OTP Group
2Q 2020 results

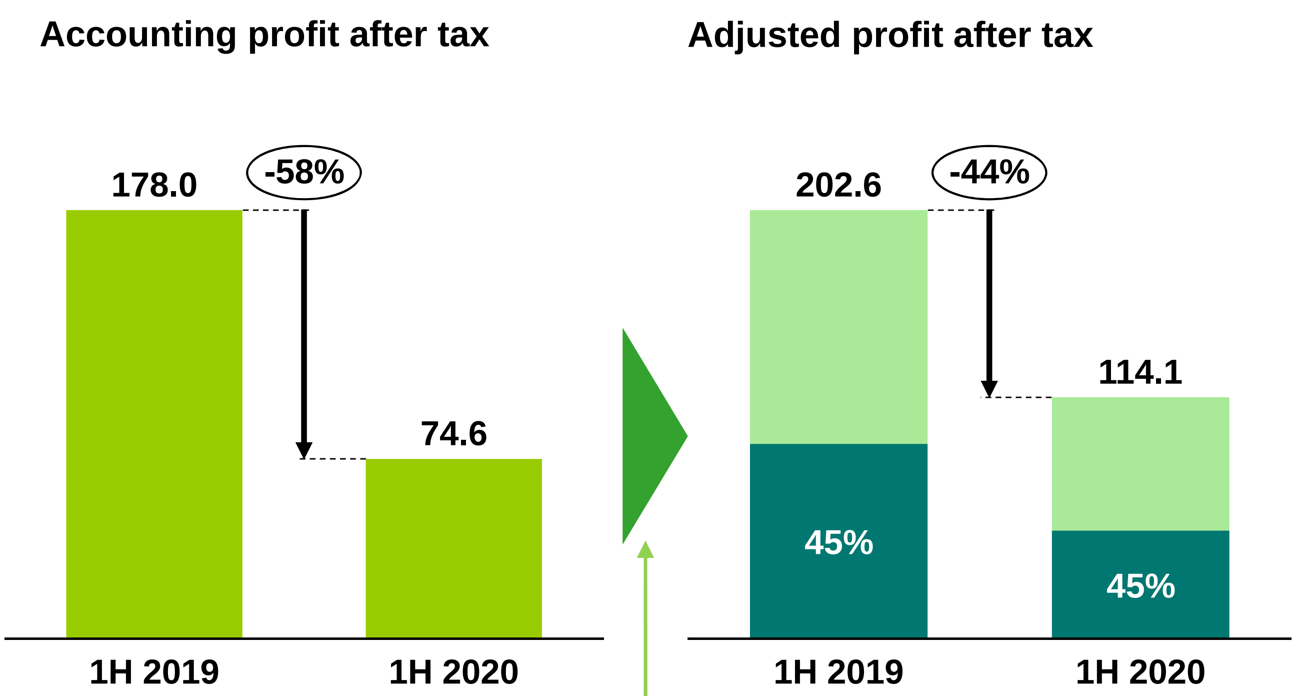
Conference call – 7 August 2020

Speakers:

Mr. László Bencsik, Chief Financial and Strategic Officer
Mr. György Kiss-Haypál, Chief Risk Officer
Mr. Gergely Tardos, Director, Head of Research

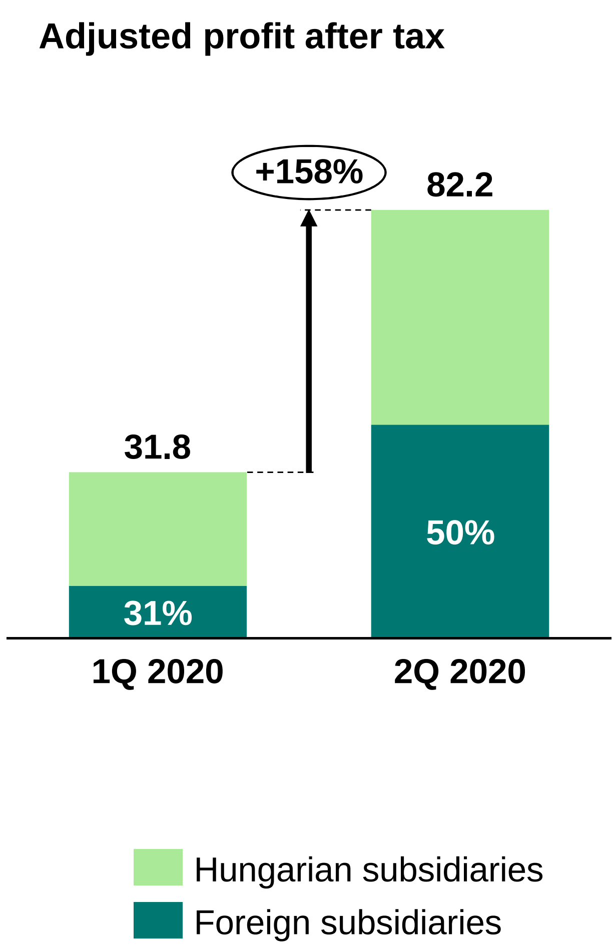
The semi-annual accounting profit decreased by 58% y-o-y, while the adjusted profit declined by 44%. In the second quarter the profit contribution of foreign subsidiaries improved to 50%

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



Adjustments (after tax)	**1H 2019**	**1H 2020**
Banking tax	-15.4	-17.3
Expected one-off negative effect of the debt repayment moratorium in Hungary	-	-18.2
Effect of acquisitions	-3.5	-5.8
Others	-5.7	1.8[1]
Total	**-24.7**	**-39.5**

After tax profit development (in HUF billion)



[1] Of which +HUF 0.9 billion goodwill /investment impairment charges; +0.2 dividend and net cash transfer; +0.7 impact of fines imposed by the Hungarian Competition Authority.

In 2Q 2020 the balance of adjustments was -HUF 3.6 billion, mostly related to integration expenditures

(in HUF billion)	1H 19	1H 20	Y-o-Y	2Q 19	1Q 20	2Q 20	Q-o-Q	Y-o-Y
Consolidated after tax profit (accounting)	**178.0**	**74.6**	**-58%**	**105.4**	**-4.1**	**78.7**		**-25%**
Adjustments (total)	**-24.7**	**-39.5**	**60%**	**-6.9**	**-35.9**	**-3.6**	**-90%**	**-48%**
Dividends and net cash transfers (after tax)	0.6	0.2	-70%	0.4	0.0	0.2	366%	-65%
Goodwill/investment impairment charges (after tax)	-4.4	0.9		-4.4	0.0	0.9 [1]		
Special tax on financial institutions (after corporate income tax)	-15.4	-17.3	12%	-0.2	-16.7	-0.6 [2]		205%
Expected one-off negative effect of the debt repayment moratorium in Hungary (after tax)	-	18.2		-	-20.2	2.0 [3]		
Impact of fines imposed by the Hungarian Competition Authority (after tax)	-	0.7		-	-	0.7 [4]		
Effect of acquisitions (after tax)	-3.6	-5.8	63%	-0.8	0.9	-6.8 [5]		
One-off impact of regulatory changes related to FX consumer contracts in Serbia	-1.9	0.0		-1.9	0.0	0.0		
Consolidated adjusted after tax profit	**202.6**	**114.1**	**-44%**	**112.2**	**31.8**	**82.2**	**158%**	**-27%**

1 HUF 0.9 billion positive tax impact of the impairment booked in the wake of the revaluation of the investment in the Romanian subsidiary.

2 -HUF 0.35 billion Slovakian banking tax and -HUF 0.25 billion was booked at the Hungarian group members as a result of the NPV effect of the new banking tax payable in 2020.

3 +HUF 2 billion release (after tax) related to the moratorium in Hungary, because the opt-out ratio increased since the booking of the 1Q amount.

4 +HUF 0.75 billion (after tax) effect due to the refund of a penalty imposed earlier by the Competition Authority, as it was overruled by the court.

5 The -HUF 6.8 billion (after tax) acquisition effect was related mostly to the direct costs of the on-going integration and group alignment processes.

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The semi-annual adjusted profit without acquisitions halved (adjusted for FX-effect), mostly because of higher risk costs due to the forward-looking provisioning. In 2Q total risk costs declined q-o-q, but core banking revenues also moderated

(in HUF billion)	1H 19	1H 20	Y-o-Y	1H 20 without M&A[1]	Y-o-Y without M&A[1]	Y-o-Y FX-adj. without M&A[1]	1Q 20	2Q 20	Q-o-Q	Q-o-Q FX-adj.
Consolidated adjusted after tax profit	**202.6**	**114.1**	**-44%**	**103.3**	**-49%**	**-51%**	**31.8**	**82.2**	**158%**	**151%**
Corporate tax	-25.3	-14.6	-42%	-13.2	-47%	-50%	-4.0	-10.6	164%	163%
Profit before tax	227.9	128.7	-44%	116.5	-49%	-51%	35.8	92.8	159%	153%
Total one-off items	5.6	1.2	-78%	1.2	-78%	-78%	0.4	0.9	144%	144%
Result of the share swap agreement	5.6	1.2	-78%	1.2	-78%	-78%	0.4	0.9	144%	144%
Profit before tax (adjusted, without one-off items)	**222.4**	**127.5**	**-43%**	**115.2**	**-48%**	**-50%**	**35.5**	**92.0**	**159%**	**153%**
Operating profit without one-offs	232.9	258.2	11%	228.2	-1%	-6%	127.2	131.0	3%	2%
Total income without one-offs	499.0	568.1	14%	509.5	3%	-1%	283.9	284.2	0%	-1%
Net interest income	333.4	394.8	18%	350.5	6%	2%	200.3	194.5	-3%	-4%
Net fees and commissions	124.0	135.8	9%	125.0	1%	-2%	69.2	66.6	-4%	-5%
Other net non interest income without one-offs	41.6	37.5	-10%	34.0	-18%	-20%	14.4	23.1	61%	59%
Operating costs	-266.1	-309.9	16%	-281.3	6%	3%	-156.7	-153.2	-2%	-3%
Total risk cost	-10.6	-130.7	1135%	-112.9	970%	877%	-91.7	-39.1	-57%	-57%

[1] In these 3 columns neither 1H 2020 numbers, nor y-o-y changes include the contribution of OTP Bank Albania, Podgoricka banka in Montenegro, Mobiasbanca in Moldova, OTP banka Srbija in Serbia and SKB Banka in Slovenia.

