OTP Group
First half 2019 results

Conference call – 9 August 2019

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Chief Financial and Strategic Officer

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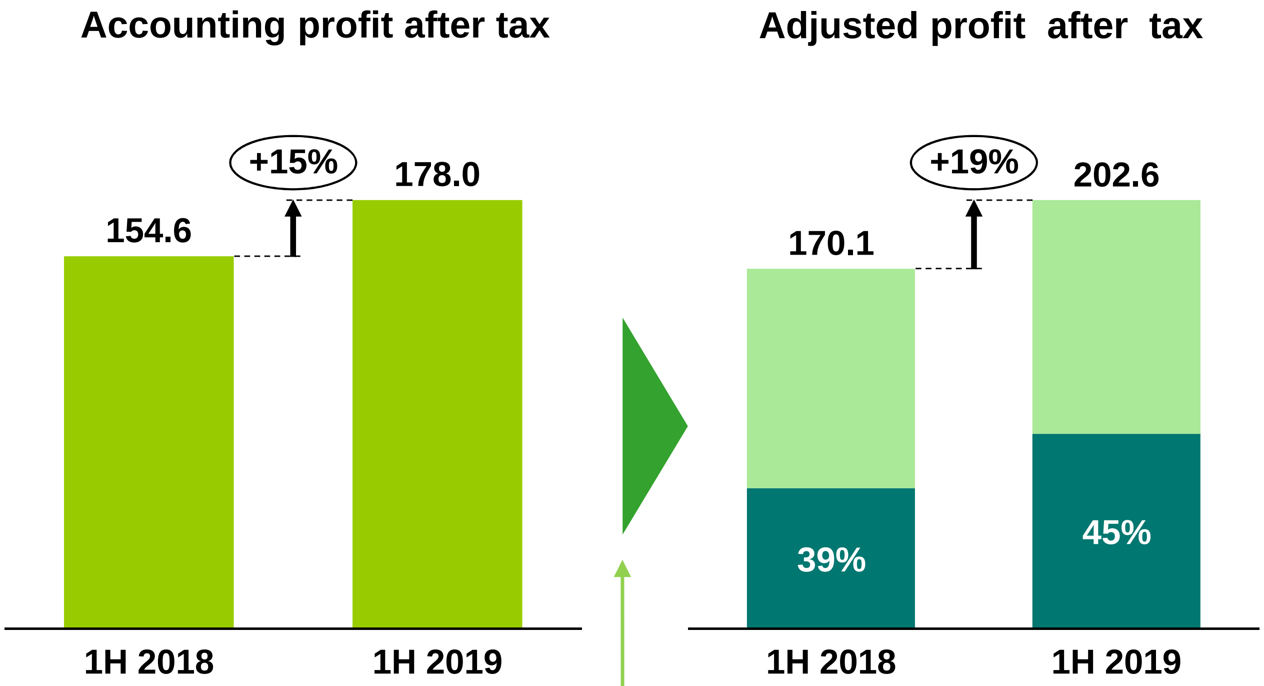
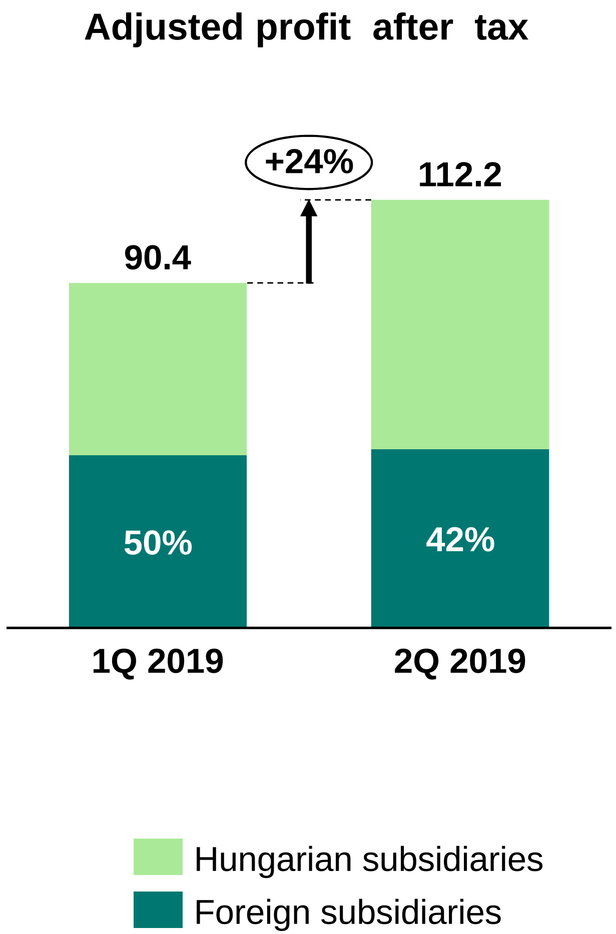
The semi-annual accounting profit grew by 15% y-o-y, while the adjusted profit increased by 19%. The profit contribution of foreign subsidiaries improved to 45%

After tax profit development y-o-y (in HUF billion)



Adjustments (after tax)	**1H 2018**	**1H 2019**
Banking tax	-14.9	-15.4
Others	-0.7	-9.2[1]
Total	**-15.6**	**-24.7**

After tax profit development q-o-q (in HUF billion)



[1] Of which -HUF 3.5 billion effect of acquisitions; -4.4 goodwill/investment impairment charges; +0.6 dividends and net cash transfer; -1.9 one-off impact of regulatory changes related to FX consumer contracts in Serbia

In 1Q 2019 the total amount of adjustments was -HUF 6.9 billion, mostly related to the Romanian goodwill write-off and the losses incurred on the Serbian CHF mortgage conversion

(in HUF billion)	1H 18	1H 19	Y-o-Y	2Q 18	1Q 19	2Q 19	Q-o-Q	Y-o-Y
Consolidated after tax profit (accounting)	**154.6**	**178.0**	**15%**	**89.5**	**72.6**	**105.4**	**45%**	**18%**
Adjustments (total)	**-15.6**	**-24.7**	**58%**	**-1.4**	**-17.8**	**-6.9**	**-62%**	**405%**
Dividends and net cash transfers (after tax)	0.3	0.6	102%	0.2	0.2	0.4	143%	151%
Goodwill/investment impairment charges (after tax)	0.5	-4.4		0.5	0.0	-4.4 (1)		
Special tax on financial institutions (after corporate income tax)	-14.9	-15.4	3%	-0.2	-15.2	-0.2	-99%	4%
Effect of acquisitions (after tax)	-1.4	-3.5	146%	-1.8	-2.8	-0.8	-72%	-58%
One-off impact of regulatory changes related to FX consumer contracts in Serbia (after tax)		-1.9				-1.9 (2)		
Consolidated adjusted after tax profit	**170.1**	**202.6**	**19%**	**90.9**	**90.4**	**112.2**	**24%**	**23%**

1 The -HUF 4.4 billion goodwill write-off and investment impairment (after tax) was mainly related to the Romanian subsidiary: in the valuation model the new organic growth strategy had a negative impact given the substantial front-loaded cost requirements, and the recently introduced banking tax also took its toll on the estimated profitability.

2 -HUF 1.9 billion as a negative result emerged in the second quarter on the optional conversion of the Serbian CHF mortgage loans into EUR.

The semi-annual adjusted profit growth was attributable to improving foreign contributions, mainly from Bulgaria, Ukraine and Croatia. The Hungarian operation posted a 2% profit growth

Effect of acquisitions

Adjusted profit after tax (in HUF billion)

	1H 2018	1H 2019	Y-o-Y
OTP Group	170.1	202.6	19% / 13%[1]
OTP Core (Hungary)	95.4	97.4	2%
DSK Group (Bulgaria)	24.1	24.4 / 34.2	42% / 1%[1] / -1%[3]
OBRu (Russia)	12.8	13.9	8%
OBH (Croatia)	12.2	17.4	42% / 34%[4]
OBU (Ukraine)	11.3	16.0	42% / 30%[2]
OBR (Romania)	1.4	3.6	165% / 161%[4]
OBSrb (Serbia)	1.6	3.0	91% / 61%[4]
CKB (Montenegro)	1.4	1.8	35%
OBA (Albania)		1.2	
OBS (Slovakia)	-0.1	0.5	
Merkantil (Hungary)	3.2	3.3	3%
OTP Fund Mgmt. (Hungary)	1.9	1.7	-8%
Corporate Centre, others	5.0	8.5	68%

Note: from 2019 the foreign leasing companies are presented as part of the operation in the given country.
The foreign leasing companies are shown on the *Corporate Centre, others* line in the above table for 1H 2018.
[1] Changes without the effect of Expressbank acquisition. [2] Change in local currency. [3] Changes without the effect of Expressbank acquisition and the inclusion of the Bulgarian leasing company [4] Changes without the effect of the inclusion of the local leasing company.

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The semi-annual operating profit without acquisitions improved by 14%, due to earnings dynamics outpacing operating cost growth

(in HUF billion)	1H 18	1H 19	Y-o-Y	1H 19 without M&A[1]	Y-o-Y without M&A[1]	1Q 19	2Q 19	Q-o-Q
Consolidated adjusted after tax profit	**170.1**	**202.6**	**19%**	**191.6**	**13%**	**90.4**	**112.2**	**24%**
Corporate tax	-21.3	-25.3	19%	-23.6	11%	-11.4	-13.9	21%
Profit before tax	191.5	227.9	19%	215.2	12%	101.8	126.1	24%
Total one-off items	3.4	5.6	62%	5.6	62%	-0.7	6.3	
Result of the Treasury share swap agreement	3.4	5.6	62%	5.6	62%	-0.7	6.3	
Profit before tax (adjusted, without one-offs)	**188.0**	**222.4**	**18%**	**209.6**	**11%**	**102.6**	**119.8**	**17%**
Operating profit without one-offs	191.4	232.9	22%	217.8	14%	108.8	124.2	14%
Total income without one-offs	426.3	499.0	17%	473.7	11%	239.7	259.3	8%
Net interest income	289.5	333.4	15%	315.2	9%	162.7	170.7	5%
Net fees and commissions	106.3	124.0	17%	118.7	12%	57.2	66.8	17%
Other net non interest income without one-offs	30.5	41.6	36%	39.8	31%	19.8	21.8	10%
Operating costs	-234.9	-266.1	13%	-255.9	9%	-131.0	-135.1	3%
Total risk cost	-3.4	-10.6	215%	-8.2	145%	-6.2	-4.4	-29%

[1] In the columns indicated „without M&A" 1H 2019 numbers and y-o-y changes do not include the contribution from the Bulgarian Expressbank and the Albanian Banka Societe Generale Albania SH.A.

