



OTP BANK PLC.

**SEPARATE CONDENSED
FINANCIAL STATEMENTS IN ACCORDANCE
WITH INTERNATIONAL FINANCIAL
REPORTING STANDARDS AS ADOPTED
BY THE EUROPEAN UNION**

**FOR THE NINE MONTH PERIOD
ENDED 30 SEPTEMBER 2019**

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| | Note | 30 September 2019 | 31 December 2018 | 30 September 2018 |
|---|------|--------------------------|-------------------------|-------------------------|
| Cash, amounts due from banks and balances with the National Bank of Hungary | | 338,127 | 360,855 | 323,069 |
| Placements with other banks, net of allowance for placement losses | | 1,488,851 | 1,074,840 | 1,151,381 |
| Repo receivables | | 77,761 | 14,150 | 62,683 |
| Financial assets at fair value through profit or loss | 4. | 191,260 | 155,042 | 174,794 |
| Financial assets at fair value through other comprehensive income | 5. | 1,629,038 | 1,451,905 | 1,661,695 |
| Loans | 6. | 3,241,554 | 2,604,713 | 2,536,455 |
| Investments in subsidiaries, associates and other investments | 7. | 1,385,368 | 1,177,573 | 973,787 |
| Securities at amortised cost | 8. | 1,452,073 | 1,431,789 | 1,377,314 |
| Property and equipment | | 72,269 | 70,442 | 65,580 |
| Intangible assets | | 42,344 | 39,883 | 35,088 |
| Right of use assets | | 14,442 | - | - |
| Investment properties | | 2,387 | 2,333 | 2,344 |
| Deferred tax assets | | - | 1,241 | 3,796 |
| Derivative financial assets designated as hedge accounting | | 17,361 | 12,221 | 12,456 |
| Other assets | | <u>138,685</u> | <u>109,201</u> | <u>122,756</u> |
| TOTAL ASSETS | | <u>10,091,520</u> | <u>8,506,188</u> | <u>8,503,198</u> |
| Amounts due to banks and Hungarian Government, deposits from the National Bank of Hungary and other banks | | 612,537 | 458,182 | 694,253 |
| Repo liabilities | | 996,685 | 279,854 | 229,674 |
| Deposits from customers | 9. | 6,177,879 | 5,741,498 | 5,549,016 |
| Leasing liabilities | | 14,523 | - | - |
| Liabilities from issued securities | 10. | 44,426 | 46,694 | 48,643 |
| Financial liabilities at fair value through profit or loss | | 29,545 | 32,231 | 32,040 |
| Derivative financial liabilities designated as held for trading | | 125,937 | 82,838 | 108,590 |
| Derivative financial liabilities designated as hedge accounting | | 12,856 | 6,925 | 8,853 |
| Deferred tax liabilities | | 5,472 | - | - |
| Other liabilities | | 198,177 | 236,570 | 247,998 |
| Subordinated bonds and loans | | <u>281,758</u> | <u>110,454</u> | <u>111,539</u> |
| TOTAL LIABILITIES | | <u>8,499,795</u> | <u>6,995,246</u> | <u>7,030,606</u> |
| Share capital | | 28,000 | 28,000 | 28,000 |
| Retained earnings and reserves | | 1,566,588 | 1,484,906 | 1,449,928 |
| Treasury shares | | <u>(2,863)</u> | <u>(1,964)</u> | <u>(5,336)</u> |
| TOTAL SHAREHOLDERS' EQUITY | | <u>1,591,725</u> | <u>1,510,942</u> | <u>1,472,592</u> |
| TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY | | <u>10,091,520</u> | <u>8,506,188</u> | <u>8,503,198</u> |

SEPARATE CONDENSED STATEMENT OF PROFIT OR LOSS
FOR THE NINE MONTH PERIOD ENDED 30 SEPTEMBER 2019
(UNAUDITED) (in HUF mn)