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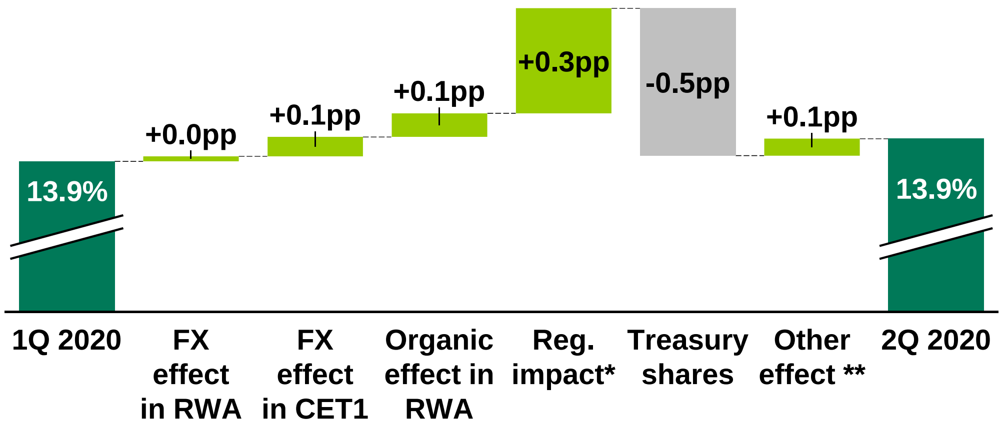
Strong capital position, all capital ratios well above the regulatory requirements

Decomposition of the change in CET1 ratio in 2Q 2020



*Change of risk weight for certain sovereign exposure, IFRS 9 transitional rules in RWA and CET1.
**Including the effect of decrease of non-credit risk RWA, and other change of CET1 capital

Regulatory and other effects influencing the CET1 ratio

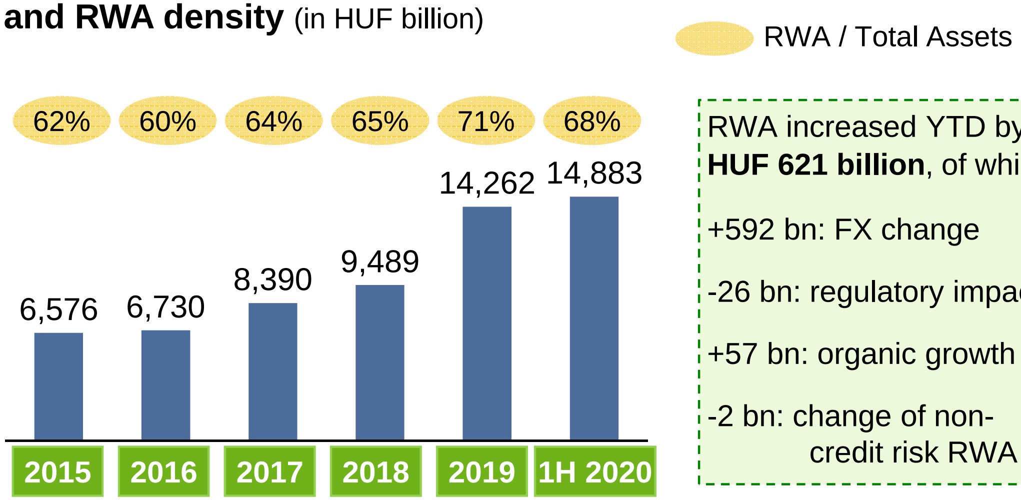
Regulatory changes **already implemented in 2Q**:

- provisions for the expected credit losses on Stage 1+2 exposure under IFRS9 were released from the regulatory capital (+19 bps);
- favourable treatment of sovereign exposure in EU currencies had an additional positive impact of 16 bps on the CET1 ratio.

Further changes are expected to improve the CET1 ratio by altogether 49-67 bps **in the second half of the year**:

- the SME supporting factor and the prudential treatment of software will have a positive estimated impact of 24-42 bps;
- the positive effect of the RWA reduction stemming from the divestment of OBS is estimated at around 25 bps.

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



RWA increased YTD by **HUF 621 billion**, of which:

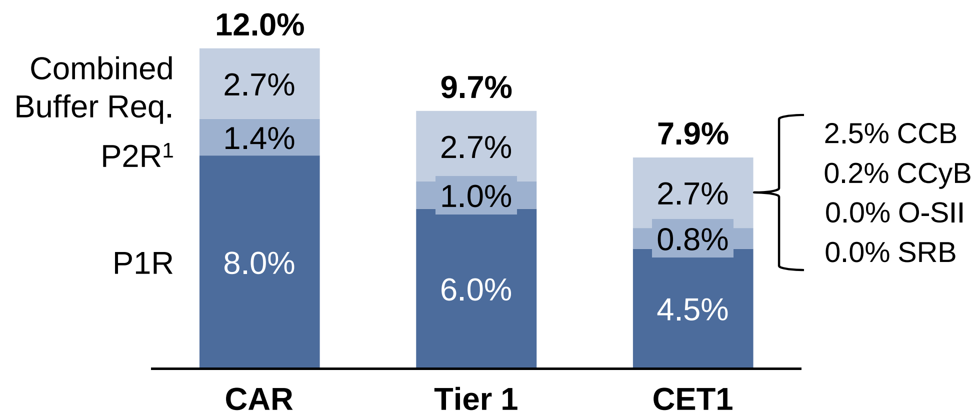
+592 bn: FX change

-26 bn: regulatory impact

+57 bn: organic growth

-2 bn: change of non-credit risk RWA

Regulatory minima of capital adequacy ratios for OTP Group, for end-2020



Abbreviations: P1R: Pillar 1 requirement; P2R: Pillar 2 req.; CCB: Capital conservation buffer; CCyB: Countercyclical buffer; O-SII: Other Systemically Important Institutions buffer; SRB: Systemic Risk buffer. [1] The (P1R + P2R) / P1R ratio on OTP Group was set by the NBH at 117.25% for 2020. [2] Assumptions for CCyB: 1.5% in Slovakia, 0.5% in Bulgaria (in March 2020 the BNB suspended the gradual CCyB increase to 1% in 2020). On 1 April the NBH reduced the O-SII buffer req. to zero effective from 1 July 2020.

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The Management disclosed its expectations for 2020, reaffirmed the capital adequacy targets and provided an update on dividend

OTP Group: Management expectations for 2020

Currently there is a high degree of uncertainties around the duration of the pandemic, as well as the pace of the recovery of the global economy. Accordingly, the management still refrains from making a detailed 2020 Guidance. However, it states that according to its expectation

- **the adjusted ROE for 2020 might exceed 10%;**
- **the annual risk cost rate may be around 125 bps alongside the currently probable macroeconomic development path;**
- **FX-adjusted performing (Stage 1+2) loan volumes might increase by around 7% y-o-y following a 3% growth in 1Q and a near zero change in 2Q as a result of a drop in new business volumes induced by COVID-19 pandemic.**

OTP Group: Capital adequacy targets and update on dividend

OTP Bank's capital adequacy targets (CET1) remained unchanged with a long-term CET1 target level of 15% and a range of 12-18%. Given the reduction of regulatory minimum of Tier1/CET1 to 9.7% in 2020-21 (with 118% SREP rate), in short and medium run the management prefers a range of 12-15%.

OTP's management is committed to paying dividend after 2020 in such a magnitude that it also compensates shareholders for the originally proposed HUF 69.44 billion after 2019, for which the pay-out was stopped at the request of the regulator. Regarding the actual size of the dividend the management will make its proposal prior to the AGM approving 2020 results depending on the annual accounting profit, acquisition opportunities, the then prevailing economic environment, as well as the regulatory and supervisory requirements.

All major Group members except for Serbia suffered a decline in 1H profit as a result of elevated risk costs

Adjusted profit after tax (in HUF billion)

	1H 2019	1H 2020	Y-o-Y
OTP Group	202.6	114.1	-44%
OTP Core (Hungary)	97.4	54.7	-44%
DSK Group (Bulgaria)	34.2	21.5	-37%
OBH (Croatia)	17.4	9.9	-43%
OBSrb (Serbia)	3.0	3.7	22%
SKB (Slovenia)		3.2	
OBR (Romania)	3.6	1.1	-69%
OBU (Ukraine)	16.0	10.8	-33%
OBRu (Russia)	13.9	-2.2	
CKB Group (Montenegro)	1.8	1.6	-12%
OBA (Albania)	1.2	1.1	-5%
Mobiasbanca (Moldova)		1.7	
OBS (Slovakia)	0.5	-1.6	
Merkantil Group[1] (Hungary)	3.3	2.7	-18%
OTP Fund Mgmt. (Hungary)	1.7	1.6	-6%
Other Group members	8.5	4.1	-52%
Other Hungarian subs.	7.1	3.7	-48%
Corporate Centre	2.3	0.4	-84%
Other foreign subs + eliminations	-0.9	0.0	

[1] Until the end of 2019 the after tax profit of Merkantil Bank and Merkantil Car, since 1Q 2020 the sub-consolidated after tax profit of Merkantil Group (Merkantil Bank Ltd., Merkantil Bérlet Ltd., OTP Real Estate Leasing Ltd., NIMO 2002 Ltd., SPLC-P Ltd., SPLC Ltd.) was presented.

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The semi-annual total income grew by 3% y-o-y without acquisitions, and remained stable in the second quarter

Effect of acquisitions

TOTAL INCOME without one-off items	1H 2020 (HUF billion)	2Q 2020 (HUF billion)	1H 2020 Y-o-Y (HUF billion)	1H 2020 Y-o-Y (%)	2Q 2020 Q-o-Q (HUF billion)	2Q 2020 Q-o-Q (%)
OTP Group	**568**	**284**	13 56 69	14%/3%[1]	0	0%
OTP CORE (Hungary)	**216**	**110**	11	5%	4	4%
DSK Group (Bulgaria)	**80**	**40**	4	5%	1	2%
OBH (Croatia)	**40**	**21**	-1	-3%	2	9%
OBSrb (Serbia)	**37**	**18**	0 22	138%/-1%[1]	-1	-3%
SKB Banka (Slovenia)	**20**	**10**	20	-	0	-5%
OBR (Romania)	**22**	**11**	4	21%	1	8%
OBU (Ukraine)	**34**	**16**	4	12%/-2%[2]	-3	-15%/-13%[2]
OBRu (Russia)	**67**	**31**	-3	-4%/-7%[2]	-6	-15%/-11%[2]
CKB Group (Montenegro)	**11**	**5**	0 5	83%/6%[1]	0	-1%
OBA (Albania)	**6**	**3**	3	-	0	-3%
Mobiasbanca (Moldova)	**7**	**3**	7	-	0	2%
OBS (Slovakia)	**8**	**4**	0	5%	0	10%
Others	**21**	**11**	-6	-21%	2	19%

[1] Changes without the effect of acquisitions.
[2] Changes in local currency.