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Consolidated performing (Stage 1 + 2) loans expanded by 4% q-o-q, driven partly by Hungarian corporate and consumer lending, but Ukraine and Romania delivered strong figures, too

Q-o-Q performing (Stage 1 + 2) loan volume changes in 2Q 2019, adjusted for FX-effect

	Cons.	Core (Hungary)	DSK (Bulgaria)	OBRu (Russia)	OBH (Croatia)	OBU (Ukraine)	OBR (Romania)	OBSr (Serbia)	CKB (Montenegro)	OBA (Albania)	OBS (Slovakia)
Nominal change (HUF billion)	350	153	37	4	39	26	22	5	5	6	12
Total	4%	5%	2%	1%	3%	9%	4%	1%	4%	5%	3%
Consumer	4%	5%	4%	2%	5%	7%	5%	2%	2%		0%
Mortgage	2%	2%	4%		0%		5%	-4%	3%		0%
Housing loan		3%									
Home equity		-3%									
Corporate[1]	5%	8%	0%	-9%	2%	9%	3%	2%	4%		9%

[1] Loans to MSE and MLE clients and local governments.

Consolidated performing (Stage 1 + 2) loans expanded by 16% year-to-date, within that the organic growth reached 5% (without the new acquisitions in Bulgaria and Albania). The Hungarian expansion rate remained strong

YTD performing (Stage 1 + 2) loan volume changes in 1H 2019, adjusted for FX-effect

	Cons.	Core (Hungary)	DSK[4] (Bulgaria)	OBRu (Russia)	OBH[4] (Croatia)	OBU (Ukraine)	OBR[4] (Romania)	OBSr[4] (Serbia)	CKB (Montenegro)	OBS (Slovakia)
Nominal change (HUF billion)	1,314 / 412[2]	170[3]	818 / 49[2]	6	38	43	35	14	14	8
Total	16% / 5%[2]	6%[3]	66% / 4%[2]	1%	3%	15%	6%	3%	11%	2%
Consumer	14% / 6%[2]	11%	41% / 8%[2]	3%	6%	14%	6%	6%	4%	0%
Mortgage	10% / 3%[2]	2%[3]	43% / 7%[2]		0%		9%	-1%	6%	2%
Corporate[1]	22% / 5%[2]	7%	107% / -1%[2]	-13%	2%	16%	4%	4%	16%	3%

Core (Hungary) mortgage breakdown:

Housing loan	Home equity
4%	-6%

[1] Loans to MSE and MLE clients and local governments.
[2] Without the effect of acquisitions: on the consolidated level without the Bulgarian and Albanian acquisitions; for DSK Group without Expressbank
[3] Without the elimination of OTP Real Estate Lease from OTP Core from 1Q 2019 (+HUF 20 bn effect, out of which 17 bn mortgage, 3 bn corporate loan)
[4] In case of DSK, OBH, OBR and OBSr loan volumes of the local leasing companies are included in the subsidiary bank figures in the base period as well

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Consolidated performing (Stage 1 + 2) loans expanded by 25% over the last 12 month, within that the organic growth hit 13% (without the new acquisitions in Bulgaria and Albania). The Hungarian expansion rate remained strong

Y-o-Y performing (Stage 1 + 2) loan volume changes in 2Q 2019, adjusted for FX-effect

	Cons.	Core (Hungary)	DSK[4] (Bulgaria)	OBRu (Russia)	OBH[4] (Croatia)	OBU (Ukraine)	OBR[4] (Romania)	OBSr[4] (Serbia)	CKB (Montenegro)	OBS (Slovakia)
Nominal change (HUF billion)	1,878 / 976[2]	456[3]	872 / 103[2]	103	7	79	70	65	20	14
Total	25% / 13%[2]	16%	74% / 9%[2]	21%	1%	32%	14%	19%	17%	4%
Consumer	24% / 15%[2]	21%	45% / 10%[2]	24%	5%	71%	5%	15%	7%	-2%
Mortgage	14% / 7%[2]	6%[3]	52% / 13%[2]		0%		16%	6%	13%	3%
Corporate[1]	34% / 15%[2]	25%	118% / 4%[2]	6%	-3%	26%	12%	25%	23%	7%

Core (Hungary) mortgage breakdown:

Housing loan	Home equity
11%	-10%

[1] Loans to MSE and MLE clients and local governments.
[2] Without the effect of acquisitions: on the consolidated level without the Bulgarian and Albanian acquisitions; for DSK Group without Expressbank
[3] Without the elimination of OTP Real Estate Lease from OTP Core from 1Q 2019 (+HUF 20 bn effect, out of which 17 bn mortgage, 3 bn corporate loan)
[4] In case of DSK, OBH, OBR and OBSr loan volumes of the local leasing companies are included in the subsidiary bank figures in the base period as well

Consolidated deposits increased by 2% q-o-q. Hungarian corporate deposit inflow was strong, while the retail deposits showed a 1% q-o-q growth despite the introduction of the new type of retail government bonds (MÁP Plusz) from June

Q-o-Q deposit volume changes in 2Q 2019, adjusted for FX-effect

	Cons.	Core (Hungary)	DSK (Bulgaria)	OBRu (Russia)	OBH (Croatia)	OBU (Ukraine)	OBR (Romania)	OBSr (Serbia)	CKB (Montenegro)	OBA (Albania)	OBS (Slovakia)
Total	2%	2%	2%	11%	2%	8%	3%	-5%	2%	-4%	0%
Retail	1%	1%	2%	5%	0%	10%	0%	-2%	4%	0%	-1%
Corporate[1]	3%	3%	1%	23%	7%	6%	6%	-11%	0%	-18%	0%

[1] Including MSE, MLE and municipality deposits.

Consolidated deposits went up by 12% YTD, without acquisitions the growth was 3% driven by steady inflows in the Hungarian retail segment, as well as outstanding expansion in Bulgaria, Russia, Romania and Ukraine

YTD deposit volume changes in 1H 2019, adjusted for FX-effect

	Cons.	Core (Hungary)	DSK (Bulgaria)	OBRu (Russia)	OBH (Croatia)	OBU (Ukraine)	OBR (Romania)	OBSr (Serbia)	CKB (Montenegro)	OBS (Slovakia)
Nominal change (HUF billion)	1,325 / 309[2]	231	926 / 82[2]	37	-67	24	37	-24	-4	-6
Total	12% / 3%[2]	4%	49% / 4%[2]	9%	-5%	8%	9%	-6%	-2%	-2%
Retail	13% / 2%[2]	2%	43% / 4%[2]	1%	-1%	15%	5%	-3%	1%	-2%
Corporate[1]	10% / 9%[2]	6%	68% / 6%[2]	26%	-12%	4%	12%	-12%	-7%	-1%
Deposit – net loan gap (HUF billion)	3,212	2,959	734	-87	128	-29	-128	-71	31	-15

[1] Including MSE, MLE and municipality deposits.
[2] Without the effect of acquisitions: on the consolidated level without the Bulgarian and Albanian acquisitions; for DSK Group without Expressbank transaction.

Consolidated deposits went up by 18% y-o-y, even without acquisitions the growth was 8% driven by steady inflows in the Hungarian retail segment, as well as outstanding expansion in Bulgaria, Russia, Romania and Ukraine

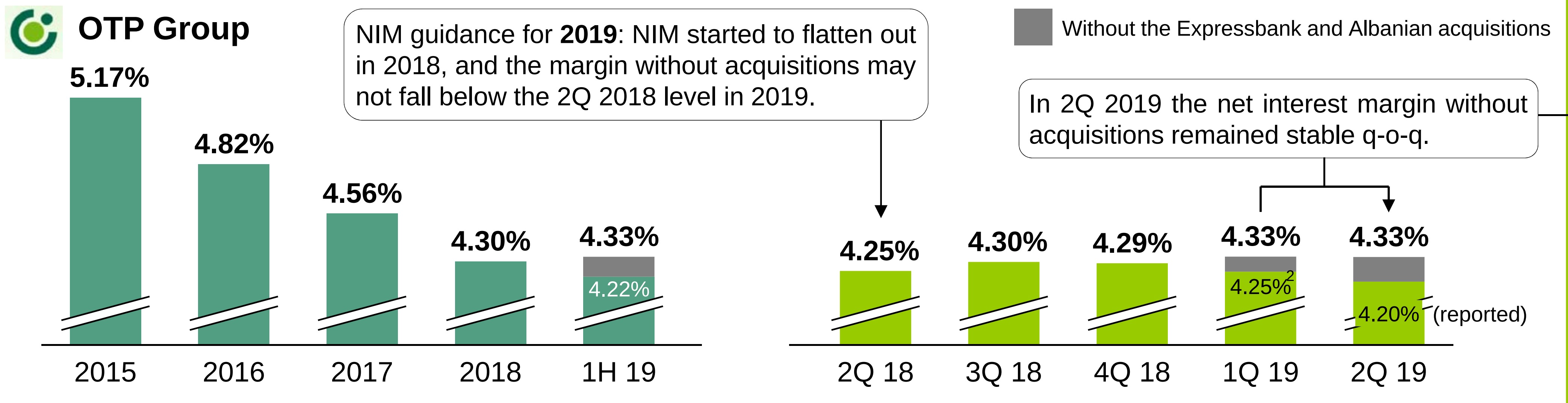
Y-o-Y deposit volume changes in 2Q 2019, adjusted for FX-effect

	Cons.	Core (Hungary)	DSK (Bulgaria)	OBRu (Russia)	OBH (Croatia)	OBU (Ukraine)	OBR (Romania)	OBSr (Serbia)	CKB (Montenegro)	OBS (Slovakia)
Nominal change (HUF billion)	1,903 / 886[2]	545	1,080 / 237[2]	85	-93	51	84	-18	13	-1
Total	18% / 8%[2]	10%	62% / 14%[2]	23%	-6%	20%	22%	-5%	8%	0%
Retail	19% / 8%[2]	9%	52% / 10%[2]	12%	1%	18%	15%	-2%	6%	-5%
Corporate[1]	16% / 9%[2]	10%	104% / 28%[2]	52%	-19%	21%	28%	-9%	10%	7%
Deposit – net loan gap (HUF billion)	3,212	2,959	734	-87	128	-29	-128	-71	31	-15

[1] Including MSE, MLE and municipality deposits.
[2] Without the effect of acquisitions: on the consolidated level without the Bulgarian and Albanian acquisitions; for DSK Group without Expressbank transaction.