| | Note | Nine month period ended 30 September 2019 | Nine month period ended 30 September 2018 | Year ended 31 December 2018 |
|--|------|---|---|-----------------------------------|
| Interest Income | 13. | 238,724 | 223,115 | 294,254 |
| Interest Expense | 13. | (87,917) | (82,653) | (87,299) |
| NET INTEREST INCOME | 13. | <u>150,807</u> | <u>140,462</u> | <u>206,955</u> |
| Loss allowance on loan and placement losses | 6. | (20,354) | (7,506) | (7,822) |
| NET INTEREST INCOME AFTER LOSS ALLOWANCE ON LOAN AND PLACEMENT LOSSES | | <u>130,453</u> | <u>132,956</u> | <u>199,133</u> |
| Net profit from fees and commissions | | 149,048 | 133,649 | 178,217 |
| Net operating income | | 80,083 | 79,670 | 84,438 |
| Other administrative expenses | | (221,948) | (198,071) | (277,155) |
| PROFIT BEFORE INCOME TAX | | <u>137,636</u> | <u>148,204</u> | <u>184,633</u> |
| Income tax expense | | (7,430) | (8,446) | (11,191) |
| NET PROFIT FOR THE PERIOD | | <u>130,206</u> | <u>139,758</u> | <u>173,442</u> |
| Earnings per share (in HUF) | | | | |
| Basic | | <u>466</u> | <u>501</u> | <u>621</u> |
| Diluted | | <u>465</u> | <u>501</u> | <u>621</u> |

SEPARATE STATEMENT OF COMPREHENSIVE INCOME
FOR THE NINE MONTH PERIOD ENDED 30 SEPTEMBER 2019
(UNAUDITED) (in HUF mn)

The comprehensive income items are as follows:

| | Nine month period ended 30 September 2019 | Nine month period ended 30 September 2018 | Year ended 31 December 2018 |
|--|---|---|-----------------------------------|
| NET PROFIT FOR THE PERIOD | <u>130,206</u> | <u>139,758</u> | <u>173,442</u> |
| Items that may be reclassified subsequently to profit or loss: | | | |
| Fair value adjustment of debt instruments through other comprehensive income | 17,240 | (40,007) | (35,709) |
| Gains on separated currency spread of financial instruments designated as hedging instrument | 213 | 282 | 445 |
| Gains / (Losses) on derivative financial instruments designated as cash flow hedge | 2,850 | (1,331) | 949 |
| Deferred tax (9%) related to items that may be reclassified subsequently to profit or loss | (1,563) | 3,575 | 3,347 |
| Items that will not be reclassified to profit or loss: | | | |
| Fair value adjustment of equity instruments through other comprehensive income | 4,273 | 9,223 | 6,396 |
| Deferred tax (9%) related to equity instruments at fair value through other comprehensive income | <u>(385)</u> | <u>(830)</u> | <u>(576)</u> |
| Total | <u>22,628</u> | <u>(29,088)</u> | <u>(25,148)</u> |
| NET COMPREHENSIVE INCOME | <u>152,834</u> | <u>110,670</u> | <u>148,294</u> |

| | Share Capital | Capital reserve | Share-based payment reserve | Retained earnings | Other comprehensive income | Other reserves | Put option reserve | Treasury Shares | Total |
|---|------------------|--------------------|-----------------------------------|----------------------|----------------------------------|----------------|-----------------------|--------------------|------------------|
| Balance as at 1 January 2018 | 28,000 | 52 | 31,835 | 1,300,734 | 70,200 | 59,444 | (55,468) | (9,540) | 1,425,257 |
| Effect of transition to application of IFRS 9 | — | — | — | (7,507) | 2,754 | — | — | — | (4,753) |
| Balance as at 1 January 2018 in accordance with IFRS 9 | 28,000 | 52 | 31,835 | 1,293,227 | 72,954 | 59,444 | (55,468) | (9,540) | 1,420,504 |
| Net profit for the year | - | - | - | 139,758 | - | - | - | - | 139,758 |
| Other comprehensive income | — | — | — | — | (29,088) | — | — | — | (29,088) |
| Total comprehensive income | — | — | — | 139,758 | (29,088) | — | — | — | 110,670 |
| Transfer to general reserve | - | - | - | (13,976) | - | 13,976 | - | - | - |
| Share-based payment | - | - | 2,605 | - | - | - | - | - | 2,605 |
| Payments to ICES holders | - | - | - | (117) | - | - | - | - | (117) |
| Sale of treasury shares | - | - | - | (3,954) | - | - | - | 11,019 | 7,065 |
| Loss on sale of treasury shares | - | - | - | - | - | - | - | (6,815) | (6,815) |
| Dividend for the year 2017 | — | — | — | (61,320) | — | — | — | — | (61,320) |
| Other transactions with owners | — | — | 2,605 | (79,367) | — | 13,976 | — | 4,204 | (58,582) |
| Balance as at 30 September 2018 | 28,000 | 52 | 34,440 | 1,353,618 | 43,866 | 73,420 | (55,468) | (5,336) | 1,472,592 |
| Balance as at 1 January 2019 | 28,000 | 52 | 35,632 | 1,383,043 | 44,859 | 76,788 | (55,468) | (1,964) | 1,510,942 |
| Net profit for the year | - | - | - | 130,206 | - | - | - | - | 130,206 |
| Other comprehensive income | — | — | — | — | 22,628 | — | — | — | 22,628 |
| Total comprehensive income | — | — | — | 130,206 | 22,628 | — | — | — | 152,834 |
| Transfer to general reserve | - | - | - | (13,020) | - | 13,020 | - | - | - |
| Share-based payment | - | - | 2,389 | - | - | - | - | - | 2,389 |
| Payments to ICES holders | - | - | - | (197) | - | - | - | - | (197) |
| Sale of treasury shares | - | - | - | - | - | - | - | 32,901 | 32,901 |
| Acquisition of treasury shares | - | - | - | - | - | - | - | (33,800) | (33,800) |
| Loss on sale of treasury shares | - | - | - | (12,024) | - | - | - | - | (12,024) |
| Dividend for the year 2018 | — | — | — | (61,320) | — | — | — | — | (61,320) |
| Other transactions with owners | — | — | 2,389 | (86,561) | — | 13,020 | — | (899) | (72,051) |
| Balance as at 30 September 2019 | 28,000 | 52 | 38,021 | 1,426,688 | 67,487 | 89,808 | (55,468) | (2,863) | 1,591,725 |

