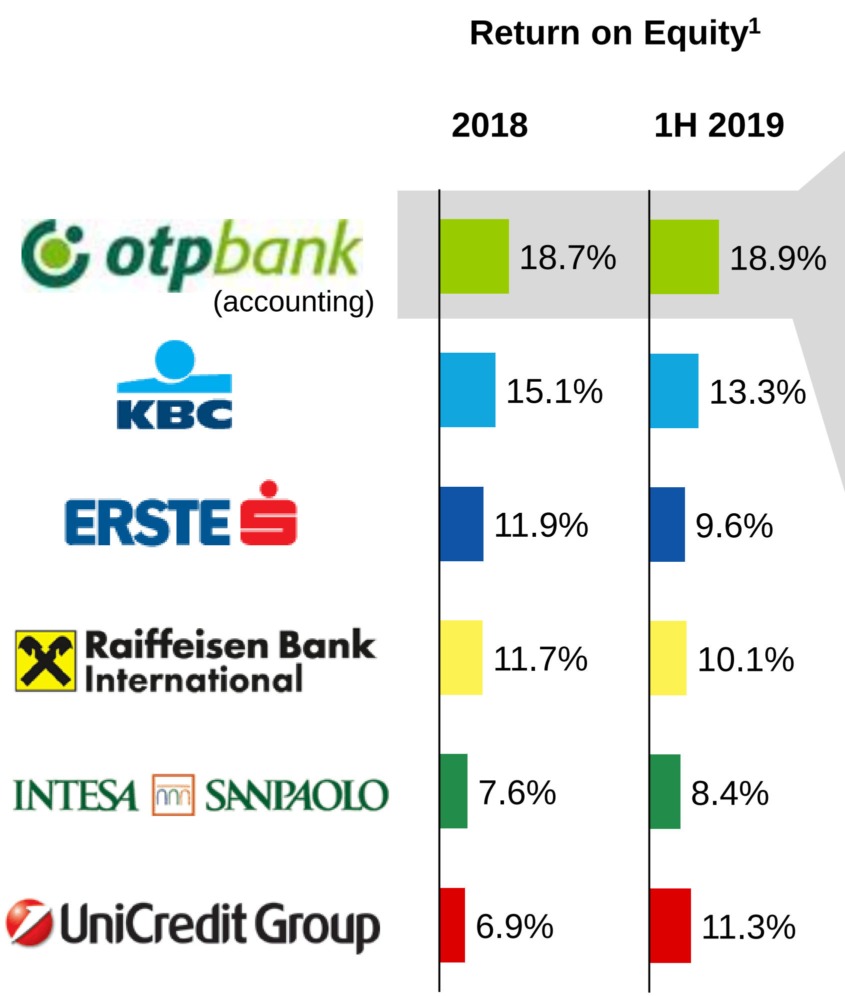
OTP Group - Investor presentation

OTP Group has maintained strong profitability, capital adequacy and liquidity

OTP Group's Return on Equity stands out from its regional peers. The adjusted ROE returned to attractive levels on the back of moderate provision charges, supported also by the stabilizing total revenue margin

