OTP Group
Investor presentation based on 2Q 2019 results

OTP Group has maintained strong profitability, capital adequacy and liquidity

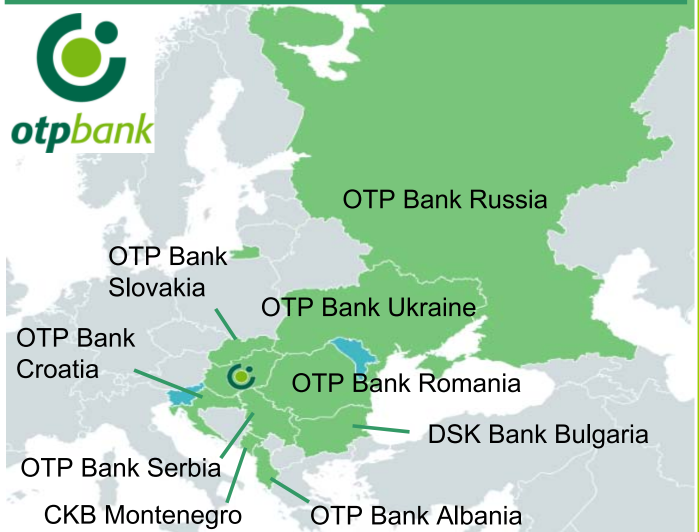
Content

Key pillars of the OTP investment rationale

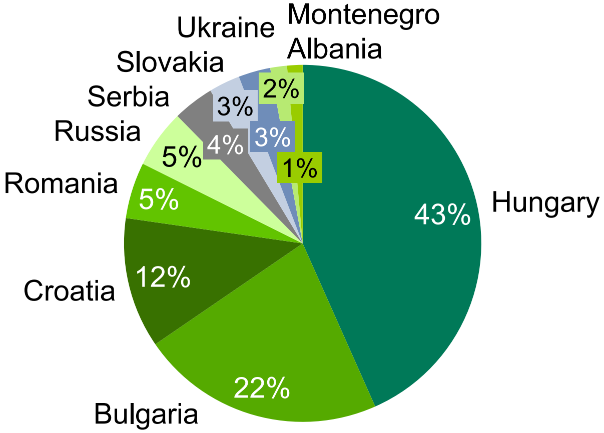
1.	Unique diversified access to the CEE/CIS banking sector
2.	Strong profitability with ROE remaining at attractive levels
3.	Outstanding growth trajectory supported by organic loan growth and new acquisitions
4.	Strong capital and liquidity position
5.	Supporting economic environment continues to propel strong performance

1. OTP Group is offering universal banking services to almost 18.5 million customers in 10 countries across the CEE/CIS Region

Major Group Members in Europe



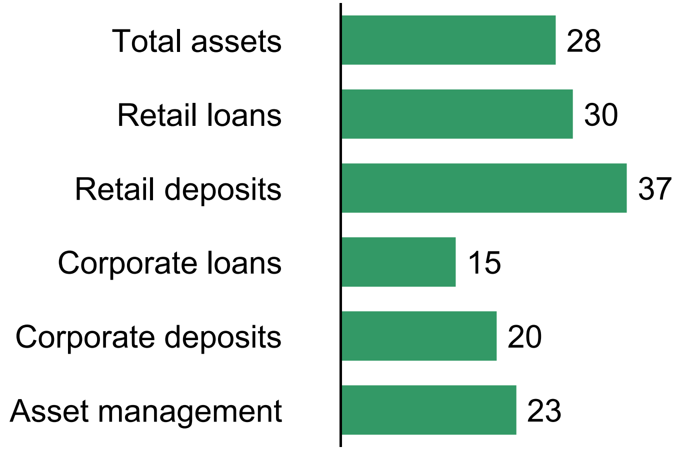
Total Assets



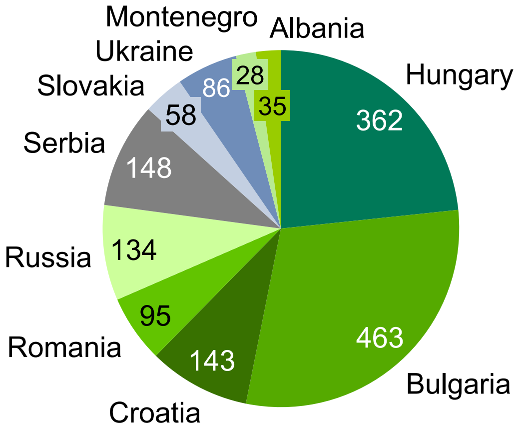
Total Assets: HUF 16,458 billion

Systemic position in Hungary…

2Q 2019 market share (%)

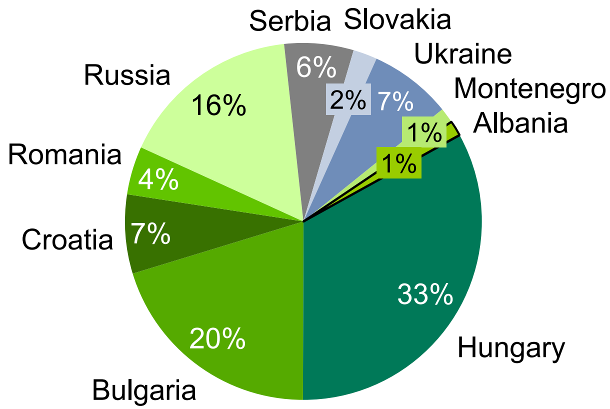


Number of Branches



Total number of branches: 1,552

Headcount



Total headcount: 31,384[1]

… as well as in other CEE countries

Bulgaria

- No. 1 in Total assets
- No. 1 in Retail deposits
- No. 1 in Retail loans

Croatia

- No. 4 in Total assets

Russia

- No. 3 in POS lending
- No. 7 in Credit card business
- No. 31 in Cash loan business

Montenegro

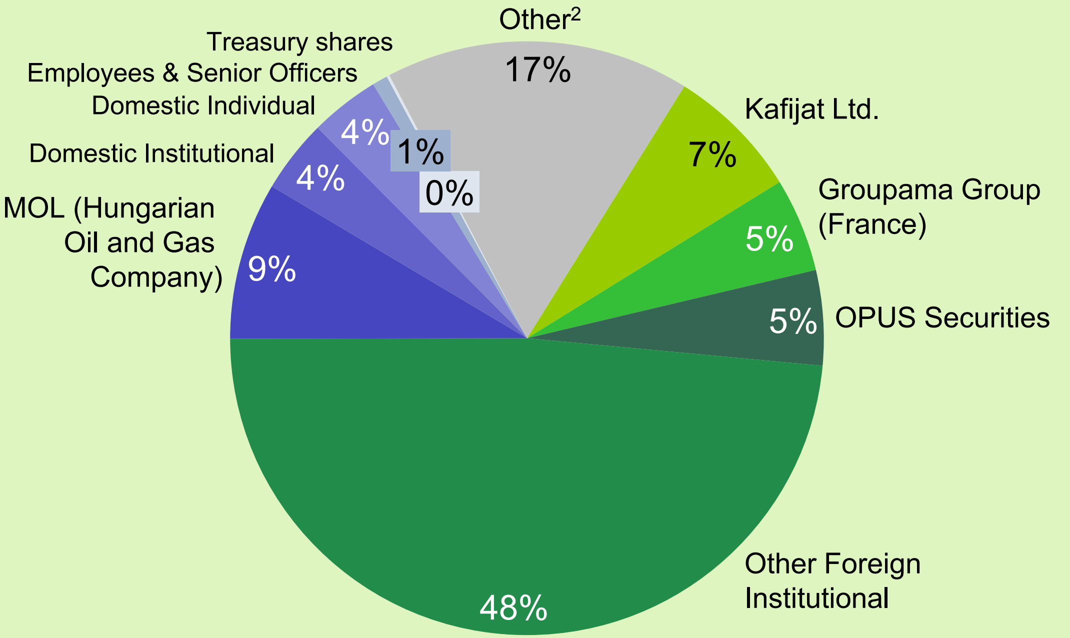
- No. 1 in Total assets

[1] Excluding selling agents employed at OTP Bank Russia and at OTP Bank Ukraine.

OTP offers a unique investment opportunity to access the CEE banking sector. The Bank is a well diversified and transparent player without strategic investors

Market capitalization: EUR 10.7 billion[1]

Ownership structure of OTP Bank on 30 June 2019



OTP is one of the most liquid stocks in a peer group comparison in terms of average daily turnover[3]

	OTP	PKO	Pekao	Erste	Komercni	Raiffeisen
Avg. daily turn-over to current market cap, bps.	15	19	26	19	7	18
Average daily turnover in EUR million	17	21	15	24	4	12

Total number of ordinary shares: 280,000,010, each having a nominal value of HUF 100 and representing the same rights

Since the IPO in 1995 / 1997, OTP Bank has not raised capital on the market, nor received equity from the state

No direct state involvement, the Golden Share was abolished in 2007

OTP Group's Capabilities

'Best Private Bank in Hungary'
'Best Private Bank in CEE'
(World Ranking: 177)

DSK Bank - 'Best Bank in Bulgaria 2015'

'Best Bank in CEE 2018"
Best Bank in Hungary 2017 and 2018'
Best Bank in Bulgaria 2014 and 2017'

'The Best Private Banking Services in Hungary in 2014, 2017 and 2018'

Index Member of CEERIUS

'Bank of the Year in 2018'
'The Most Innovative Bank of Year in 2018'
'The Accessible Banking Innovation of the Year in 2018'
'The Credit Account of the Year' – 2nd place in 2018
'The Saving Account of the Year' – 2nd place in 2018
'The Current Account of the Year ' – 2nd place in 2018
'The Retail Mobile and Online Banking Application ' – 2nd place in 2018

'Best Bank in Hungary' since 2012 in all consecutive years

‚Best Consumer Digital Bank Hungary in 2018'

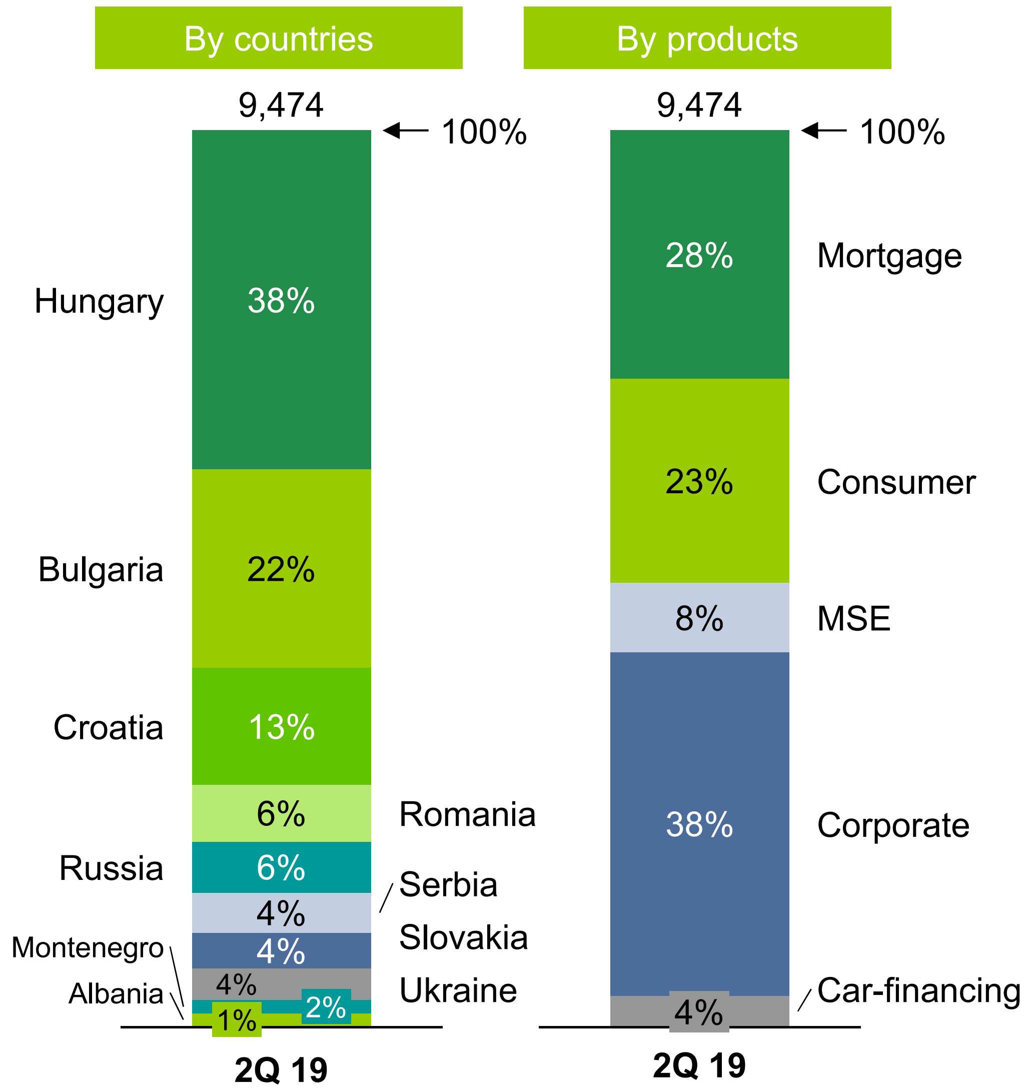
'Best FX providers in Hungary in 2017, 2018, 2019'

'Best Private Bank in Hungary in 2018'

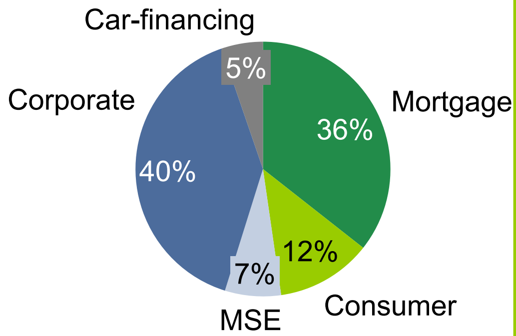
[1] On 14 August 2019.
[2] Foreign individuals, International Development Institutions, government held owner and non-identified shareholders.
[3] Based on the last 6M data (end date: 14 August 2019) on the primary stock exchange.

The net loan book is dominated by Hungary and tilted to retail lending; more than 80% of the total book is invested in EU countries with stable earning generation capabilities

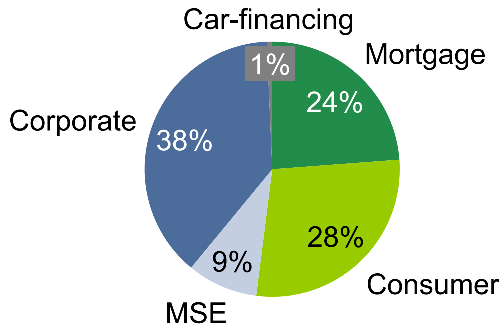
Breakdown of the consolidated net loan book
(in HUF billion)



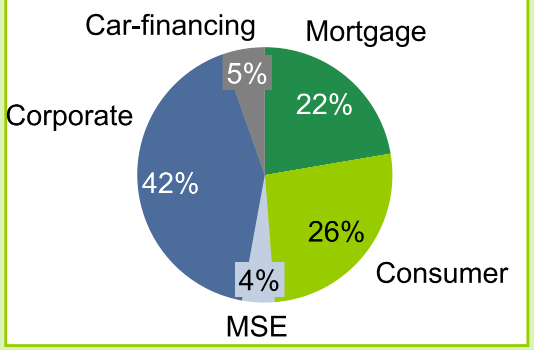
OTP Core[1] (Hungary)



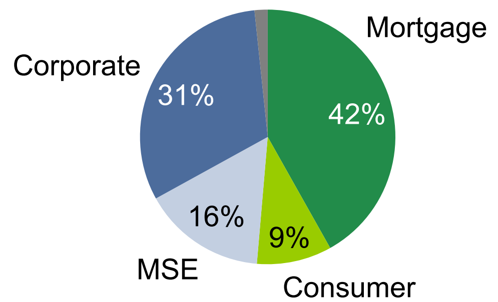
DSK Bank (Bulgaria)



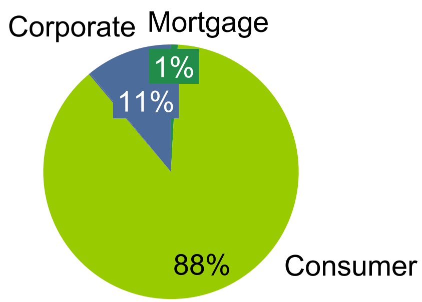
OTP Bank Croatia



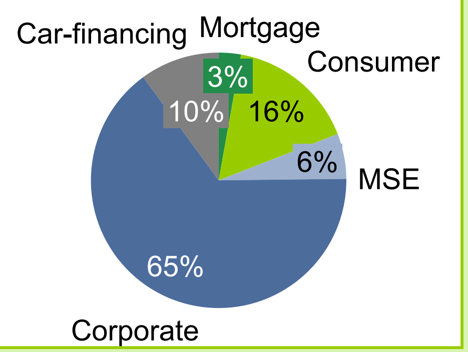
OTP Bank Romania



OTP Bank Russia



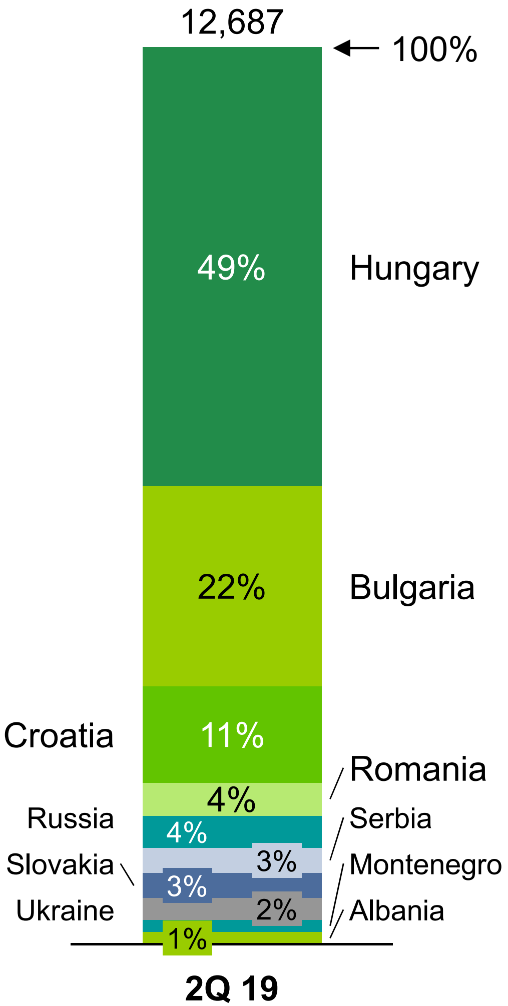
OTP Bank Ukraine



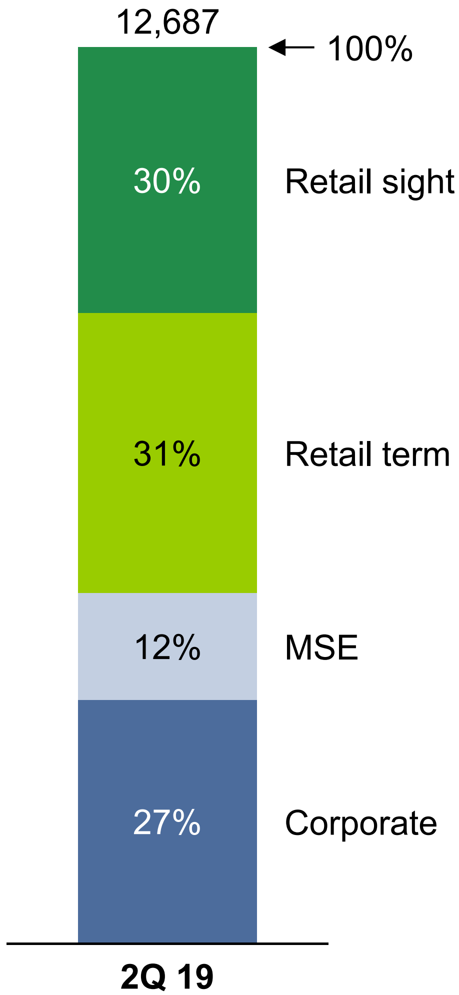
1. In the deposit book Hungary and the retail segment is dominant. In Hungary and Bulgaria OTP and DSK are the largest retail deposit holders

Breakdown of the consolidated deposit base
(in HUF billion)

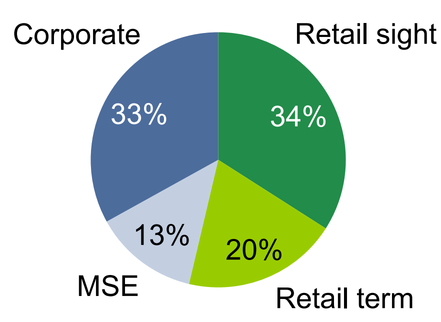
By countries



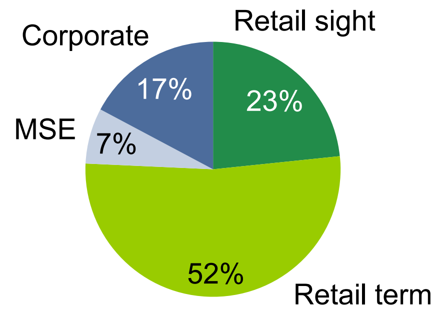
By products



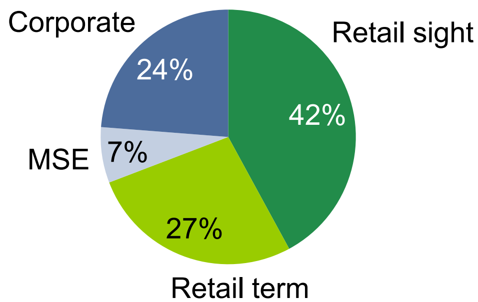
OTP Core (Hungary)



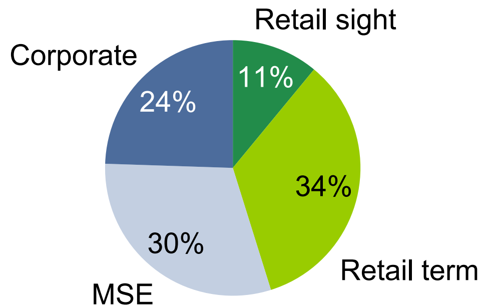
DSK Bank (Bulgaria)



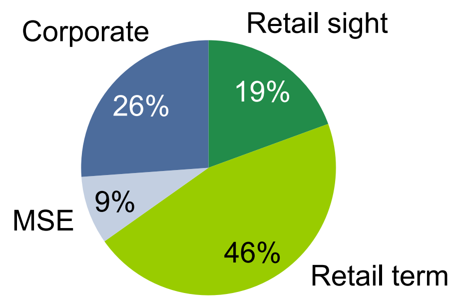
OTP Bank Croatia



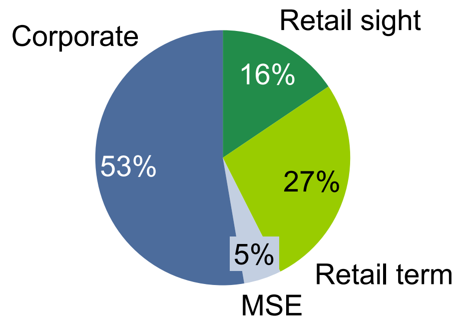
OTP Bank Romania



OTP Bank Russia



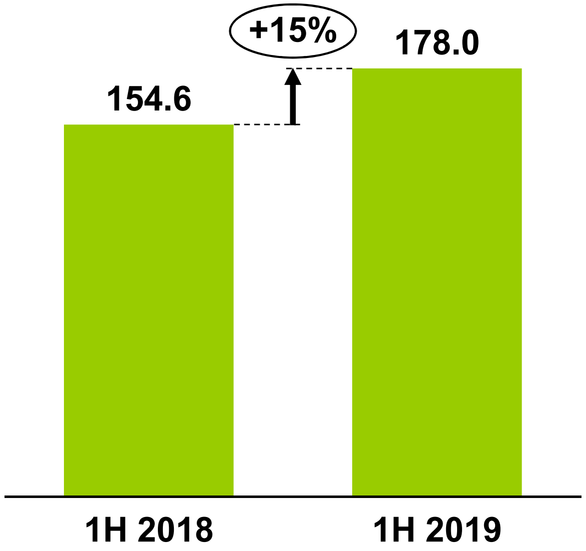
OTP Bank Ukraine



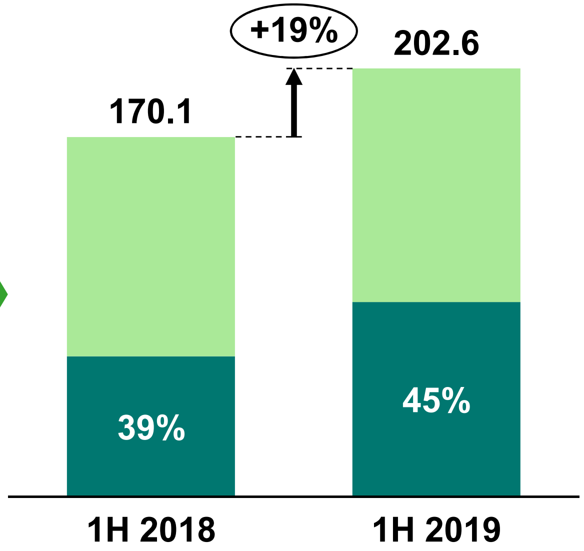
2. The semi-annual accounting profit grew by 15% y-o-y, while the adjusted profit leaped by 19%. The profit contribution of foreign subsidiaries improved to 45%