SEPARATE CONDENSED STATEMENT OF CASH FLOWS
FOR NINE MONTH PERIOD ENDED 30 SEPTEMBER 2019
(UNAUDITED) (in HUF mn)

| | Nine month period ended 30 September 2019 | Nine month period ended 30 September 2018 | Year ended 31 December 2018 |
|--|--|--|-----------------------------------|
| Profit before income tax | 137,636 | 148,204 | 184,633 |
| Net interest (paid) / received | (16,362) | (6,397) | 1,586 |
| Income tax paid | (422) | - | - |
| Depreciation and amortization | 21,796 | 15,388 | 21,232 |
| Loss allowance / (Release of loss allowance) | 32,263 | (2,156) | (2,525) |
| Share-based payment | 2,389 | 2,605 | 3,797 |
| Unrealised gains on fair value adjustment of financial instruments mandatorily at fair value through profit or loss and held for trading financial instruments | (169) | (12,278) | (13,528) |
| Unrealised losses on fair value adjustment of derivative financial instruments | 15,688 | 75,992 | 16,903 |
| Net change in assets and liabilities in operating activities | <u>(322,639)</u> | <u>(115,692)</u> | <u>63,185</u> |
| Net cash (used in) / provided by operating activities | <u>(129,820)</u> | <u>105,666</u> | <u>275,283</u> |
| Net cash used in investing activities | <u>(859,346)</u> | <u>(360,111)</u> | <u>(316,268)</u> |
| Net cash provided by / (used in) financing activities | <u>962,501</u> | <u>173,108</u> | <u>(3,511)</u> |
| Net decrease in cash and cash equivalents | <u>(26,665)</u> | <u>(81,337)</u> | <u>(44,496)</u> |
| Cash and cash equivalents at the beginning of the year | <u>303,358</u> | <u>347,854</u> | <u>347,854</u> |
| Cash and cash equivalents at the end of the period | <u>276,693</u> | <u>266,517</u> | <u>303,358</u> |

NOTE 1: ORGANIZATION AND BASIS OF FINANCIAL STATEMENTS

1.1. General information

These interim condensed financial statements had been prepared in accordance with the prescriptions of IAS 34.

1.2. Accounting

The Bank maintains its accounting records and prepares its statutory accounts in accordance with the commercial, banking and fiscal regulations prevailing in Hungary.

The presentation and the functional currency of the Bank is the Hungarian Forint ("HUF").

The Bank followed the same accounting policies and methods of computation in the interim financial statements as compared with the most recent annual financial statements.

NOTE 2: SIGNIFICANT EVENTS DURING THE NINE MONTH PERIOD ENDED 30 SEPTEMBER 2019

- 1) Capital increase at DSK Bank
- 2) Capital increase at OTP Banka Slovensko
- 3) Acquisition in Moldova
- 4) Acquisition in Montenegro
- 5) Financial closure of the Albanian acquisition
- 6) Acquisition in Slovenia
- 7) Capital increase at CKB
- 8) Agreement on the sale of Express Life Bulgaria
- 9) Capital increase in OTP Bank Romania
- 10) The financial closure of OTP Bank's Serbian acquisition has been completed

See details about the event above in Note 7.