ROE of regional banks active in the CEE region

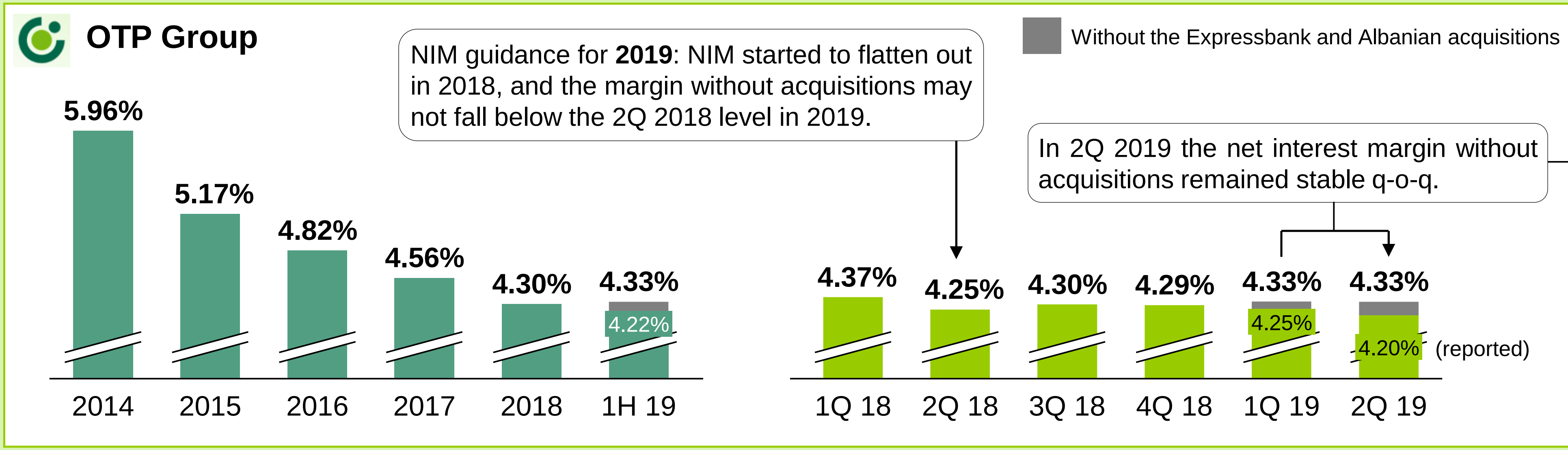


	2007	...	2014	...	2017	2018	1H 19
Accounting ROE	24.8%		-7.4%		18.5%	18.7%	18.9%
Adjusted ROE	24.7%		8.5%		18.7%	19.1%	21.6%
Total Revenue Margin[2]	8.09%		7.74%		6.71%	6.33%	6.32%
Net Interest Margin[2]	5.64%		5.96%		4.56%	4.30%	4.22%/ 4.33[4]
Net Fee&Comm. Margin	1.71%		1.59%		1.75%	1.58%	1.57%
Other Income Margin[2]	0.74%		0.19%		0.41%	0.44%	0.53%
Operating Costs / Average Assets	4.26%		3.85%		3.68%	3.57%	3.37%
Cost / Income (without one-offs)	52.7%		49.8%		54.9%	56.3%	53.4%
Risk Cost Rate[3]	0.82%		3.68%		0.43%	0.23%	0.19%
Leverage (average equity / avg. assets)	10.8%		13.0%		12.7%	12.2%	11.9%

[1] OTP: calculated from the Group's accounting after tax profit. Other regional banks: OTP calculation based on company websites. [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.

After years of steady contraction, the net interest margin seems to have stabilized in the first half of 2019

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%.

The net interest margin of the Russian operation has been gradually decreasing; however, the margin trajectory of other large subsidiaries typically showed signs of stabilization

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	2.90
							3.09	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%.

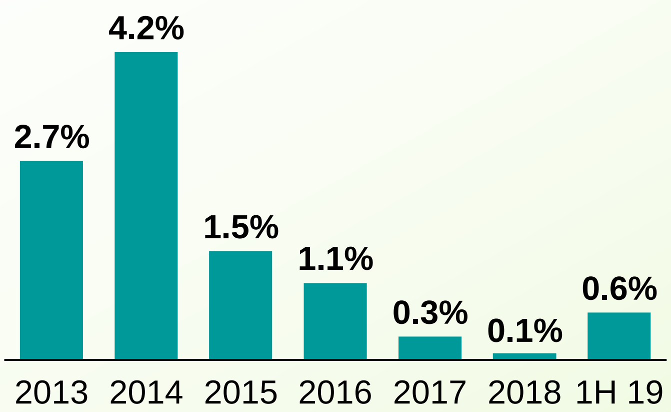
[2] Including Touch Bank from 1Q 2018.