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

Accounting profit after tax



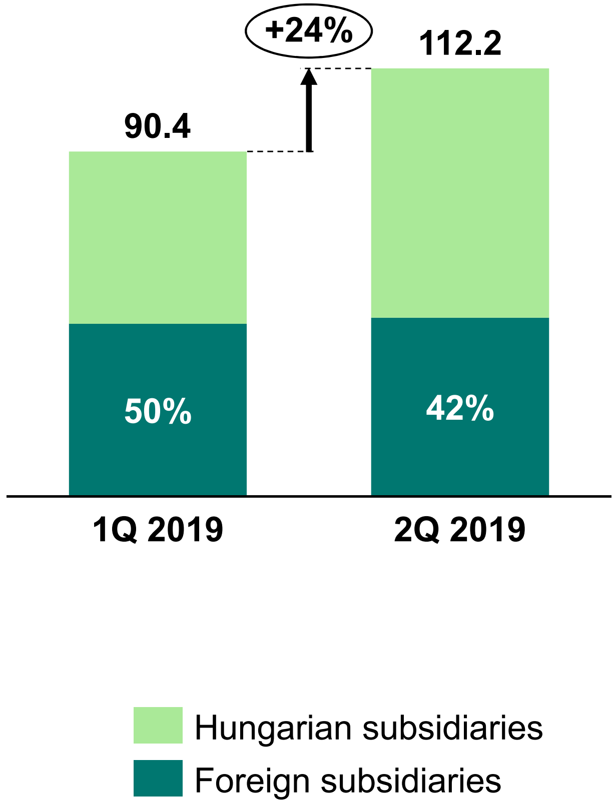
Adjusted profit after tax



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)

Adjusted profit after tax



[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

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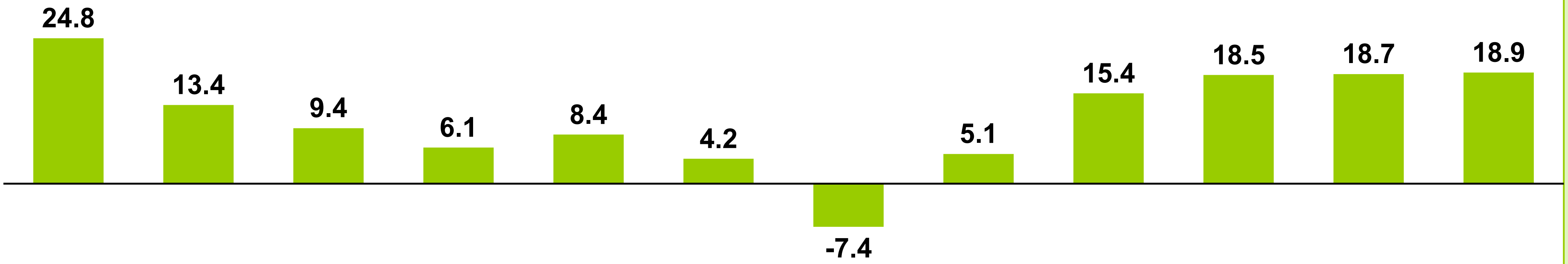
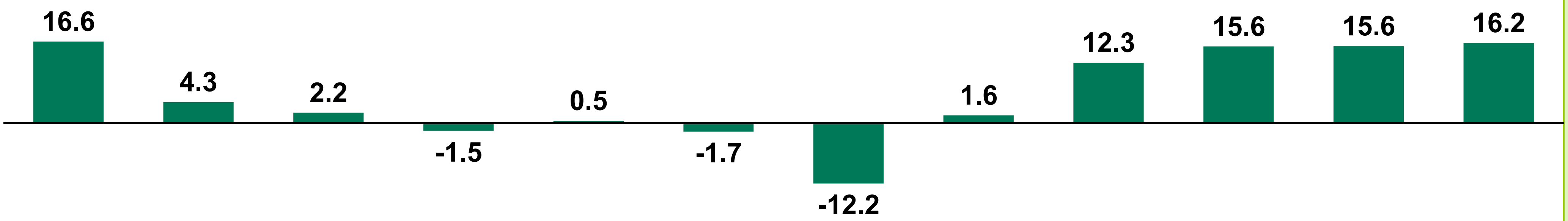
2. Return on Equity remained at attractive levels

Consolidated ROE, accounting (%)



Opportunity cost-adjusted[1] consolidated accounting ROE over the average 10Y Hungarian government bond yields (%)



Price to Book ratio

	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	1H 19
Max	2.8	1.4	1.7	1.4	0.8	1.0	0.9	1.4	1.7	1.9	2.0	2.0
Min	0.6	0.4	0.9	0.6	0.6	0.7	0.7	0.8	1.3	1.5	1.5	1.6

Bloomberg

[1] Accounting ROE less the annual average of Hungarian 10Y government bond yields.

2\.

The accounting ROE has consistently been above 15% since 2016 on the back of moderate provision charges and vanishing negative adjustment items

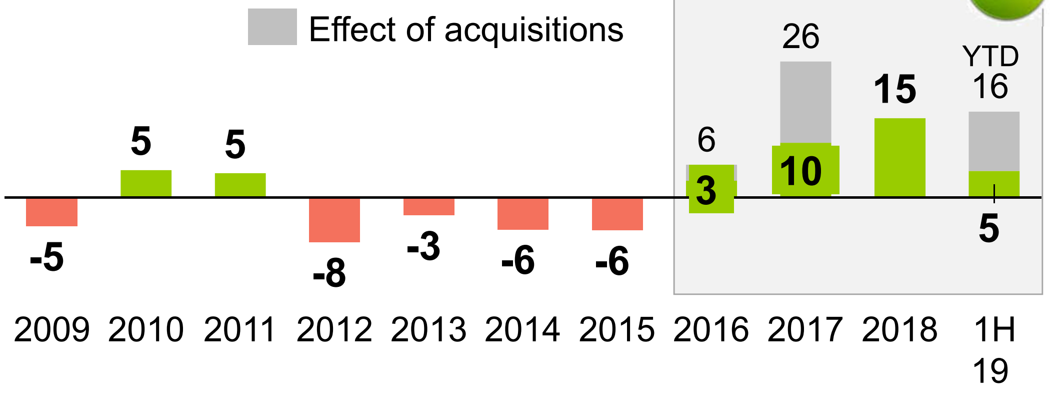
	2003-2008 average	2009-2013 average	2014	2015	2016	2017	2018	1H 2019
Accounting ROE	29.4%	8.3%	-7.4%	5.1%	15.4%	18.5%	18.7%	18.9%
Adjusted ROE[1]	29.0%	11.6%	8.5%	9.6%	15.4%	18.7%	19.1%	21.6%
Total Revenue Margin[2]	8.60%	8.17%	7.74%	7.03%	6.79%	6.71%	6.33%	6.32%
Net Interest Margin[2]	6.02%	6.28%	5.96%	5.12%	4.82%	4.56%	4.30%	4.22%/ 4.33%[4]
Net Fee & Comm. Margin	1.50%	1.47%	1.59%	1.55%	1.62%	1.75%	1.58%	1.57%
Other income Margin[2]	1.08%	0.41%	0.19%	0.31%	0.35%	0.41%	0.44%	0.53%
Operating Costs / Average Assets	4.47%	3.80%	3.85%	3.66%	3.70%	3.68%	3.57%	3.37%
Cost / Income (without one-offs)	51.9%	46.5%	49.8%	52.0%	54.4%	54.9%	56.3%	53.4%
Risk Cost Rate[3]	0.90%	3.37%	3.68%	3.18%	1.14%	0.43%	0.23%	0.19%
Leverage (average equity / avg. assets)	10.2%	13.5%	13.0%	11.7%	12.9%	12.7%	12.2%	11.9%

[1] Calculated from the Group's adjusted after tax result.
[2] Excluding one-off revenue items.
[3] Provision for impairment on loan and placement losses-to-average gross loans ratio.
[4] Without the Expressbank and Albanian acquisitions.

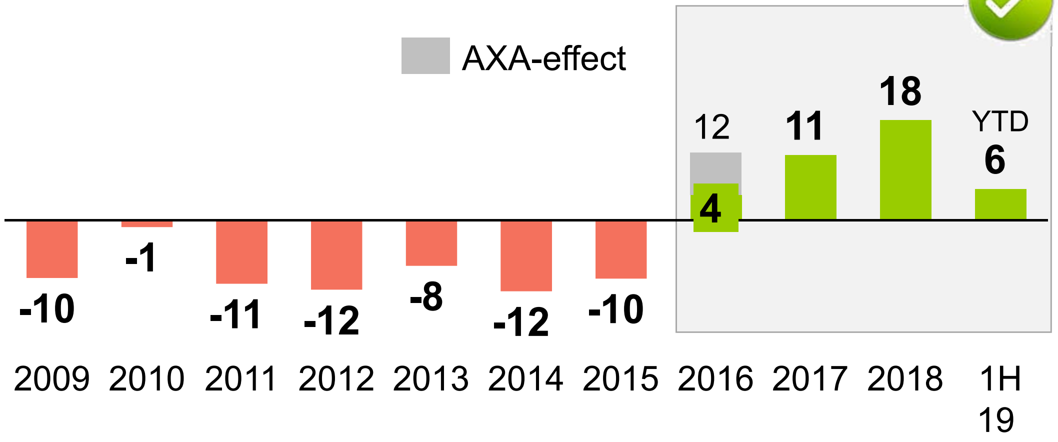
Following the contraction in the preceding years, the last 3.5 years brought a spectacular turnaround in loan volumes, while deposits have been growing steadily reflecting our clients' trust in the Bank

Y-o-Y performing (DPD0-90) loan volume changes [1] (adjusted for FX-effect, %)

Consolidated

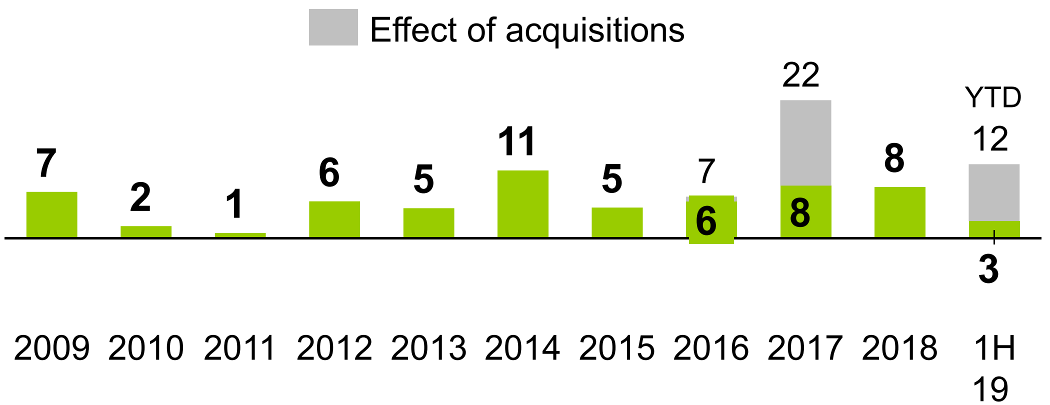


OTP Core

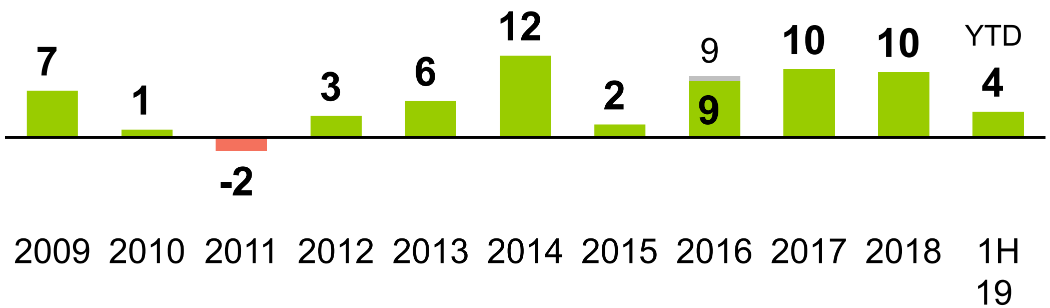


Y-o-Y deposit volume changes (adjusted for FX-effect, %)

Consolidated



OTP Core

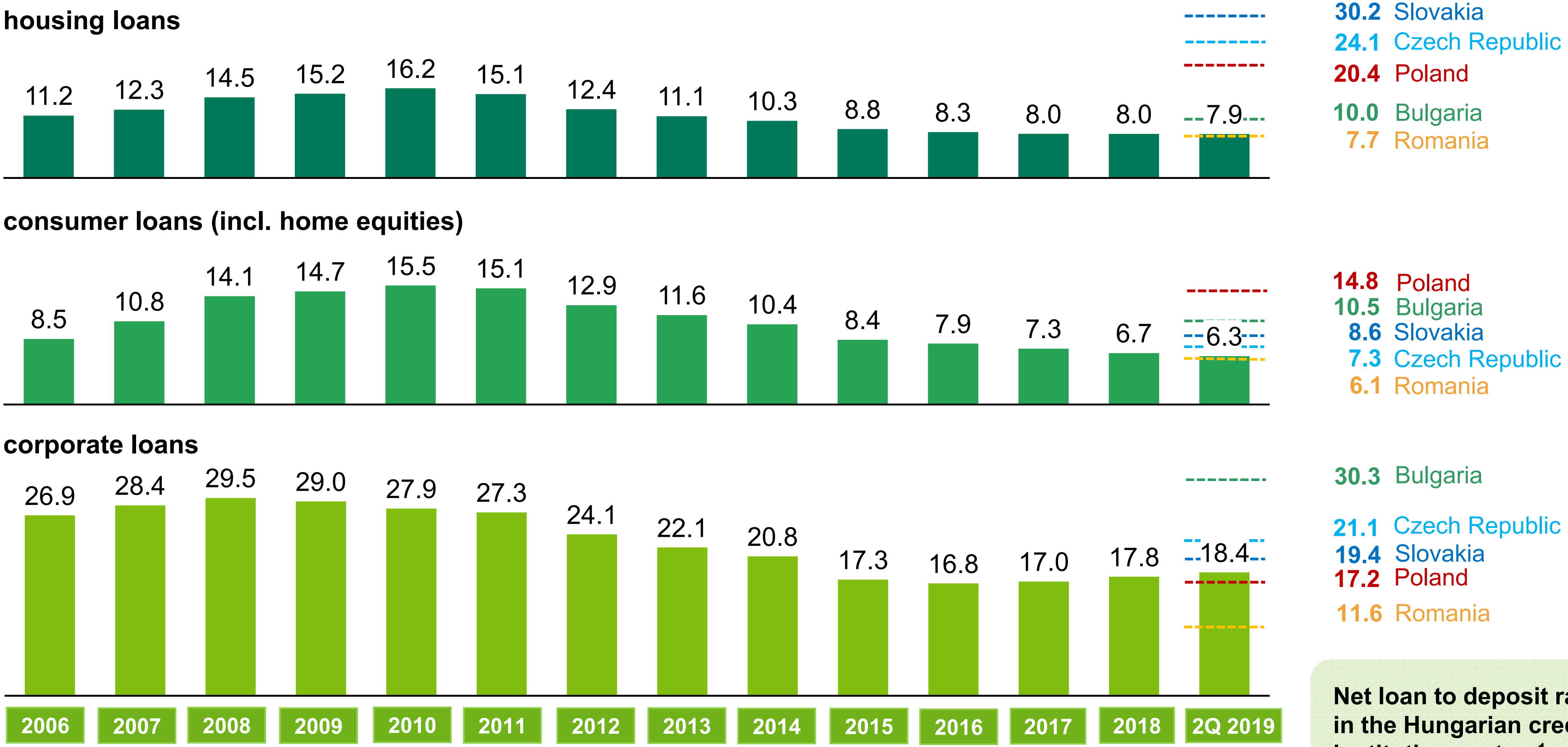


[1] Consolidated: net loan volume between 2009-2013. OTP Core: estimation for 2009; for the sake of comparability the elimination of OTP Real Estate Ltd. from OTP Core starting from 2019 is filtered out from the 1H 2019 YTD change.

3.

The Hungarian loan penetration levels are still low in regional comparison implying good volume growth potential. This is also the case for Romania, as well as for the Bulgarian housing loan segment

Market penetration levels in Hungary in ... (in % of GDP)



Net loan to deposit ratio in the Hungarian credit institution system[1]

168% → 93%

1Q 09 | 1Q 19

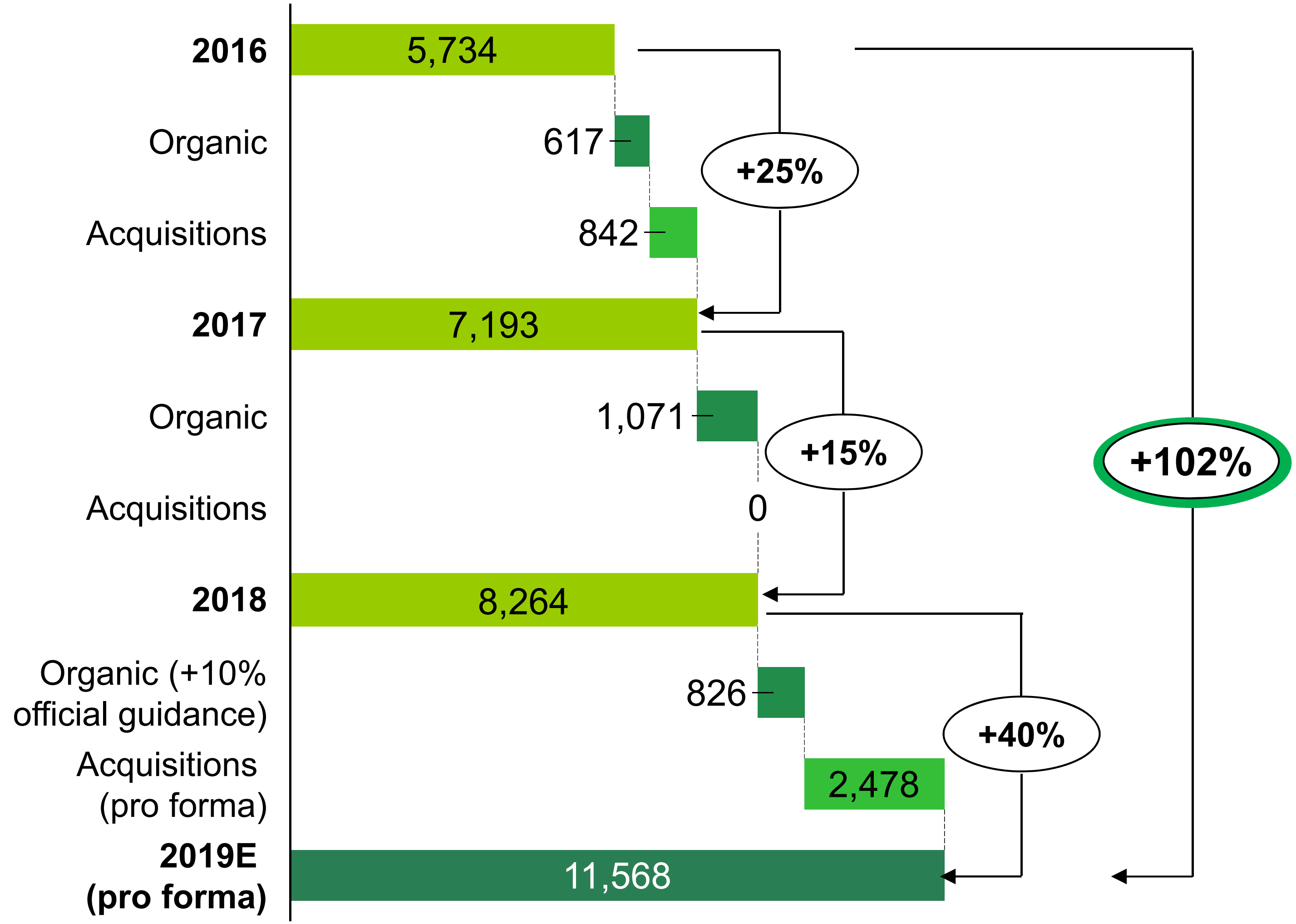
[1] Latest available data. According to the supervisory balance sheet data provision.

3.

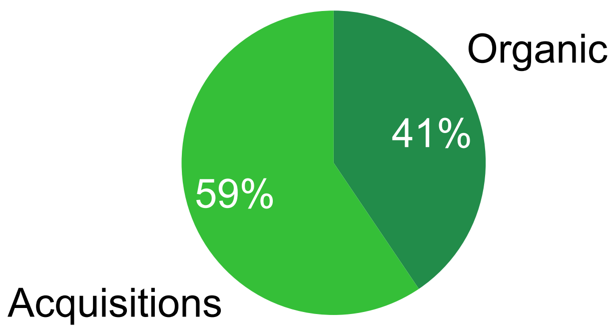
By the end of 2019 OTP Group might double its performing loan volumes, as a result of strong organic growth and acquisitions during the last 3 years

OTP Group – performing (DPD0-90) loan growth[1]

FX-adjusted, in HUF billion



Components of OTP Group's expected performing loan growth (between 2016-2019E)



[1] Performing loan volume data of acquisitions (estimate): Splitska banka: May 2017; Vojvodjanska banka: 4Q 2017; SG Expressbank: January 2019; SG Albania: 1Q 2019; SG Montenegro, SG Moldova, SG Serbia and SG Slovenia: 4Q 2018. Organic loan growth is calculated as total growth less acquisition-related growth. The 2019E organic loan growth guidance referred to Stage 1+2 loan volumes – for the sake of presenting longer time series, in this table the same growth rate was assumed for DPD0-90 loans in 2019.

otpbank

Acquisitions in the last 2.5 years materially improved OTP's positions in many countries. The *pro forma* CET1 ratio impact of the Serbian, Moldovan, Montenegrin and Slovenian transactions is -2.8 pps

Year	Target (seller, date of closing)	Net loan volumes (in HUF billion)		Market share in total assets (before/after acquisition[2], %)		Book value (in EUR million)	
2017	**Splitska banka**, Croatia (SocGen, 2Q 2017)	(Nov 18)	631	4.8	11.2	(4Q 16)	**496**
2017	**Vojvodjanska banka**, Serbia (NBG, 4Q 2017)	(1Q 19)	266	1.5	5.7	(3Q 17)	**174**
2019	**SocGen Expressbank**, Bulgaria (SocGen, 1Q 2019)	(1Q 19)	774	14.0	19.9	(4Q 18)	**421**
2019	**SocGen Albania** (SocGen, 1Q 2019)	(1Q 19)	124		6.0	(4Q 18)	**58**
2019	**SocGen Moldova** (SocGen, 3Q 2019)	(4Q 18)	85		14.0	(4Q 18)	**86**
2019	**SocGen Montenegro** (SocGen, 3Q 2019)	(4Q 18)	122	17.6	30.4	(4Q 18)	**66**
2019	**SocGen Serbia** (SocGen, 3Q 2019)	(4Q 18)	654	5.3	13.7	(4Q 18)	**381**
2019	***SKB Banka**, Slovenia (SocGen, in progress)*	(4Q 18)	785		8.5	(4Q 18)	**356**
	Acquisitions total:		**3,442**				**2,037**

[1] OTP Bank disclosed purchase price for Splitska banka (EUR 425 million) and Vojvodjanska banka (EUR 125 million) only.
[2] Reference date of market share data: Croatia: 2Q 2017, Serbia - Vojvodjanska 4Q 2016, Bulgaria: 1Q 2019, Albania: 4Q 2018, Serbia - SocGen 2Q 2019, Moldova: 2Q 2019, Montenegro: 2Q 2019, Slovenia: 4Q 2018 (SKB Banka including Leasing).