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The 1H net interest income increased by 6% without acquisitions; on quarterly basis it decreased by 3% mainly due to the weaker Russian and Ukrainian contribution

Effect of acquisitions

NET INTEREST INCOME	1H 2020 (HUF billion)	2Q 2020 (HUF billion)	1H 2020 Y-o-Y (HUF billion)	1H 2020 Y-o-Y (%)	2Q 2020 Q-o-Q (HUF billion)	2Q 2020 Q-o-Q (%)
OTP Group	395	194	19 / 42 / 61	18%/6%[1]	-6	-3%
OTP CORE (Hungary)	139	70	9	7%	1	1%
DSK Group (Bulgaria)	55	27	3	6%	-1	-3%
OBH (Croatia)	29	14	1	3%	0	-3%
OBSrb (Serbia)	28	14	0 / 17	155%/-1%[1]	0	-2%
SKB Banka (Slovenia)	14	7	14	-	0	1%
OBR (Romania)	16	8	3	25%	0	0%
OBU (Ukraine)	25	12	3	15%/0%[2]	-2	-13%/-10%[2]
OBRu (Russia)	55	26	1	3%/-2%[2]	-4	-12%/-8%[2]
CKB (Montenegro)	8	4	1 / 4	108%/13%[1]	0	2%
OBA (Albania)	5	2	3	-	0	6%
Mobiasbanca (Moldova)	4	2	4	-	0	-4%
OBS (Slovakia)	5	3	0	-2%	0	3%
Merkantil[3] (Hungary)	9	4	2	26%	0	6%
Corporate Centre	1	0	-2	-69%	0	29%
Others	0	0	-2	-77%	0	-85%

1 2Q net interest income rose by 1%, partly because of the continued expansion of retail loan volumes. In 2Q the net interest margin was 6 bps lower than in the previous quarter, partly because of declining average interest rates on retail loans as the regulator capped interest rates on newly disbursed, non-mortgage-backed consumer loans effective from 19 March. Furthermore, average funding costs increased.

2 In 2Q a regulatory change reduced the q-o-q dynamics of net interest income by HUF 1 billion: during the state of emergency, between 13 March and 14 May, banks were prohibited from charging penalty interest, and the amount recognized in the 1Q financial statements for the second half of March was reversed in 2Q.

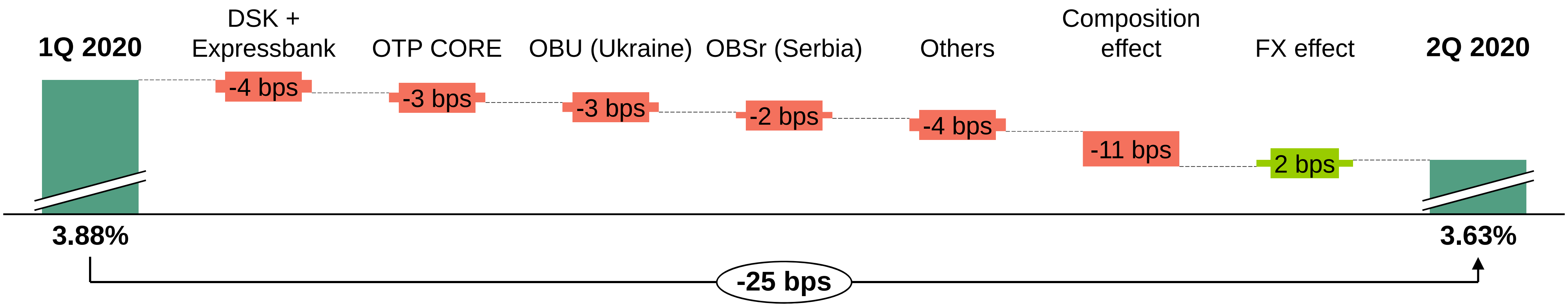
3 In the Ukraine the q-o-q setback was explained by the sharp decline of the margin in the declining rate environment, as well as by the contracting performing loan volumes.

4 The Russian NII drop was due to the declining loan volumes amid falling new loan flows especially in April-May. The NIM remained relatively stable, thanks to declining deposit rates.

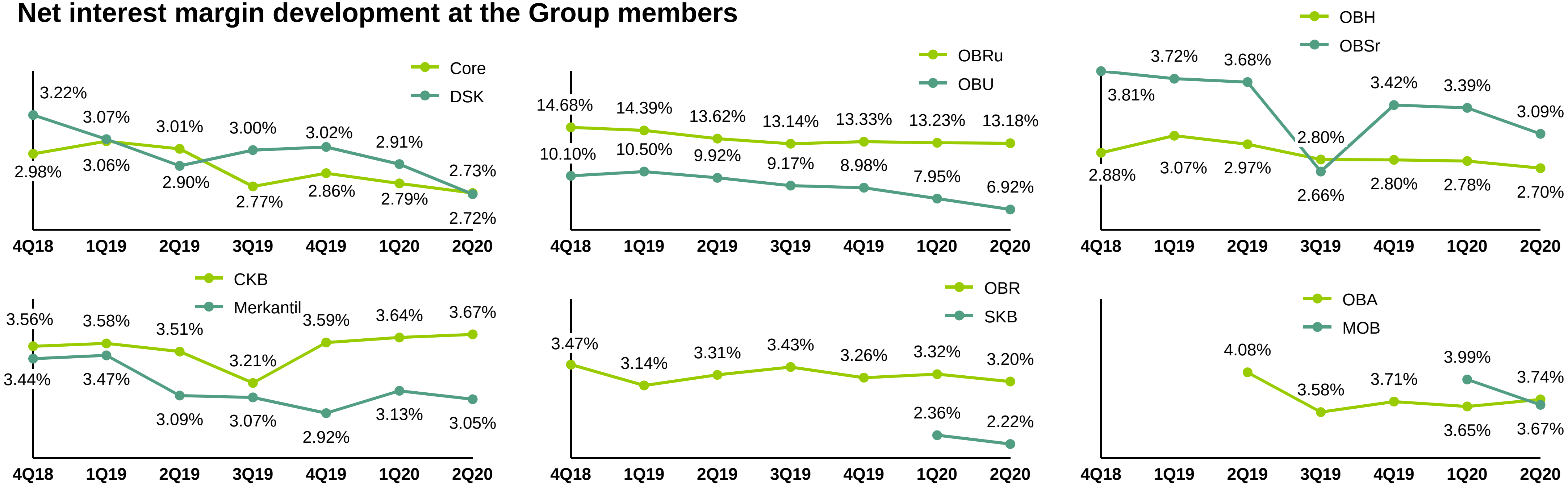
[1] Changes without the effect of acquisitions.
[2] Changes in local currency.

The consolidated 2Q net interest margin eroded by 25 bps q-o-q mainly as a result of lower margins in Bulgaria, Hungary, Ukraine and Serbia, as well as the adverse weight changes within the Group (declining share of high margin businesses)

Consolidated net interest margin development



Net interest margin development at the Group members



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Consolidated performing (Stage 1+2) loans were stable q-o-q. Consumer loans excelled with a remarkable 8% rise at OTP Core, while housing loans grew at an accelerating rate q-o-q (+4% in 2Q)

Q-o-Q performing (Stage 1 + 2) LOAN volume changes in 1Q 2020, adjusted for FX-effect

	Cons.	Core (Hungary)	DSK (Bulgaria)	OBH (Croatia)	OBSrb (Serbia)	SKB (Slovenia)	OBR (Romania)	OBU (Ukraine)	OBRu (Russia)	CKB (Monten.)	OBA (Albania)	Mobias (Moldova)	OBS (Slovakia)
Nominal change (HUF billion)	-6	98	-60	22	61	-40	16	-25	-89	2	3	-1	-1
Total	0%	2%	-3%	2%	5%	-4%	2%	-6%	-14%	1%	2%	0%	0%
Consumer	-1%	8% / 5%[2]	-2%	-4%	7%	-3%	-1%	-11%	-15%	0%	-1%	0%	-3%
Mortgage	2%	3%	1%	1%	2%	0%	2%			1%	2%	7%	2%
Housing loan		4%											
Home equity		0%											
Corporate[1]	-1%	-1%	-5%	5%	5%	-9%	3%	-6%	-12%	1%	3%	-3%	-2%

[1] Loans to MSE and MLE clients and local governments.
[2] Cash loan growth.

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In 1H the consolidated performing (Stage 1+2) loans grew by 2%. The Hungarian expansion was significant with 8% growth, driven by consumer loans, especially by 'baby loans'; mortgage and corporate loan growth reached 5%

YTD performing (Stage 1 + 2) LOAN volume changes in 1H 2020, adjusted for FX-effect

	Cons.	Core (Hungary)	DSK (Bulgaria)	OBH (Croatia)	OBSrb (Serbia)	SKB (Slovenia)	OBR (Romania)	OBU (Ukraine)	OBRu (Russia)	CKB (Monten.)	OBA (Albania)	Mobias (Moldova)	OBS (Slovakia)
YTD nominal change (HUF billion)	315	284	-56	94	86	-10	37	-19	-110	7	7	9	-13
Total	2%	8%	-2%	7%	7%	-1%	5%	-5%	-17%	2%	5%	8%	-3%
Consumer	1%	20% / 9%[2]	-1%	-3%	11%	-10%	1%	-12%	-16%	-1%	-1%	0%	-4%
Mortgage	4%	5%	3%	4%	4%	0%	5%			4%	3%	18%	1%
Housing loan		6%											
Home equity		-4%											
Corporate[1]	3%	5%	-6%	15%	7%	1%	6%	-4%	-25%	3%	6%	8%	-8%

[1] Loans to MSE and MLE clients and local governments.
[2] Cash loan growth.