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

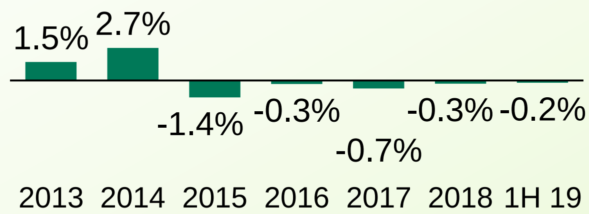
Ratio of DPD90+ loan formation to average performing (DPD0-90) loans[1]

(1H 2019 numbers are annualised)

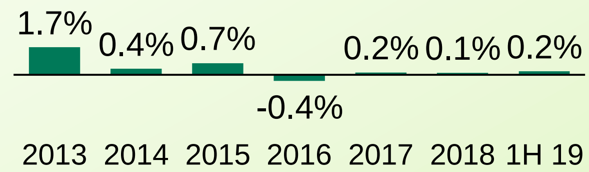
Consolidated



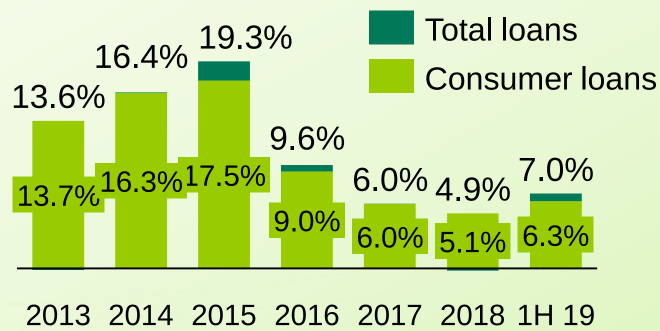
OTP Core (Hungary)



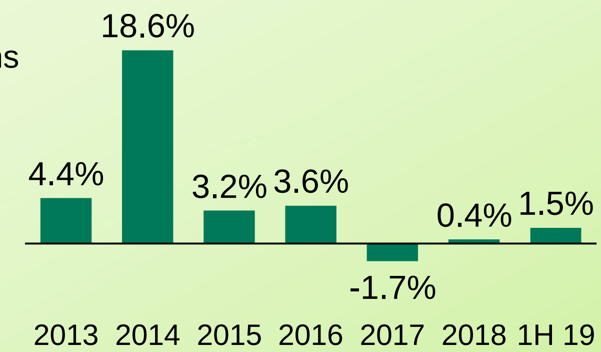
DSK Group (Bulgaria)



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.

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

Bank	Period	POCI	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%

1Q 18: 12.2%
-4.0%p
1Q 19: 8.2%
-0.5%p
2Q 19: 7.7%

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

Bank	Period	POCI	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%

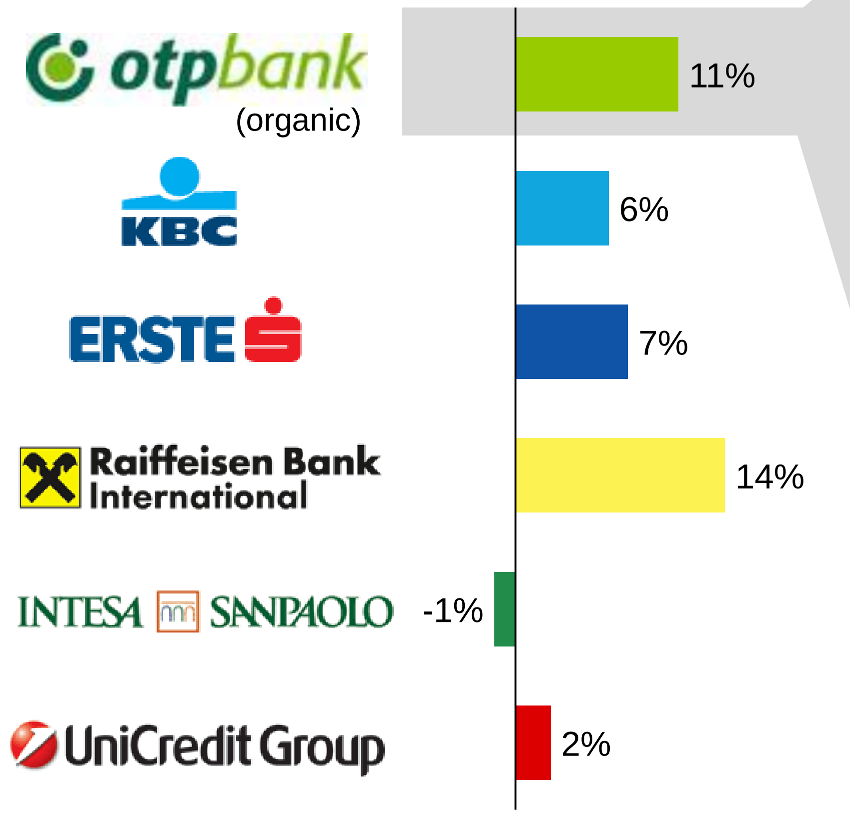
General note: treatment of POCI (Purchased or Originated Credit Impaired): OTP, RBI, UniCredit, Intesa: POCI is included in the Stage categories; Erste, KBC: POCI is reported separately from Stage 1-3.
Own calculation based on company websites.