On consolidated level the reported 2Q net interest margin dropped by 5 bps q-o-q, but remained stable q-o-q without the effect of acquisitions. The 1H 2019 NIM w/o acquisitions stood at 4.33%, up by 3 bps compared to the FY 2018 level

Net interest margin (%)



Margin changes: **-9 bps**

Capturing net interest margin changes at Group member banks.

o/w:		
	OTP Core	**-3 bps**
	OTP Russia	**-4 bps**
	OTP Ukraine	**-2 bps**

FX rate changes: **+8 bps**

Capturing HUF/LCY exchange rate changes.
In 2Q 2019 the depreciating HUF against most of the currencies of the foreign subsidiaries, predominantly the Russian and Ukrainian currencies[1] exerted a positive effect on the consolidated net interest margin.

Composition effect: **+1 bps**

Capturing the weight changes within the Group.

[1] 2Q average FX rate of HUF weakened by: Bulgarian lev and Croatian kuna: 1.6%; Romanian lei: 1.3%; Serbian dinar: 1.8%; Euro (Montenegro): 1.6%; Russian rouble: 4.9%; Ukrainian hryvnia: 5.7%.
[2] The reported 1Q 2019 NIM figure has been revised due to a technical error (from 4.28% presented in the 1Q report).

The net interest margin of the largest subsidiaries typically declined in the second quarter

Net interest margin development at the largest Group members (%)

	2017	2018	1H 19	2Q 18	3Q 18	4Q 18	1Q 19	2Q 19	
OTP Core Hungary	3.22	3.01	3.03	2.97	3.05	2.98	3.06	3.01	1
DSK+Express Bulgaria	3.85	3.37	2.98	3.27[1]	3.33	3.22	3.09 3.07	3.07 2.90	2
OTP Bank Russia[2]	16.91	15.21	13.99	15.60	14.78	14.68	14.39	13.62	3
OTP Bank Croatia	3.27	2.95	3.02	3.05	2.87	2.88	3.07	2.97	
OTP Bank Ukraine	7.46	9.21	10.19	9.05	9.51	10.10	10.50	9.92	4
OTP Bank Romania	3.27	3.39	3.23	3.27	3.56	3.47	3.14	3.31	5

1 **OTP Core:** in the second quarter the margin decline was partly due to the swap result dropping q-o-q for two reasons. Firstly, in the base period a one-off gain was realized on intra-group swap deals. Secondly, the negative fair value adjustment of swaps occurred in the second quarter due to the declining long yields.

In the second quarter the closing rate of the 3M BUBOR went up by 7 bps to 25 bps, and its quarterly average rate grew by 4 bps to 18 bps.

2 **Bulgaria:** the headline net interest margin eroded by 17 bps q-o-q as a result of a technical effect stemming from the acquisition.

It was favourable, however, that the standalone DSK Bank NIM (w/o acquisition and w/o the effect of the capital increase received in 4Q 2018) remained relatively stable q-o-q even amid continued asset repricing: the strong retail, in particular consumer loan disbursement activity had a positive composition effect on the NIM.

3 **Russia:** consumer lending rates kept decreasing and average retail deposit rates went up over the quarter.

4 **Ukraine:** the average interest rates on retail loans decreased, and there was some decline in the corporate segment, as well.

5 **Romania:** in 2Q the average deposit interest rates moderated after the increased deposit collection efforts in the first quarter.

[1] At DSK a one-off accounting correction booked in 2Q 2018 reduced the q-o-q NII dynamics by HUF 1.8 billion in 2Q, and improved the q-o-q NII dynamics by HUF 0.9 billion in 3Q. The adjusted 2Q 2018 NIM would have been 3.45%.

[2] Including Touch Bank from 1Q 2018.

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Montenegro

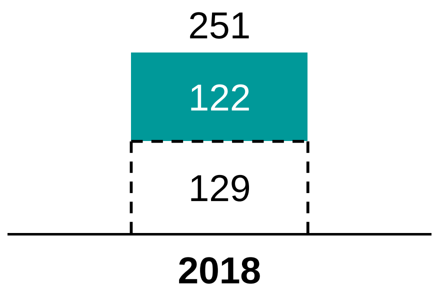
On 16 July 2019 the financial closure of the Montenegrin Societe Generale transaction has been completed; as a result, OTP cemented its market leading position in Montenegro

Market share and equity of Montenegrin banks
(2Q 2019, in EUR million)

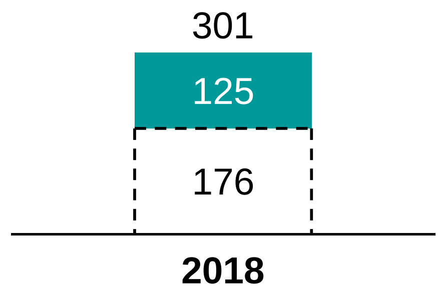
	Bank	Total assets	Market share	Equity
1	**CKB AD + SG Banka Montenegro AG *(pro forma)***	**1,308**	**30.4%**	**235**
1	**Crnogorska Komercijalna Banka AD**	**760**	**17.6%**	**168**
2	Erste Bank AD Podgorica	569	13.2%	83
3	**Societe Generale Banka Montenegro AD**	**548**	**12.7%**	**67**
4	NLB Banka A.D. Podgorica	511	11.9%	64
5	Hipotekarna Banka AD	504	11.7%	50
6	PRVA BANKA CG AD Podgorica Osnovana 1901.Godine	375	8.7%	36
7	Universal Capital Bank AD Podgorica	294	6.8%	12
8	Addiko Bank AD	232	5.4%	23

Source: National Bank of Montenegro, annual reports

Net loans
(HUF billion, pro forma)

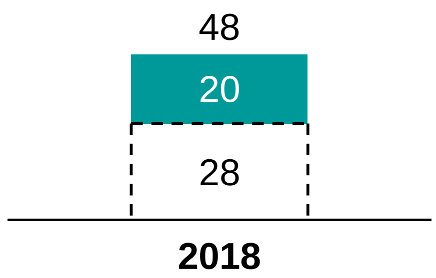


Customer deposits
(HUF billion, pro forma)

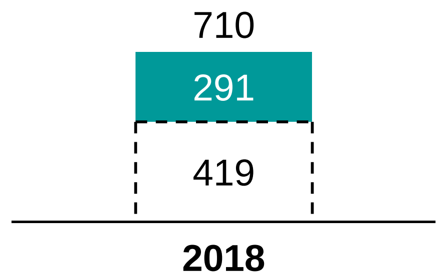


Net loan to deposit ratio: **98%**

Number of branches
(pro forma)



Number of employees
(pro forma)



Source: Societe Generale Banka Montenegro annual report

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Moldova

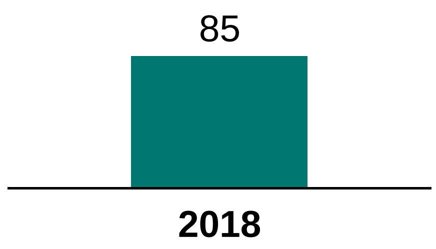
On 25 July 2019 the financial closure of the Moldovan transaction has been completed; the new subsidiary with a market share of 14.0% is the 4th largest bank on the Moldovan banking market

Market share and equity of Moldovan banks
(2Q 2019, in EUR million equivalent)

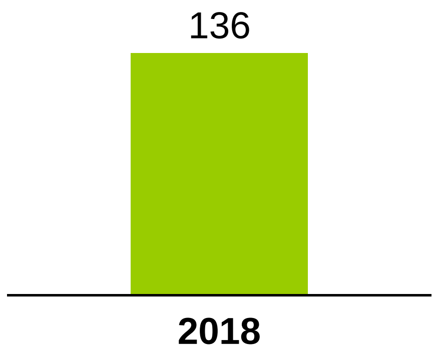
	Bank	Total assets	Market share	Equity
1	BC „Moldova - Agroinbank” S.A.	1,204	28.5%	198
2	BC „Moldindconbank” S.A.	843	20.0%	142
3	B.C. „Victoriabank” S.A.	706	16.7%	123
4	**BC „MOBIASBANCA - Groupe Societe Generale” S.A.**	**592**	**14.0%**	**86**
5	B.C. „Eximbank” S.A.	195	4.6%	52
6	BCR Chisinau S.A.	173	4.1%	23
7	„FinComBank” S.A.	161	3.8%	27
8	B.C. „Energbank” S.A.	120	2.8%	31
9	B.C. „ProCredit Bank” S.A.	98	2.3%	29
10	B.C. „Comertbank” S.A.	74	1.7%	17

Source: Moldovan National Bank

Net loans
(HUF billion)

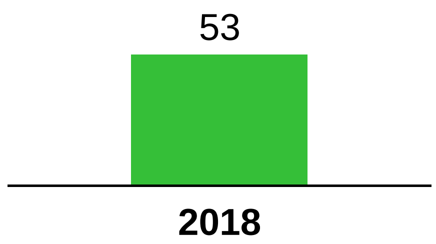


Customer deposits
(HUF billion)