Loan repayment moratoria in the countries of OTP Group: the Hungarian participation rate showed a declining trend; the application deadlines were extended in Bulgaria and Romania, whereas in Serbia the second phase started in August

	Participation of clients	Interest charged on unpaid interest	Scope of eligible clients	Term of the moratorium	Participation ratio[1]
OTP Core (Hungary)	opt-out	no	retail and corporate	19/03/2020 - 31/12/2020	43% (households: 53%, MSE+MLE: 31%)
DSK Group (Bulgaria)	opt-in	no	retail and corporate	6 months from the implementation date. Application date extended until 30 Sept.	8%
OBH (Croatia)	opt-in	no	clients classified as 'A' on 31/12/2019	01/04/2020 - 31/03/2021	17%
OBSr (Serbia)	opt-out	1st phase: yes; 2nd phase (from August): no	retail and corporate	3 months (90 days) originally - expired; the second moratorium is effective from 1 Aug. to 30 Sept.	60%
SKB Banka (Slovenia)	opt-in	no	retail and corporate	12 months from the confirmation of the bank	6%
OBR (Romania)	opt-in	yes, except for housing loans	retail and corporate	Maximum 9 months, until 31/12/2020. Application date extended until 15 June	16%
OBU (Ukraine)	-	-	-	-	-
OBRu (Russia)	opt-in	no	retail and SME	6 months	3%
CKB Group (Montenegro)	opt-in	yes	retail and corporate	90 days	5%
OBA (Albania)	opt-in	yes	retail and corporate	13/03/2020 - 31/05/2020	42%
Mobiasbanca (Moldova)	opt-in	no	retail and corporate	19/03/2020 - 30/06/2020	0%
OBS (Slovakia)	opt-in	yes	retail	6 months	n/a

[1] The participation ratios were calculated from participating volumes at the beginning of July (except for Serbia where the first phase of the moratorium came to an end at the end of June), divided by total gross loan volumes at the end of 2Q. The participation ratios presented in this table do not accurately reflect the actual willingness to participate, since there can be portfolio elements within total loans that are not eligible to participate in the moratorium.

Consolidated deposits increased by 2% q-o-q. The Hungarian retail deposits increased by 6%, partly driven by the debt repayment moratorium. The contraction of the Russian deposit base was in line with the shrinkage of the loan portfolio

Q-o-Q DEPOSIT volume changes in 2Q 2020, adjusted for FX-effect

	Cons.	Core (Hungary)	DSK (Bulgaria)	OBH (Croatia)	OBSrb (Serbia)	SKB (Slovenia)	OBR (Romania)	OBU (Ukraine)	OBRu (Russia)	CKB (Monten.)	OBA (Albania)	Mobias (Moldova)	OBS (Slovakia)
Nominal change (HUF billion)	**286**	**165**	**18**	**-16**	**75**	**42**	**27**	**11**	**-62**	**-11**	**0**	**8**	**-1**
Total	2%	2%	1%	-1%	8%	4%	5%	2%	-14%	-3%	0%	4%	0%
Retail	3%	6%	2%	0%	3%	5%	4%	4%	-5%	-1%	2%	3%	0%
Corporate[1]	0%	-1%	-3%	-4%	13%	3%	5%	1%	-29%	-6%	-6%	7%	-1%

[1] Including MSE, MLE and municipality deposits.

Consolidated deposits increased by 3% compared to end-2019, within that the Hungarian retail deposit base grew 9%

YTD DEPOSIT volume changes in 1H 2020, adjusted for FX-effect

	Cons.	Core (Hungary)	DSK (Bulgaria)	OBH (Croatia)	OBSrb (Serbia)	SKB (Slovenia)	OBR (Romania)	OBU (Ukraine)	OBRu (Russia)	CKB (Monten.)	OBA (Albania)	Mobias (Moldova)	OBS (Slovakia)
Nominal change (HUF billion)	**413**	**253**	**75**	**-21**	**77**	**92**	**12**	**20**	**-66**	**-24**	**5**	**9**	**-23**
Total	3%	4%	2%	-1%	8%	10%	2%	5%	-15%	-7%	3%	5%	-6%
Retail	5%	9%	3%	-2%	3%	9%	7%	8%	-6%	-5%	3%	8%	-6%
Corporate[1]	0%	-2%	1%	0%	13%	11%	-2%	2%	-30%	-9%	2%	0%	-6%
Deposit – Net Loan gap (HUF billion)	**3,532**	**3,069**	**994**	**78**	**-292**	**164**	**-155**	**74**	**-97**	**-9**	**39**	**64**	**-26**

[1] Including MSE, MLE and municipality deposits.

In the first six month net fees grew by 1% y-o-y without acquisitions. The q-o-q decline in the second quarter was mostly related to Russia; the Hungarian q-o-q development was supported by one-off items

Effect of acquisitions

NET FEE INCOME	1H 2020 (HUF billion)	2Q 2020 (HUF billion)	1H 2020 Y-o-Y (HUF billion)	1H 2020 Y-o-Y (%)	2Q 2020 Q-o-Q (HUF billion)	2Q 2020 Q-o-Q (%)
OTP Group	**136**	**67**	1 / 11 / 12	9%/1%[1]	-3	-4%
OTP CORE (Hungary)	**60**	**30**	2	3%	0	1%
DSK Group (Bulgaria)	**21**	**11**	1	4%	0	3%
OBH (Croatia)	**7**	**4**	-1	-10%	0	-6%
OBSrb (Serbia)	**7**	**3**	0 / 3	80%/-4%[1]	-1	-15%
SKB Banka (Slovenia)	**5**	**3**	5	-	0	-4%
OBR (Romania)	**2**	**1**	0	12%	0	9%
OBU (Ukraine)	**7**	**3**	0	3%/-10%[2]	0	-13%/-11%[2]
OBRu (Russia)	**12**	**5**	-3	-18%/-22%[2]	-3	-39%/-36%[2]
CKB Group (Montenegro)	**2**	**1**	0 / 0	28%/-7%[1]	0	-11%
OBA (Albania)	**1**	**0**	0	-	0	-1%
Mobiasbanca (Moldova)	**1**	**0**	1	-	0	-12%
OBS (Slovakia)	**2**	**1**	0	5%	0	-8%
Fund mgmt. (Hungary)	**4**	**2**	1	34%	0	13%

1 One-off items improved the q-o-q net fee dynamics by HUF 4.1 billion, thus, net fees without one-off items fell by more than 10% q-o-q; within that, commissions from securities showed a sharp drop because the q-o-q decline in the average government bonds position of households in the second quarter had an adverse effect on commission income. Commissions on deposits, transactions, and cards have also dropped q-o-q.
One-off items in 1Q 2020: the financial transaction tax on card transactions had to be paid in a lump-sum in the first quarter for the whole year, based on the annual volume of previous year's transactions (-HUF 1.7 billion). Also, this year payment into the Compensation Fund (-HUF 1.2 billion) was recognized in 1Q.
One-off item in 2Q 2020: HUF 1.2 billion deduction from taxes, owing to the payment into the Compensation Fund.

2 The sharp q-o-q decline in Russia, on top of the generally weak business activity, was caused by the significant q-o-q drop in the volume of newly sold consumer loan volumes.

[1] Changes without the effect of acquisitions.
[2] Changes in local currency.

In 1H the other net non-interest income dropped by 18% without acquisitions, despite the one-off gain on Visa shares booked in 2Q. The other income in 2Q recovered from 1Q lows even without the Visa gain

Effect of acquisitions

OTHER INCOME without one-off items	1H 2020 (HUF billion)	2Q 2020 (HUF billion)	1H 2020 Y-o-Y (HUF billion)	1H 2020 Y-o-Y (%)	2Q 2020 Q-o-Q (HUF billion)	2Q 2020 Q-o-Q (%)
OTP Group	**37**	**23**	-4 -7 3	-10%/-18%[1]	9	61%
OTP CORE (Hungary)	**17**	**10**	0	0%	3	47% (1)
DSK Group (Bulgaria)	**4**	**3**	0	-3%	1	95% (1)
OBH (Croatia)	**4**	**3**	-1	-22%	2	306% (1)
OBSrb (Serbia)	**2**	**1**	0 1	176%/8%[1]	0	44%
SKB Banka (Slovenia)	**0**	**0**	0	-	0	
OBR (Romania)	**4**	**2**	0	8%	1	48% (1)
OBU (Ukraine)	**2**	**1**	0	13%/2%[2]	-1	-41%/-39%[2]
OBRu (Russia)	**0**	**0**	-1		1	
CKB Group (Montenegro)	**0**	**0**	0 0	23%/-22%[1]	0	-11%
OBA (Albania)	**0**	**0**	0	-	0	
Mobiasbanca (Moldova)	**2**	**1**	2	-	0	31%
OBS (Slovakia)	**1**	**0**	0	224%	0	361% (1)
Others	**2**	**1**	-6	-74%	1	80%

(1) In 2Q the other income showed a HUF 9 billion improvement over the last quarter. Out of this growth HUF 5.7 billion was explained by the revision of the accounting classification of Visa Inc.'s class C shares', which resulted in a one-off gain within other income (at the same time, a similar amount with a opposite sign was recognised within the Comprehensive Income Statement).

The geographical breakdown of this altogether HUF 5.7 billion pre-tax gain was as follows (in HUF billion):

OTP Core	2.8
DSK Bulgaria	0.7
OBH Croatia	1.5
OBR Romania	0.4
OBS Slovakia	0.3

[1] Changes without the effect of acquisitions.
[2] Changes in local currency.

Operating costs grew by 2.6% y-o-y in the first half of the year, adjusted for acquisitions and FX-effect

Effect of acquisitions

OPERATING COSTS	1H 2020 (HUF billion)	Y-o-Y (HUF billion)	Y-o-Y (%)	Y-o-Y, FX-adjusted (HUF billion)	Y-o-Y, FX-adjusted (%)
OTP Group	310	17 / 44	16% / **6.2%**[1]	7 / 35	13% / **2.6%**[1]
OTP CORE (Hungary) (1)	130	7	6%	7	6%
DSK Group (Bulgaria) (2)	37	2	7%	0	-1%
OBH (Croatia)	22	1	6%	0	0%
OBSrb (Serbia) (3)	21	-1 / 9	71%/-7%[1]	-2 / 8	59%/-14%[1]
SKB Banka (Slovenia)	11	11	-	11	-
OBR (Romania) (4)	15	3	25%	2	18%
OBU (Ukraine)	13	3	29%	1	13%
OBRu (Russia)	31	1	4%	0	-1%
CKB Group (Montenegro)	7	0 / 3	67%/11%[1]	0 / 2	55%/3%[1]
OBA (Albania)	3	1	-	1	-
Mobiasbanca (Moldova)	3	3	-	3	-
OBS (Slovakia)	6	0	1%	0	-6%
Merkantil[2] (Hungary) (5)	5	2	60%/-3%[3]	2	60%/-3%[3]

1 At OTP Core the semi-annual operating expenses grew by 6%, as a combined effect of an increase in depreciation and personnel costs, a rise in hardware and office equipment expenses, as well as the HUF 2.15 billion extra cost that emerged in 1H due to pandemic prevention and OTP Bank's donations.

2 In Bulgaria certain cost synergies were extracted already during the integration process, and this continued in 2Q. The number of branches fell by 84 units or 18% y-o-y, of which 57 units were closed in 2Q. Headcount decreased by 515 people (-8%) y-o-y, of which 345 in 2Q. Most of the extra costs of working from home were recognized in 2Q.

