Belle: … maybe I could follow up on this because, if the asset side has meaningfully increased, and there is just a slight NIM compression, but you're also mentioning something like HUF12 billion potential negative effect from the conversion of loans. It would mean, excluding this, the Hungarian NII would actually increase.

And that's why I'm trying to understand, what is a slight decline in the NIM? If we were to exclude those HUF12 billion, do you believe the NII would increase in Hungary on a yearly basis?

Laszlo Bencsik: If there were no …

Hadrien de Belle: … No conversion of FX loans …

Laszlo Bencsik: … No conversion and there were no changes in the interest rates of the existing mortgages and other retail loans, right?

Hadrien de Belle: Yes, excluding the HUF12 billion.

Laszlo Bencsik: OK. Yes, it depends on the base rate. At the moment, we have quite beefy margins on deposits because term deposits on average are around 50, 60 basis points. And the base rate is at 2.1. So, if the base rate were to stay at this level, then yes.

Hadrien de Belle: So, if the base rate stayed at this level, the NII in Hungary excluding the HUF12 billion would be more or less flat or increasing.

Laszlo Bencsik: Yes.

Hadrien de Belle: OK. OK. Thank you.

Laszlo Bencsik: Now, acquisitions, our approach hasn't changed, right? Primarily, we are looking for opportunities in those markets where we are not happy with our current market share and size of operation.

And according to this, we have actually made two acquisitions last year. We bought a smallish Romanian bank from Millennium BCP and a smallish Croatian bank from Banco Popolare. Both of these banks are primarily retail-oriented, consumer lending-oriented entities, decent operations. Prices were in range of 0.3, 0.5 price to book, good operational synergies.

If we find other meaningful targets similar to this, today, we would pursue those opportunities and might be even larger operations. But, there aren't many assets for sale actually in these markets.

And then more opportunistically, we look at other potential acquisitions, like we recently looked into this Slovenian entity and consider that one as well. And honestly, there are terms at which it would make a lot of sense, but we really stick to those terms. So, at the moment, it doesn't seem to be likely that we will be the one to be involved in that transaction. Other than that, I can't say anything new.

Hadrien de Belle: OK. Thank you very much.

Laszlo Bencsik: Sure.

Operator: And your next question comes from the line of Andrzej Nowaczek.

Andrzej Nowaczek: Thank you. I have just one question. It is about the balance sheet structure in Hungary, specifically a very low share of loans to assets, I believe a third of assets having loans.

How do you see it changing in the next year or two? And really, why hasn't there been more loan growth in Hungary despite the strong GDP growth? Aside from those technical factors such as the municipality loans transfer and so on, what would really need to change in 2015 or perhaps 2016 for you to start growing loans at a pace that would be consistent with GDP growth in Hungary? Thank you.

Laszlo Bencsik: I think the only – it's only the question of time. Structurally, if you look at page 17, there we have our number which is important, and there are the new mortgage applications. Again, if you look at the last quarter, the annual growth was 55 percent. So, actually, there's a strong acceleration in new loan demand. The problem is that the base is just very low.

And in corporates, we have been growing for three years, right? Obviously, if you look at the corporate book, there was a big decrease coming from the municipality loan consolidation. All the municipality loans were either paid or were converted into exposures to the sovereign, with the same terms by the way. So, in a sense, this is good because the same margins but much lower risk. On the other hand, this business line basically discontinued.

So, that was one big structural event. And I don't think this is going to change. But, for all the other corporates, we grew last year by more than 4 percent. In 2003, the growth was 7 percent. And mortgage applications started to increase.

Obviously, with the size of the back book compared to the current demand, it's still – during last year, we saw stock decline. Now, consumer lending have to revive, given the increasing consumption levels.

Now, having said that, there's the saving rates in general increased in Hungary. And customers are really cautious about taking on loans. So, there's certainly this kind of psychological impact as well that, quite contrary to the period between 2002 and 2007, when retail leverage increased quite considerably. Hungary, now, the retail customers are actually quite cautious.

But, this is happening actually. So, I don't think we need anything more, except time, for these trends to actually manifest and come through the numbers as well.

Andrzej Nowaczek: And on mortgages specifically, you know the amortization schedule of your back book. When would you say, assuming the current pace of production, should we see the tipping point where volumes or stock of loans will start increasing again?

Laszlo Bencsik: Again, in a good scenario, it should happen during the course of this year after the settlement with customers.

Andrzej Nowaczek: OK. And overall, loan growth in Hungary, we'll be looking at, what, mid-single digit type of growth this year or less?