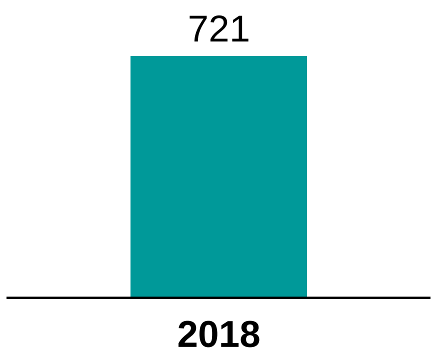


Net loan to deposit ratio: **63%**

Number of branches



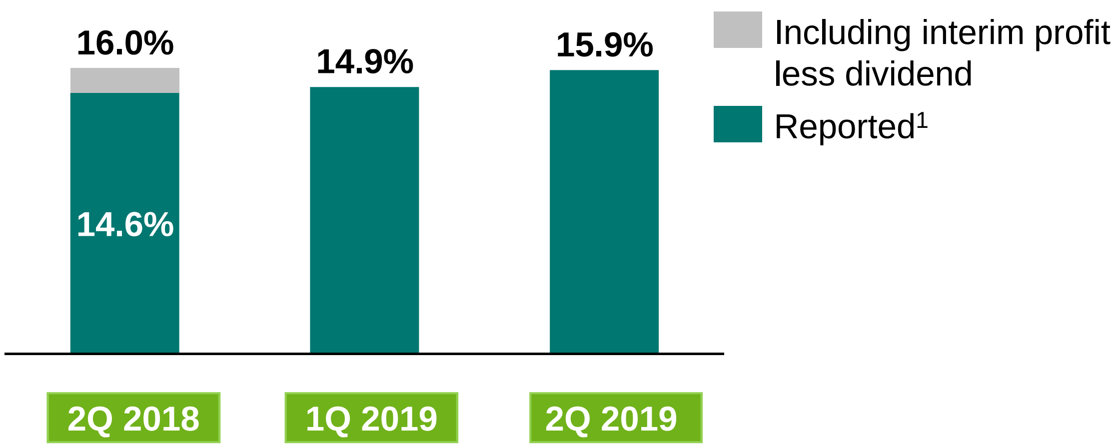
Number of employees



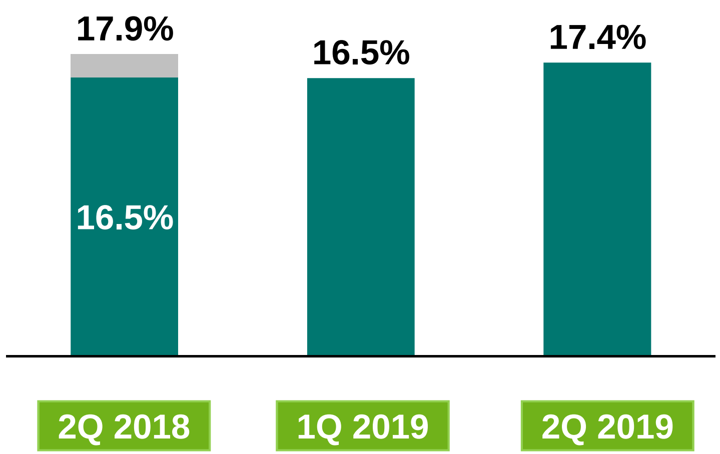
Source: Mobiasbanca – Groupe Societe Generale annual report

Strong capital and liquidity position coupled with sound internal capital generation; half-year CAR ratio does not include the effect of Tier 2 bonds issued on 15 July 2019

Development of the fully loaded CET1 ratio of OTP Group



Development of the CAR ratio of OTP Group



Tier 2 bond issuance

On 15 July 2019 OTP Bank issued Tier 2 bonds, which will appear on the balance sheet in 3Q 2019. This transaction was the first EUR denominated, CRR/CRD IV compliant, MREL eligible Tier 2 bond issuance in the CEE region, after the implementation of BRRD. The rationale for the transaction was to optimise the capital structure of the bank.

Main features of the bonds

Issued amount: EUR 500 million

Issue rating: Ba1 (Moody's)

Type: Tier 2

Maturity date: 15 July 2029, with Issuer's one-time call option at the end of year 5

Interest: fix rate 2.875% p.a. in the first 5 years; starting from year 6 until maturity, the yearly fix coupon is calculated as the sum of the initial margin (320 basis points) and the 5 year mid-swap rate prevailing at the end of year 5

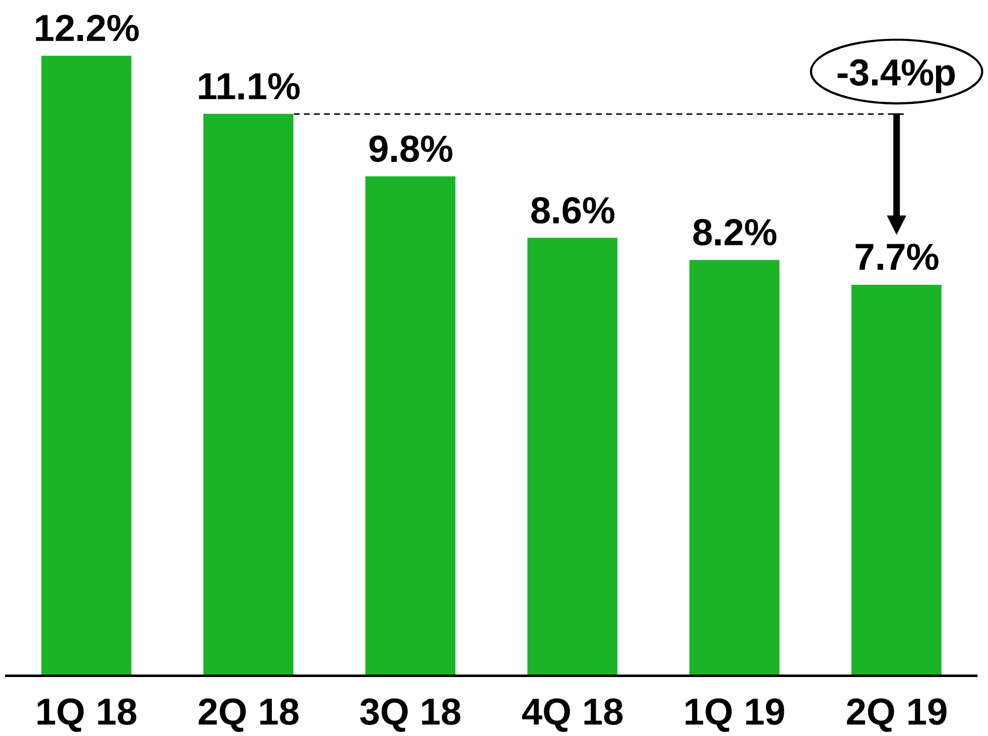
Joint Lead Managers: OTP Bank, BNP Paribas, Citigroup

Listing: Luxembourg Stock Exchange

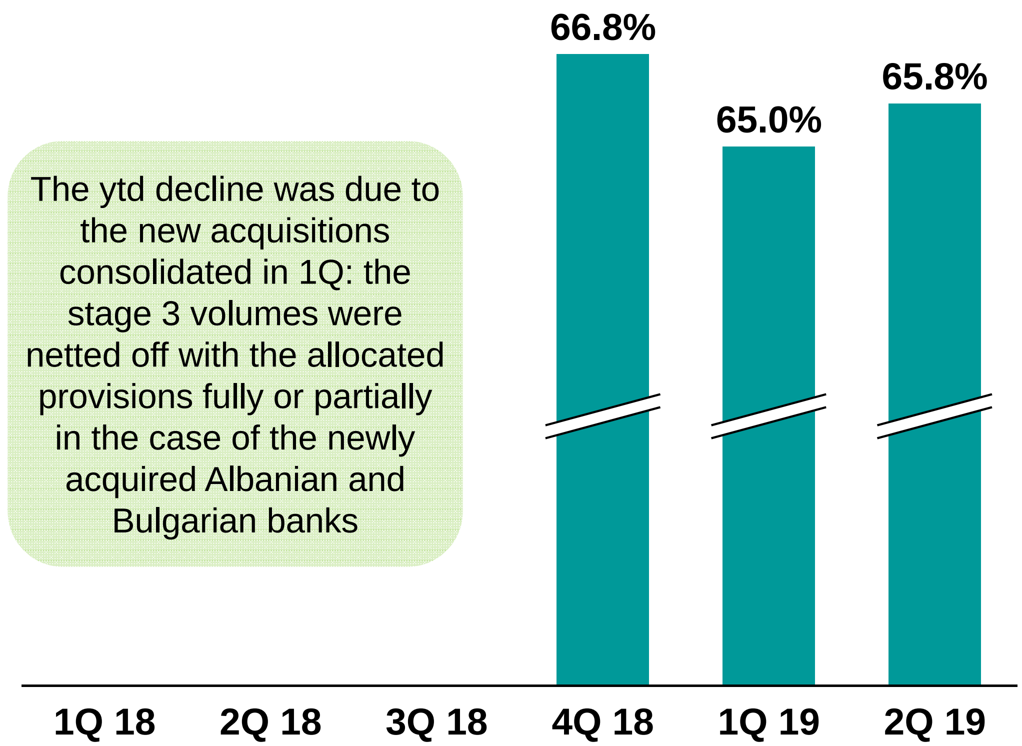
[1] In 1Q 2019 and 2Q 2019 the capital adequacy ratios already included the interim profit less dividend.

At the end of 2Q the Stage 3 ratio stood at 7.7%, while the own coverage of the Stage 3 loans represented 65.8%

OTP Group - consolidated Stage 3 ratio[1]



OTP Group - own coverage of consolidated Stage 3 loans[1]