3 At the Serbian bank 14% cost saving was achieved, mostly due to the synergies extracted from the first acquisition. The integration of the second acquired bank is still in progress.

4 The Romanian opex growth was mainly due to higher personnel expenses, caused by the general wage inflation, and a 16% increase in the average 1H headcount.

5 The scope of companies presented as Merkantil Group was expended from 2020, causing the jump in costs. The comparable opex change was -3%.

[1] Changes without the effect of acquisitions.
[2] Merkantil Bank until 4Q 2019, Merkantil Group from 1Q 2020.
[3] Based on Merkantil Bank standalone figures.

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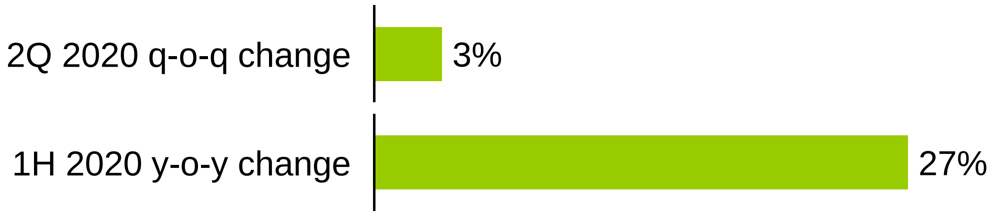
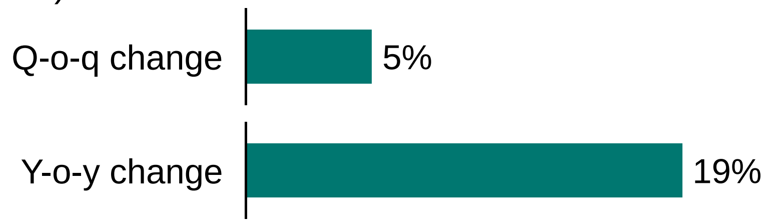
OTP Core

New housing loan flows kept on expanding in the second quarter. OTP continued to enjoy an improving market share in new mortgage loan disbursements, as well as in retail savings

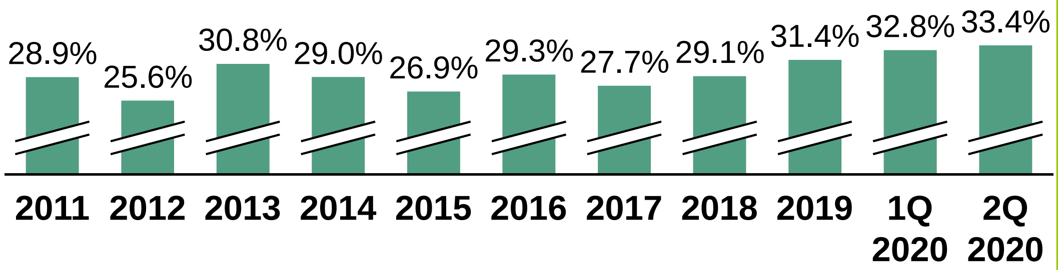
Change of mortgage loan disbursements of OTP Bank



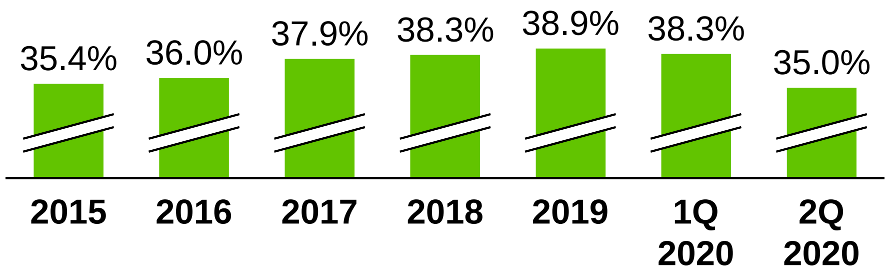
Performing (DPD0-90) cash loan volume growth
(FX-adjusted)



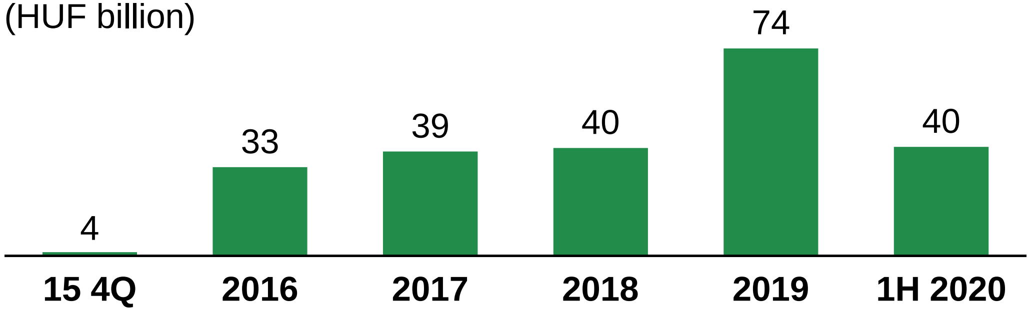
OTP's market share in mortgage loan contractual amounts



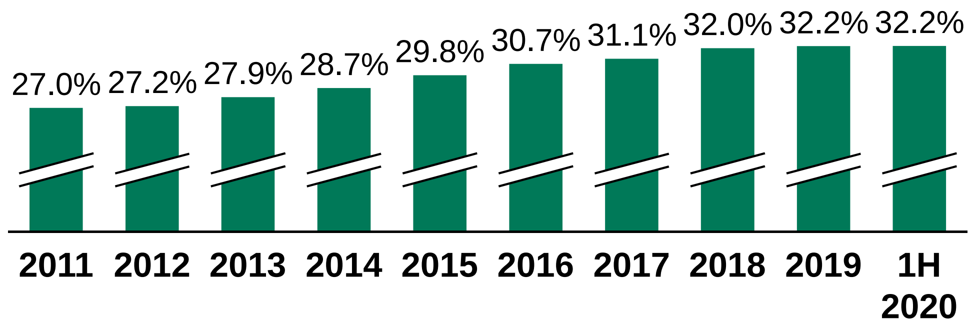
Market share in newly disbursed cash loans



The 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



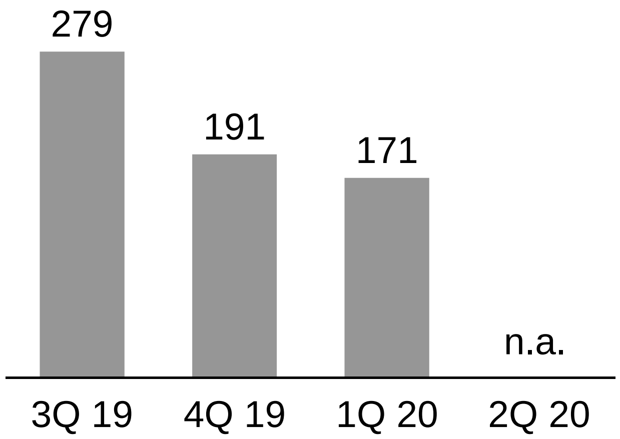
OTP Core

OTP Bank continued to enjoy outstanding demand for the subsidized baby loans: at OTP Bank the contracted amount reached HUF 341 billion since the start of the program, implying a market share steadily above 40%

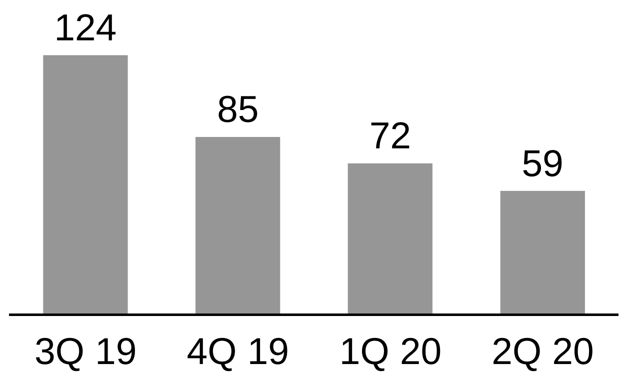
Baby loans

Contractual amounts
(HUF billion)

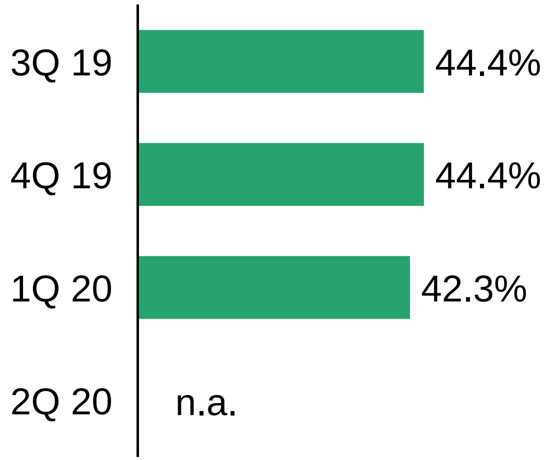
Market[1]



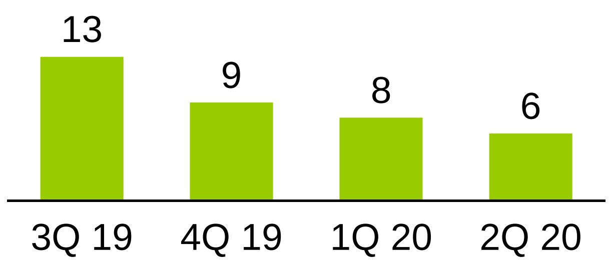
OTP Bank



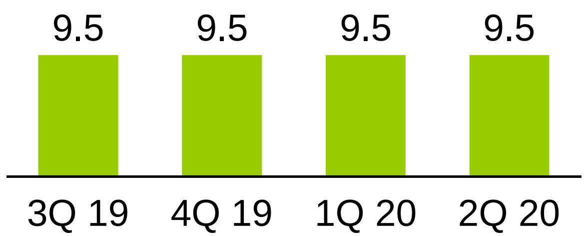
OTP Bank's market share calculated from the contractual amount



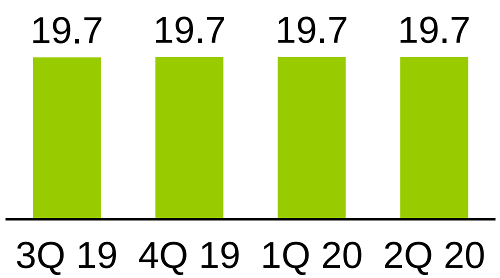
Number of concluded contracts
(in thousands)



Average loan amount applied for
(HUF million)



Average maturity
(years)



[1] Based on NBH statistics.