Montenegro

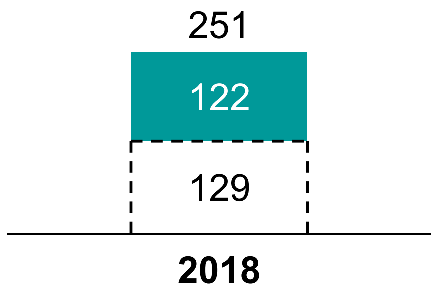
On 16 July 2019 the financial closure of the Montenegrin Societe Generale transaction has been completed; as a result, OTP cemented its market leading position in Montenegro

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

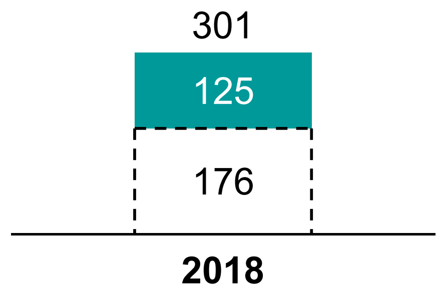
	Bank	Total assets	Market share	Equity
1	CKB AD + SG Banka Montenegro AD *(pro forma)*	**1,308**	**30.4%**	**235**
1	**Crnogorska Komercijalna Banka AD**	**760**	**17.6%**	**168**
2	Erste Bank AD Podgorica	569	13.2%	83
3	**Societe Generale Banka Montenegro AD**	**548**	**12.7%**	**67**
4	NLB Banka A.D. 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)



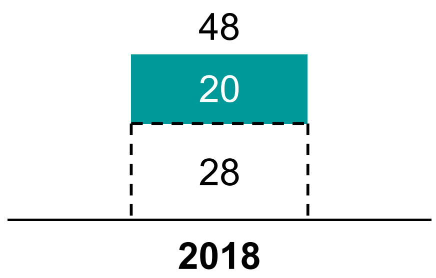
Customer deposits
(HUF billion, pro forma)



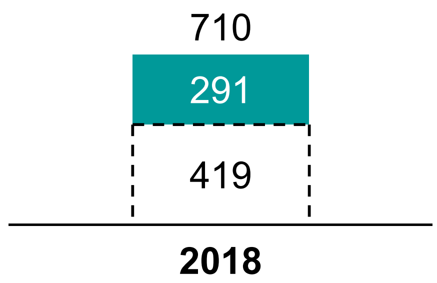
Net loan to deposit ratio: **98%**

SG Montenegro
CKB Bank

Number of branches
(pro forma)



Number of employees
(pro forma)



Source: Societe Generale Banka Montenegro annual report

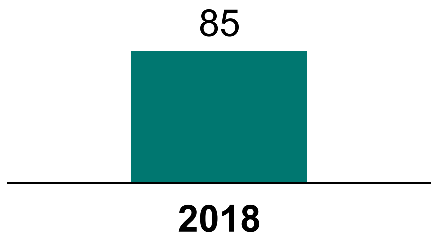
On 25 July 2019 the financial closure of the Moldovan transaction has been completed; the new subsidiary with a market share of 14.0% is the 4th largest bank on the Moldovan banking market

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

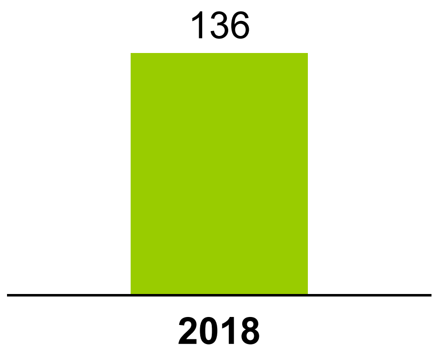
	Bank	Total assets	Market share	Equity
1	BC „Moldova - Agroinbank” S.A.	1,204	28.5%	198
2	BC „Moldindconbank” S.A.	843	20.0%	142
3	B.C. „Victoriabank” S.A.	706	16.7%	123
4	**BC „MOBIASBANCA - Groupe Societe Generale” S.A.**	**592**	**14.0%**	**86**
5	B.C. „Eximbank” S.A.	195	4.6%	52
6	BCR Chisinau S.A.	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)

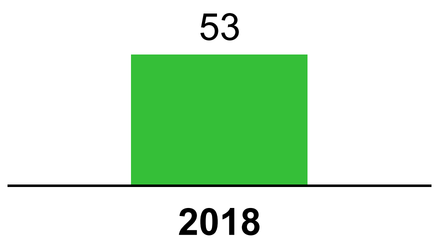


Customer deposits
(HUF billion)

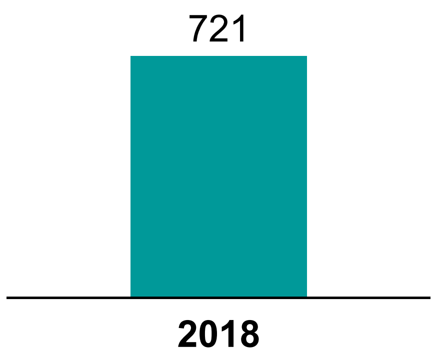


Net loan to deposit ratio: **63%**

Number of branches



Number of employees



Source: Mobiasbanca – Groupe Societe Generale annual report

Serbia

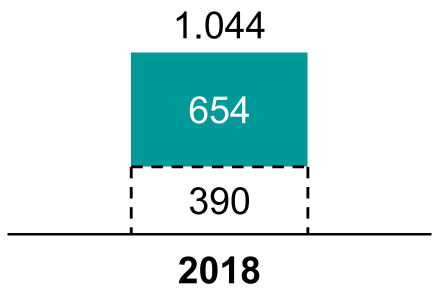
On 20 December 2018 OTP Bank signed an acquisition agreement on purchasing 100% shareholding of Societe Generale banka Srbija, the 4th largest bank on the Serbian banking market[1]

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

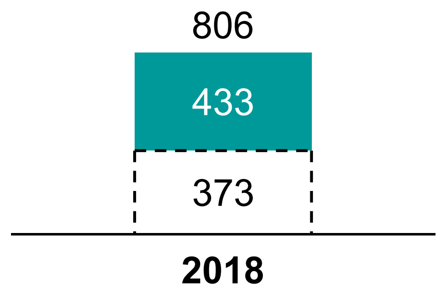
	Bank	Total Assets	Market share	Equity
1	Banca Intesa A.D.	5,042	15.6%	864
2	**Vojvođanska banka a.d. + Societe Generale banka Srbija A.D.**	**4,429**	**13.7%**	**677**
3	Unicredit Bank Srbija A.D.	3,733	11.5%	688
3	Komercijalna banka A.D.	3,504	10.8%	587
4	**Societe Generale banka Srbija A.D.**	**2,698**	**8.3%**	**408**
5	Raiffeisen Banka A.D.	2,545	7.9%	473
6	Erste Bank A.D.	1,876	5.8%	211
7	AIK banka	1,767	5.5%	438
8	**Vojvođanska banka a.d. (OTP Bank Serbia)**	**1,731**	**5.3%**	**269**
9	Banka Poštanska štedionica A.D.	1,545	4.8%	166
10	Eurobank A.D.	1,468	4.5%	439

Source: National Bank of Serbia

Net loans
(HUF billion, pro forma)



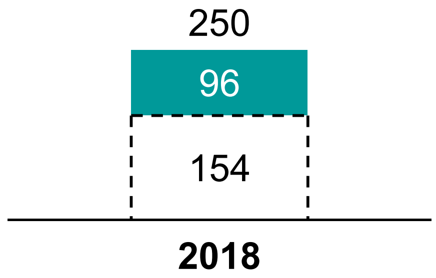
Customer deposits
(HUF billion, pro forma)



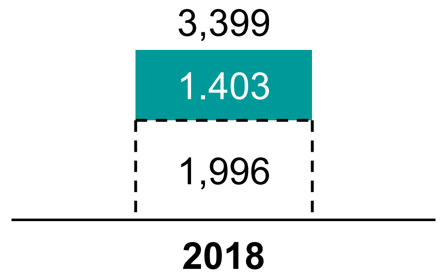
Net loan to deposit ratio: **134%**

SocGen Serbia
OTP Bank Serbia

Number of branches
(pro forma)



Number of employees
(pro forma)



Source: Societe Generale banka Srbija A.D. annual report

[1] Financial closure of the transaction is expected during autumn 2019

On 3 May 2019 OTP Bank announced the acquisition of SocGen's Slovenian operation. SKB Banka is the 4th largest player in the Slovenian market[1]

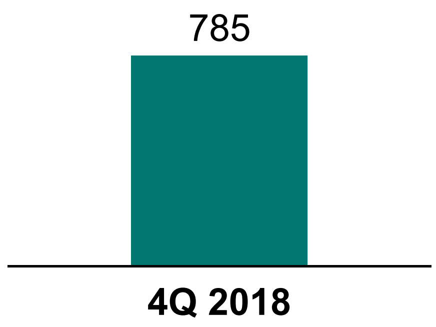
Slovenia

Market share and equity of Slovenian banks
(4Q 2018, in EUR million)

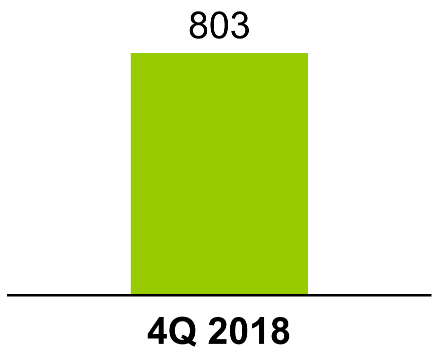
	Bank	Total assets	Market share	Equity
1	Nova Ljubljanska banka d.d.	8,811	22.7%	1,295
2	Nova Kreditna banka Maribor d.d.	4,978	12.8%	723
3	Abanka d.d.	3,729	9.6%	583
4.	**SKB Banka d.d.[2]**	**3,314**	**8.5%**	**356**
5	UniCredit Banka Slovenija d.d.	2,656	6.8%	251
6	Banka Intesa Sanpaolo d.d.	2,596	6.7%	284
7	Slovenska izvozna in razvojna banka	2,319	6.0%	422

Source: National Bank of Slovenia, annual reports

Net loans
(HUF billion)

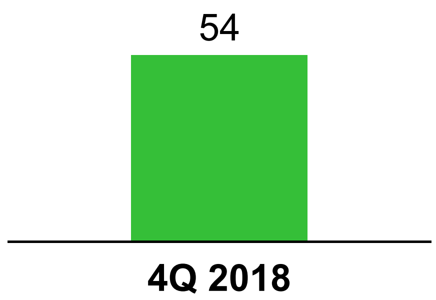


Customer deposits
(HUF billion)

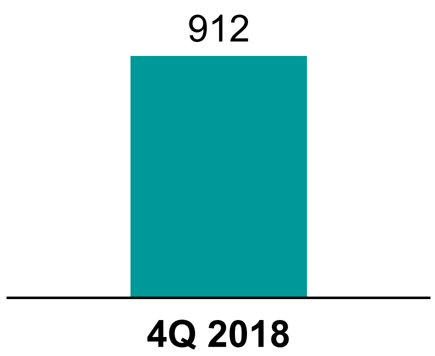


Net loan to deposit ratio: **98%**

Number of branches



Number of employees

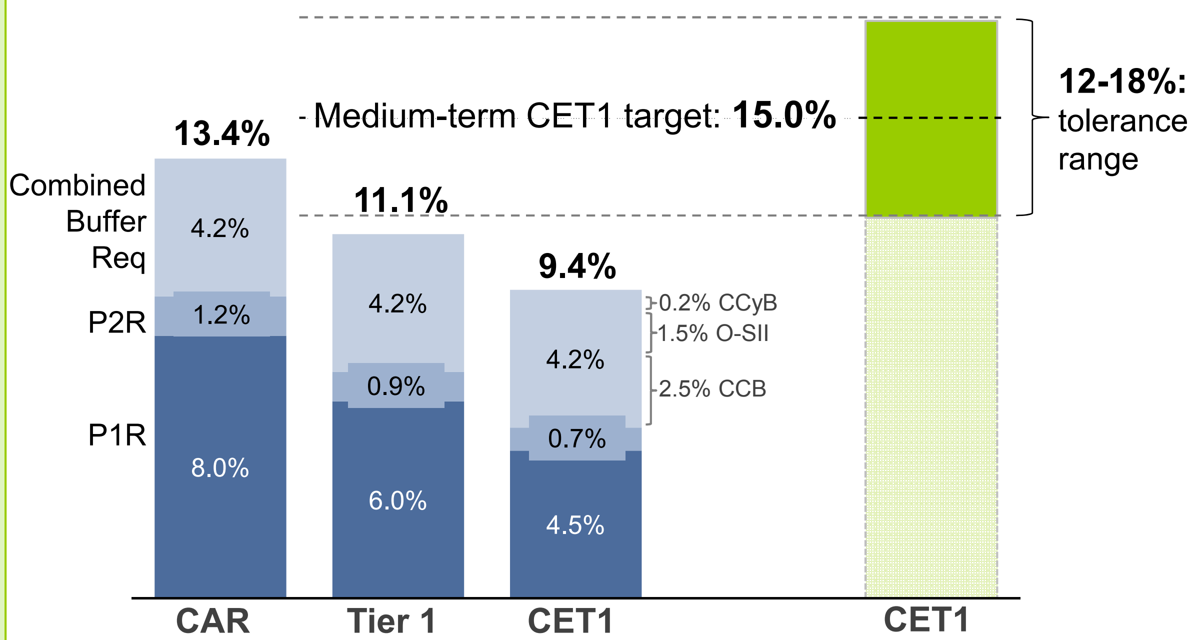


Source: SKB Banka Annual Report

[1] Financial closure of the transaction is expected in 4Q 2019.
[2] Including Leasing.

Capital adequacy ratios operating well above CRR / CRD IV capital requirements, supported by a proactive and prudent capital management approach and a proven ability to withstand stress

Management target of consolidated CET1[1] in light of regulatory minima for 2019



Regulatory minimum levels forecast for 2019

Management target for consolidated CET1=Tier 1

Capital Management Framework

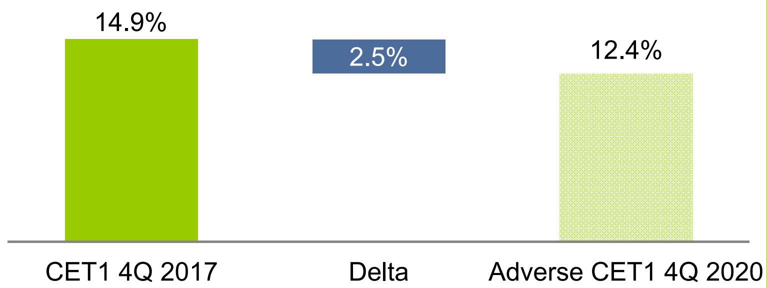
- The (P1R + P2R) / P1R ratio on OTP Group was set by MNB at 114.63% for 2019. This rate may change in the future as a result of future SREP outcomes. This ratio equals a P2R of 1.17% and can be met proportionally with CET1, Tier 1 and Tier 2 Capital[2]
- Capital buffers in Hungary:

  Capital conservation buffer is 2.5%, Systemic risk buffer is 0%, Countercyclical buffer (CCyB) is 0%; O-SII buffer currently at 1.5% of RWA and expected to be fully phased-in at 2.0% in 2020
- Capital buffers in foreign countries affecting consolidated buffers:

  CCyB introduced already in Slovakia (1.25% currently, and 1.5% from August 2019) and expected to be introduced in Bulgaria in 3Q 2019 (at 0.5% level which will increase by another 50 bps in 2020), therefore on the consolidated level weighted CCyB is 0.2% at year-end 2019, according to our conservative estimation
- From 2022, the outstanding ICES bonds can not be taken into account in regulatory capital according to CRR II. Effect: HUF -90 billion in Tier 2 capital.

2018 EBA stress test

- In addition to its historically countercyclical business model and benign risk profile OTP Group is focused on maintaining a solid capital position at all times
- In the latest stress test conducted by the European Banking Authority (EBA) in 2018, OTP stood out with one of the lowest CET1 depletion out of all European banks
- The starting point was 14.9% CET1 (4Q 2017 – restated, including the impact of IFRS 9 introduction) and 12.4% in the most adverse scenario (4Q 2020), representing a stress test depletion of 2.5% and an implied stress test buffer of 3% over 2019 requirements



[1] Since OTP Group does not have any AT1 capital instruments, Tier 1 target currently is the same as the CET1 target; the Tier 1 minimum requirement has to be considered as CET1 minimum.
[2] Pillar 2 Requirement (P2R) composed of minimum 56% CET1, 19% AT1 and 25% Tier 2

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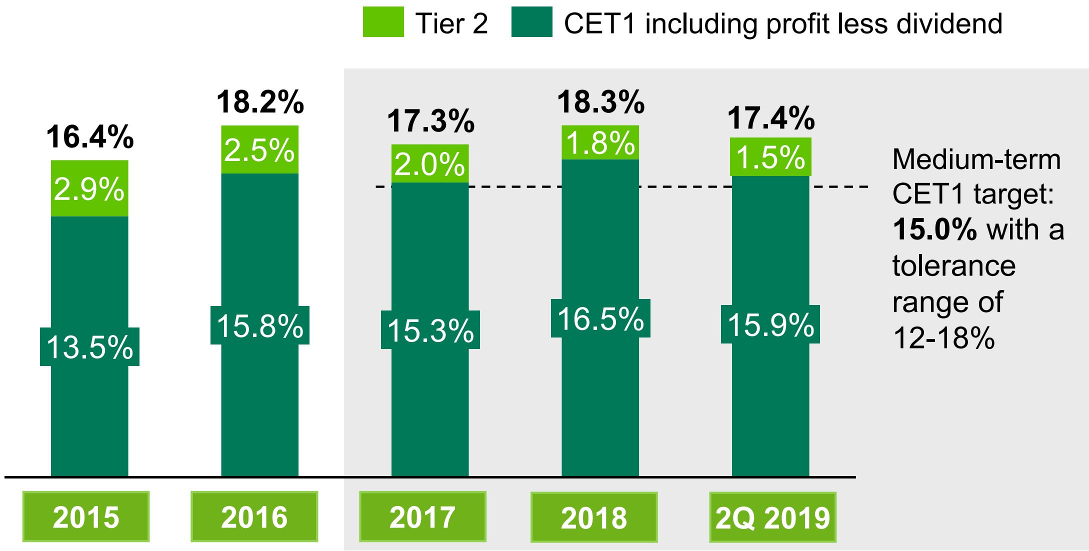
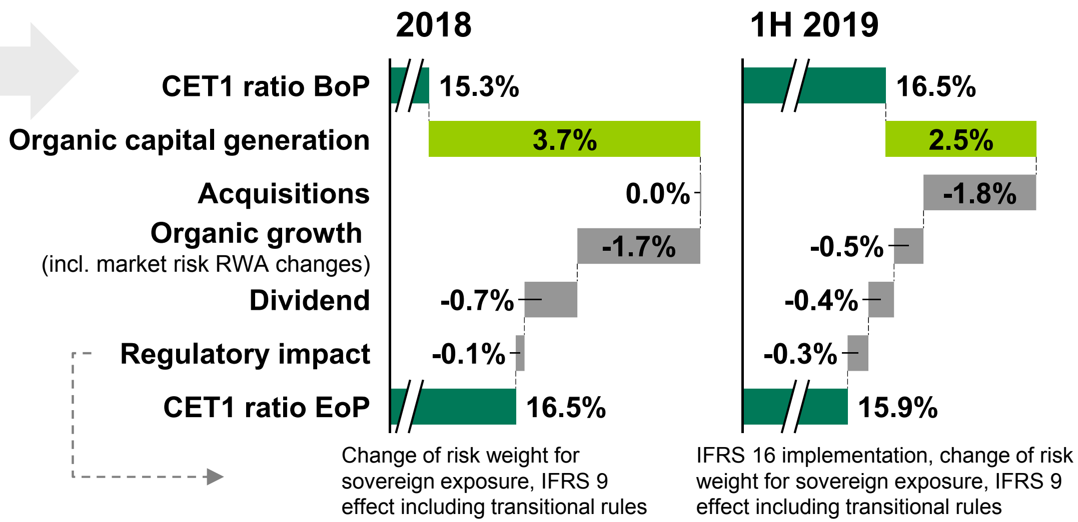
4. Strong capital and liquidity position coupled with sound internal capital generation; 1H 2019 CAR ratio does not include the effect of Tier 2 bonds issued on 15 July 2019

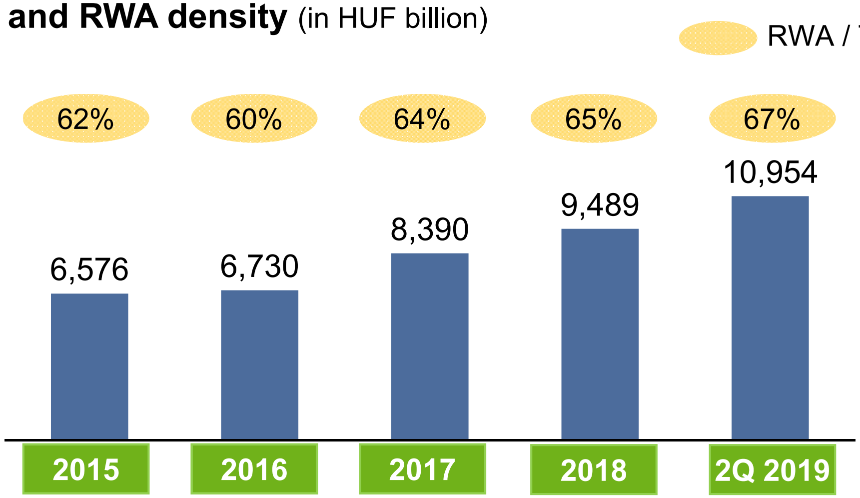
Evolution of CET1 / CAR ratios[1]



Value generative acquisition and dividends offset by organic capital generation



Development of the Risk Weighted Assets of OTP Group and RWA density (in HUF billion)



OTP Group uses the **standard method** for credit risk and market risk. For OpRisk the **AMA** and **BIA** methods are applied.

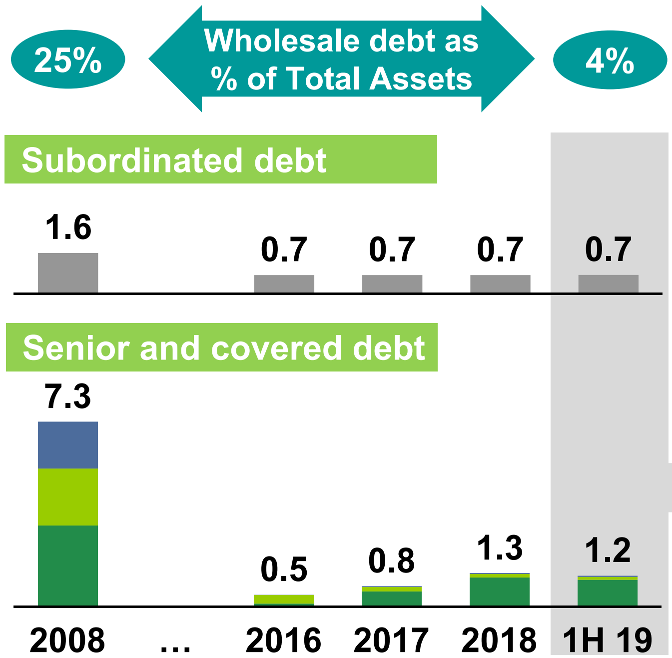
MREL requirement

- The National Bank of Hungary, acting as resolution authority, set OTP Group's MREL requirement in September 2019. The consolidated MREL requirement has to be reached by 30 June 2023, following a 4-year transitional period.
- The MREL requirement is determined at 14.73% of the Group's total liabilities and own funds (TLOF). This minimum corresponds to 21.89% of the Group's total risk exposure amount (TREA or RWA). The MREL requirement is expected to be reviewed at least once a year in the future.
- OTP expects to meet the MREL requirement by CET1, Tier 2, senior non-preferred (SNP) and senior liabilities.
- OTP Bank decided to use the Single Point of Entry (SPE) while meeting the requirements.

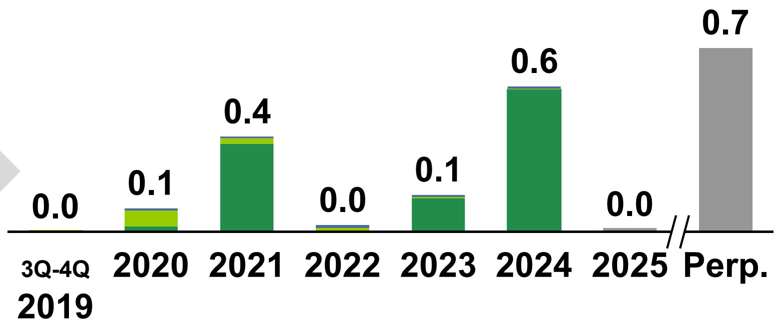
[1] CET1 and CAR ratios under accounting scope of consolidation, as published in financial statements. These ratios may slightly differ from capital ratios under prudential (CRR) scope of consolidation. In 1H 2019 the CET1 ratio under prudential scope of consolidation was 16.15 %, while the CAR ratio calculated on the same basis was 17.68%.