OTP Group demonstrated double digit loan growth over the past 12 months, thanks to the healthy loan demand amid supportive economic environment and low penetration levels

Net loan growth of regional banks active in the CEE region

Net loan growth[1]

2Q 2019, Y-o-Y



ORGANIC Stage 1 + 2 loan growth at OTP[2] (y-o-y, FX-adjusted)

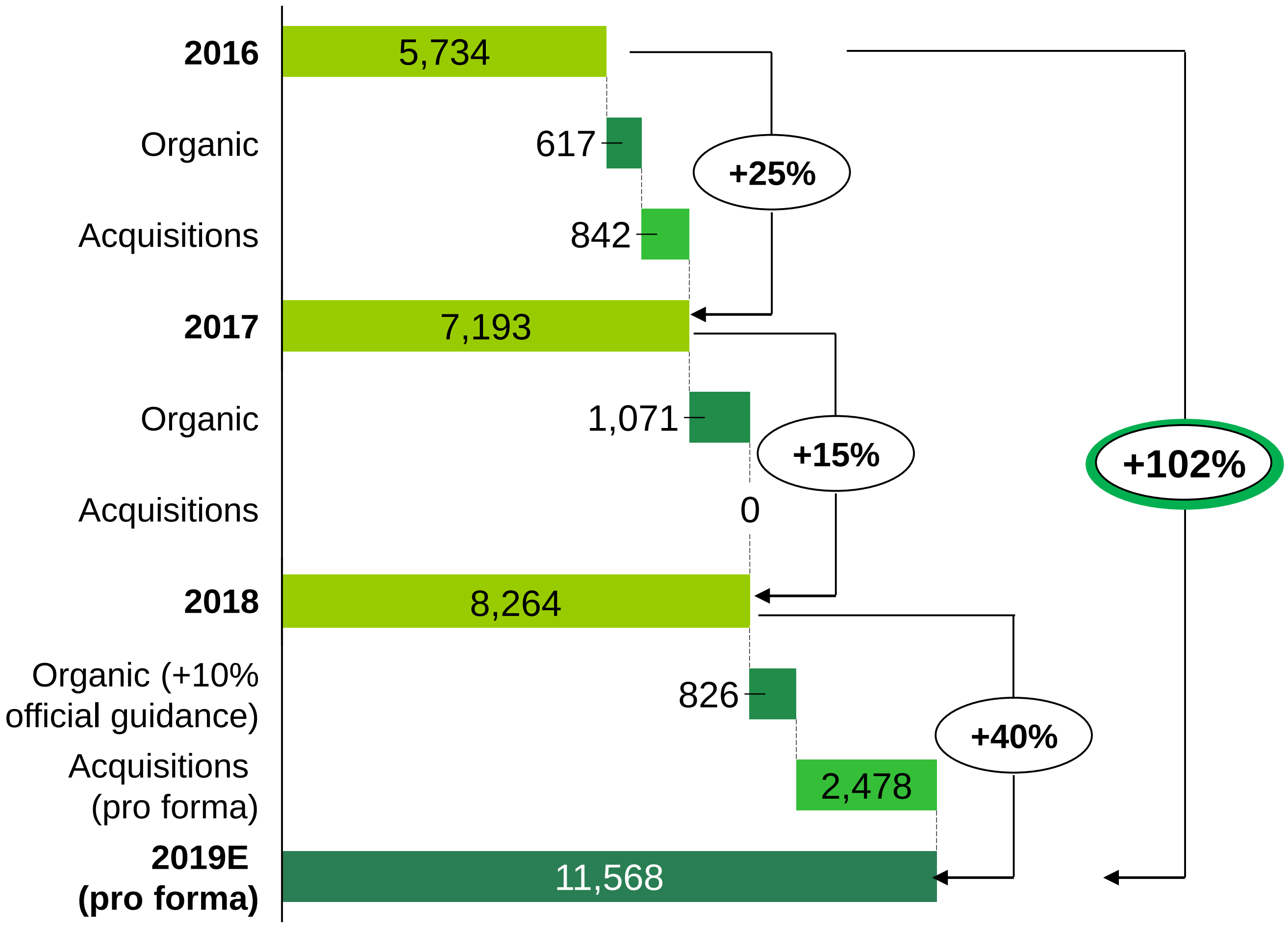
	Total	Consumer	Mortgage	Corporate[3]
OTP Group	**13%**	15%	7%	15%
OTP Core (Hungary)	**16%**	21%	6%	25%
DSK Group (Bulgaria)	**9%**	10%	13%	4%
OBRu (Russia)	**21%**	24%		6%
OBH (Croatia)	**1%**	5%	0%	-3%
OBU (Ukraine)	**32%**	71%		26%
OBR (Romania)	**14%**	5%	16%	12%
OBSrb (Serbia)	**19%**	15%	6%	25%
CKB (Montenegro)	**17%**	7%	13%	23%
OBS (Slovakia)	**4%**	-2%	3%	7%