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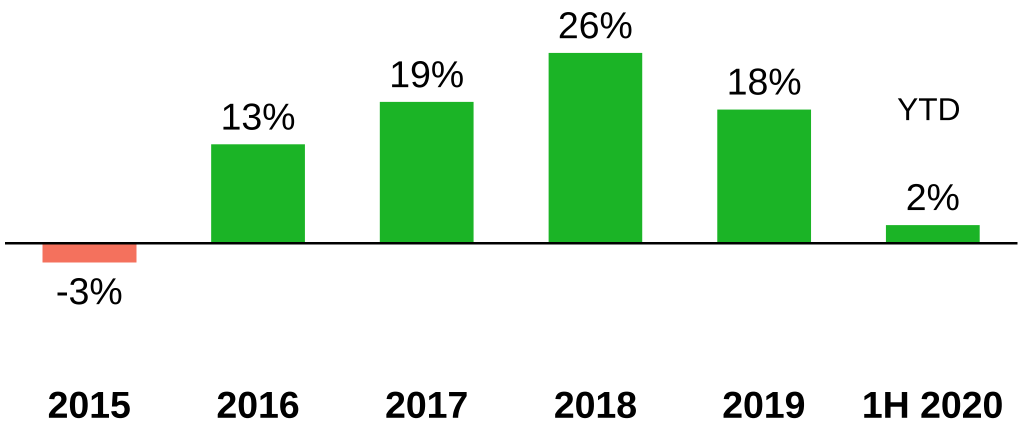
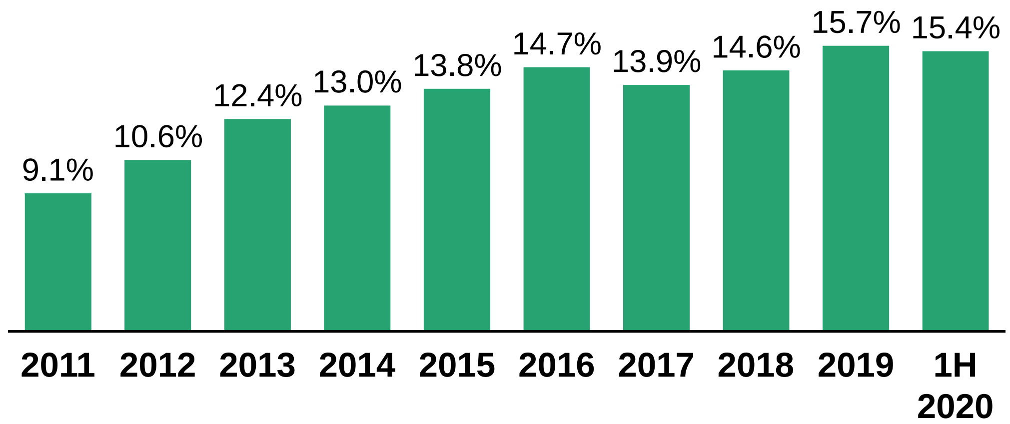
OTP Core

In the micro and small companies segment OTP Core managed to demonstrate 12% ytd volume dynamics, whereas MLE volumes increased by 2% ytd. OTP's market share in corporate loans remained above 15%

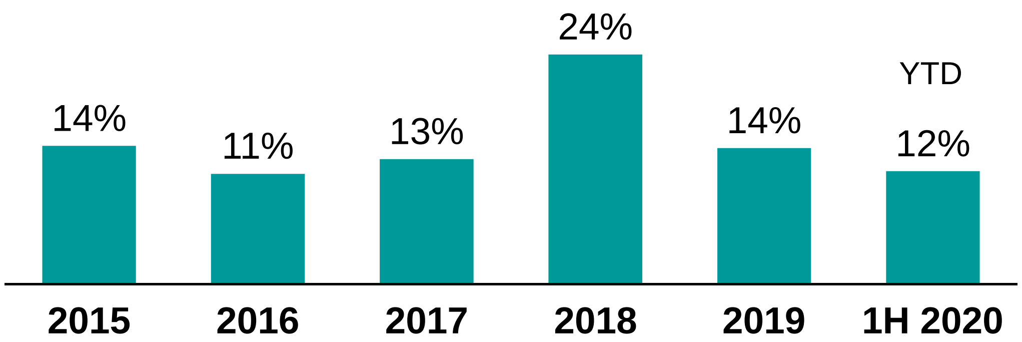
Performing (DPD0-90) medium and large corporate loan volume change (FX-adjusted)



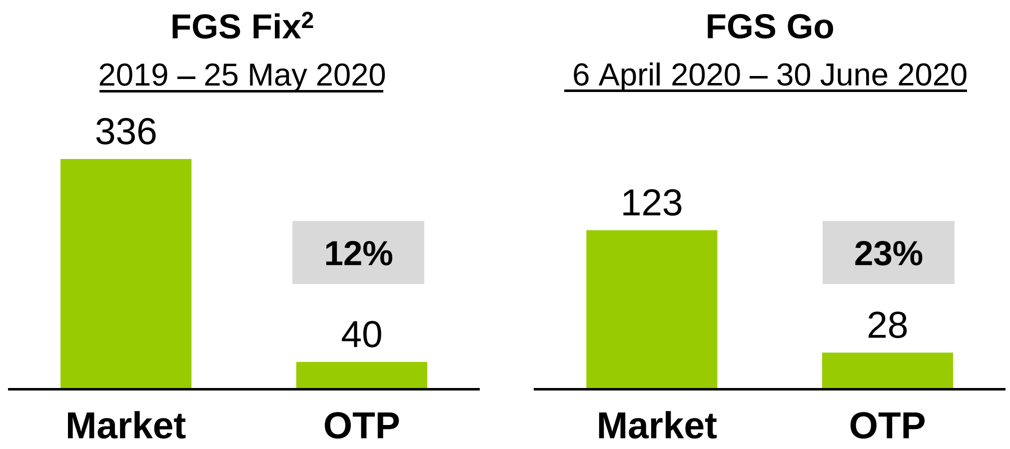
OTP Group's market share in loans to Hungarian companies[1]



Performing (DPD0-90) loan volume change in the micro and small companies segment (FX-adjusted)



Contracted amount and market shares under the Funding for Growth Fix and FGS Go schemes (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.
[2] On 25 May the FGS Fix programme was merged into the FGS Go scheme by the National Bank of Hungary.

Macroeconomic environment: our baseline trajectory shifted modestly downwards, risks are still tilted to the downside, the probability of the worst-case scenario has decreased

Macroeconomic highlights

All countries where OTP operates face recession in 2020.

High-frequency indicators suggest that the bottom of economic activity was reached already in 2Q, and the recovery has started. While we expect sizeable GDP growth for every country in 2021, in many countries the GDP level at the end of 2019 will be reached only in 2022.

Our baseline scenario deteriorated modestly compared to 2Q estimations. We expect **GDP to contract by 1-6% in 2020 in OTP countries, the average is around -4%.** Risks are tilted modestly to the downside regarding 2020 GDP growth as the pandemic reached new highs in many countries. However, regarding 2021 growth data, we see risks on the upside compared to the baseline scenario. From 2021, EU member countries could benefit not only from the new EU budget, but also from the Recovery and Resilience Facility. We will update our forecasts after the publication of 2Q GDP data.

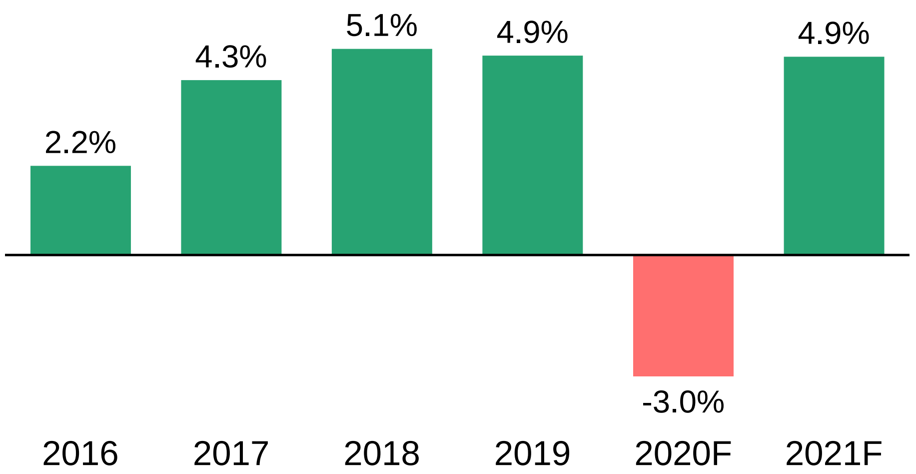
The probability of worst-case scenarios has sharply decreased
Based on high-frequency data, the recession (y-o-y GDP change) in 2Q could be around 10% in these countries, much less than the assumptions of our worst-case scenario, or in the worst performers of the EU (15-20% fall in 2Q). There is no evidence of capital flight, therefore governments could run higher deficits, central banks could cut rates, and use unconventional measures to soften recession and support the recovery. The new EU budget and the Recovery and Resilience Facility also mitigates risks.

The Covid crisis reached many employees in the region, in the form of shorter working hours, salary cuts, and job losses. However, the rise in unemployment has been modest so far, and looking ahead, the very loose global and local economic policy conditions and the recovery under way could mitigate the sharp increases we saw in previous crises.