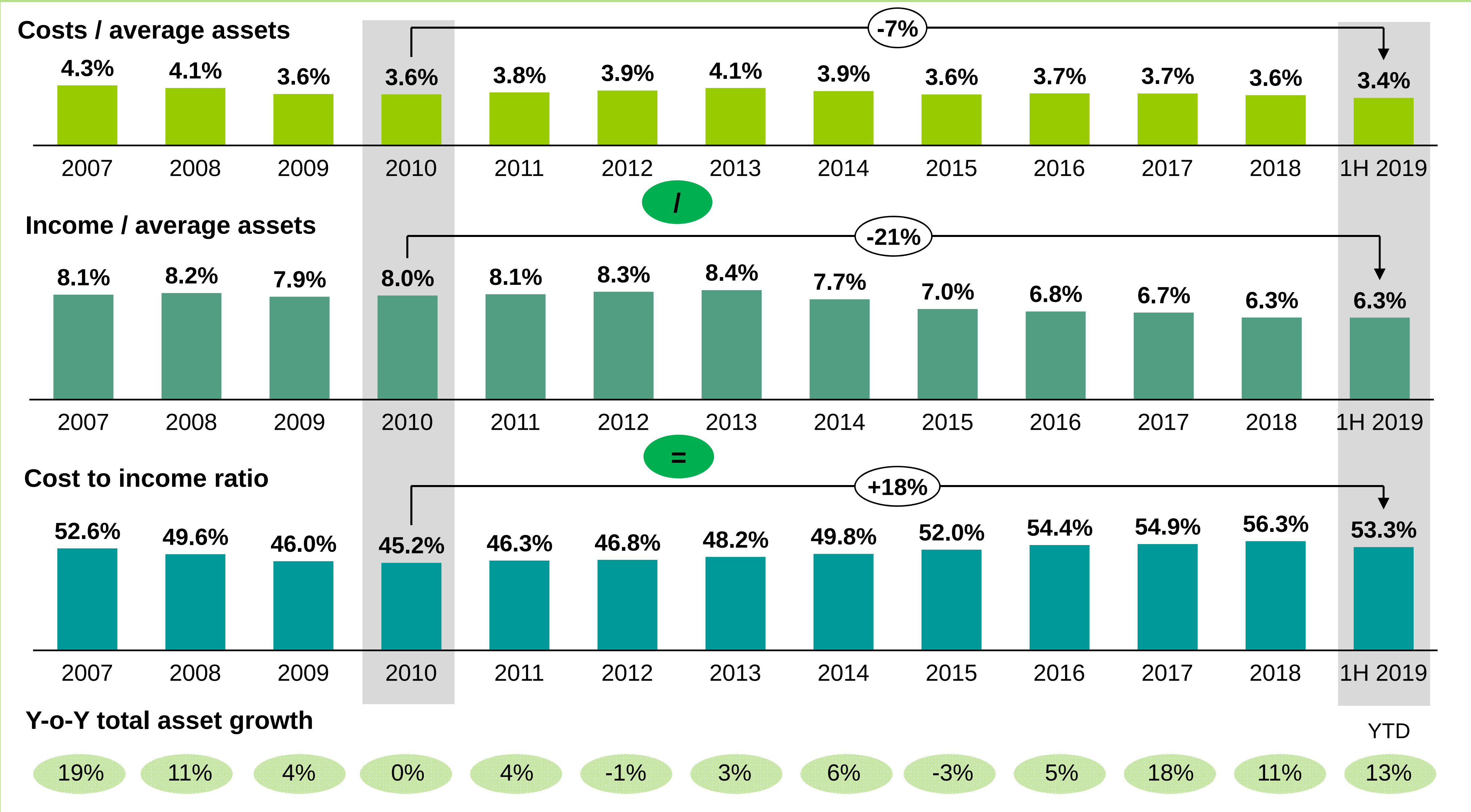


The non-performing loan category previously used by OTP, the ratio of 90+ days overdue loans (DPD90+) is replaced by the Stage 3 ratio with the introduction of IFRS 9.

The DPD90+ category is a subset of Stage 3, and it stood at 5.5% at Group level at the end of 2Q 2019.

[1] In 4Q 2018 with POCI, from 1Q 2018 POCI was distributed among Stage categories.

In the first half of 2019 cost efficiency indicators improved, fostered by better economies of scale reached in certain countries and stabilizing total income margin



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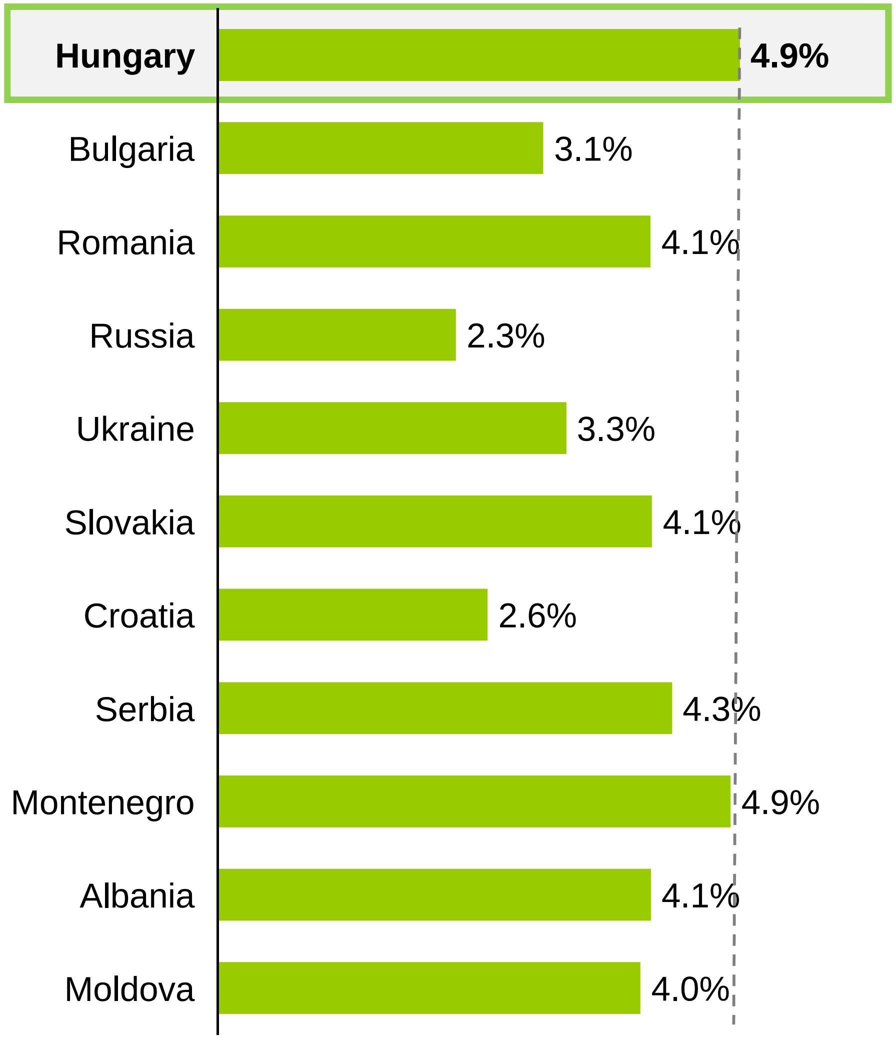
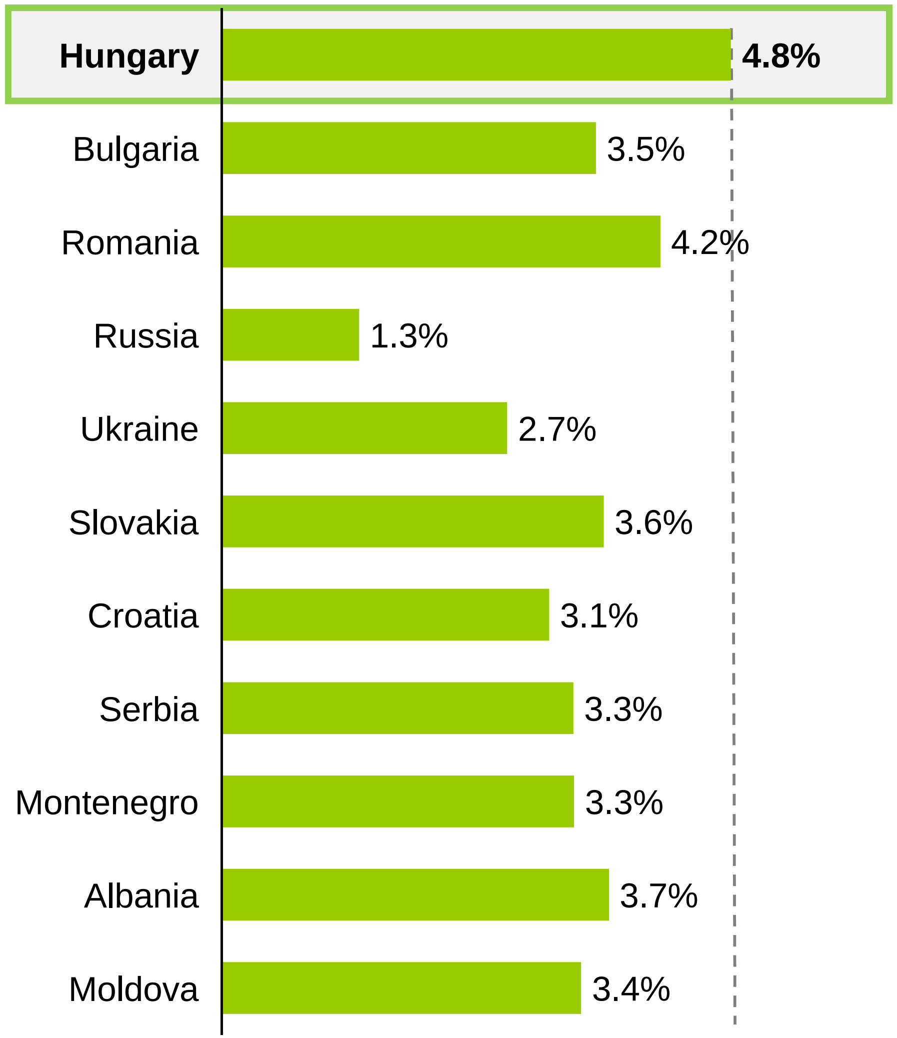
The Hungarian GDP growth is expected to be the highest in 2019

2018 GDP growth (y-o-y)



2019F GDP growth (y-o-y)



Further details and financials

The semi-annual total income grew by 11% without acquisitions. The quarterly growth was driven by Hungary, whereas the foreign subsidiaries' contribution was shaped by the weakening HUF, as well

Effect of acquisitions

TOTAL INCOME without one-off items	1H 2019 (HUF billion)	2Q 2019 (HUF billion)	1H 2019 Y-o-Y (HUF billion)	1H 2019 Y-o-Y (%)	2Q 2019 Q-o-Q (HUF billion)	2Q 2019 Q-o-Q (%)
OTP Group	**499**	**259**	47 / 25 / 73	17%/11%[1]	17 / 3 / 20	8%/7%[1]
OTP CORE (Hungary)	**206**	**107**	18	10%	9	9%
DSK (Bulgaria)	**76**	**39**	1 / 24	45%/1%[2]	2	4%
OBRu[3] (Russia)	**70**	**36**	7	11%	2	6%/1%[3]
OBH (Croatia)	**41**	**21**	3	9%/3%[4]	1	3%
OBU (Ukraine)	**30**	**16**	10	49%/37%[3]	1	5%/-1%[3]
OBR (Romania)	**18**	**9**	4	27%/24%[4]	0	2%
OBSr (Serbia)	**16**	**8**	2	12%/9%[4]	0	3%
CKB (Montenegro)	**6**	**3**	1	19%	0	9%
OBA (Albania)	**3**	**3**	3		3	
OBS (Slovakia)	**7**	**4**	0	-2%	0	3%
Others	**26**	**14**	1	92%	2	21%

[1] Changes without the effect of acquisitions.
[2] Changes without the effect of Expressbank acquisition and the inclusion of the Bulgarian leasing company.
[3] Changes in local currency.
[4] Changes without the effect of the inclusion of the local leasing company.