[1] OTP: without acquisitions, unadjusted for FX rate changes. Other banks: OTP calculation based on company websites.
[2] Adjusted for changes in the scope of entities comprising OTP Core, DSK Group, OBH, OBR, and OBSrb.
[3] Loans to MSE and MLE clients and local governments.

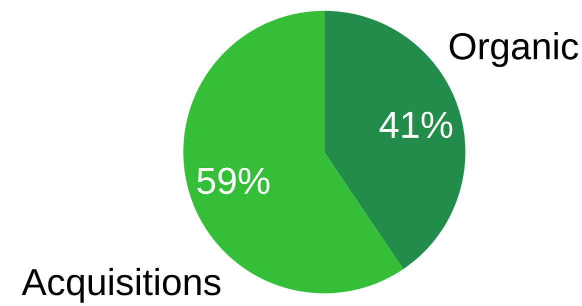
In the last 3 years, by the end of 2019 OTP Group might have doubled its performing loan volumes, as a result of strong organic growth and acquisitions

OTP Group – performing (DPD0-90) loan growth

FX-adjusted, in HUF billion



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



Performing loan volume data of acquisitions: 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 acquisitions-related growth. The 2019E organic loan growth guidance was based on the 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

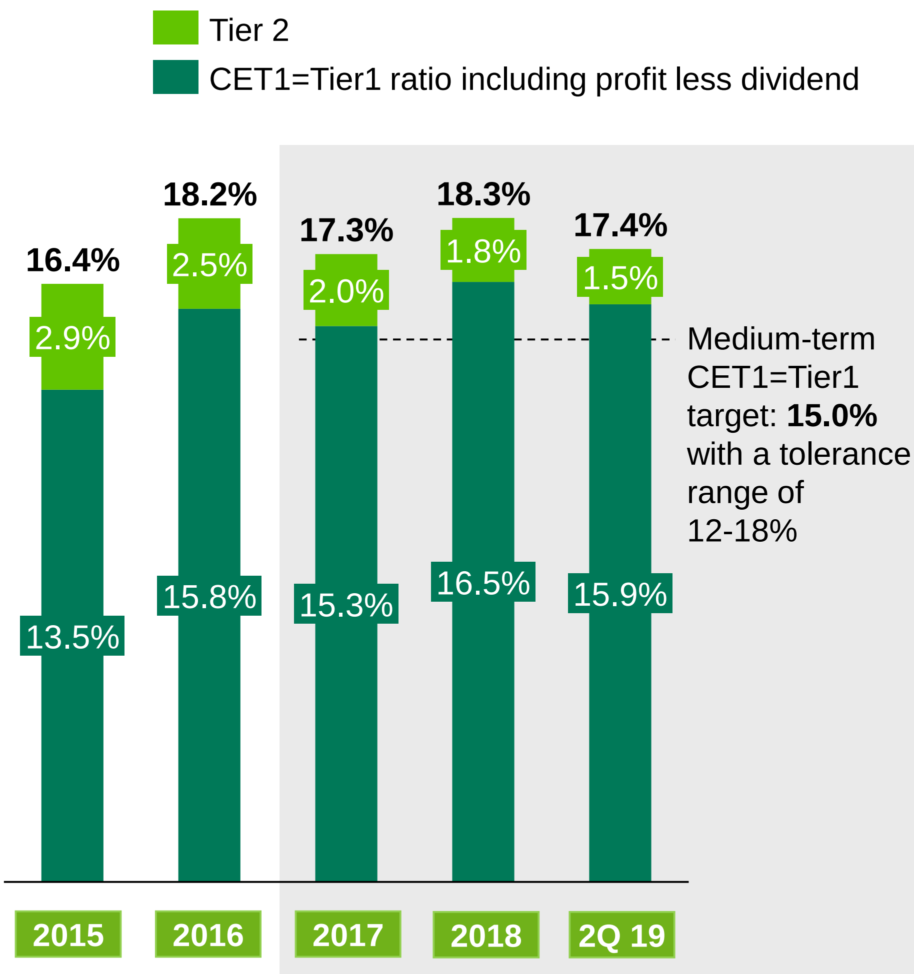
Acquisitions in the last 2.5 years materially improved OTP's positions in many countries. The *pro forma* CET1 ratio impact of the Serbian, Moldovan, Montenegrin and Slovenian transactions is -2.8 pps

	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)
				before	after		
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, in progress)*	(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**

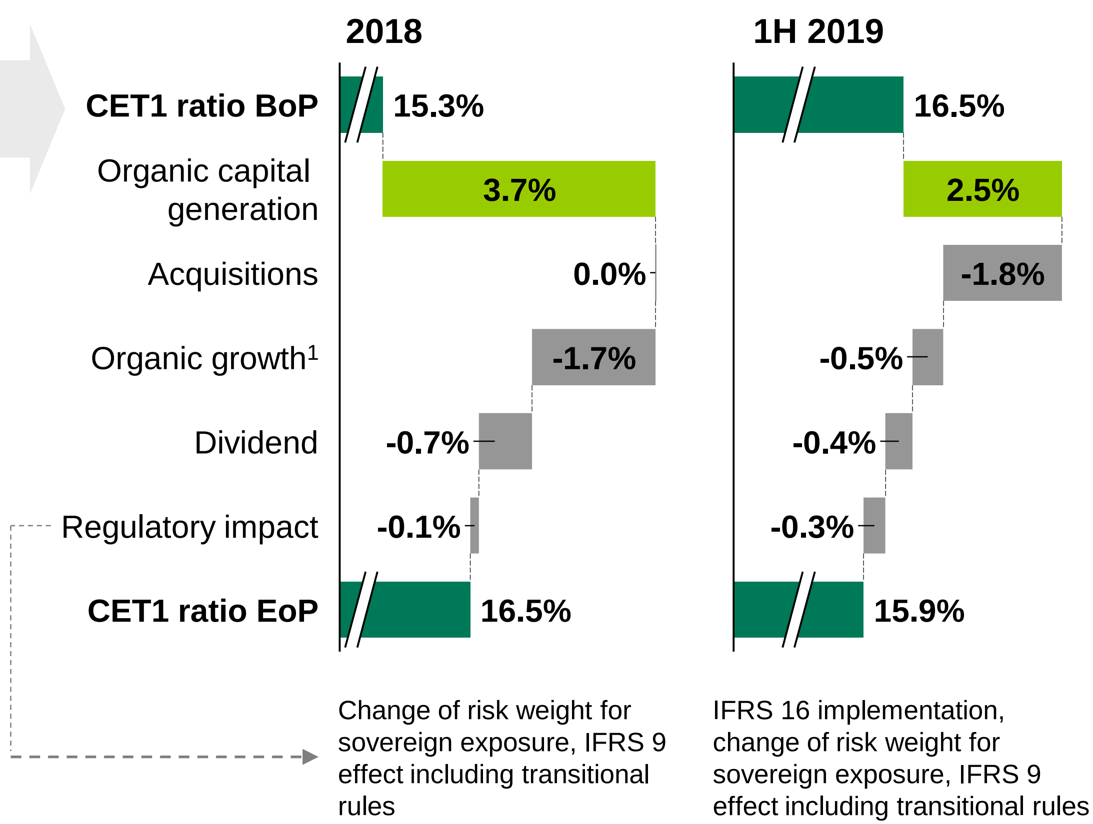
[1] OTP Bank disclosed purchase price for Splitska banka (EUR 425 million) and Vojvodjanska banka (EUR 125 million) only.
[2] Reference date of market share data: Croatia: 2Q 2017, Serbia - Vojvodjanska 4Q 2016, Bulgaria: 1Q 2019, Albania: 4Q 2018, Serbia - SocGen 2Q 2019, Moldova: 2Q 2019, Montenegro: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