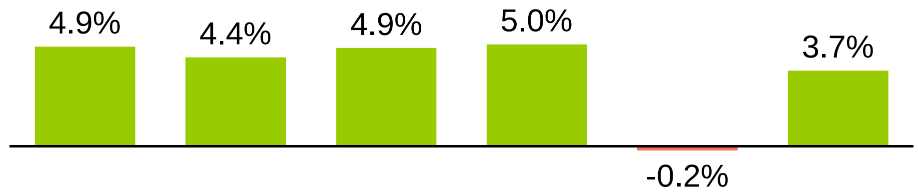
Hungary

In Hungary we expect 3% recession this year, with modest rise in unemployment and slowdown in real wage growth

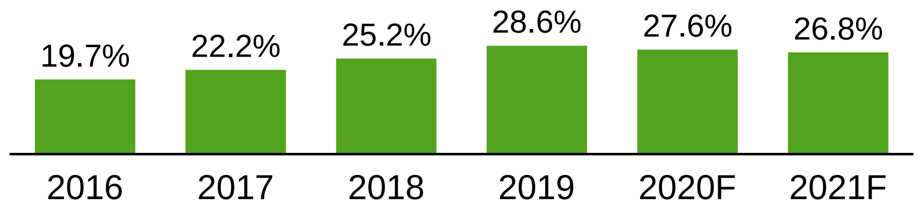
GDP growth (y-o-y %)



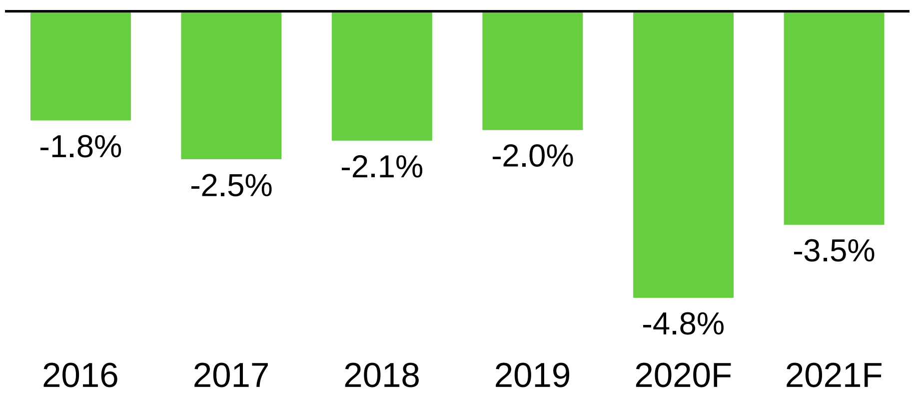
Household consumption (y-o-y %)



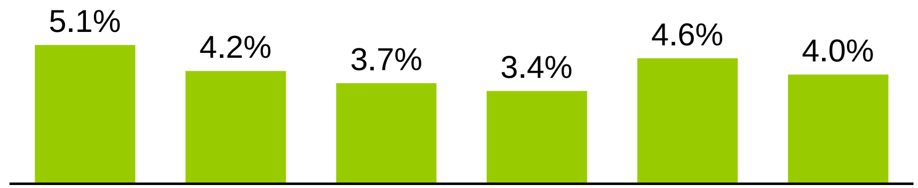
Investment (% of GDP)



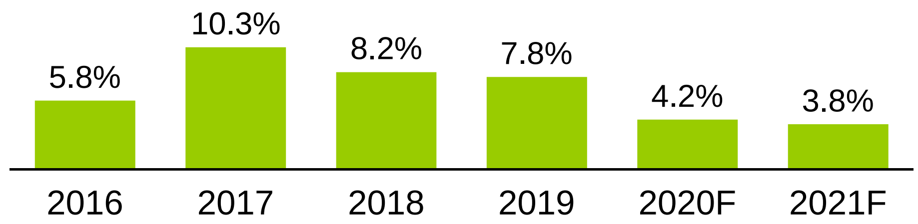
Budget deficit (% of GDP)



Unemployment rate (%)



Real wage growth (y-o-y %)



Source: OTP Research

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We expect a sizable GDP growth in 2021 in the CEE countries

Main macroeconomic indicators in the CEE region's countries

	Hungary			Bulgaria			Croatia			Serbia		
	2019A	2020F	2021F	2019A	2020F	2021F	2019A	2020F	2021F	2019A	2020F	2021F
GDP growth (y-o-y %)	4.9	-3.0	4.9	3.2	-3.5	4.2	2.9	-6.0	4.1	4.2	-1.2	4.2
Unemployment (%)	3.4	4.6	4.0	4.2	7.6	6.6	6.8	9.0	8.5	10.4	12	9.7
Fiscal balance (% of GDP)	-2.0	-4.8	-3.5	2.1	-4.1	-0.7	0.4	-6.3	-2.9	0.2	-7.0	-2.5
CPI (AVG, %)	3.4	3.0	3.1	3.1	1.9	2.1	0.8	0.2	1.2	1.9	1.8	2.3
3M Interbank rate (%)	0.2	0.6	0.6	0.0	0.0	0.0	3.0	3.0	3.0	2.3	1.0	1.3

	Russia			Ukraine			Romania			Slovenia		
	2019A	2020F	2021F	2019A	2020F	2021F	2019A	2020F	2021F	2019A	2020F	2021F
GDP growth (y-o-y %)	1.3	-4.0	3.4	3.2	-4.0	3.8	4.1	-4.4	3.5	2.4	-6.0	5.9
Unemployment (%)	4.6	6.0	5.0	8.2	9.4	8.8	3.9	6.0	5.5	4.4	5.1	4.9
Fiscal balance (% of GDP)	1.8	-5.6	-2.5	-2.2	-6.0	-3.5	-4.3	-8.4	-5.0	0.6	-6.8	-3.4
CPI (AVG, %)	4.5	3.3	4.0	7.9	3.5	5.7	3.8	2.5	3.0	1.7	0.7	1.5
3M Interbank rate (%)	6.3	3.8	3.8	13.5	6.0	6.0	2.5	1.5	1.5	2.5	1.5	1.5

Source: OTP Research

High-frequency indicators and anecdotal evidence support the regional recovery story

Country highlights

Hungary

- Employment started to rise in June and missed last June's data by only 1%.
- The number of real estate transactions increased in year/year comparison in June and July (by 1 and 4%). The y-o-y growth of housing loans is still close to the double-digit level (9% in May).
- The number of tourist nights in the Balaton tourist region reached the level of the same period of last year.
- No sign of the second wave of the epidemic.

Bulgaria

- According to data from the Employment Agency, Bulgaria's labour market began to improve in June. The unemployment rate was 8.3%, which is 0.7 percentage points lower than in the previous month.
- Business survey data from June and July indicate that the recovery has already started, particularly in construction and retail trade. For both sectors, business situation indicators were up almost half-way between the lowest values in April and pre-crisis levels.
- The business situation in the services sector started to improve slowly in July, potentially indicating some improvement in tourism activity.

Croatia

- Quick improvement in tourist nights, beating the government's initial expectations. By July, 61% of last year's tourist nights were spent (39% y-o-y fall), up from 1% (99% fall) in April. This trend could result in a smaller than 50% decline in full year, while the government's assumption was about 70% contraction.
- Industry declined only about 8% in 2Q, with a sharp recovery within the quarter: April -11% y-o-y, June +0.7%.
- Despite a significant pick-up in tourism, the country has so far managed to contain the second wave of COVID-19.

Serbia

- GDP fell by 6.5% y-o-y in 2Q 2020 after rising by 5.0% y-o-y in 1Q, according to a flash estimate of Serbia's statistics office. The economy contracted by 0.9% in 1H 2020, but Serbia's GDP edged up 0.1% in June, PM Ana Brnabic said.
- The impact of the social distancing measures is gradually fading and economic activity has been recovering. Industrial production declined by 1.8% y-o-y in 1H 2020, while retail sales expanded by 4.2% y-o-y in 1H.
- The government adopted a new aid package for the private sector, to support economic recovery. The National Bank of Serbia extends the debt repayment moratorium until end-September.

Source: National Statistical Offices, Governments, National Banks, IMF

High-frequency indicators and anecdotal evidence support the regional recovery story

Country highlights

Russia

- Undebatable recovery in 2Q based on monthly GDP data (April -12%, May -10.7%, June -6.4% y-o-y), the phasing out of OPEC+ deal will help further. July composite PMI rose to 56.8, up from 48.9 in June. Car sales in July rose by 7% y-o-y.
- Continuous decline in daily infections since mid-May (peak near 11,600, now around 5,400), despite returning to normal.
- Large fiscal buffers to give stimulus, rate cuts from the central bank.

Ukraine

- Retail sales dropped sharply in March and April, but rebounded significantly; in June, it was already in the positive territory on year/year basis. Industrial production has improved significantly since April.
- Unlike in previous crises, cutting interest rates (from 13.5% to 6%) was an option for the NBU this time. This move can further support the recovery. As inflation remains at low levels in 2020, while the FX-rate is relatively stable, no base rate hike is expected.
- The IMF funding was secured in time, which gives room to manoeuvre for the government to tackle the economic impact of COVID-19.

Romania

- Strong retail sales data: June was 2.9% higher than a year earlier; while it was -19.4% y-o-y in April.
- Car sales surged 53% (SA) from April to July.
- Double-digit growth rate in construction output (April-May +12%, y-o-y).

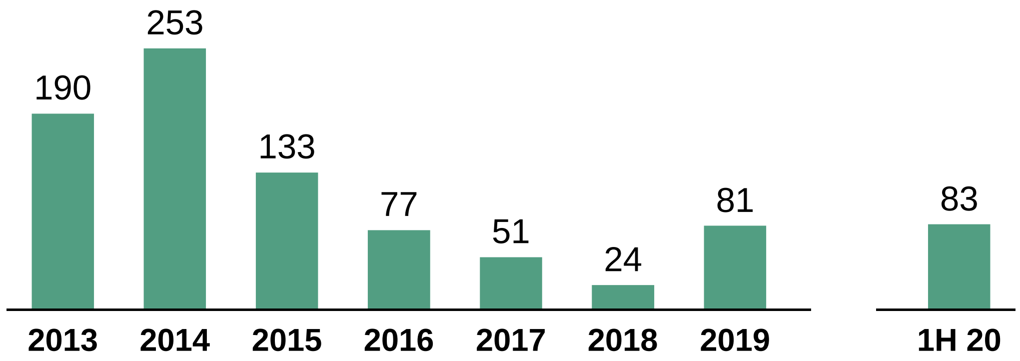
Slovenia

- Employment declined by only 20,000 (~2% of total employment) during the crisis.
- The number of job vacancies grew by about 45% MoM in June. Now it is only 13% lower than in the same period of 2019.
- Retail trade (except automotive fuel) rose by 0.7% from the same period of last year.
- Slovenia successfully handled the second wave of the epidemic; the number of daily new infections is declining.