The semi-annual net interest income increased by 9% without acquisitions, whereas in 2Q it grew by 4%; both changes were mainly driven by the strong business volume growth

Effect of acquisitions

NET INTEREST INCOME	1H 2019 (HUF billion)	2Q 2019 (HUF billion)	1H 2019 Y-o-Y (HUF billion)	1H 2019 Y-o-Y (%)	2Q 2019 Q-o-Q (HUF billion)	2Q 2019 Q-o-Q (%)
OTP Group	**333**	**171**	26 44	15%/9%[1]	6 2 8	5%/4%[1]
OTP CORE (Hungary)	**130**	**66**	11	9%	1	2% (1)
DSK (Bulgaria)	**52**	**26**	2 18	51%/3%[2]	1	3% (2)
OBRu (Russia)	**54**	**28**	4	8%/9%[3]	1	5%/0%[3] (3)
OBH (Croatia)	**28**	**14**	1	5%/-1%[4]	0	0%
OBU (Ukraine)	**22**	**11**	8	55%/43%[3]	1	6%/0%[3] (4)
OBR (Romania)	**13**	**7**	2	23%/20%[4]	1	10% (5)
OBSr (Serbia)	**11**	**6**	1	15%/11%[4]	0	1%
CKB (Montenegro)	**4**	**2**	0	14%	0	6%
OBA (Albania)	**2**	**2**	2	n/a	2	n/a
OBS (Slovakia)	**5**	**3**	0	-6%	0	1%
Merkantil (Hungary)	**7**	**3**	1	8%	0	-3%
Corporate Centre	**3**	**1**	0	-13%	0	11%
Others	**2**	**1**	-4	-65%	1	75%

1. 2Q net interest income went up by HUF 1.5 bn q-o-q. Apart from the positive calendar effect it was also boosted by the 5% q-o-q growth in performing loans, and the fact that in the second quarter certain hedging transactions' ytd result was shifted from the interest revenues to the other net non-interest income (+HUF 0.8 bn q-o-q effect). On the negative side, the swap result dropped q-o-q for two reasons. Firstly, in the base period a one-off gain was realized on intra-group swap deals (-HUF 0.6 bn q-o-q effect). Secondly, the negative fair value adjustment of swaps occurred in the second quarter due to the declining long yields (-HUF 0.7 bn q-o-q effect).
2. At DSK Group the negative effect of continuing NIM compression was offset by strong business volumes and more favorable business mix.
3. The Russian NII in RUB terms was supported by soaring performing volumes (+21% y-o-y) offsetting the erosion of NIMs (-1.8 pps y-o-y).
4. The Ukrainian 1H NII got support from both the improving NIM and soaring volumes. 2Q volumes growth was offset by margin erosion.
5. OBR: 1H y-o-y growth was propelled by the dynamic loan expansion; on quarterly basis the improving margin also helped.

[1] Changes without the effect of acquisitions.
[2] Changes without the effect of Expressbank acquisition and the inclusion of the Bulgarian leasing company.
[3] Changes in local currency.
[4] Changes without the effect of the inclusion of the local leasing company.

The net fee and commission income in 2Q leaped by 16% q-o-q without acquisition, partly due to base effect in case of OTP Core and also to positive seasonality

Effect of acquisitions

NET FEE INCOME	1H 2019 (HUF billion)	2Q 2019 (HUF billion)	1H 2019 Y-o-Y (HUF billion)	1H 2019 Y-o-Y (%)	2Q 2019 Q-o-Q (HUF billion)	2Q 2019 Q-o-Q (%)
OTP Group	124	67	12.4 / 17.7	17%/12%[1]	9.3 / 9.6	17%/16%[1]
OTP CORE (Hungary)	59	33	5.5	10%	6.5	25%
DSK (Bulgaria)	20	11	1.0 / 6.0	42%/6%[2]	0.9	9%
OBRU (Russia)	15	8	1.9	15%	0.7	10%/5%[3]
OBH (Croatia)	8	4	0.5	6%/3%[4]	0.3	6%
OBU (Ukraine)	7	3	1.4	27%/18%[3]	0.0	0%/-5%[3]
OBR (Romania)	2	1	-0.1	-3%/-7%[4]	0.0	4%
OBSrb (Serbia)	4	2	0.4	13%/12%[4]	0.3	20%
CKB (Montenegro)	2	1	0.2	14%	0.2	21%
OBA (Albania)	0	0	0.3		0.3	
OBS (Slovakia)	2	1	0.2	11%	0.1	12%
Fund mgmt. (Hungary)	3	1	-0.5	-14%	0.0	-2%

1 At OTP Core in 1H 2019 the NFC income rose by 10% y-o-y, as growing volumes and transactional turnover resulted in stronger card, deposit and transaction-related fee revenues. 1H securities distribution fees showed 1% growth y-o-y, after a declining trend prevailing since 2H 2017.
Apart from the seasonal effect, the 25% jump in 2Q was explained by the one-off items exerting a +HUF 3.4 bn effect on the q-o-q dynamics (1Q 2019 one-offs: -HUF 1.6 bn financial transaction tax on card transactions and -1.2 bn payment into the Contribution Fund; 2Q 2019: +0.6 billion out of the total payments into the Contribution Fund was offset against taxes (shown as part of the net fees).
2Q securities distribution fees – following a downward trajectory in the last several quarters – already showed a growth both q-o-q and y-o-y due to the outstanding sales of the new retail government bond (MÁP Plusz).

2 The 20% q-o-q increase was partly due to technical effect of the merger of the two banks: in April 2019, the bank switched from charging fees at the end of month to the beginning-of-month method; as a result, in April two month commission income was booked. Seasonality was also positive.

[1] Changes without the effect of acquisitions.
[2] Changes without the effect of Expressbank acquisition and the inclusion of the Bulgarian leasing company.
[3] Changes in local currency.
[4] Changes without the effect of the inclusion of the local leasing company.

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The semi-annual other net non-interest income growth was boosted by better Hungarian, Croatian and Romanian results

Effect of acquisitions

OTHER INCOME without one-off items	1H 2019 (HUF billion)	2Q 2019 (HUF billion)	1H 2019 Y-o-Y (HUF billion)	1H 2019 Y-o-Y (%)	2Q 2019 Q-o-Q (HUF billion)	2Q 2019 Q-o-Q (%)
OTP Group	**42**	**22**	9 / 11	36%/31%[1]	2	10%
OTP CORE (Hungary)	**17**	**9**	2	16%	1	9%
DSK (Bulgaria)	**4**	**2**	-1 / 0	7%/-41%[2]	0	-6%
OBRU (Russia)	**1**	**0**	1	524%	0	-25%/-33%[3]
OBH (Croatia)	**5**	**3**	2	51%/43%[4]	0	15%
OBU (Ukraine)	**2**	**1**	1	69%/47%[3]	0	4%/-2%[3]
OBR (Romania)	**3**	**1**	1	80%/77%[4]	0	-24%
OBSrb (Serbia)	**1**	**0**	0	-23%/-27%[4]	0	-42%
CKB (Montenegro)	**0**	**0**	0	-388%	0	-18%
OBA (Albania)	**0**	**0**	0		0	
OBS (Slovakia)	**0**	**0**	0	11%	0	-11%
Others	**8**	**5**	3	72%	2	51%

1 At OTP Core both changes were driven by the higher securities gain realized in 2Q. In the second quarter certain hedging transactions' ytd result was shifted from the interest revenues to the other net non-interest income (causing -HUF 0.8 billion q-o-q effect on other income).

2 In Romania the improvement was induced mostly by the higher swap result (mainly in relation to intra-group swap deals) and better treasury result.

3 Key components of the growth at the other companies: a newly consolidated company delivered HUF 0.5 billion other income (as this entity provides services mostly to other Group members, this doesn't explain growth on consolidated level); on the other hand, OTP Real Estate Ltd. Realized higher revenues from new home sales (+HUF 1.7 billion q-o-q).

[1] Changes without the effect of acquisitions.
[2] Changes without the effect of Expressbank acquisition and the inclusion of the Bulgarian leasing company.
[3] Changes in local currency.
[4] Changes without the effect of the inclusion of the local leasing company.

Operating costs grew by 8% y-o-y adjusted for acquisitions and FX-effect, fuelled by higher IT spending, wage inflation and intensifying business activity

Effect of acquisitions

OPERATING COSTS – 1H 2019 (HUF billion)		Y-o-Y (HUF bn)	Y-o-Y (%)	Y-o-Y (FX-adj., HUF bn)	Y-o-Y (FX-adj., %)
OTP Group	266	21 / 31	13% / **9.0%**[1]	19 / 29	12% / **8.0%**[1]
OTP CORE (Hungary)	123	15	14%	15 (1)	14%
DSK (Bulgaria)	34	2 / 11	45%/6%[2]	1 / 10	42%/3%[2]
OBRU (Russia)	30	-1	-2%	0 (2)	-1%
OBH (Croatia)	21	0	-2%/-7%[3]	-1 (3)	-4%/-8%[3]
OBU (Ukraine)	10	2	31%	2 (4)	21%
OBR (Romania)	12	2	26%/22%[3]	2 (5)	25%/22%[3]
OBSrb (Serbia)	12	1	5%/4%[3]	0	2%/1%[3]
CKB (Montenegro)	4	0	4%	0	2%
OBA (Albania)	1	1	-	1	-
OBS (Slovakia)	6	0	5%	0	3%
Merkantil (Hungary)	3	0	5%	0	5%

1. OTP Core: 14% y-o-y growth, partly due to the base salary hike in 2018 and higher average headcount. In 1H 2019 the administrative expense growth can be partially attributed to the more intense business activity. Furthermore, the y-o-y increasing advisory costs, IT and real estate-related expenses, as well as higher contributions paid into the Deposit Insurance Fund, Investor Protection Fund and Resolution Fund (+HUF 0.4 billion y-o-y) played a role, too.

2. Russia: average headcount decreased (-5%) due to the integration of Touch Bank; 1H personnel expenses declined by 8% y-o-y, which offset the growth of operational expenses which increased in line with business volumes. Amortisation dropped by 17% y-o-y partially due to the write-off of Touch Bank's software in the base period.

3. OBH: 8% FX-adjusted decrease y-o-y, reasoned by cost synergies extracted from the merger of the two banks, including savings in hardware, real estate and telecommunication expenses, as well as operating costs of the ATM and POS networks.