The 15.9% CET1=Tier1 ratio would be drawn down by 2.8 pps due to the not yet closed acquisitions (on a pro forma basis). Due to the sound internal capital build the CET1 ratio is expected to get closer to the 15% mid-term management target

Development of the CET1 / CAR ratios



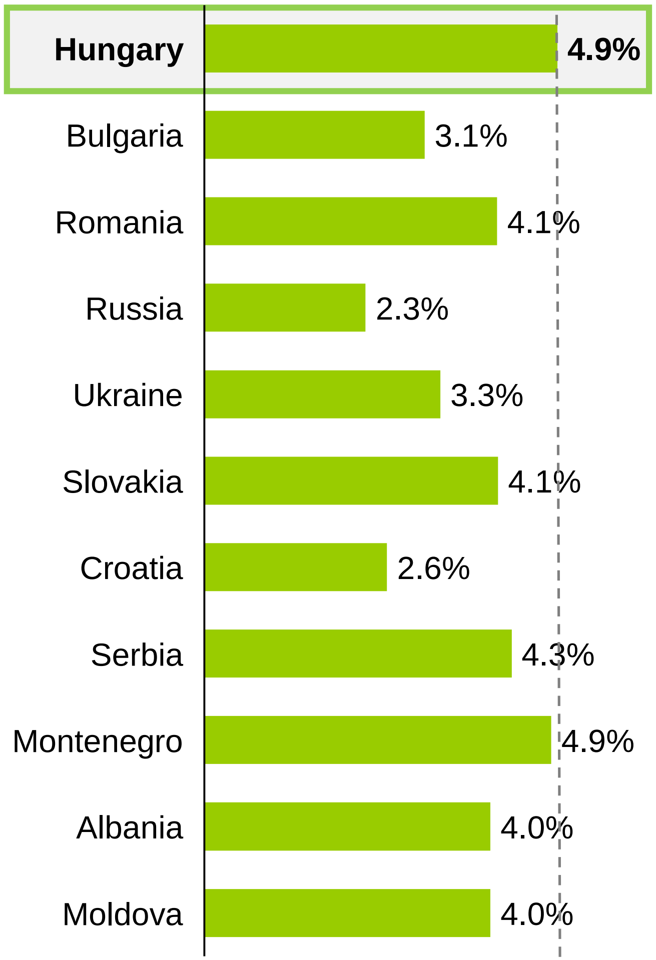
Organic capital generation creates room for organic growth, acquisitions and continued dividend payment