Laszlo Bencsik: No, this year will be impacted by the settlement because the settlement is happening through principle reduction. So, let's say, after the settlement, which means starting from the second quarter, mid-single digit growth would be quite – I think that would be a very good result. Low single digits would be more likely.

Andrzej Nowaczek: In overall loans.

Laszlo Bencsik: Yes. Yes, in corporate, we still target – it's above 5 percent. And the target is around 8 percent, 10 percent growth, right, so still quite ambitious in corporate. We're trying very hard in consumer.

And we'll see what's going to happen in mortgages because it might happen that some refinancing is going to happen because, after this – after the – during the settlement, customers will have a chance to refinance their loans with other banks at no cost. And there's going to be a 60 days window of opportunity as such, which might – we'll see how it's going to play out. It might turn to our favor, this situation, hopefully.

Andrzej Nowaczek: Thank you so much.

Laszlo Bencsik: Sure.

Operator: And your next question comes from the line of Ivan Bokhmat.

Ivan Bokhmat: Hi. Thank you. I would like to ask my first question on the margin as well. Considering that you are still seeing inflow of liquidity on most of your markets, and I understand that, even in Hungary, it is quite likely that the loan to deposits would continue to in fact improve over 2015, would you care to give some kind of a level where your margin would stabilize because I think, otherwise, we could assume a certain continued drag on it?

Laszlo Bencsik: I think the answer is geared to Hadrien's question regarding this. There will be this HUF12 billion reduction in NII. And that's more or less where we expect the kind of margin implication. On this, there's a further strong reduction in the base rate.

Ivan Bokhmat: And wouldn't that – I wouldn't assume the same logic would apply to your other operations in the other markets outside of Hungary.

Laszlo Bencsik: No, the other operations, they all have their own stories, certainly not. In Bulgaria, we continue to improve the margins on the deposit side. And certainly, Bulgaria is one of the countries where we are very over liquid. And actually, deposit rates are higher in Bulgaria than in Hungary. So, there's still room to further do reductions there. So, for instance, I don't expect further decline in Bulgaria.

And the smaller – and the other markets we are typically active, if you look at the volume trends, we are the most active in consumer lending in – if you look at Romania, Croatia, Slovakia, Serbia, Montenegro on page 13, then you can see that, by far, the fastest growing part of the portfolios in these markets is consumer lending.

Now, consumer lending tends to have the largest margin content. So, therefore, I don't see much margin pressure coming from these countries because the product structure is moving towards a little bit more consumer lending as opposed to the other products, which is helping the overall margin.

Ivan Bokhmat: OK. Thanks. Maybe one more question, Hungary. Do you see the recent settlement with or the agreement with EBRD and Erste as changing the competitive landscape in any manner? Do you see anybody becoming more aggressive?

Laszlo Bencsik: Not yet. I think, operationally, all of the banks are kind of buried with this settlement issue. This is – it's really a large and quite difficult operational challenge all the banks have to do. But, on a forward-looking perspective, yes, I think Hungary will become more attractive and looks to be more attractive if indeed the bank tax is reduced, which I believe will be, and if this GDP momentum continue, then, again, Hungary will become one of the favorite markets from a banking perspective, which will inevitably result in more aggressive competitive behavior from some players. So, yes, certainly, yes.

Ivan Bokhmat: Maybe the last question on Hungary. Your cost of risk has been exceptionally low. And so was your NPL inflow in Hungary. Do you think that this type of level would be sustainable? Or what kind of cost or risk would you expect for Hungary going forward?

Laszlo Bencsik: Again, as I said, I see further reduction potential. If you look at not necessarily the last quarter, which was 0.3, but if you look at the entire year, 0.8, certainly, I see room to go lower than that this year.

Ivan Bokhmat: OK. Great. And my final question, if I may, on Ukraine. Could you provide the level of NPL coverage you have on your FX loans there?

Laszlo Bencsik: The overall coverage is close to 100 percent. It's 97 percent. I don't think the FX would be very different because, potentially 80 percent of the NPLs are FX. So, I think it's pretty much close to this 97 percent, which is the overall coverage for the whole NPL portfolio.

Ivan Bokhmat: And your stock of provisions to total FX loans – is there a bit part of performing loans in that FX portfolio?

Laszlo Bencsik: If you go to page 27, there you can see the total performing book distribution by products. And 15 percent is mortgages. So, 15 percent of the performing portfolio is mortgage. And these are dollar mortgages.