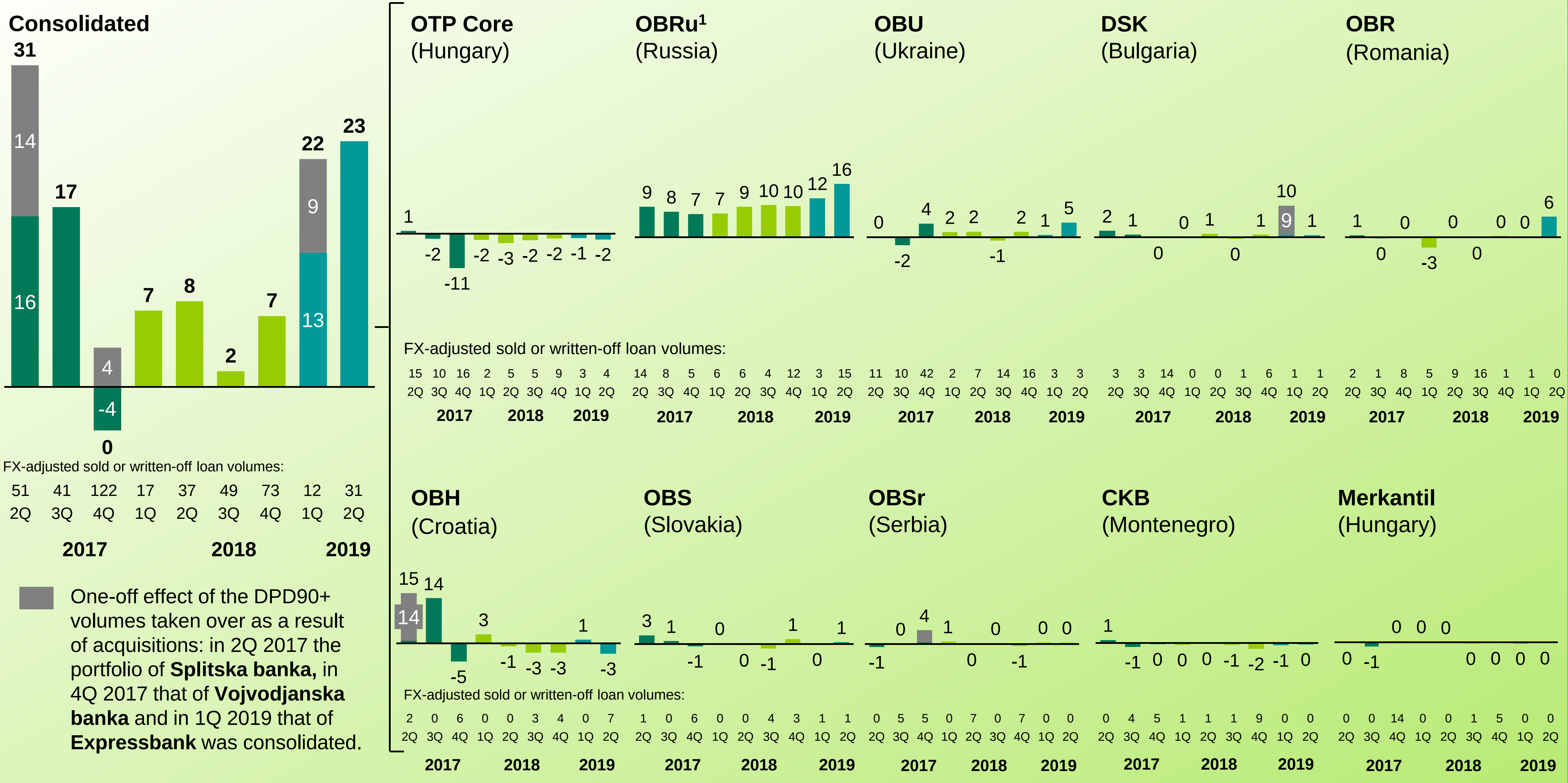
4. OBU: FX-adjusted increase of 21% y-o-y due to higher personnel expenses (wage increase, as well as 8% higher headcount), and higher operational expenses induced by strong business activity.

5. OBR: higher personnel expenses due to wage inflation and increasing headcount, stronger business activity and costs related to cleaning and updating customer data and meeting regulatory requirements played a role in cost growth.

[1] Changes without the effect of the Bulgarian and Albanian acquisitions.
[2] Changes without the effect of Expressbank acquisition and the inclusion of the local leasing company.
[3] Changes without the effect of the inclusion of the local leasing company.

In 2Q 2019 the consolidated DPD90+ formation increased q-o-q, related partly to the seasonal deterioration in Russia and higher new delinquencies in Romania and Ukraine

FX-adjusted quarterly change in DPD90+ loan volumes
(without the effect of sales / write-offs, in HUF billion)

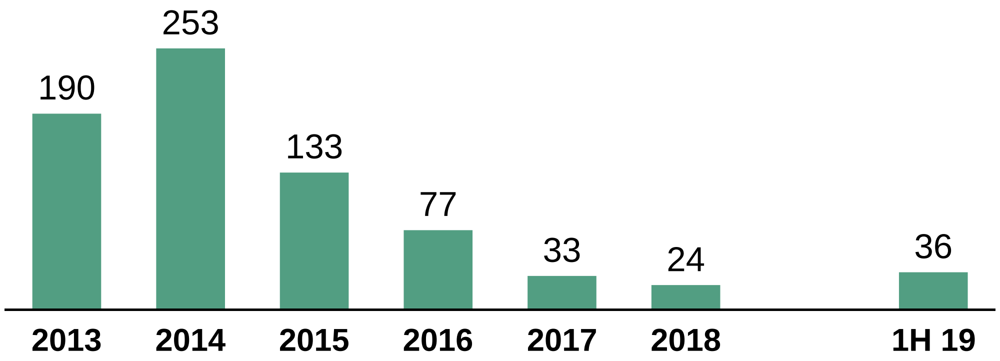


One-off effect of the DPD90+ volumes taken over as a result of acquisitions: in 2Q 2017 the portfolio of **Splitska banka,** in 4Q 2017 that of **Vojvodjanska banka** and in 1Q 2019 that of **Expressbank** was consolidated.

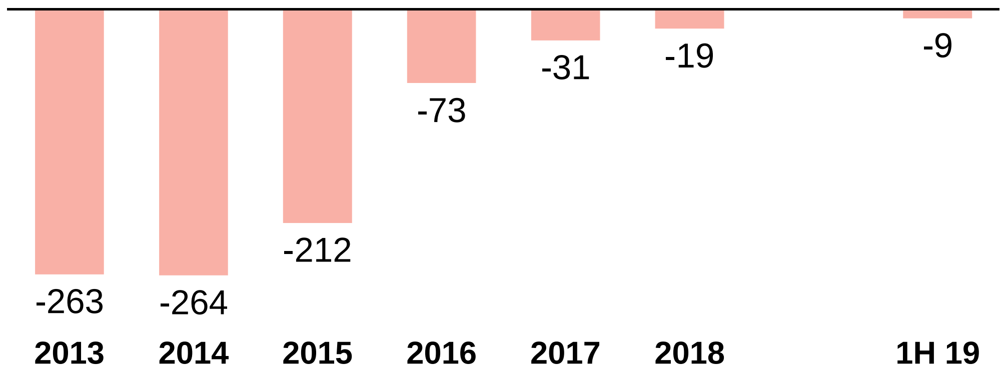
[1] Including Touch Bank from 1Q 2018.

Credit quality indicators remained favourable. The DPD90+ ratio declined further, and the semi-annual consolidated risk cost rate remained somewhat below the last year's level

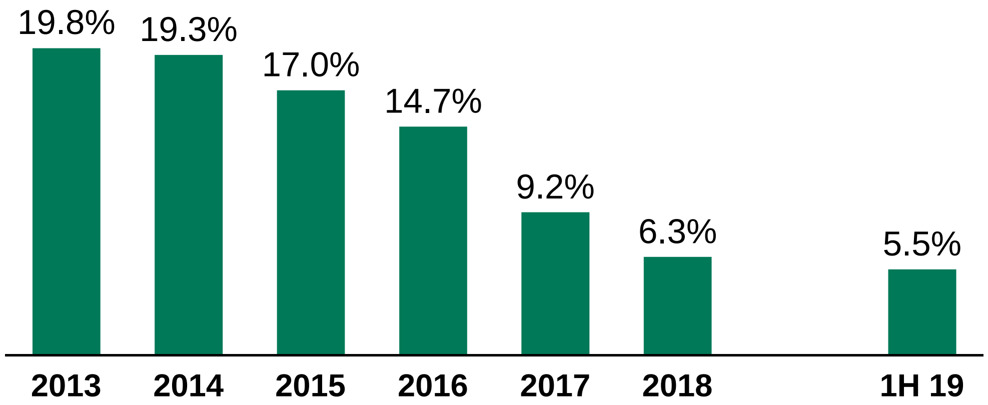
Change in DPD90+ loan volumes (consolidated, without the technical effect of new acquisitions[1], adjusted for FX and sales and write-offs, in HUF billion)



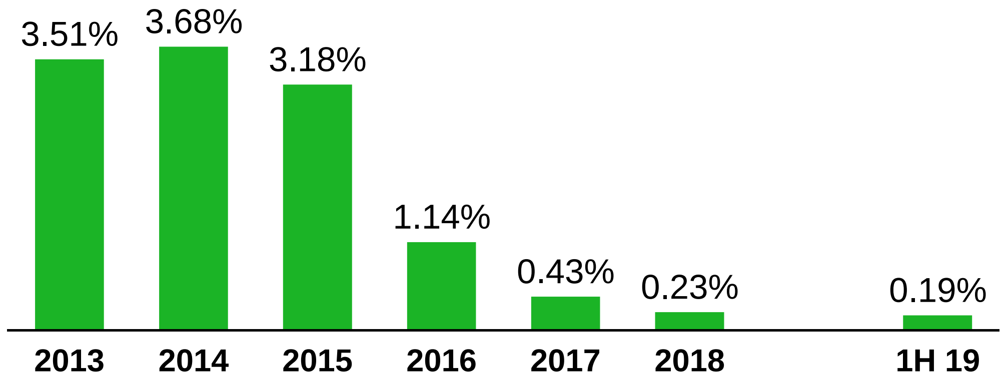
Consolidated provision for impairment on loan and placement losses (in HUF billion)



Ratio of consolidated DPD90+ loans to total loans



Consolidated risk cost rate (provision for impairment on loan and placement losses-to-average gross loans)



[1] One-off effect of the DPD90+ volumes taken over as a result of acquisitions.