4. Robust liquidity and funding position: 75% net loan to deposit ratio; share of wholesale debt at 4% of consolidated total assets; 191% LCR, 133% NSFR and light maturity profile with marginal refinancing needs

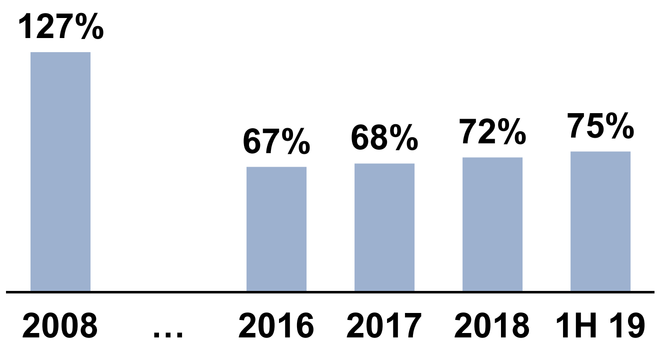
Consolidated[1] outstanding amount of wholesale debt (in EUR billion)



Maturity profile (end-1Q 2019, in EUR billion)



Consolidated Net loans / (Deposits + Retail bonds) ratio



Key liquidity ratios	Req.	2017	2018	1H 19
NSFR[2]	-	145%	144%	133%
Liquidity Coverage Ratio (LCR)	≥ 100%	208%	207%	191%
Net loan to deposit ratio	-	68%	72%	75%
Leverage ratio[3]	-	9.3%	10.1%	10.1%

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

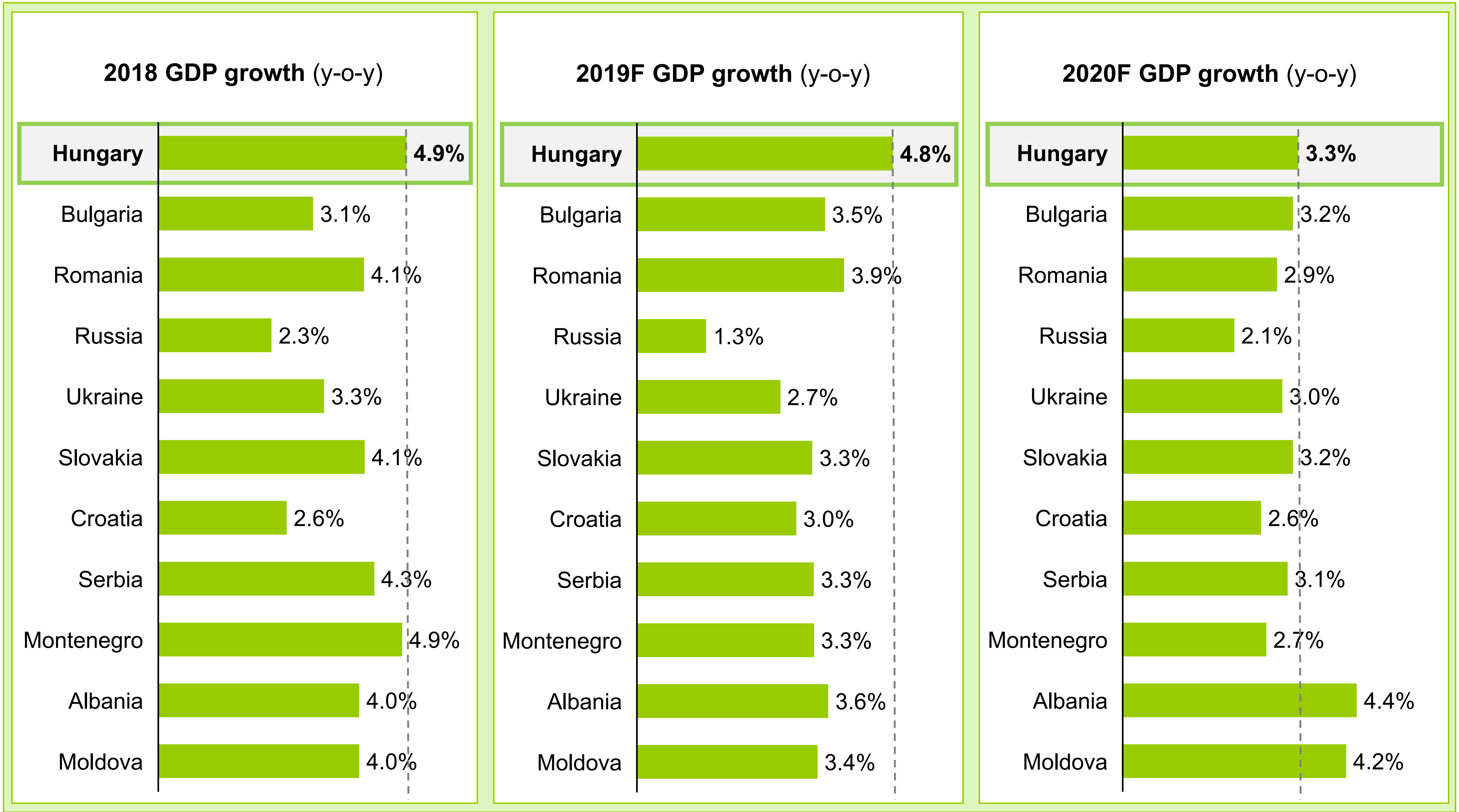
Interest: fix rate 2.875% p.a. in the first 5 years; starting from year 6 until maturity, the yearly fix coupon is calculated as the sum of the initial margin (320 basis points) and the 5 year mid-swap rate prevailing at the end of year 5

Joint Lead Managers: OTP Bank, BNP Paribas, Citigroup

Listing: Luxembourg Stock Exchange

[1] Outstanding amount of bonds are decreased by the amounts purchased by Group members. Senior bonds include retail targeted bonds, too.
[2] Net Stable Funding Ratio was based on BIS QIS (Quantitative Impact Studies) data report, there is no regulatory limit determined.
[3] Based on prudential scope of consolidation – CRR.

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



OTP Group: management expectations for 2019 as of 1Q Interim Report (10 May 2019) – 1.

The ROE target of above 15% announced at the 2015 Annual General Meeting remains in place.

Apart from the negative impact of the Hungarian and Slovakian banking tax (HUF 16 billion after tax) the introduction of the Romanian banking tax from 2019 with maximum HUF 2 billion (after tax) earnings effect which can be reduced even to nil depending on loan growth and margin; the Serbian CHF mortgages' optional conversion and the related principal reduction (the expected one-off negative effect is maximum HUF 2.0 billion), and acquisitions may result in material adjustment items.

The FX-adjusted growth of performing loans (Stage 1 plus Stage 2 under IFRS 9) – without the effect of further acquisitions – may be around 10% in 2019.

The net interest margin started to flatten out in 2018, and it may not fall below the 2Q 2018 level (4.25%) without new acquisitions in 2019.

Assuming no material change in the external environment, favourable credit quality trends – similar to 2018 – are expected to remain in 2019. The Stage 3 and DP90+ ratios may decline further and the risk cost rate (provision for impairment on loan and placement losses to average gross loans ratio) may be around the 2018 level.

The FX-adjusted operating expenses without acquisition effect are expected to increase by 4% y-o-y, mainly as a result of wage inflation, ongoing digital and IT transformation and strong organic growth, but these factors will be partially off-set by the cost synergy benefits realized in Croatia.

OTP Group: management expectations for 2019 as of 1Q Interim Report (10 May 2019) – 2.

The dividend proposal after the 2019 financial year will be decided by the management in 1Q 2020, similar to the practice concerning the 2018 dividend policy.

As for the indicated / deducted dividend amount presented among the financial data in the quarterly Stock Exchange Reports in 2019, on 10 May 2019 NBH issued a resolution about the calculation method of the deductible dividend. Accordingly, the amount of the dividend to be deducted should be calculated as the multiplication result of the consolidated accounting profit and the average dividend payment ratio for the preceding three years (22.4%). The 1H consolidated accounting profit represented HUF 177.8 billion, as a result the dividend amount for 1H comprised HUF 39.8 billion.

This calculated dividend amount (HUF 39.8 billion) cannot be considered as an indication of the management's dividend proposal, since the dividend proposal after the 2019 fiscal year will be decided by the management in 1Q 2020.

Content

In 2Q 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		-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.

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	Q-o-Q w/o M&A FX-adj.[2]
Consolidated adjusted after tax profit	**170.1**	**202.6**	**19%**	**191.6**	**13%**	**90.4**	**112.2**	**24%**	**21%**
Corporate tax	-21.3	-25.3	19%	-23.6	11%	-11.4	-13.9	21%	17%
Profit before tax	191.5	227.9	19%	215.2	12%	101.8	126.1	24%	20%
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%**	**13%**
Operating profit without one-offs	191.4	232.9	22%	217.8	14%	108.8	124.2	14%	11%
Total income without one-offs	426.3	499.0	17%	473.7	11%	239.7	259.3	8%	5%
Net interest income	289.5	333.4	15%	315.2	9%	162.7	170.7	5%	2%
Net fees and commissions	106.3	124.0	17%	118.7	12%	57.2	66.8	17%	14%
Other net non interest income without one-offs	30.5	41.6	36%	39.8	31%	19.8	21.8	10%	8%
Operating costs	-234.9	-266.1	13%	-255.9	9%	-131.0	-135.1	3%	1%
Total risk cost	-3.4	-10.6	215%	-8.2	145%	-6.2	-4.4	-29%	-32%

[1] Neither 1H 2019 numbers nor y-o-y changes include the contribution of the Bulgarian Expressbank and OTP Bank Albania.

[2] The q-o-q changes do not include the contribution from OTP Bank Albania and are also adjusted for the FX rate changes.

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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%
Corporate[1]	5%	8%	0%	-9%	2%	9%	3%	2%	4%		9%

Housing loan	Home equity
3%	-3%

[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%

Mortgage (Core):

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

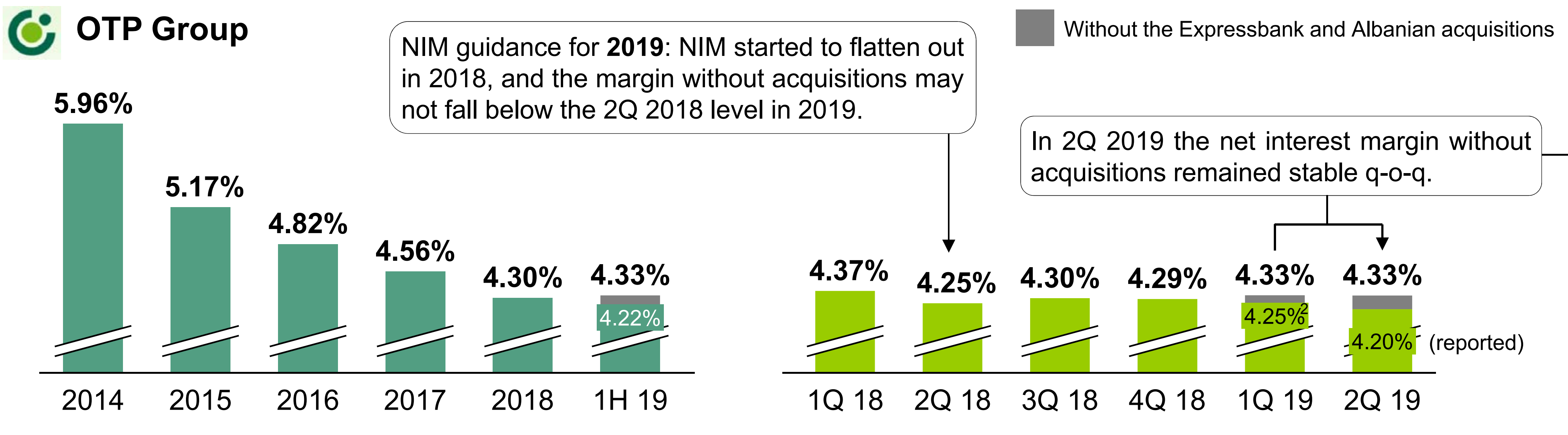
Y-o-Y deposit volume changes in 2Q 2019, adjusted for FX-effect

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

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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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, too

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%
DSK (Bulgaria)	52	26	2 / 18	51%/3%[2]	1	3%
OBRu (Russia)	54	28	4	8%/9%[3]	1	5%/0%[3]
OBH (Croatia)	28	14	1	5%/-1%[4]	0	0%
OBU (Ukraine)	22	11	8	55%/43%[3]	1	6%/0%[3]
OBR (Romania)	13	7	2	23%/20%[4]	1	10%
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, a 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.

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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.

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	14% (1)
DSK (Bulgaria)	34	2 / 11	45%/6%[2]	1 / 10	42%/3%[2]
OBRU (Russia)	30	-1	-2%	0	-1% (2)
OBH (Croatia)	21	0	-2%/-7%[3]	-1	-4%/-8%[3] (3)
OBU (Ukraine)	10	2	31%	2	21% (4)
OBR (Romania)	12	2	26%/22%[3]	2	25%/22%[3] (5)
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.

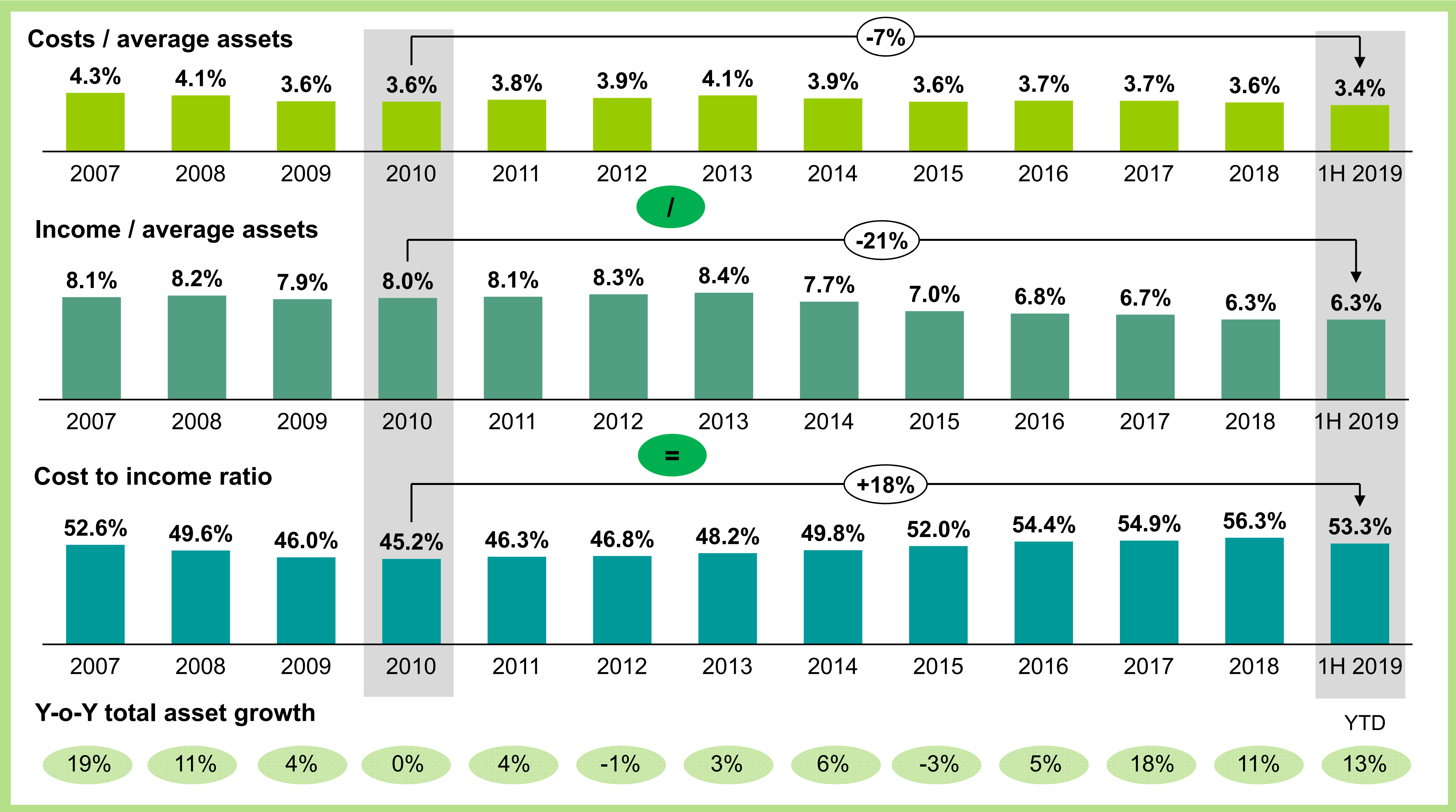
3. OBH: 8% FX-adjusted decrease y-o-y, reasoned by cost synergies extracted from the merger of the two banks, including savings in hardware, real estate and telecommunication expenses, as well as operating costs of the ATM and POS networks.

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



OTP CORE

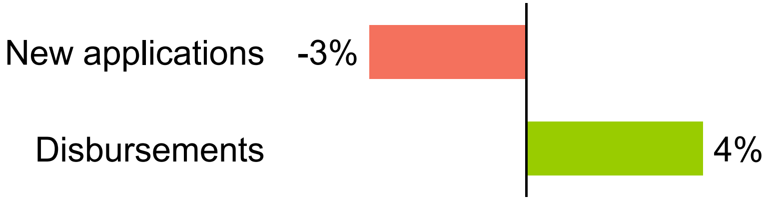
1H after tax profit of OTP Core improved by 2% y-o-y driven by the 4% increase in operating profit. Total income (without one-off revenue items) expanded by 10% y-o-y

OTP CORE (in HUF billion)	1H 2018	1H 2019	Y-o-Y	2Q 2018	1Q 2019	2Q 2019	Q-o-Q	Y-o-Y
Profit after tax	**95.4**	**97.4**	**2%**	**56.3**	**39.6**	**57.7**	**46%**	**3%**
Corporate tax	-8.1	-8.3	2%	-4.6	-3.5	-4.8	37%	4%
Before tax profit	**103.5**	**105.7**	**2%**	**60.9**	**43.1**	**62.5**	**45%**	**3%**
Operating profit w/o one-off items	79.1	82.2	4%	41.2	37.2	45.0	21%	9%
Total income w/o one-off items	187.1	205.5	10%	97.6	98.4	107.1	9%	10%
Net interest income	119.5	130.0	9%	60.0	64.3	65.8	2%	10%
Net fees and commissions	53.0	58.5	10%	29.2	26.0	32.5	25%	11%
Other net non interest income without one-offs	14.6	17.0	16%	8.4	8.1	8.9	9%	6%
Operating costs	-108.0	-123.3	14%	-56.4	-61.2	-62.1	2%	10%
Total risk costs	20.9	17.8	-15%	14.4	6.6	11.2	68%	-22%
Total one-off items	3.4	5.6	62%	5.3	0.0	6.3		19%

OTP CORE

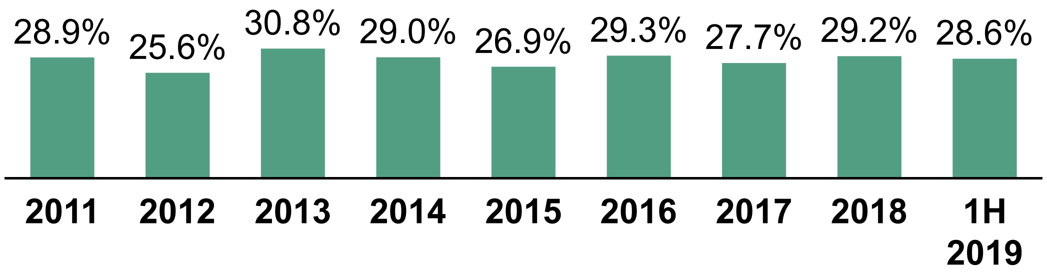
The upward trend of mortgage disbursements remained in place in Hungary, however new applications declined partly due to the launch of *Baby Shower Subsidy* and other subsidies from July. OTP enjoys a stable/improving market share in new mortgage and new cash loan disbursements, as well as in retail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

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

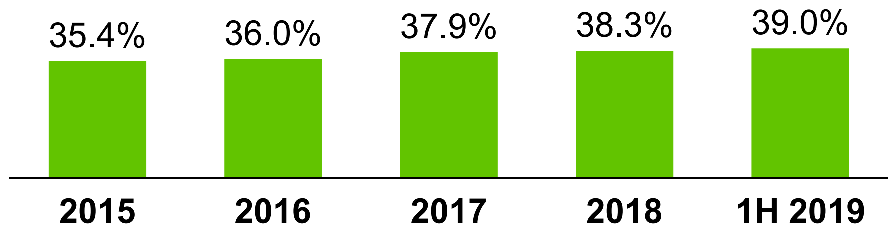


Performing (DPD0-90) cash loan volume growth (y-o-y , FX-adjusted)

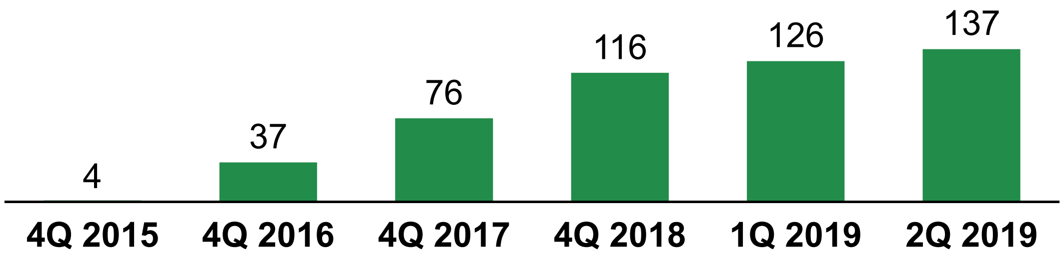
OTP's market share in mortgage loan contractual amounts



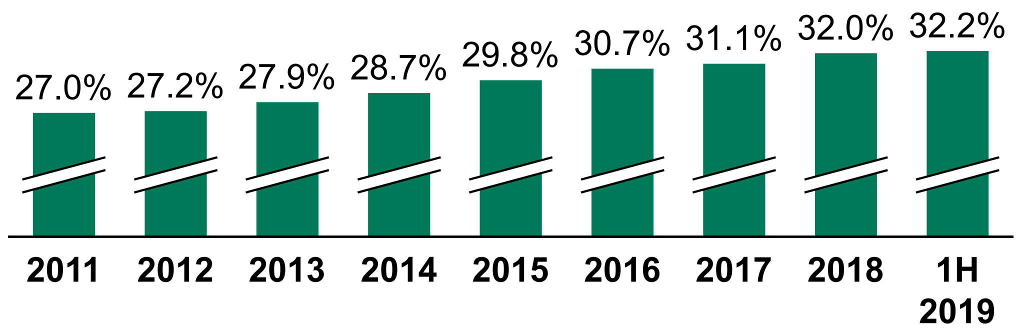
Market share in newly disbursed cash loans



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



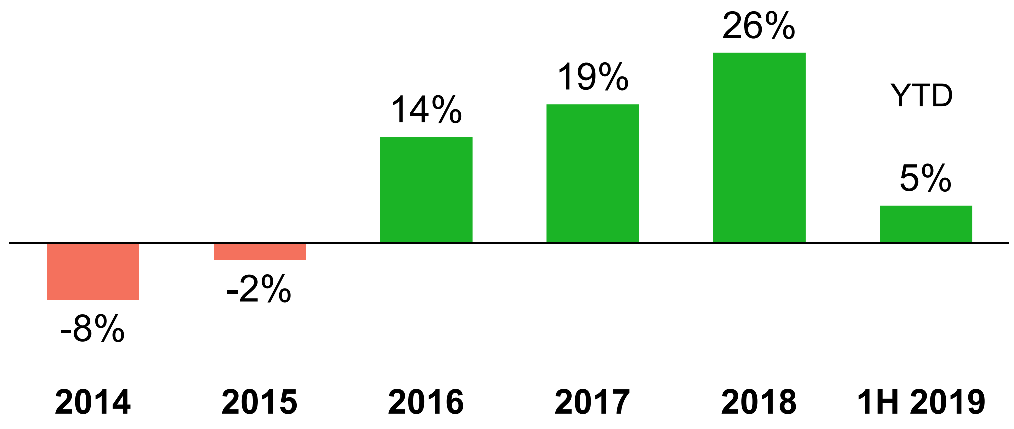
OTP Bank's market share in household savings



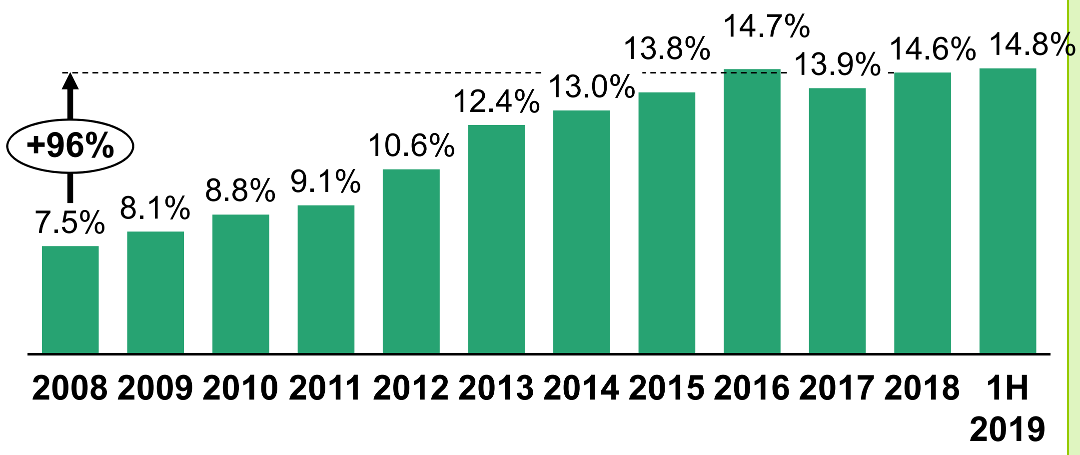
OTP CORE

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%

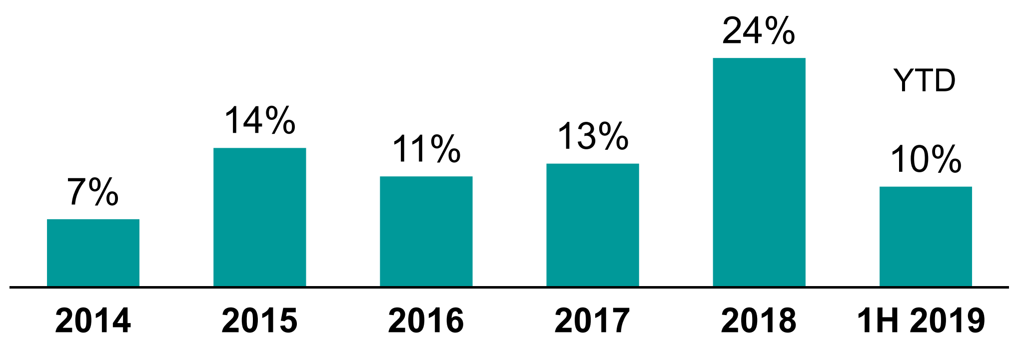
Performing (DPD0-90) medium and large corporate loan volume change (FX-adjusted)



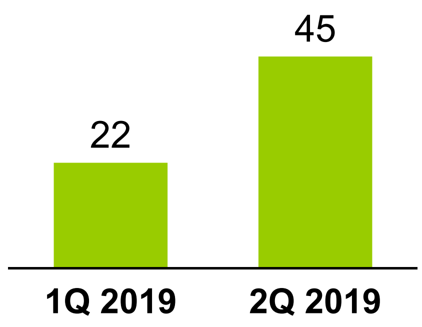
OTP Group's market share in loans to Hungarian companies[1]



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.