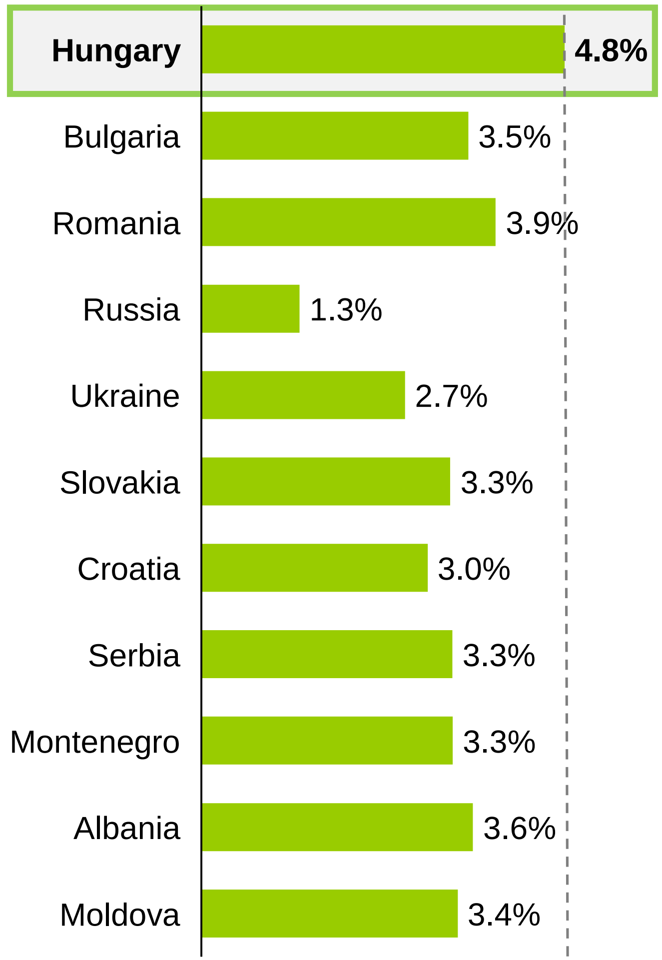
[1] Including market risk RWA changes.

In 2019 the Hungarian GDP growth is expected to be close to 5% again. The healthy balance indicators coupled with ample room to manoeuvre both on the fiscal and monetary policy front suggest that the country might mitigate the potential impact from the slowing German economy, and sustain its healthy growth pattern significantly exceeding the EU average

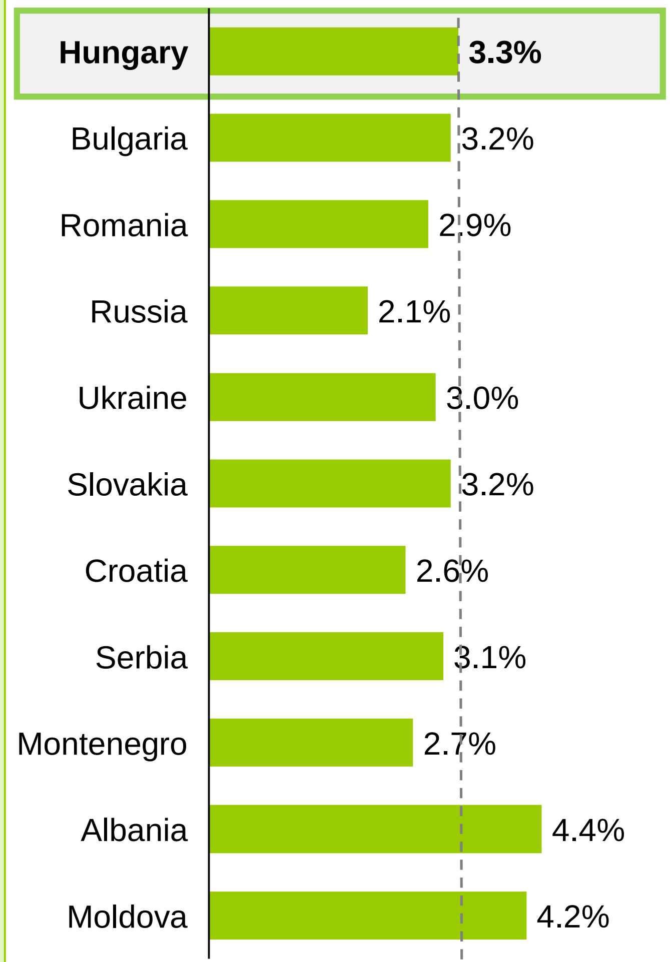
2018 GDP growth (y-o-y)



2019F GDP growth (y-o-y)



2020F GDP growth (y-o-y)



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