So, this is the portfolio which is most at risk, as I said during the presentation. The consumer loans are in local currency. Car loans, it's mixture of local currency and dollar. And corporate is also a mixture of dollar and local currency. But, due to the very strict currency regulation in Ukraine, pretty much only corporates which have revenues in dollar are allowed to take dollar loans.

So, here, the risk is actually lower. The most exposed portfolio's the mortgage one, which is 15 percent of the performing portfolio. And the total performing portfolio, you can also see on this page. It's actually the net portfolio. But, since the coverage is 97 percent, so it's actually almost 100 percent, so therefore, this is actually quite – this HUF313 billion is actually quite close to the performing portfolio total volume. And 15 percent of that is the mortgage portfolio in dollars.

Ivan Bokhmat: Great. This is very helpful. Thank you so much.

Laszlo Bencsik: Sure.

Operator: Your next question comes from the line of Margarita Streltses.

Margarita Streltses: Hi. Just a very quick follow-up question from me. Can you please comment on this NPL sales and write-offs across all the countries because the NPL ratio's decreased in many countries in addition to Russia this quarter, and if you're planning any more of the sales and write-offs in the following quarters?

Laszlo Bencsik: We tried our best to provide you with the information you might need regarding this. On page 30, where we explain the portfolio deteriorations by country, you have these small numbers. Below the bar charts, you see this FX adjusted sold or written-down loan volumes. So, here, you see the total sold or written-down volumes by quarter and by country.

And on page 33, you see the volumes which were partially written off, the gross volumes and the provisions, which were obviously the same. And here, you can see this amount by country and by product.

Margarita Streltses: Yes, that's a very useful disclosure. I was just wondering if you – in the future, you potentially will also aim to write off and sell in the next following quarters as much as possible.

Laszlo Bencsik: Certainly, not so much. This partial write-off we pretty much have done as much as we could, according to the IFRS regulations and according to how our auditor views this matter.

In terms of selling non-performing loans, this is ongoing. And this depends on the price which we get on the market compared to our internally assumed expected recovery on non-performing loans.

Margarita Streltses: OK.

Laszlo Bencsik: It's Russia where we structurally do this, right? So, from time to time we sell sizable portfolios on the market. Now, at the moment, the pricing of these transactions is not very favorable from a bank's perspective. There's a – so to say, a lull or slowing down, so to say, in terms of demand for these workout portfolios in Russia at the moment. But, it might change. But, no, in the first quarter, for instance, we don't have any big move like this.

Margarita Streltses: OK. Understood. Thank you.

Laszlo Bencsik: Sure.

Operator: And your next question comes from the line of Anna Marshall.

Anna Marshall: Good afternoon. Two questions on Bulgaria, please. First, what were the drivers behind higher cost of risk in Q4? And what is the outlook for cost of risk going forward?

And second question, what is your overall outlook for Bulgaria in 2016, apart from NIM trends that you have already mentioned? Thank you.

Laszlo Bencsik: Good question. No, the higher risk cost was not in anticipation of future portfolio deteriorations. It was more kind of result of more conservative provisioning.

Consequently, we have quite optimistic expectation towards the profitability of the bank. So, in 2014, the after-tax profits grew by 30 percent, nominally close to HUF10 billion. And there's certainly further room here to improve. And we expect material improvement in the profitability of the Bulgarian bank this year.

Operator: Your next question comes from the line of Daniel Cowan.

Daniel Cowan: Good afternoon. One question from me regarding the possible bad bank in Hungary. Can you give us an idea of what portion of your Hungarian loan book might be eligible for consideration for sale to this vehicle and what the current term provision coverage is on the NPLs in that portfolio?

Laszlo Bencsik: Now, this is all under development. And we don't know exactly what portfolios they were going to buy and at what conditions. But, certainly, it's about corporate. And it's directed toward commercial real estate project finance non-performing loans. And typically, we don't have much of these.

In our case, the gross volume of these would be potentially, let's say, EUR200 million. But don't take it as a fact, rather a kind of guidance. So, it's not zero, and it's not 1 billion. And the coverage on these non-performing loans is close to 100 percent.

Daniel Cowan: OK. Thanks very much.

Laszlo Bencsik: Sure.

Operator: At this time, there are no further questions. Please continue.

Laszlo Bencsik: OK. So, thank you very much for participating on this conference call. Thank you for listening. And thank you for the very good questions you have asked. I wish you all the best. And I hope you'll rejoin us when we announce the first quarter results somewhere in May. So, thank you, again. All the best. Goodbye.

Operator: That does conclude our conference for this afternoon. Thank you for your participation. You may all disconnect. Speakers, please standby.

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