DSK Bank Bulgaria

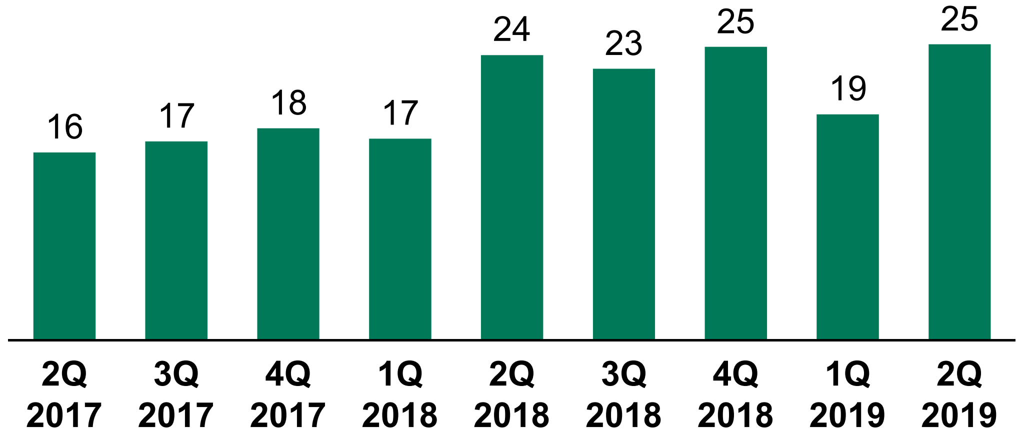
The Bulgarian operation posted HUF 16.6 billion profit in 2Q including HUF 4.6 billion made by Expressbank. The stronger business activity was reflected in the trend-like improvement in cash and mortgage loan sales

Income statement

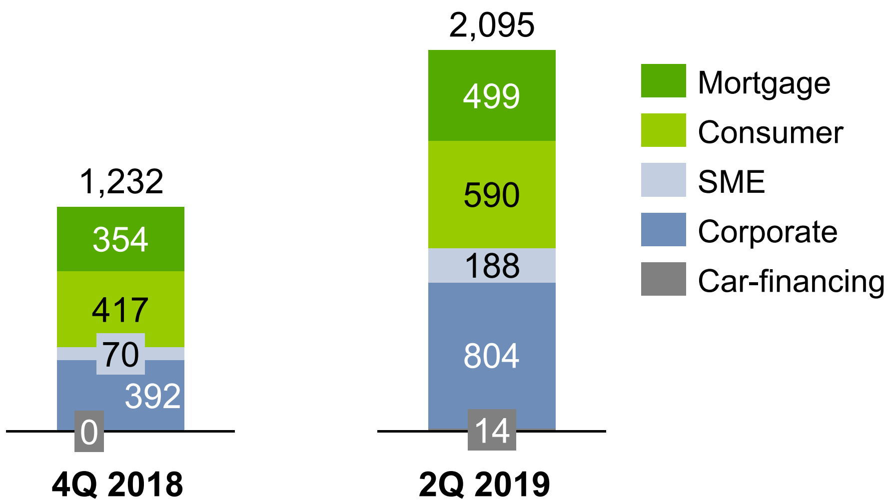
(in HUF billion)	2Q 18	1Q 19	2Q 19	Q-o-Q	Y-o-Y
Profit after tax	**12.9**	**17.6**	**16.6**	**-5%**	**29%**
Profit before tax	14.2	19.8	18.9	-4%	33%
Operating profit	13.2	20.4	21.4	5%	63%
Total income	25.5	37.3	38.9	4%	53%
Net interest income	16.5	25.6	26.4	3%	60%
Net fees and commissions	7.4	9.7	10.6	9%	43%
Other income	1.6	2.0	1.9	-6%	22%
Operating costs	-12.3	-16.9	-17.5	3%	42%
Total risk cost	1.0	-0.6	-2.5	305%	

New mortgage loan disbursements[1]

(in HUF billion, without refinancing)

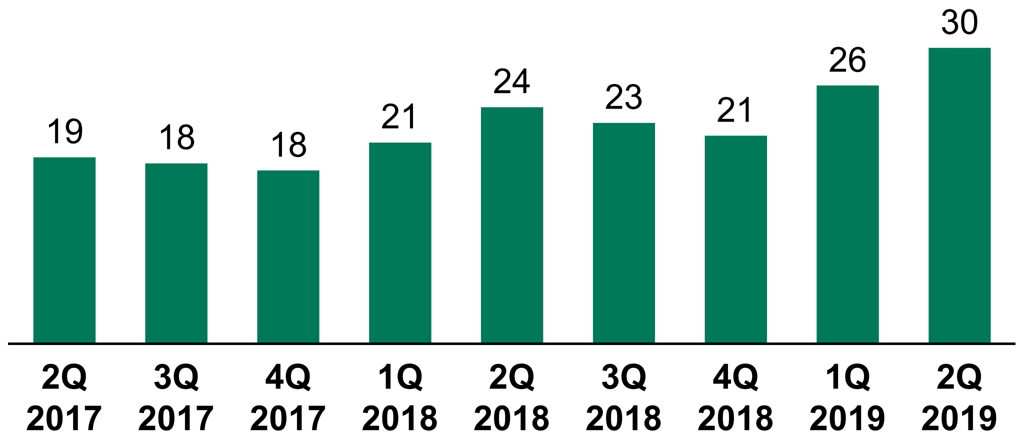


Breakdown of the net loan book (in HUF billion)



New cash loan disbursements[1]

(in HUF billion, without refinancing)



[1] without the acquisition of Expressbank

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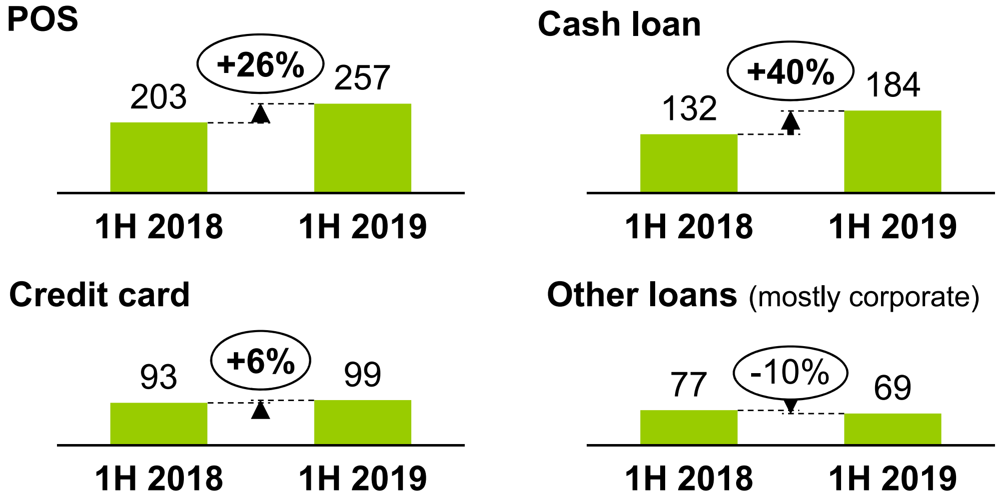
OTP Bank Russia

The Russian profit improved q-o-q driven by increasing total income and stable cost base. POS and cash loans were the major engine behind the robust y-o-y volume expansion

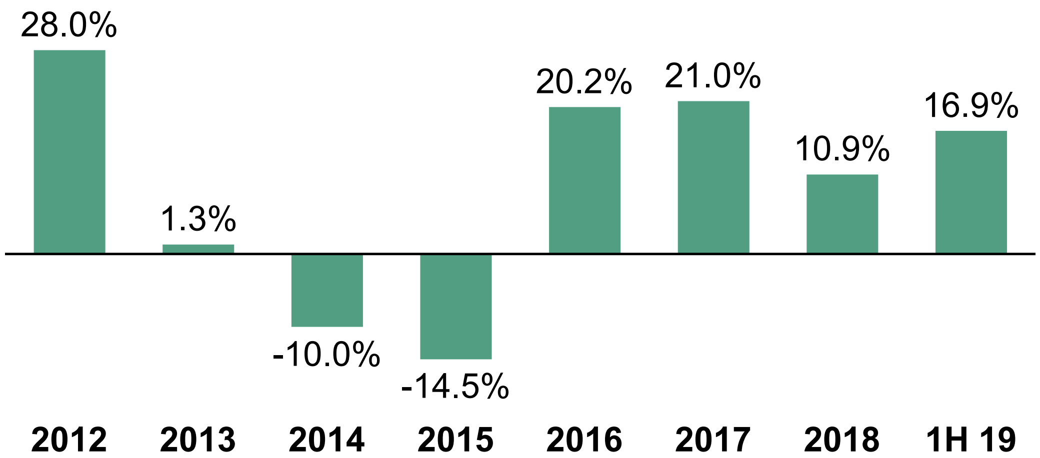
Income statement

(in RUB billion)	2Q 18	1Q 19	2Q 19	Q-o-Q	Y-o-Y
Profit after tax	**1.3**	**1.6**	**1.6**	**4%**	**24%**
Profit before tax	1.7	2.0	2.1	6%	22%
Operating profit	3.8	4.5	4.7	5%	25%
Total income	7.3	8.0	8.1	1%	10%
Net interest income	5.8	6.2	6.2	0%	8%
Net fees and commissions	1.5	1.6	1.7	5%	13%
Other income	0.0	0.2	0.1	-33%	372%
Operating costs	-3.5	-3.5	-3.3	-4%	-5%
Total risk cost	-2.1	-2.5	-2.6	4%	27%

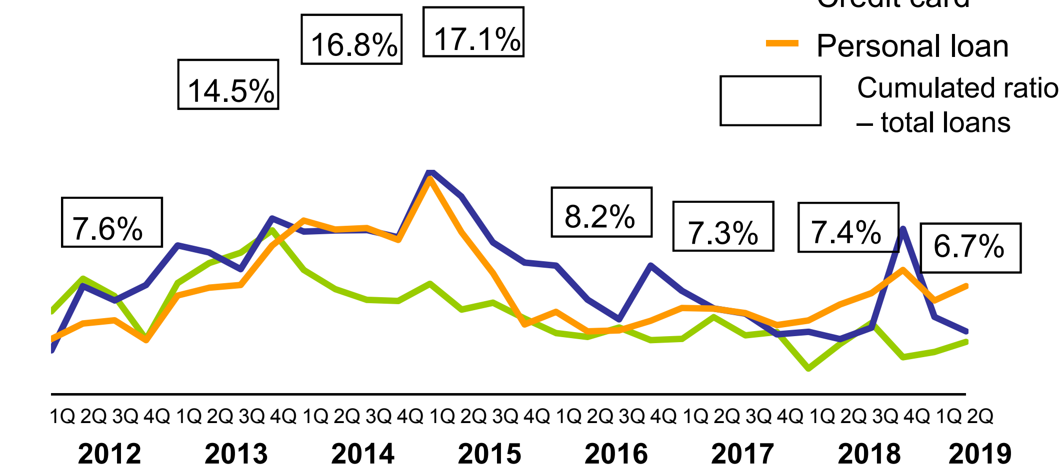
DPD0-90 loan volumes (FX-adjusted, in HUF billion)



Return on Equity



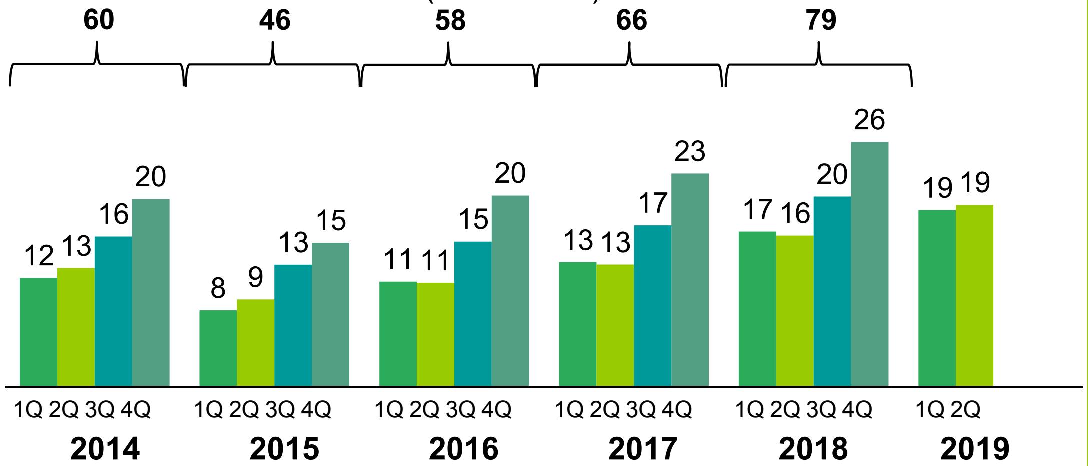
OTP Bank Russia - risk cost rates



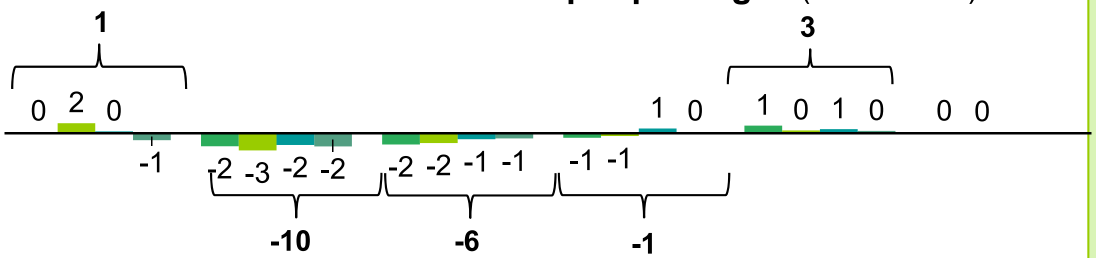
OTP Bank Russia

In 2Q POS loan sales grew by 20% y-o-y, while cash loan disbursement increased by 17%. Deposit volumes also grew in 2Q with deposit rates slightly increasing

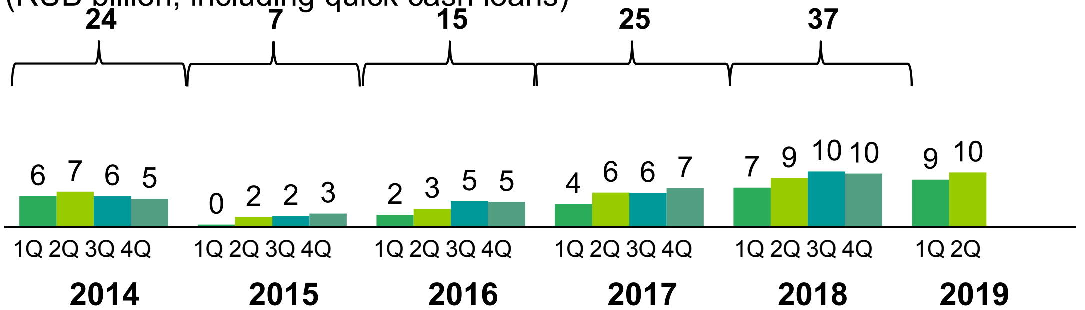
POS loan disbursements (RUB billion)



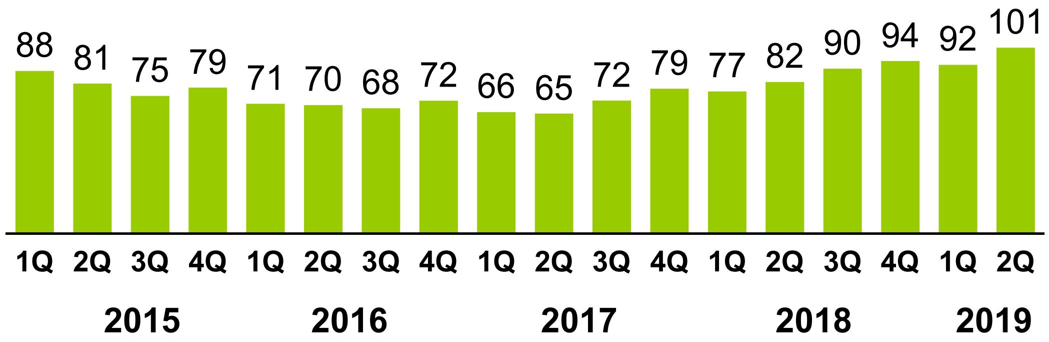
DPD0-90 credit card loan volume q-o-q changes (RUB billion)



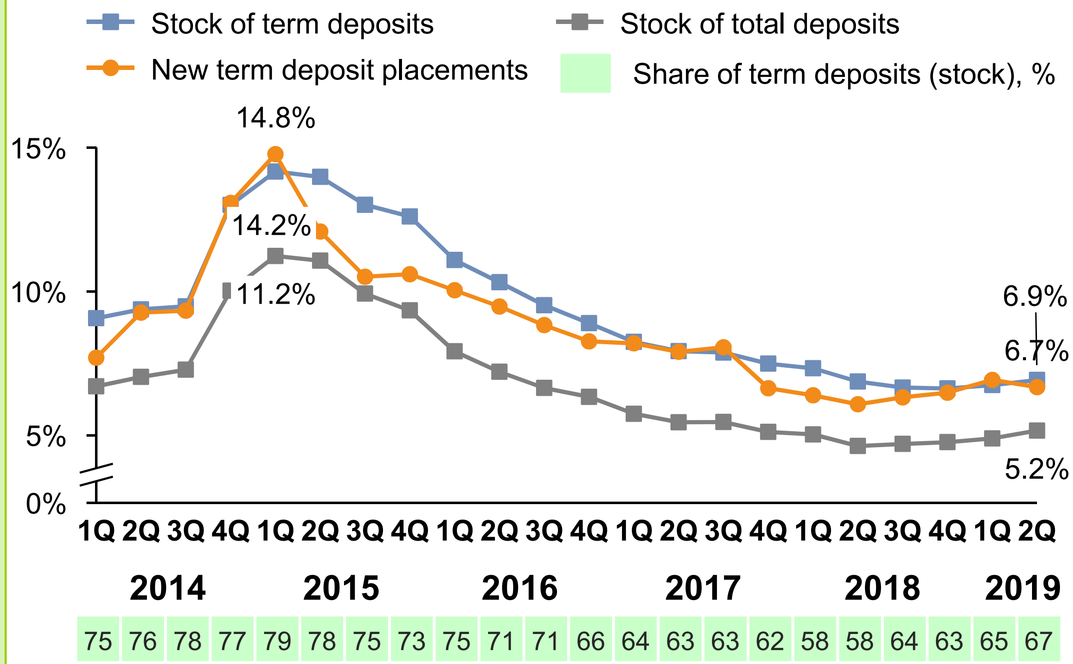
Cash loan disbursements
(RUB billion, including quick cash loans)



Development of customer deposits (RUB billion)



Average interest rates for RUB deposits



General note: from 1Q 2018 Touch Bank is presented as part of OTP Bank Russia. Until 4Q 2017 Touch Bank's performance was presented separately.
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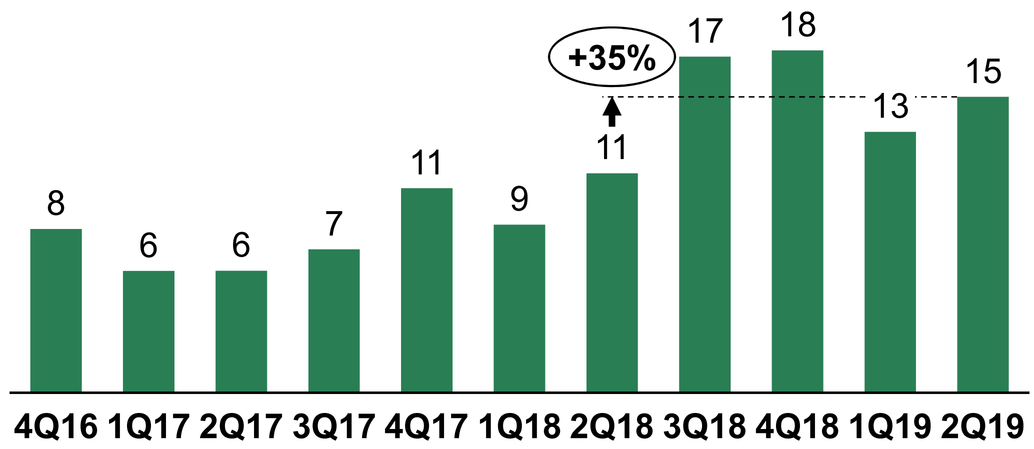
OTP Bank Ukraine

The Ukrainian ROE remained above 47% in 1H 2019 supported by y-o-y widening margins and expanding performing loan volumes

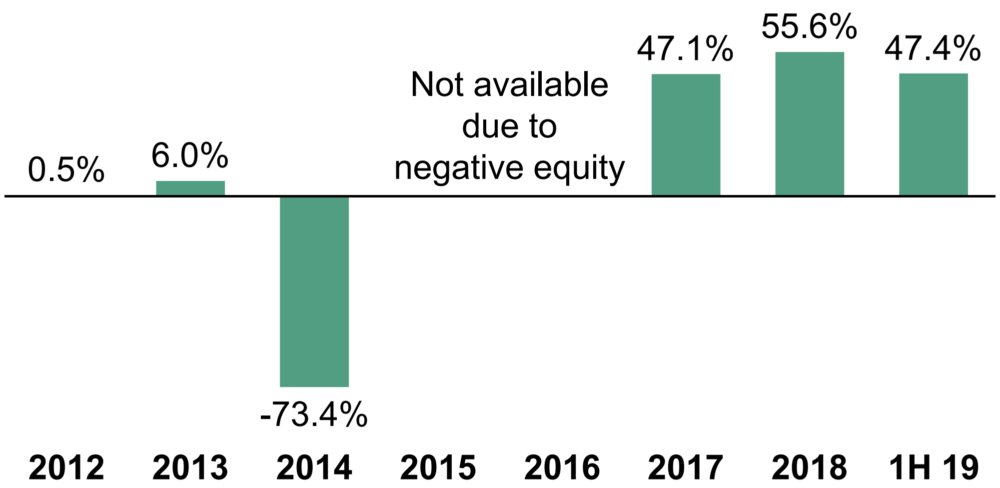
Income statement

(in UAH billion)	2Q 18	1Q 19	2Q 19	Q-o-Q	Y-o-Y
Profit after tax	**0.5**	**0.8**	**0.7**	**-11%**	**33%**
Profit before tax	0.6	1.0	0.9	-12%	33%
Operating profit	0.7	1.0	0.9	-6%	38%
Total income	1.1	1.4	1.4	-1%	32%
Net interest income	0.8	1.0	1.0	0%	33%
Net fees and commissions	0.3	0.3	0.3	-5%	13%
Other income	0.0	0.1	0.1	-2%	149%
Operating costs	-0.4	-0.5	-0.5	9%	21%
Total risk cost	0.0	0.0	-0.1	289%	169%