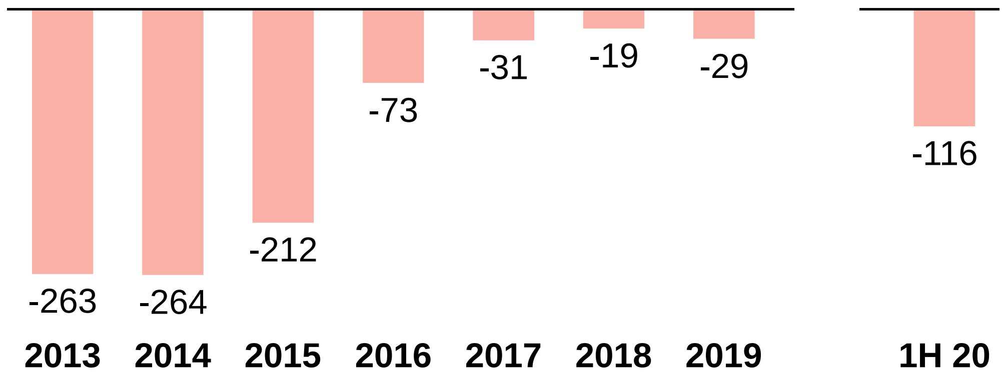
Source: National Statistical Offices, Governments, National Banks, IMF, Refinitiv

Regarding asset quality trends, the DPD90+ ratio increased in the first half of 2020; impairments grew significantly as a response to COVID-19; the consolidated credit risk cost rate surged as well

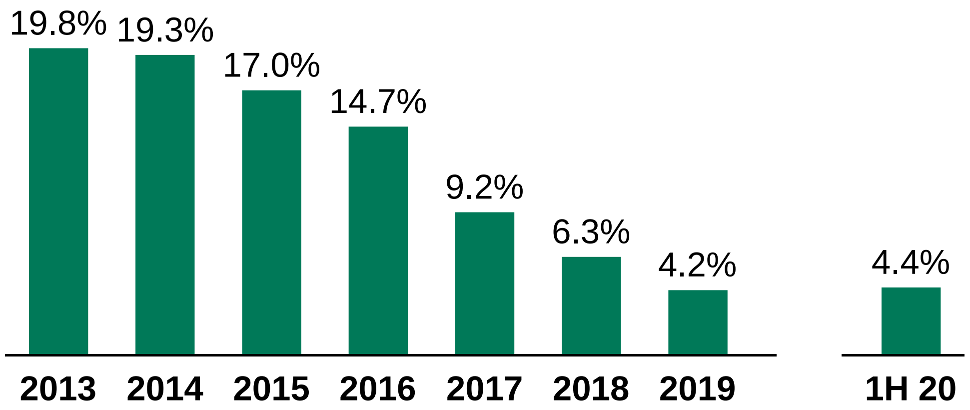
Change in DPD90+ loan volumes (consolidated, without the technical effect of new acquisitions[1], adjusted for FX and sales and write-offs, in HUF billion)



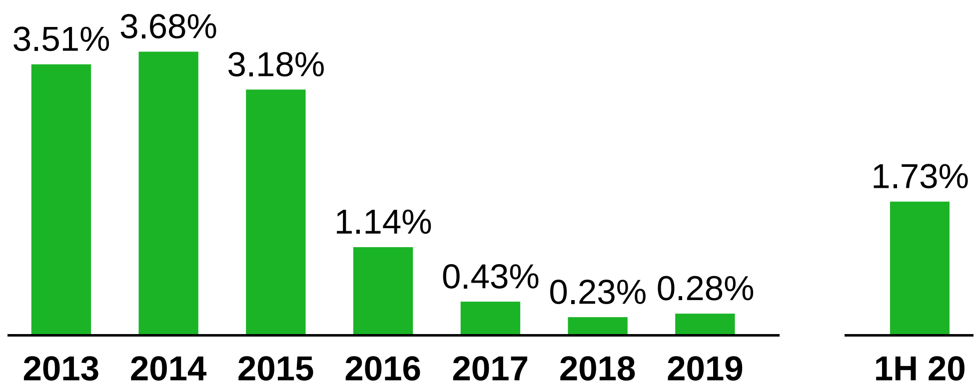
Consolidated provision for impairment on loan and placement losses (in HUF billion)



Ratio of consolidated DPD90+ loans to total loans



Consolidated credit 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.

Based on macro outlook and the potential COVID-19 impact on specific economic sectors OTP Group re-assessed the corporate[1] exposure classifications. 70% of the portfolio is in sectors with light / no impact expected, slight change q-o-q

	Cons.	Core (Hungary)	DSK (Bulgaria)	OBH (Croatia)	OBSrb (Serbia)	SKB (Slovenia)	OBR (Romania)	OBU (Ukraine)	OBRu (Russia)	CKB (Monten.)	OBA (Albania)	Mobias (Moldova)	OBS (Slovakia)	Merk. (Hungary)
Low / no impact: Agriculture; Food production; Pharmacy; Healthcare; Water supply; Public admin and defense; Education; etc.	**16%**	17%	15%	14%	18%	7%	19%	34%	11%	10%	11%	26%	17%	13%
Light impact: Manufact. of petroleum, Chemicals, IT; Metal processing; Electricity supply; Logistics; Financial, insurance activities; etc.	**56%**	54%	55%	53%	62%	67%	44%	50%	70%	52%	69%	57%	45%	50%
Medium impact: Mining; Metal production; Machinery; Construction; Real Estate Development; Retail trade; Wood processing	**23%**	25%	23%	22%	18%	23%	33%	16%	19%	20%	10%	15%	34%	35%
High impact: Accommodation; Air transport; Travel agencies; Tour operators; Passenger water transport; Aircraft/ship manufacturing	**5%**	4%	7%	11%	2%	3%	4%	0%	0%	18%	10%	2%	4%	2%

[1] Third party exposures towards non-financial legal entities, including MLE, MSE and SL segments.
Exposures include on and off balance sheet exposures, EUR 26 billion equivalent in total

No material change in portfolio behaviour in 2Q 2020; the Stage 2 ratio remained stable q-o-q on consolidated level, while the Stage 3 ratio slightly increased due to consumer unsecured portfolio deterioration in selective countries

Development of the Stage 1, Stage 2 and Stage 3 ratios (in % of total gross loans)

		Cons.	Core (Hungary)	DSK (Bulgaria)	OBH (Croatia)	OBSrb (Serbia)	SKB[1] (Slovenia)	OBR (Romania)	OBU (Ukraine)	OBRu (Russia)	CKB (Monten.)	OBA (Albania)	Mobias (Moldova)	OBS (Slovakia)	Merk.[2] (Hungary)
Stage 1	4Q 19	**88.8%**	91.4%	88.6%	83.2%	96.0%	98.9%	83.9%	73.8%	75.0%	88.8%	93.8%	97.8%	85.7%	94.3%
	1Q 20	**85.6%**	88.8%	83.5%	80.3%	90.2%	96.2%	82.6%	71.3%	72.7%	85.0%	89.1%	95.6%	84.7%	89.3%
	2Q 20	**85.4%**	88.4%	82.6%	81.4%	92.0%	93.1%	82.2%	71.8%	69.9%	86.4%	92.5%	94.1%	84.3%	89.3%
Stage 2	4Q 19	**5.3%**	4.2%	4.3%	10.5%	1.8%	0.0%	8.7%	8.9%	12.0%	3.9%	3.1%	0.8%	7.5%	2.0%
	1Q 20	**8.6%**	7.0%	9.3%	13.7%	7.4%	2.7%	10.2%	12.0%	13.3%	7.9%	8.5%	3.1%	8.4%	6.7%
	2Q 20	**8.6%**	7.6%	9.2%	12.3%	5.7%	5.7%	10.7%	10.7%	14.1%	7.1%	4.9%	4.5%	8.8%	6.4%
Stage 3	4Q 19	**5.9%**	4.3%	7.2%	6.3%	2.2%	1.1%	7.5%	17.3%	13.0%	7.3%	3.1%	1.4%	6.8%	3.6%
	1Q 20	**5.7%**	4.1%	7.2%	6.0%	2.4%	1.2%	7.2%	16.7%	14.0%	7.0%	2.3%	1.3%	6.9%	4.0%
	2Q 20	**5.9%**	4.0%	8.1%	6.3%	2.3%	1.2%	7.0%	17.5%	16.0%	6.5%	2.5%	1.4%	6.9%	4.3%

[1] SKB's stage rates are impacted by the accounting treatment of purchased receivables.
[2] This column includes Merkantil Bank in 4Q 2019, and Merkantil Bank Ltd., Merkantil Bérlet Ltd., OTP Real Estate Leasing Ltd., NIMO 2002 Ltd., SPLC-P Ltd., SPLC Ltd. in 1Q-2Q 2020.

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The increasing coverage ratios on Stage 2 and Stage 3 exposures were driven by updated macro forecasts, portfolio migration and moratorium participation impact

Development of the own provision coverage ratios in the three Stage categories

		Cons.	Core (Hungary)	DSK (Bulgaria)	OBH (Croatia)	OBSrb (Serbia)	SKB[1] (Slovenia)	OBR (Romania)	OBU (Ukraine)	OBRu (Russia)	CKB (Monten.)	OBA (Albania)	Mobias (Moldova)	OBS (Slovakia)	Merk.[2] (Hungary)
Stage 1 own cov.	4Q 19	**1.1%**	0.8%	1.1%	0.8%	0.4%	0.4%	1.3%	0.9%	5.3%	1.1%	1.2%	1.0%	0.7%	0.4%
	1Q 20	**1.3%**	1.1%	0.9%	1.0%	0.6%	0.5%	1.6%	1.0%	7.6%	1.2%	1.6%	1.2%	1.2%	0.5%
	2Q 20	**1.2%**	1.1%	1.1%	0.8%	0.6%	0.5%	1.2%	1.0%	6.4%	1.1%	1.5%	0.9%	0.9%	0.4%
Stage 2 own cov.	4Q 19	**10.7%**	12.4%	8.5%	3.5%	5.8%	0.0%	5.7%	8.3%	27.4%	4.8%	10.1%	23.6%	11.7%	4.7%
	1Q 20	**10.5%**	12.4%	11.1%	3.6%	3.5%	11.4%	7.0%	9.0%	31.7%	8.9%	8.6%	32.5%	13.4%	3.0%
	2Q 20	**12.7%**	15.2%	9.6%	5.0%	7.1%	7.4%	8.2%	14.0%	39.1%	8.5%	25.9%	34.6%	14.7%	6.0%
Stage 3 own cov.	4Q 19	**65.2%**	55.4%	62.0%	63.6%	50.0%	8.7%	53.7%	77.9%	93.4%	68.2%	33.1%	39.7%	68.8%	63.4%
	1Q 20	**65.3%**	54.7%	62.9%	64.4%	51.7%	17.5%	53.7%	78.4%	94.8%	69.1%	43.7%	43.1%	69.1%	61.9%
	2Q 20	**65.8%**	58.0%	60.5%	65.5%	56.6%	21.6%	55.7%	78.5%	92.9%	69.4%	49.3%	43.0%	69.4%	60.6%

[1] The SKB acquisition was completed in 4Q 2019. The Stage3 receivables were netted off with the already created provisions at the time of the consolidation, which automatically reduced the own coverage of Stage3 loans.
[2] This column includes Merkantil Bank in 4Q 2019, and Merkantil Bank Ltd., Merkantil Bérlet Ltd., OTP Real Estate Leasing Ltd., NIMO 2002 Ltd., SPLC-P Ltd., SPLC Ltd. in 1Q-2Q 2020.

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Questions and Answers session