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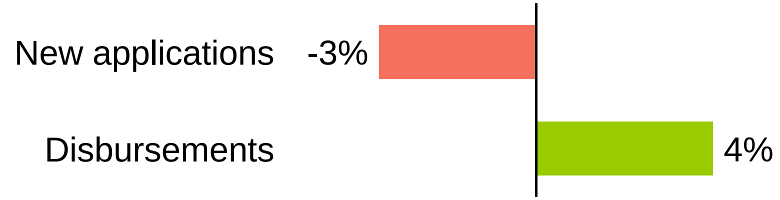
OTP CORE

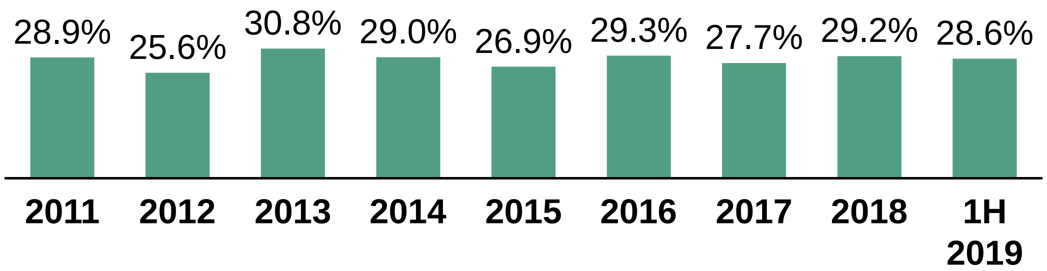
The upward trend of mortgage disbursements remained in place in Hungary, however the new applications declined partly due to the start of Baby Shower Subsidy and other subsidies from July. OTP enjoys a stable or even improving market share in new mortgage and new cash loan disbursements, as well as in retail savings

Change of mortgage loan application and disbursement of OTP Bank (1H 2019, y-o-y changes)

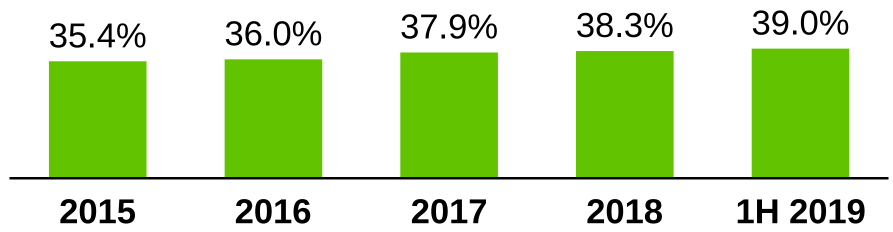


Performing (DPD0-90) cash loan volume growth (y-o-y , FX-adjusted)

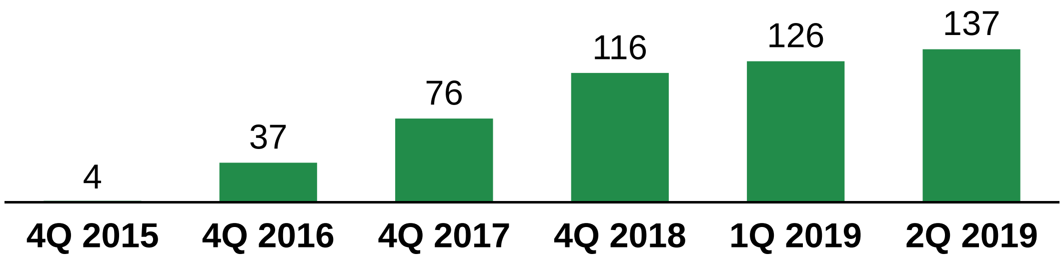
OTP's market share in mortgage loan contractual amounts



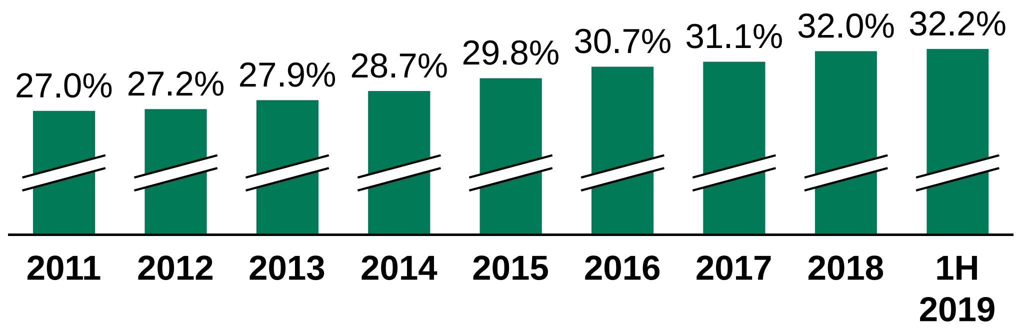
Market share in newly disbursed cash loans



The cumulative amount of non-refundable CSOK subsidies contracted at OTP Bank since the launch of the programme (HUF billion)



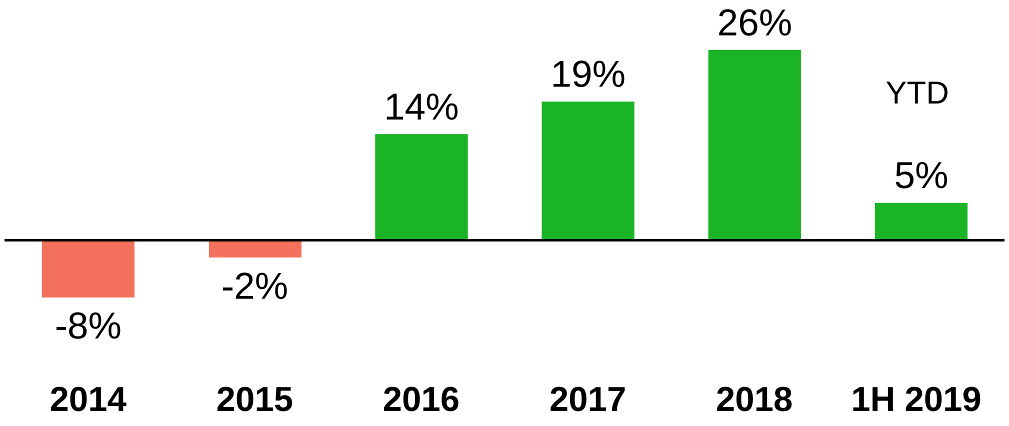
OTP Bank's market share in household savings



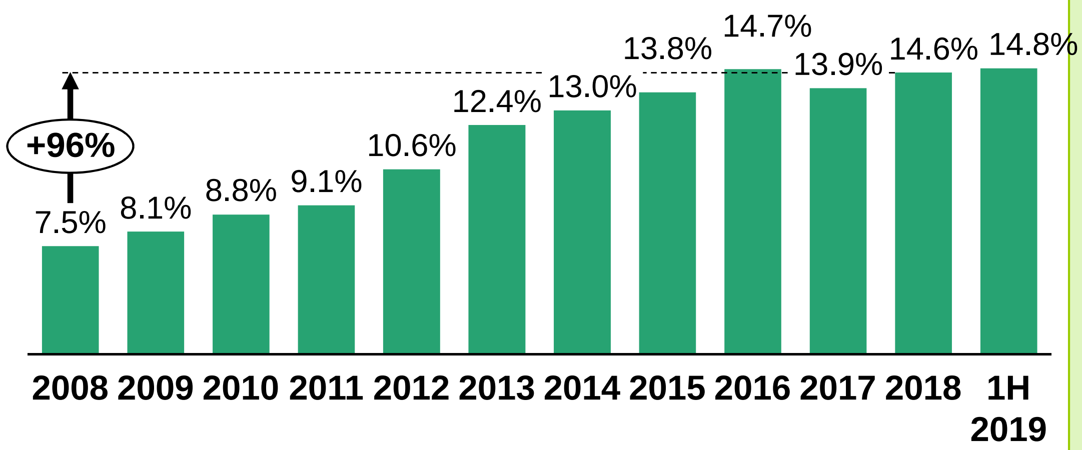
OTP CORE

In the MSE segment OTP Core managed to demonstrate 10% ytd volume dynamics, whereas the medium and large corporate loans increased by 5% ytd. OTP's market share in corporate loans got close to 15%

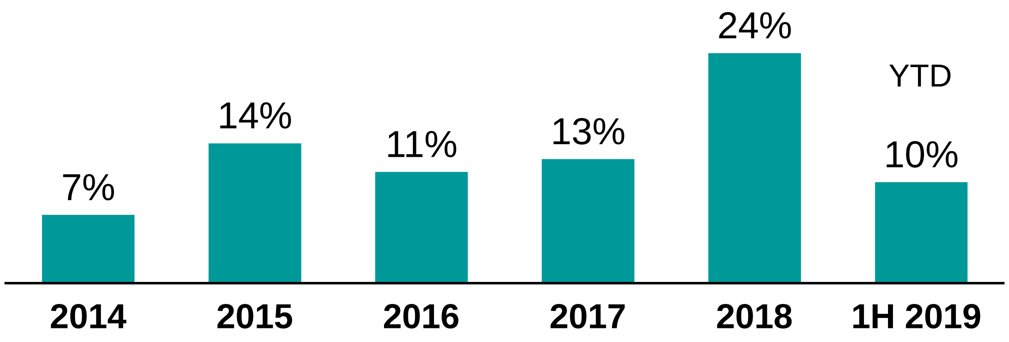
Performing (DPD0-90) medium and large corporate loan volume change (FX-adjusted)



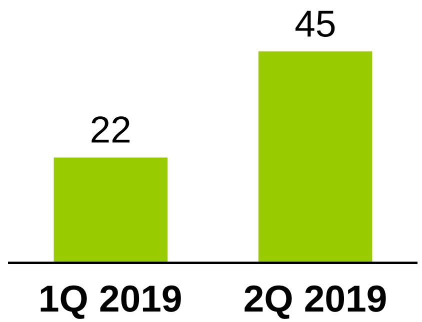
OTP Group's market share in loans to Hungarian companies[1]



Performing (DPD0-90) loan volume change at micro and small companies (FX-adjusted)



The cumulated amount of loan applications for the Funding for Growth Scheme fix at OTP Bank since the launch of the programme (HUF billion)



[1] Aggregated market share of OTP Bank, OTP Mortgage Bank, OTP Building Society and Merkantil, based on central bank data (Supervisory Balance Sheet data provision until 2016 and Monetary Statistics from 2017.

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