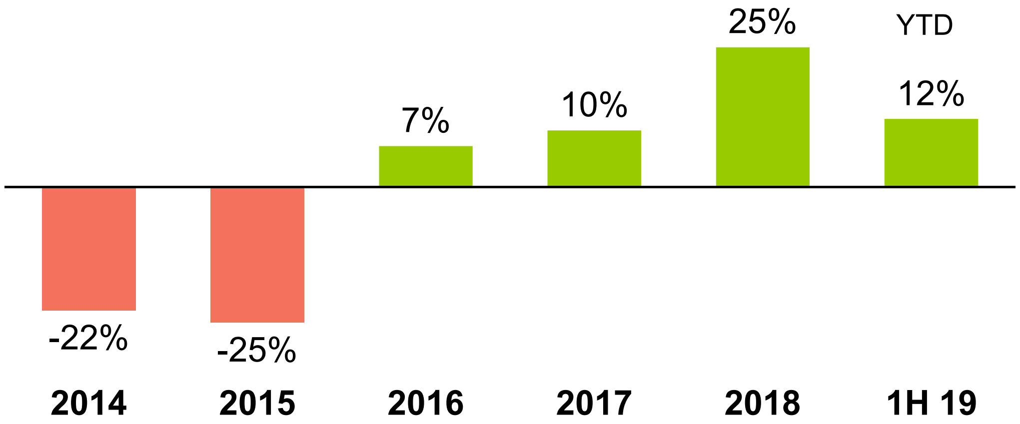
New cash and POS loan disbursements (in HUF billion)



Return on Equity (based on after tax profit without adjustment items)



Performing (DPD0-90) corporate + MSE loan volumes changes (FX-adjusted, y-o-y)



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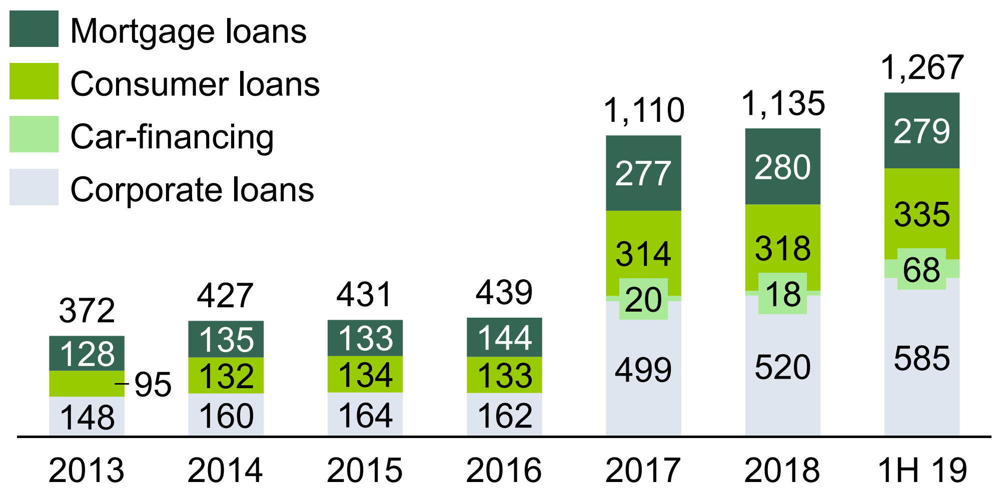
OBH (Croatia)

The Croatian operation posted HUF 17.4 billion adjusted after-tax profit in 1H, representing 12.9% ROE, as a result of y-o-y improving operating profit and positive risk cost

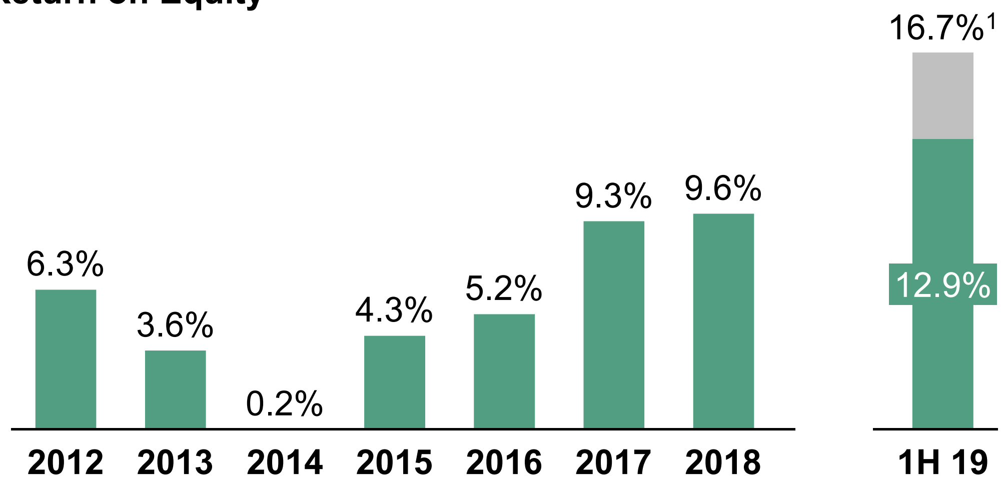
Income statement

in HUF billion	2Q 18	1Q 19	2Q 19	Q-o-Q	Y-o-Y
Profit after tax (adjusted)	**4.5**	**8.8**	**8.6**	**-1%**	**91%**
Profit before tax	5.8	10.7	10.5	-2%	80%
Operating profit	9.1	10.3	10.3	0%	13%
Total income	19.9	20.4	21.1	3%	6%
Net interest income	13.8	14.1	14.1	0%	3%
Net fees and commissions	4.2	4.0	4.3	6%	1%
Other non-interest income	1.9	2.3	2.7	15%	42%
Operating costs	-10.7	-10.1	-10.8	6%	0%
Total risk cost	-3.3	0.4	0.2		

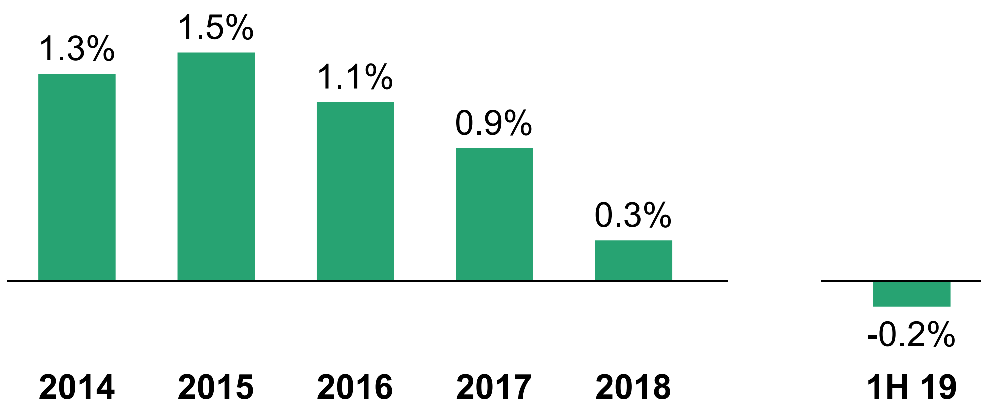
DPD0-90 loan volumes (FX-adjusted, in HUF billion)



Return on Equity



Risk cost rate



[1] Shareholder's equity was aligned with 15% Tier1, i.e. the level targeted by the management on consolidated level.

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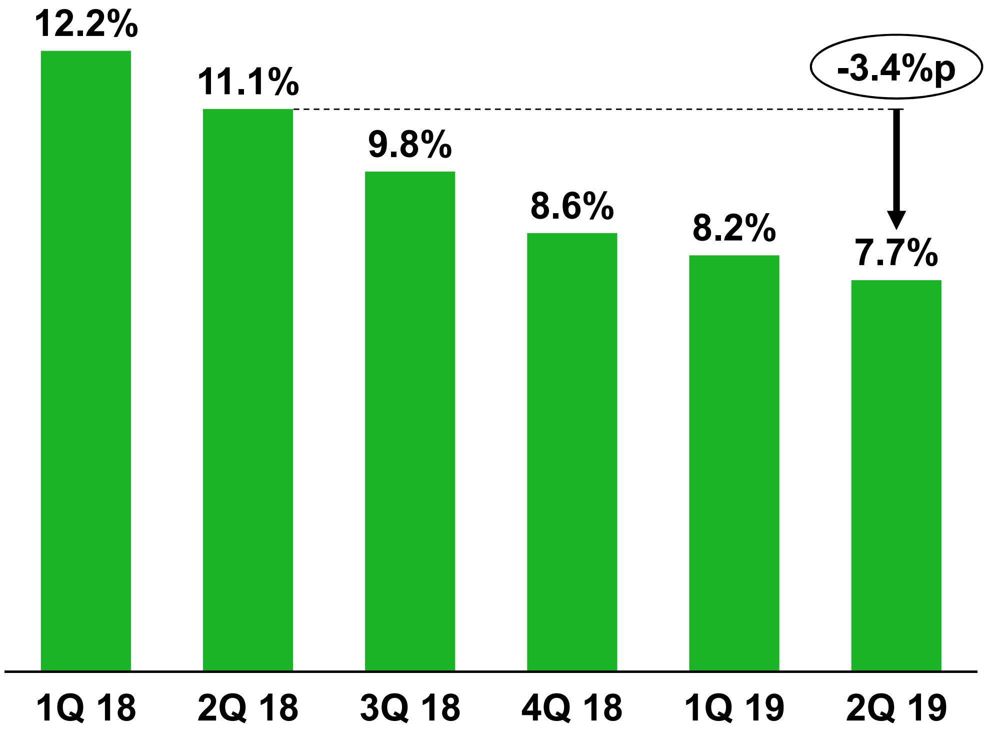
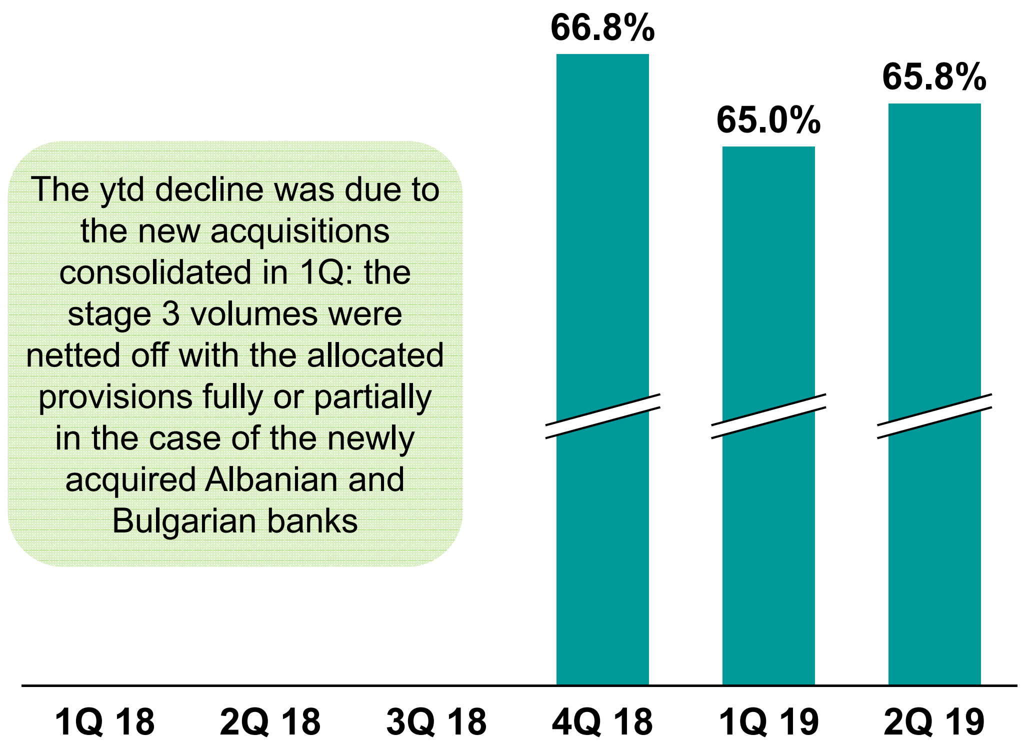
At the end of 2Q the Stage 3 ratio stood at 7.7%, while the own coverage of the Stage 3 loans represented 65.8%

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.

Compared to regional peers, OTP has the highest own coverage ratio in all three stages of impairment under IFRS 9

Gross customer loans' split by the 3 stages of impairment under IFRS 9 definition

			Stage 1	Stage 2	Stage 3
otpbank	2Q 2019	incl. POCI	86.7%	5.6%	7.7%
Raiffeisen Bank International	2Q 2019	incl. POCI	85.6%	11.6%	2.8%
UniCredit	4Q 2018	incl. POCI	85.3%	8.0%	6.7%
ERSTE	2Q 2019	excl. POCI	90.4%	7.1%	2.6%
INTESA SANPAOLO	4Q 2018	incl. POCI	82.8%	9.9%	7.3%
KBC	2Q 2019	excl. POCI	87.7%	9.3%	3.0%

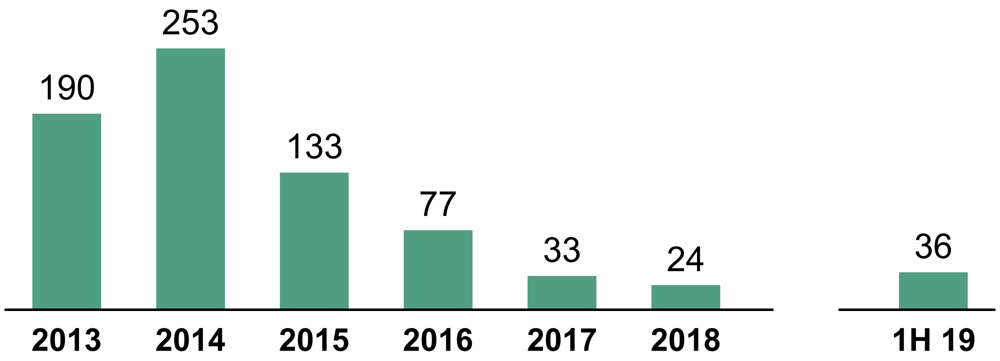
Own coverage ratios by the 3 stages of impairment under IFRS 9 definition

			Stage 1	Stage 2	Stage 3
otpbank	2Q 2019	incl. POCI	1.3%	9.8%	65.8%
Raiffeisen Bank International	2Q 2019	incl. POCI	0.2%	2.7%	62.7%
UniCredit	4Q 2018	incl. POCI	0.2%	3.4%	61.0%
ERSTE	2Q 2019	excl. POCI	0.2%	4.2%	59.3%
INTESA SANPAOLO	4Q 2018	incl. POCI	0.2%	2.8%	54.6%
KBC	2Q 2019	excl. POCI	0.1%	1.7%	44.9%

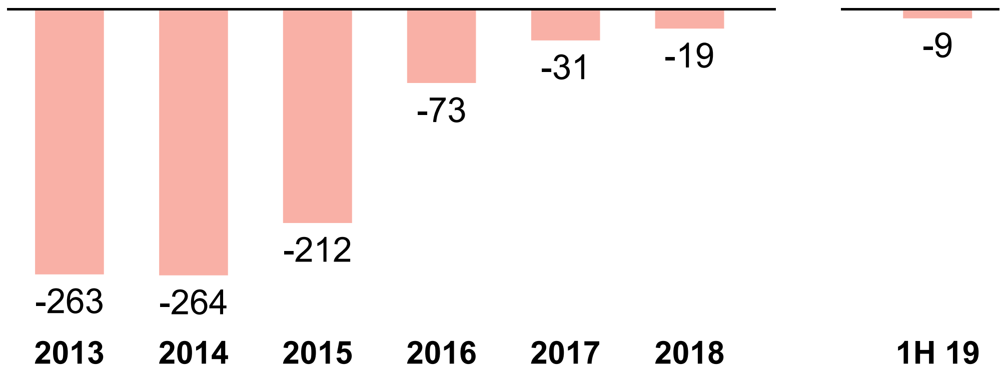
General note: treatment of POCI (Purchased or Originated Credit Impaired): OTP, RBI, UniCredit, Intesa: POCI is included in the Stage categories; Erste, KBC: POCI is reported separately from Stage 1-3.
Own calculation based on company websites.

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

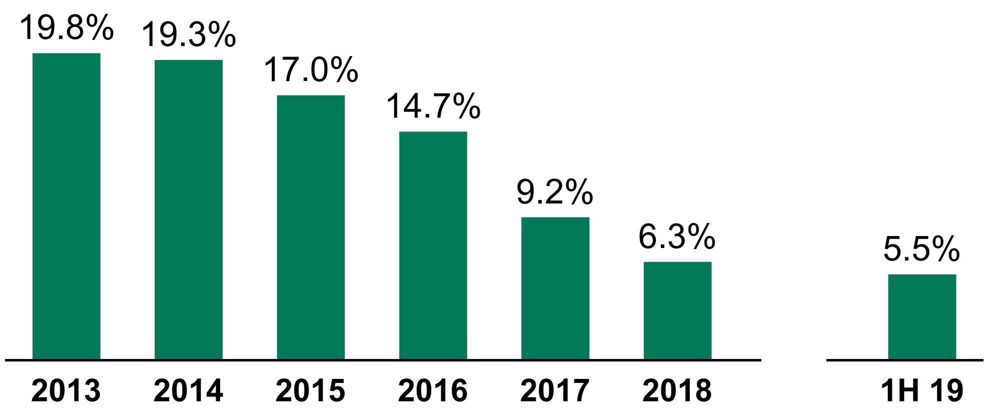
Change in DPD90+ loan volumes (consolidated, without the technical effect of new acquisitions[1], adjusted for FX and sales and write-offs, in HUF billion)



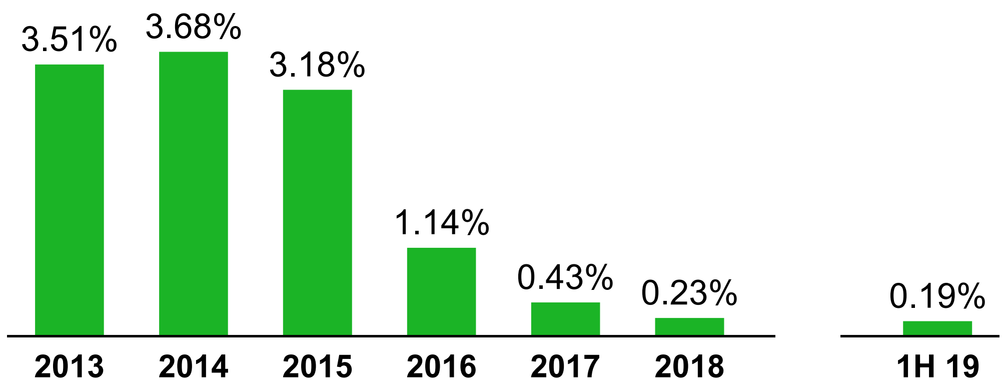
Consolidated provision for impairment on loan and placement losses (in HUF billion)



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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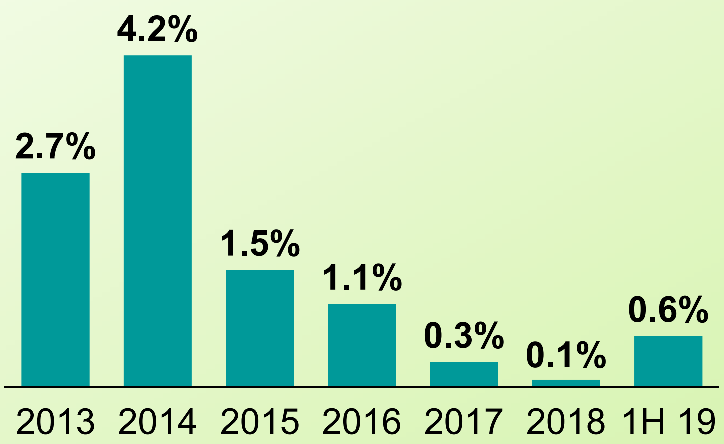
Loan quality deterioration remained moderate in the past few years both on consolidated level and the main subsidiaries

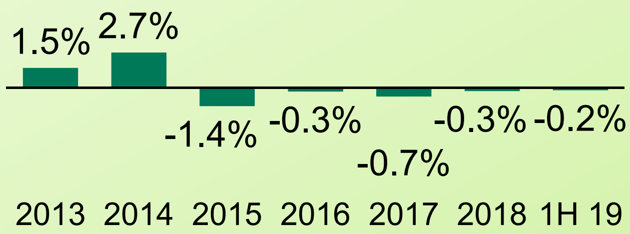
Ratio of DPD90+ loan formation to average performing (DPD0-90) loans[1]

(1H 2019 numbers are annualised)

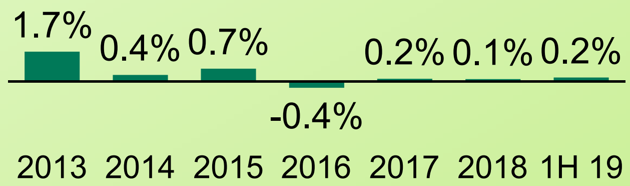
Consolidated



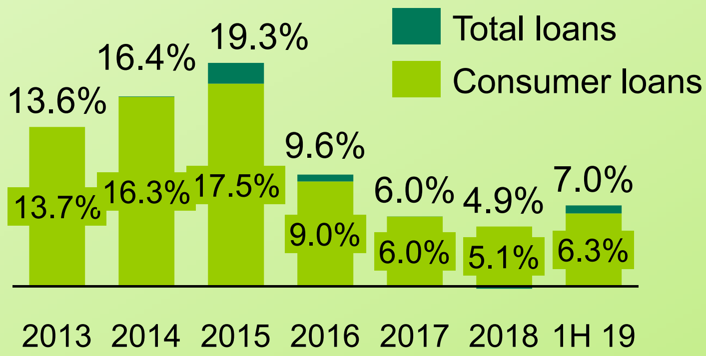
OTP Core (Hungary)



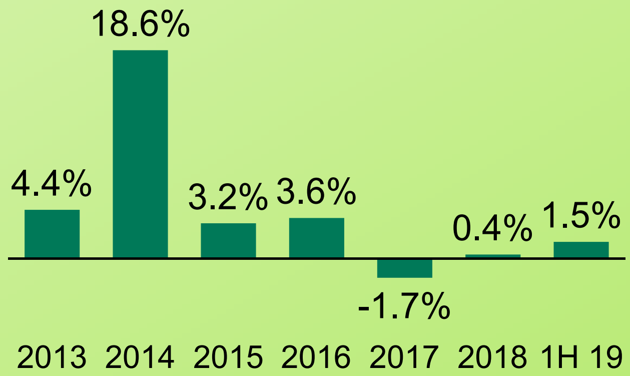
DSK Group (Bulgaria)



OTP Bank Russia[2]



OTP Bank Ukraine



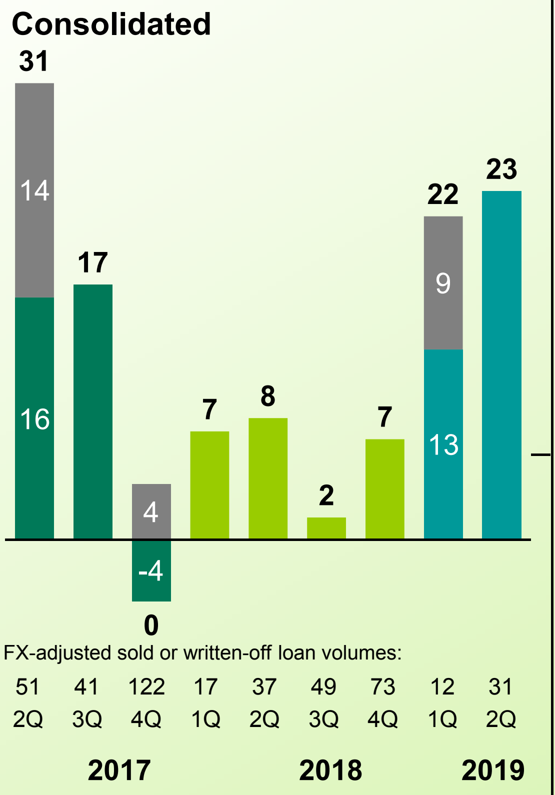
[1] Numerator: FX-adjusted (based on actual FX rates) DPD90+ loan formation without sales/write-offs for the given period and without the one-off effect of the DPD90+ volumes taken over as a result of acquisitions executed in 2016, 2017 and 1H 2019; 1H 2019: annualised. Denominator: quarterly average of FX-adjusted DPD0-90 loan volumes.

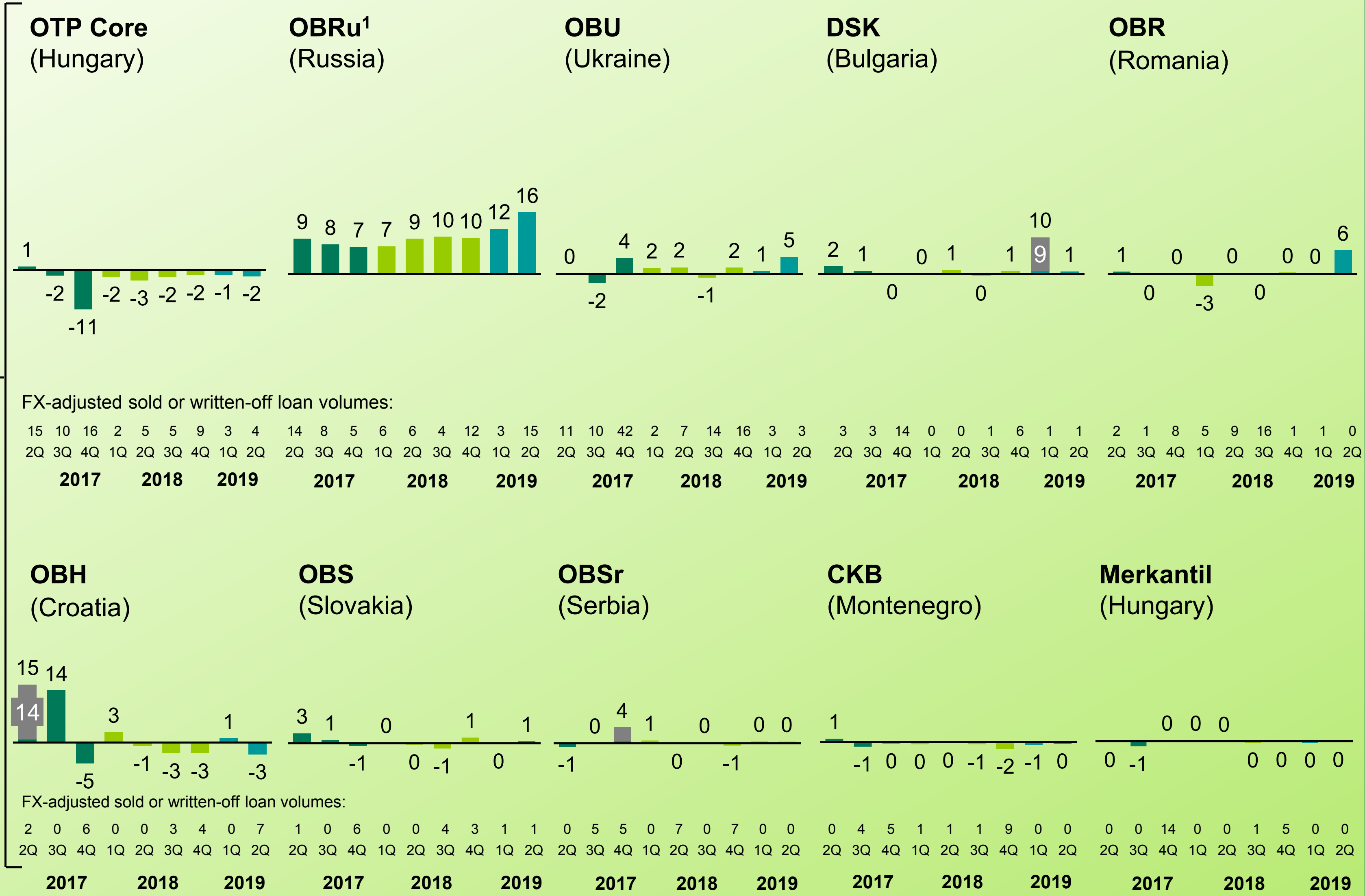
[2] Including Touch Bank from 2018.

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.

The declining trend of Stage 3 ratio continued in all key geographies, with risk cost rates remaining benign

Provision for impairment on loan and placement losses / Average gross customer loans[1], %

	2Q 2018	3Q 2018	4Q 2018	1Q 2019	2Q 2019	1H 2019
OTP Core Hungary	-2.2	-1.0	-2.0	-0.8	-1.4	-1.1
DSK Bank Bulgaria	0.1	-0.1	1.6	0.1	0.5	0.3
OTP Bank Croatia	1.2	-0.2	0.6	-0.1	-0.2	-0.2
OTP Bank Russia	6.1	7.4	10.8	6.4	7.0	6.7
OTP Bank Ukraine	0.1	0.2	3.0	-0.3	0.7	0.2

Stage 3 loans under IFRS 9 / gross customer loans, %

	2Q 2018	3Q 2018	4Q 2018	1Q 2019	2Q 2019
OTP Core Hungary	8.3	6.8	5.9	5.6	5.3
DSK Bank Bulgaria	11.6	11.7	10.5	7.8	7.6
OTP Bank Croatia	7.9	7.9	7.6	7.4	6.5
OTP Bank Russia	16.1	15.2	13.8	15.0	14.8
OTP Bank Ukraine	33.1	29.1	25.0	23.0	21.2

Own coverage of Stage 3 loans under IFRS 9, %

	2Q 2018	3Q 2018	4Q 2018	1Q 2019	2Q 2019
OTP Core Hungary				58	57
DSK Bank Bulgaria				56	57
OTP Bank Croatia				65	64
OTP Bank Russia				94	94
OTP Bank Ukraine				76	76

[1] Negative amount implies positive (earnings accretive) risk costs.

In 2Q 2019 the reported Tier1=CET1 ratio of 15.9% and CAR of 17.4% already included the completed Bulgarian and Albanian acquisitions and the first half interim profit less dividend

OTP Group consolidated capital adequacy ratios (IFRS)

BASEL III	2014	2015	2016	2017	2018	2Q 19
Capital adequacy ratio (CAR)	17.5%	16.2%	16.0%	14.6%	18.3%	17.4%
Tier1 = Common Equity Tier1 ratio	14.1%	13.3%	13.5%/ 15.8%[1]	12.7%/ 15.3%[1]	16.5%	15.9%

1. In 2018 and 2Q 2019 the reported capital adequacy ratios included the interim after tax profit less dividend.
2. In 1H 2018 the Bank's standalone regulatory capital, as opposed to previous periods, does not include the interim profit less dividend.
3. The capital adequacy ratio of DSK Bank (owning the shares of the acquired Expressbank) under local regulation stood at 24.0% at the end of June 2019.
4. CAR of the local bank following the legal merger of OTP banka Srbija and Vojvodjanska banka that happened in April 2019.

Capital adequacy ratios (under local regulation)

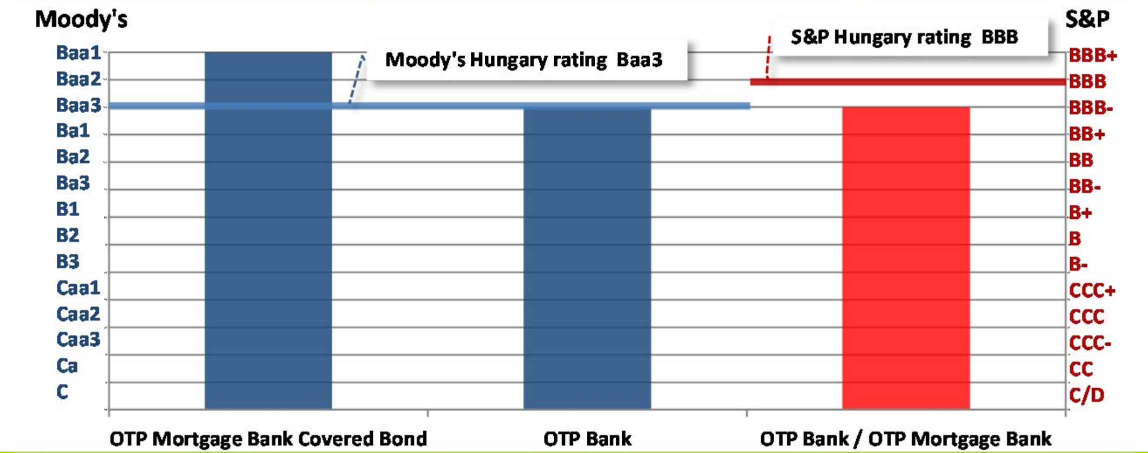
	2014	2015	2016	2017	2018	2Q 19
OTP Group (IFRS)	**16.9%**	**16.2%**	**16.0%**	**14.6%**	**18.3%**	**17.4%**
Hungary	19.0%	26.6%	27.7%	31.4%	28.2%	26.6%
Bulgaria	18.0%	17.3%	17.6%	17.2%	16.3%	24.0%
Russia	12.1%	13.3%	16.2%	15.9%	15.0%	16.0%
Croatia	16.5%	15.5%	16.7%	16.5%	20.0%	19.0%
Ukraine	10.4%	15.7%	12.4%	15.5%	19.6%	20.4%
Romania	12.6%	14.2%	16.0%	14.5%	18.0%	17.1%
Serbia	30.8%	26.1%	22.8%	28.4%	22.6%	16.9%
Montenegro	15.8%	16.2%	21.1%	22.6%	22.7%	32.9%
Slovakia	13.7%	13.4%	12.9%	15.0%	16.6%	15.4%
Albania						15.2%

[1] Including the interim net profit less dividend.

While OTP Bank ratings closely correlate with the sovereign ceilings, subsidiaries' ratings enjoy the positive impact of parental support

(rating outlook) + positive, - negative, 0 stable

Hungarian sovereign, OTP Bank and OTP Mortgage Bank ratings



Rating history

- OTP Bank Slovakia, DSK Bank Bulgaria, OTP Bank Ukraine and OTP Bank Russia cancelled cooperation with Moody's in 2011, 2013, 2015 and 2016 respectively.
- Currently OTP Bank, OTP Mortgage Bank and OTP Bank Russia have solicited ratings from either Moody's, S&P Global, Fitch or Dagong.

OTP Group related rating actions

- Moody's upgraded **OTP Bank**'s long and short-term local-currency deposit ratings to Baa2/Prime-2 from Baa3/Prime-3. The long-term foreign currency deposit rating was affirmed at Baa3. Both long-term deposit ratings carry stable outlook. At the same time the junior subordinated rating of the bank was raised by one notch to Ba3 (hyb). Furthermore the rating agency upgraded the backed long-term local-currency issuer rating of **OTP Mortgage Bank** to Baa3 from Ba1, with stable outlook. *(19 October 2017)*
- Dagong Global has assigned a Long-Term Credit Rating of BBB+' and equivalent Short-Term Credit Rating of A-2 to **OTP Bank.** The Outlook is stable. *(22 November 2017)*
- Moody's upgraded **OTP Bank**'s long term local currency deposit rating to Baa1 from Baa2. The Tier2 dated instrument issued by the Bank enjoys Ba1 rating. *(17 July 2019)*
- Fitch upgraded **OTP Bank Russia**'s and Bulgarian-based **Expressbank**'s Long-Term Issuer Default Ratings to BB+ from BB, with stable outlook. *(29 July 2019)*

Recent sovereign rating developments

- Moody's has changed the outlook on **Bulgaria** to positive from stable. *(30 August 2019)*
- Moody's has changed the outlook on **Serbia** to positive from stable. *(06 September 2019)*
- Fitch upgraded **Ukraine**'s ratings to B from B-, with positive outlook. *(06 September 2019)*
- Moody's has changed the outlook on **Slovakia** to stable from positive. *(27 September 2019)*
- S&P upgraded **Ukraine**'s ratings to B from B-, with stable outlook. *(27 September 2019)*
- Fitch upgraded **Serbia**'s ratings to BB+ from BB, with stable outlook. *(27 September 2019)*

	Moody's	S&P	Fitch	Dagong
OTP Bank	Baa3 (0)	BBB- (0)		BBB+ (0)
OTP Mortgage Bank	Baa1	BBB- (0)		
OTP Bank Russia			BB+ (0)	
Expressbank			BB+ (0)	

Moody's		S&P Global		Fitch	
Aaa		**AAA**		**AAA**	
Aa1		**AA+**		**AA+**	
Aa2		**AA**		**AA**	
Aa3		**AA-**	SV (0)	**AA-**	
A1		**A+**	SK(0)	**A+**	SK(0)
A2	SK(0)	**A**		**A**	
A3		**A-**		**A-**	SV 0)
Baa1	SV(+)	**BBB+**		**BBB+**	
Baa2	BG(+)	**BBB**	HU(0)	**BBB**	BG(+) HU (0) RU (0)
Baa3	RO(0) HU(0) RU(0)	**BBB-**	BG (+) RO(0) RU(0) CR(0)	**BBB-**	CR(+) RO(0)
Ba1		**BB+**		**BB+**	SRB (0)
Ba2	CR(+)	**BB**	SRB (+)	**BB**	
Ba3	SRB(+)	**BB-**		**BB-**	
B1	MN(+) ALB (0)	**B+**	MN(0) ALB (0)	**B+**	
B2		**B**	UA (0)	**B**	UA (+)
B3	MO(0)	**B-**		**B-**	
Caa1	UA(0)	**CCC+**		**CCC+**	
Caa2		**CCC**		**CCC**	
Caa3		**CCC-**		**CCC-**	

Last update: 27/09/2019
Sovereign ratings: long term foreign currency government bond ratings,
OTP Mortgage Bank Moody's rating: covered bond rating; Other bank ratings: long term foreign currency deposit ratings
Abbreviations: ALB – Albania, BG - Bulgaria, CR - Croatia, HU - Hungary, MN - Montenegro, MO – Moldova, RO - Romania, RU - Russia, SRB - Serbia, SK - Slovakia, SV – Slovenia, UA - Ukraine

otpbank

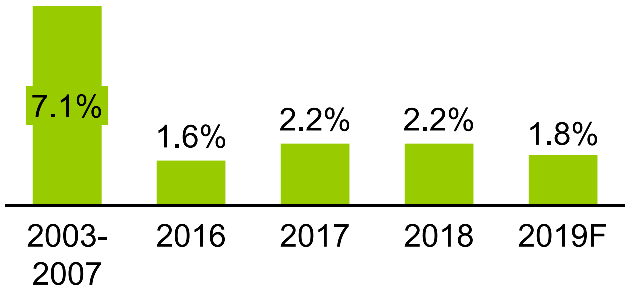
Content

Hungary

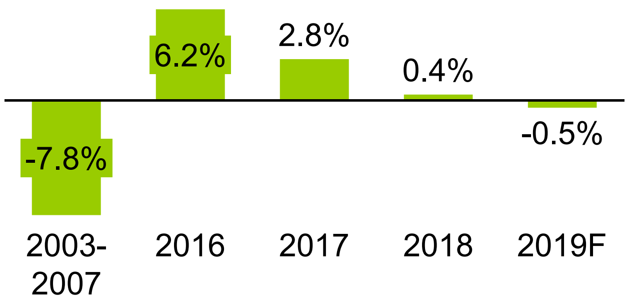
After the very robust expansion of 5.1% y-o-y in 1H, GDP growth can be around 4.8% in 2019, as a whole. Soaring investment can be the strongest catalyst of growth

Balance

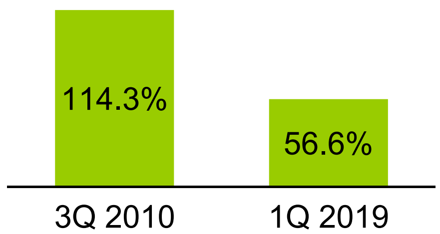
Budget deficit



Current account balance

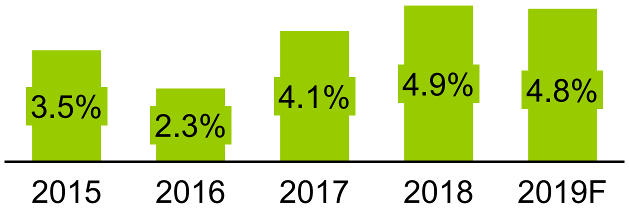


Gross external debt[1] (as % of GDP)

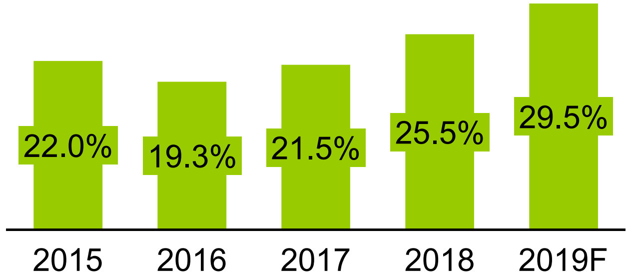


Growth

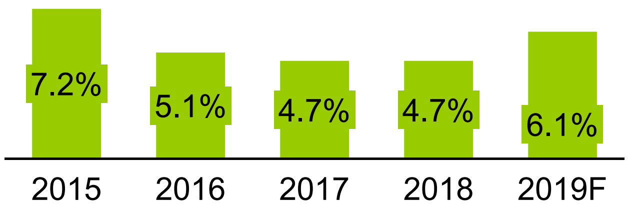
Real GDP growth



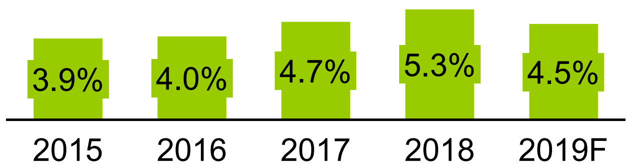
Investment to GDP



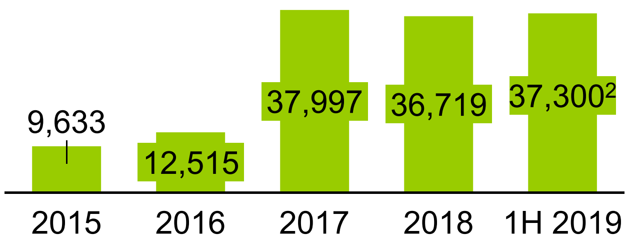
Exports growth



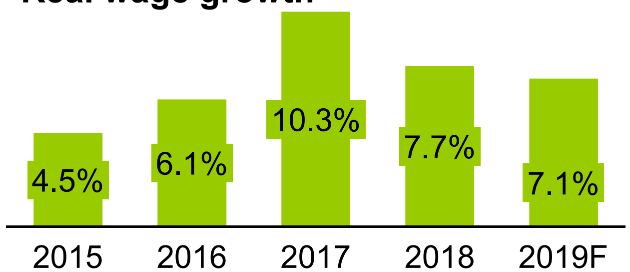
Household consumption



Housing construction permits



Real wage growth



Sources: CSO, NBH; forecasts: OTP Research Centre

[1] Without inter-company loans

[2] Seasonally adjusted and annualized

Hungary

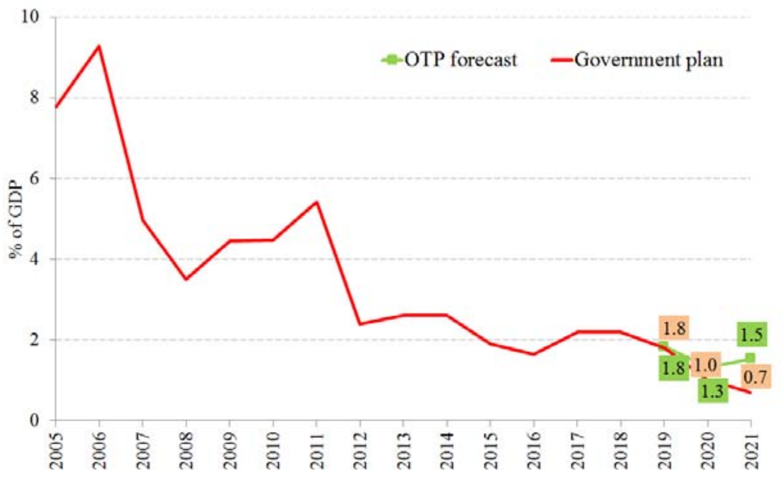
Better-than-expected 2018 fiscal position and strong revenue growth make the 2019 deficit target safely attainable. The current account surplus moderated, while external indebtedness fell further

The 2018 ESA budget deficit turned out at 2.2% of GDP, 0.2 pp below the official target, as a result of higher-than-expected revenues and moderating expenditures. Despite the recent loosening measures, mostly related to the government's demographic program, we consider the 2019 deficit target of 1.8% of GDP as attainable, given the robust revenues. The achievement of the ambitious 1% deficit target for 2020 requires some further measures to be specified.

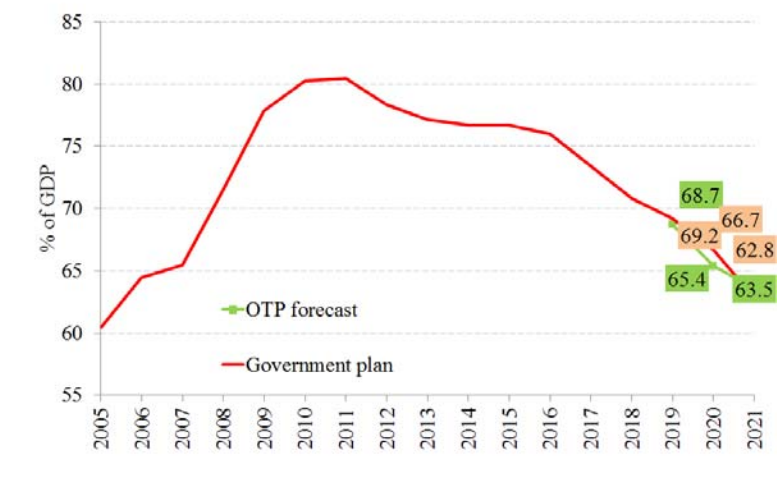
Public debt declined to 68.7% of GDP by 2Q 2019 (from 74% a year before) on account of improvements in the cash deficit and strong GDP growth. Government debt can reach 63.5% by 2021, mostly due to improvements in the EU related cash balance.

In 2018 Hungary's current account surplus fell to 0.4% of GDP from 2.8% a year earlier, due to higher commodity prices and strong domestic demand. However, as FDI and EU transfers together reached 5% of GDP, gross, net and gross FX external debt compared to GDP kept further declining.

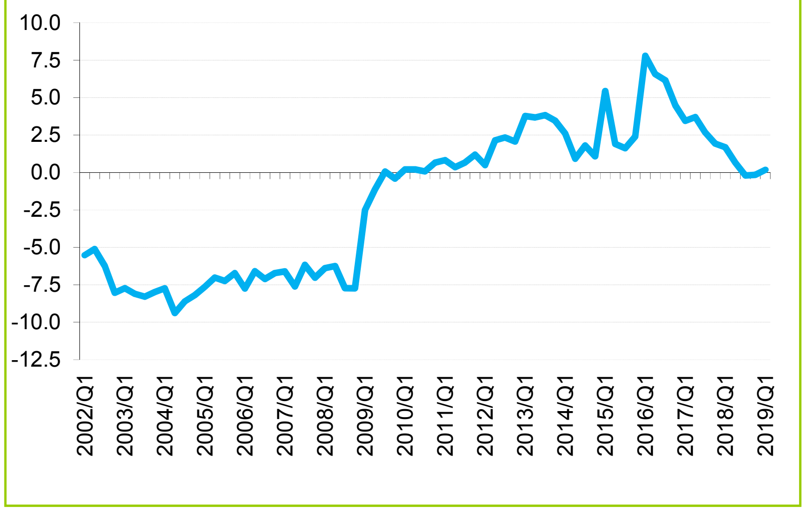
Budget balance (as % of GDP)



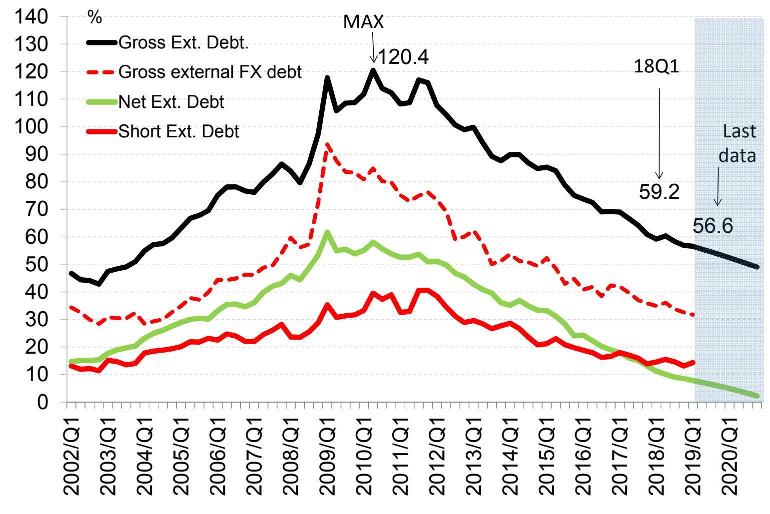
Public debt (as % of GDP, including Eximbank)



Current account balance (as % of GDP)



External debt indicators (as % of GDP)



Sources: HCSO, MNB, Ministry for National Economy, OTP Research.
The net financial capacity shows the amount of absorbed external funding / accumulated foreign assets in a period (equal to the sum of the current account balance + capital balance (EU funds) + Net errors and omissions).

Hungary

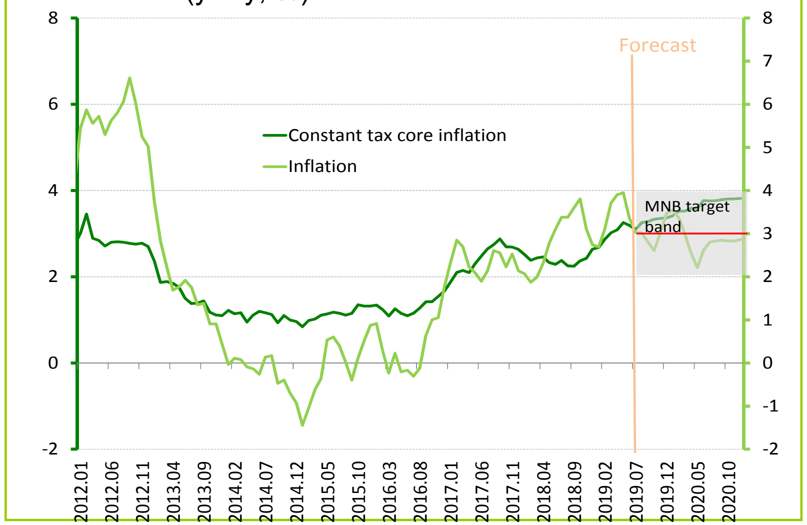
Due to the underlying global market conditions and the downturn in local inflation further monetary tightening may be off the table for a while

Both the inflation and the closely watched constant tax core inflation finally started declining in the last few months. Base effects due to the rapid rise in the oil and certain food prices since last autumn may push underlying inflation below the MNB target. Imported inflation was very muted in the last half year, which helps to anchor the underlying inflationary processes in Hungary, as well.

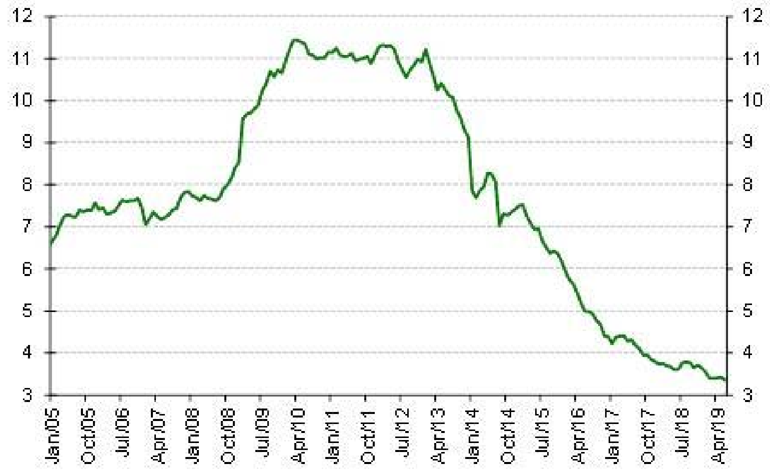
Incoming inflation data for the last two months coupled with the Fed rate cut and the strongly expected easing from the ECB, put the MNB into a very comfortable position. Since there is no significant amount of FX debt in Hungary the MNB easily reacts to the deteriorating external environment with exchange rate depreciation.

The MNB forecasts 3.7% constant tax core inflation for 3Q but it can be easily undershot. In the light of the changing external environment and the new inflation data, OTP thinks that the reference rate (3M BUBOR) is likely to remain around its current level until 2020.

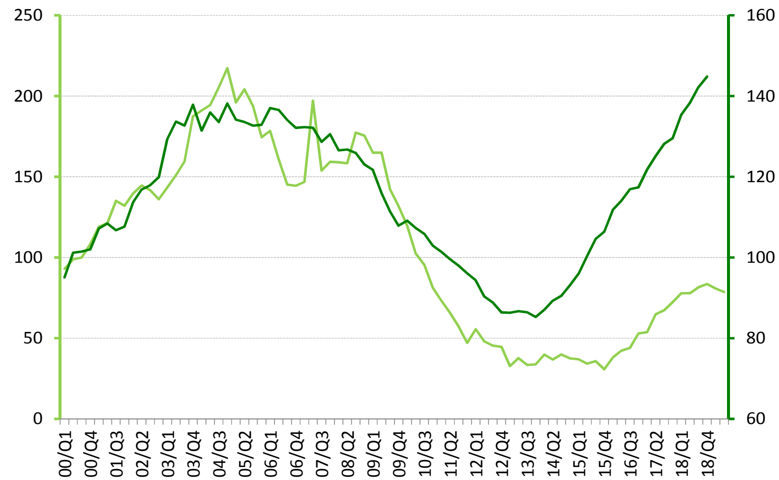
Inflation (y-o-y, %)



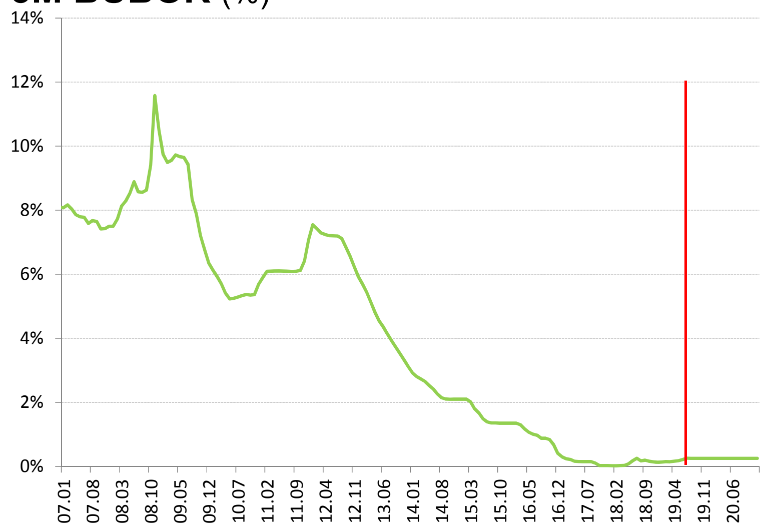
Unemployment rate (%)



Real estate market indicators (real home price and completed dwellings; 2000=100)



3M BUBOR (%)



Sources: HCSO, NBH, Reuters, OTP Research

Hungary’s economic growth may have reached its cyclical peak in 2018, but GDP growth may remain strong even under a deteriorating external environment

Hungary

Key economic indicators	2014	2015	2016	2017	2018	OTP Research 2019F	OTP Research 2020F	Focus Economics* 2019F	Focus Economics* 2020F
Nominal GDP (at current prices, HUF billion)	32,583	34,379	35,474	38,355	42,073	**46,498**	**49,955**	**45,261**	**47,984**
Real GDP change	4.2%	3.5%	2.3%	4.1%	4.9%	**4.8%**	**3.3%**	**4.2%**	**2.9%**
Household final consumption	2.4%	3.7%	3.4%	4.1%	4.6%	**4.3%**	**2.9%**	**4.6%**	**3.5%**
Household consumption expenditure	2.8%	3.9%	4.0%	4.7%	5.3%	**4.5%**	**4.1%**		
Collective consumption	10.0%	0.0%	0.9%	2.0%	-2.1%	**3.3%**	**-0.3%**	**1.7%**	**1.2%**
Gross fixed capital formation	12.3%	4.7%	-11.7%	18.2%	16.5%	**14.3%**	**4.7%**	**13.6%**	**4.2%**
Exports	9.1%	7.2%	5.1%	4.7%	4.7%	**6.1%**	**5.4%**		
Imports	11.0%	5.8%	3.9%	7.7%	7.1%	**7.7%**	**6.3%**		
General government balance (% of GDP)	-2.6%	-1.9%	-1.6%	-2.2%	-2.2%	**-1.8%**	**-1.3%**	**-1.9%**	**-1.7%**
General government debt (% of GDP ESA 2010)	76.6%	76.7%	76.0%	73.6%	70.8%	**68.7%**	**66.0%**	**68.7%**	**66.8%**
Current account (% of GDP)**	1.5%	2.8%	6.2%	2.8%	0.4%	**-0.5%**	**-0.5%**	**0.3%**	**0.3%**
Gross external debt (% GDP)***	82.4%	73.0%	67.9%	58.9%	56.3%				
FX reserves (in EUR billion)	34.6	30.3	24.4	23.4	27.4				
Gross real wages	3.9%	4.5%	6.1%	10.3%	7.7%	**7.1%**	**3.8%**		
Gross real disposable income	4.7%	5.9%	1.8%	6.5%	5.1%	**4.9%**	**2.3%**		
Employment (annual change)	5.3%	2.7%	3.4%	1.6%	1.1%	**0.6%**	**-0.2%**		
Unemployment rate (annual average)	7.7%	6.8%	5.1%	4.2%	3.7%	**3.6%**	**3.6%**	**3.5%**	**3.5%**
Inflation (annual average)	-0.2%	-0.1%	0.4%	2.4%	2.8%	**3.2%**	**2.8%**	**3.4%**	**3.1%**
3M Interbank Rate (BUBOR, end of year)	2.10%	1.35%	0.41%	0.03%	0.13%	**0.25%**	**0.25%**	**0.30%**	**0.72%**
1Y Treasury Bill (average)	2.28%	1.17%	0.77%	0.09%	0.25%	**0.23%**	**0.20%**		
Real interest rate (average. ex post)****	2.5%	1.2%	0.4%	-2.2%	-2.5%	**-2.9%**	**-2.6%**		
EUR/HUF exchange rate (end of year)	314.9	313.1	311.0	310.1	321.5	**325.0**	**332.0**	**324.0**	**323.0**

Source: CSO, National Bank of Hungary.
* August 2019 consensus . **Official data of balance of payments (excluding net errors and omissions).
*** w/o FDI related intercompany lending. last data. **** = (1+ Yield of the 1Y Treasury Bill (average)) / (1+ annual average inflation) – 1

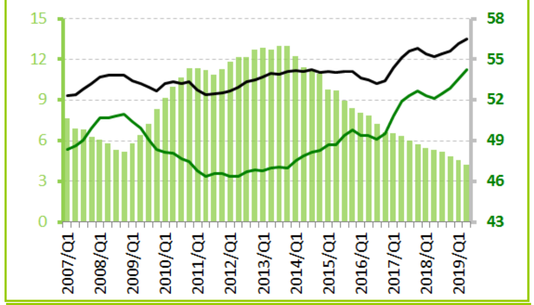
Bulgaria: GDP slowed down in 2Q, high frequency indicators weaken; Croatia: solid GDP growth with improving balance indicators; Romania: stellar GDP growth, but the budget execution remains a major risk factor

Bulgaria

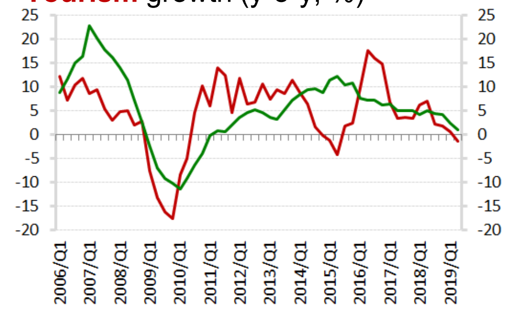
Preliminary estimates of 2Q GDP data indicate a slowdown. The GDP expanded by 3.3% y-o-y SA (0.6% q-o-q), as consumption and investment growth remains subdued. Labour market indicators improved further as employment rate climbs to new historical highs, nearing 55%. On the other hand, high frequency indicators show weakness as both retail trade and tourism growth slowed down to near zero.

Real GDP growth (%, SA, annualized quarterly and y-o-y)

Activity & Employment rate (%; RHS) & Unemployment (%, LHS)



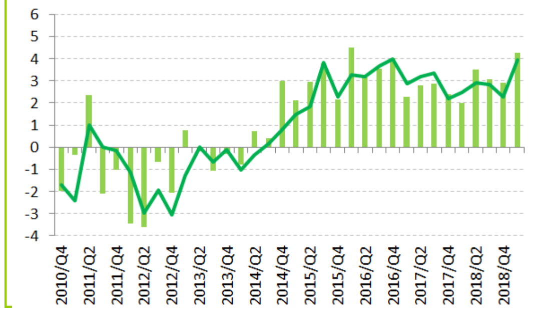
Retail trade & **Tourism** growth (y-o-y, %)



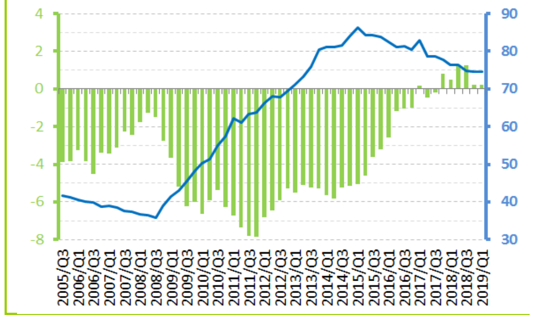
Croatia

GDP growth turned out at 3.9% in 1Q 2019 (partly a correction of 4Q data) as both investment and household consumption were buoyant. Monthly data for 2Q suggest negative correction, still overall GDP growth could be around 3% this year . Balance indicators remained strong: the government budget posted a surplus (0.2% of GDP in 1Q), while public debt fell below 75% of GDP. Croatia may enter ERM2 in 2020, which could be followed by Eurozone membership.

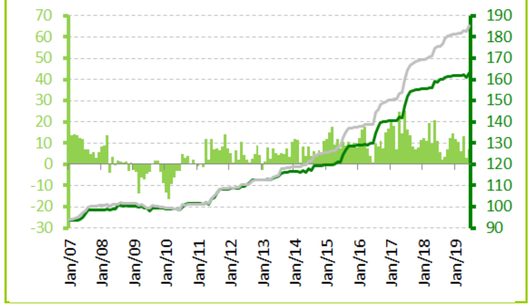
Real GDP growth (%, SA, annualized quarterly and **y-o-y**)



Budget deficit (LHS, **ESA**), **Debt (RHS)** as % of GDP



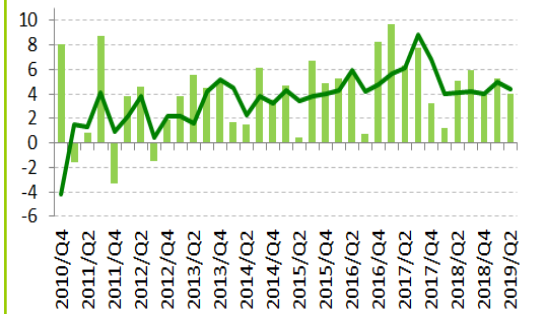
Tourist nights (3M, y-o-y, LHS) & tourist nights, tourist arrivals (12M, 2010 = 100)



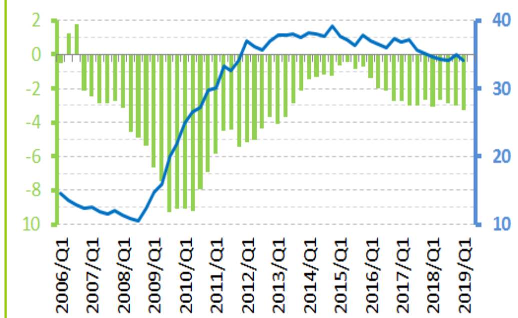
Romania

The country's economy started the year on a strong note (5% y-o-y) and growth remained favourable in 2Q with 4.4%. Early data suggest construction-linked investment as well as consumption as key drivers. Consumption was boosted by another round of minimum and public wage hikes. Annual inflation re-entered the NBR's tolerance band at end 2018 but it surpassed again the target-band in 2019. Due to the relatively high twin-deficits the economy seems to be less resilient to shocks. The government lowered the bank tax significantly.

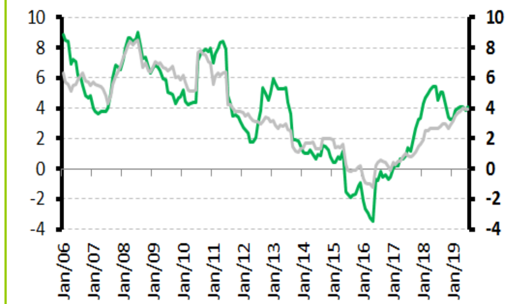
Real GDP growth (%, SA annualized q-o-q and NSA y-o-y)



Budget deficit (LHS, **ESA**), **Debt (RHS)** as % of GDP



Headline inflation and **core inflation**, (y-o-y; %)



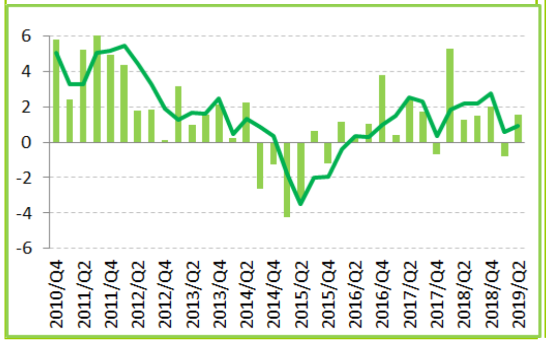
Source: Eurostat, national banks and statistical offices

Russia: 2019 brings a temporary slowdown as national projects start slowly, geopolitical risks are still high
Ukraine: GDP growth was 4.6% y-o-y in 2Q 2019, inflation is around 9%, the NBU started its easing cycle

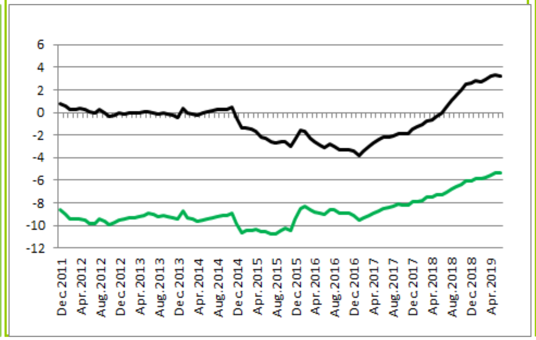
Russia

GDP growth slowed sharply to 0.5% y-o-y in 1Q 2019, as household purchases were brought forward before the January VAT hike, and there was a temporary decline in government capex. 2Q GDP at 0.9% brought some correction, but tight policies still held back growth. As inflation reached peak in March and declined quickly since then, the CBR cut the base rate at two consecutive meetings in the summer. The start of government's national projects and looser monetary policy could stimulate growth to around 2% by 2020. New wave of US sanctions and global risk aversion led to a weakening USD/RUB from end-July, hence we expect the CBR to remain cautious with further rate cuts despite below-target inflation in 1H 2020.

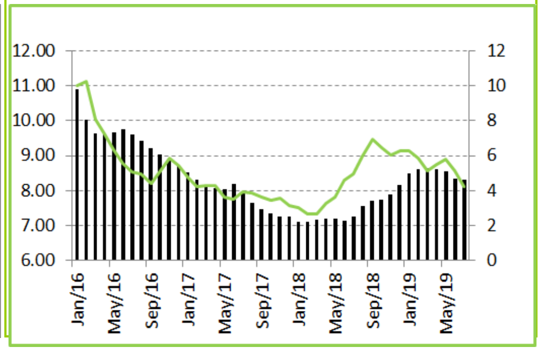
Real GDP growth (%, SA, annualized quarterly and **y-o-y**)



Headline budget balance and non-oil budget balance (% of GDP)



10Y swap rate (l.a.%) and **inflation** (r.a.%)

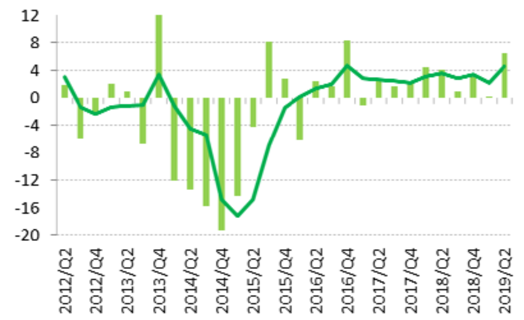


Ukraine

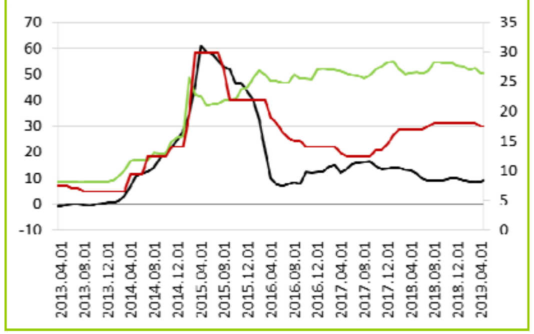
GDP increased by 4.6% y-o-y in 2Q 2019, beating expectations due to strong domestic demand.

Inflation hovers around 9%. The NBU cut interest rates by 50 bps (to 17%) in July, further rate cuts are expected. Due to the high base rate and a slowdown in growth, the UAH depreciated against the USD in the first half of the year. The new president stated that Ukraine wanted a new, 4 year IMF-deal and willing to go through with the land reform for that, as well.

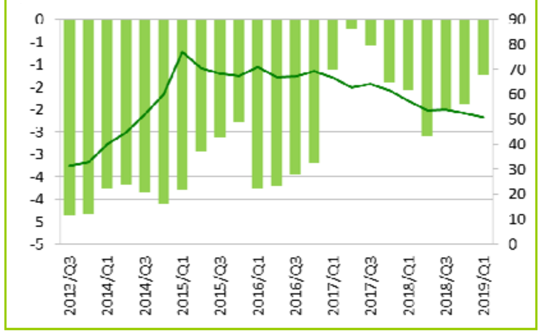
Real GDP growth (%, SA, annualized quarterly* and y-o-y)



USD/UAH (r.a., %), **base rate** (r.a., %), and **Inflation** (%)



Fiscal balance (l.a.) and government debt (r.a.) as % of GDP



Sources: CBR, Rosstat, Ukrstat, National Bank of Ukraine, Focus Economics
*annualized q-o-q growth is OTP Research estimate

General macro trends remained favourable in CEE countries, with growth levels exceeding EU average, while the recovery in Russia and Ukraine is expected to continue

REAL GDP GROWTH	2017	2018	2019F	2020F
Hungary	4.1	4.9	4.8	3.3
Ukraine	2.5	3.3	2.7	3.0
Russia	1.6	2.3	1.3	2.1
Bulgaria	3.8	3.1	3.5	3.2
Romania	7.0	4.1	3.9	2.9
Croatia	2.9	2.6	3.0	2.6
Slovakia	3.2	4.1	3.3	3.2
Serbia	2.0	4.3	3.3	3.1
Montenegro	4.7	4.9	3.3	2.7
Albania	3.8	4.0	3.6	4.4

EXPORT GROWTH	2017	2018	2019F	2020F
Hungary	4.7	4.7	6.1	5.4
Ukraine	3.6	-1.6	1.1	4.2
Russia	5.0	5.5	1.0	3.0
Bulgaria	5.8	-0.8	6.2	4.3
Romania	10.0	5.4	5.2	5.7
Croatia	6.4	2.8	3.2	3.3
Slovakia	5.9	4.8	6.0	5.0
Serbia	8.2	8.9	8.5	7.0
Montenegro	1.8	9.5	5.8	4.7
Albania	12.9	3.0	2.8	5.9

UNEMPLOYMENT	2017	2018	2019F	2020F
Hungary	4.2	3.7	3.6	3.6
Ukraine	9.9	9.3	8.4	8.0
Russia	5.2	4.8	4.5	4.2
Bulgaria	6.2	5.2	4.7	4.7
Romania	4.9	4.2	3.9	3.9
Croatia	11.1	8.6	6.7	6.0
Slovakia	8.1	6.6	6.5	6.3
Serbia	13.5	13.3	12.5	11.5
Montenegro	16.0	15.2	15.0	15.6
Albania	13.8	12.2	13.7	13.2

BUDGET BALANCE*	2017	2018	2019F	2020F
Hungary	-2.2	-2.2	-1.8	-1.3
Ukraine	-1.4	-2.2	-2.5	-2.5
Russia	-1.4	2.6	2.3	1.2
Bulgaria	1.2	2.0	0.3	0.1
Romania	-2.7	-3.0	-3.0	-3.0
Croatia	0.8	0.2	0.0	0.0
Slovakia	-0.8	-0.7	-0.7	-0.7
Serbia	1.1	0.6	-0.5	-0.5
Montenegro	-5.5	-3.0	-2.9	-0.8
Albania	-1.4	-1.6	-1.8	-1.7

CURRENT ACCOUNT BALANCE	2017	2018	2019F	2020F
Hungary	2.8	0.4	-0.5	-0.5
Ukraine	-1.9	-3.3	-3.5	-3.5
Russia	2.0	6.9	7.1	6.6
Bulgaria	4.4	4.5	3.9	1.7
Romania	-3.2	-4.5	-5.1	-5.5
Croatia	3.5	2.5	1.5	1.0
Slovakia	-1.7	-2.3	-1.0	-1.0
Serbia	-5.2	-5.2	-5.0	-4.8
Montenegro	-16.2	-17.2	-16.0	-15.5
Albania	-7.4	-6.4	-6.0	-5.8

INFLATION	2017	2018	2019F	2020F
Hungary	2.4	2.8	3.2	2.8
Ukraine	13.4	10.9	8.9	6.0
Russia	3.7	2.9	4.8	3.7
Bulgaria	2.1	2.9	2.9	2.6
Romania	1.3	4.6	3.9	3.3
Croatia	1.1	1.5	0.8	1.2
Slovakia	1.3	2.5	2.4	2.4
Serbia	3.2	2.0	2.6	2.8
Montenegro	1.5	-0.3	2.4	2.6
Albania	2.0	2.0	2.2	2.4

Source: OTP Research

* For EU members, deficit under the Maastricht criteria

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Investor Relations & Debt Capital Markets

Tel: + 36 1 473 5460; + 36 1 473 5457

Fax: + 36 1 473 5951

E-mail: investor.relations@otpbank.hu

www.otpbank.hu