11) Issued securities

Notes have been issued at 99.738% of the face value on 15 July 2019 as value date, in the nominal amount of EUR 500 million. The 10 Non-Call 5 years Tier 2 Notes carry a fix coupon of 2.875% p.a., paid annually in the first five 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. The notes are rated 'Ba1' by Moody's Investors Service Cyprus Limited. The Notes are listed on the Luxembourg Stock Exchange.

NOTE 3: SIGNIFICANT EVENTS AFTER THE REPORTING PERIOD

1) Capital increase at OTP Mortgage Bank Ltd.

The Budapest-Capital Regional Court has registered a capital increase at OTP Mortgage Bank Ltd. Accordingly, the registered capital of OTP Mortgage Bank Ltd. was increased to HUF 37,000,000,000 from HUF 27,000,000,000.

2) The sale of Express Life Bulgaria has been completed

31 October 2019 the Express Life Bulgaria transaction was financially closed, as a result of which Groupama Zhivotozastrahovane EAD, a Bulgarian subsidiary of the Groupama Group has acquired 100% ownership of the insurance company from DSK Bank EAD and Expressbank AD, the Bulgarian subsidiaries of OTP Bank Plc.

NOTE 4: FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS (in HUF mn)

| | 30 September 2019 | 31 December 2018 |
|--|-----------------------|-----------------------|
| <i>Securities held for trading:</i> | | |
| Government bonds | 9,055 | 10,645 |
| Other non-interest bearing securities | 7,466 | 7,169 |
| Hungarian government discounted Treasury Bills | 1,255 | 1,059 |
| Corporate shares and investments | 806 | 371 |
| Mortgage bonds | - | 978 |
| Other bonds | <u>14,762</u> | <u>2,100</u> |
| Subtotal | <u>33,344</u> | <u>22,322</u> |
| <i>Securities mandatorily measured at fair value through profit or loss:</i> | | |
| Shares in investment funds | 16,589 | 15,880 |
| Bonds | <u>5,149</u> | <u>4,778</u> |
| Subtotal | <u>21,738</u> | <u>20,658</u> |
| <i>Held for trading derivative financial instruments:</i> | | |
| Interest rate swaps | 60,882 | 46,357 |
| Foreign currency swaps | 55,077 | 33,816 |
| CCIRS and mark-to-market CCIRS ¹ swaps | 1,188 | 17,078 |
| Other derivative transactions ² | <u>19,031</u> | <u>14,811</u> |
| Subtotal | <u>136,178</u> | <u>112,062</u> |
| Total | <u>191,260</u> | <u>155,042</u> |

¹ CCIRS: Cross Currency Interest Rate Swap

² incl.: FX, equity, commodity and index futures; FX forward; commodity and equity swap; FRA; FX option

NOTE 5: FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME (in HUF mm)

| | 30 September 2019 | 31 December 2018 |
|--|-------------------------|-------------------------|
| Government bonds | 874,714 | 879,546 |
| Mortgage bonds | 228,195 | 228,380 |
| Interest bearing treasury bills | 425,078 | 237,552 |
| Other securities | 78,324 | 87,053 |
| - <u>listed securities</u> | <u>39,232</u> | <u>35,295</u> |
| in HUF | 2,089 | - |
| in foreign currency | 37,143 | 35,295 |
| - <u>non-listed securities</u> | <u>39,092</u> | <u>51,758</u> |
| in HUF | 18,742 | 22,974 |
| in foreign currency | 20,350 | 28,784 |
| Subtotal | <u>1,606,311</u> | <u>1,432,531</u> |
| <i>Non-trading equity instruments designated to measure at fair value through other comprehensive income</i> | | |
| - <u>non-listed securities</u> | <u>22,727</u> | <u>19,374</u> |
| in HUF | 529 | 566 |
| in foreign currency | 22,198 | 18,808 |
| Subtotal | <u>22,727</u> | <u>19,374</u> |
| Securities at fair value through other comprehensive income total | <u>1,629,038</u> | <u>1,451,905</u> |

An analysis of the change in the loss allowance is as follows:

| | 30 September 2019 | 31 December 2018 |
|---------------------------------------|----------------------|---------------------|
| Balance as at 1 January | - | 86 |
| Change as a result of applying IFRS 9 | - | <u>(86)</u> |
| Closing balance | <u>-</u> | <u>-</u> |

NOTE 6: LOANS (in HUF mn)

Loans mandatorily measured at fair value through profit or loss

| | 30 September 2019 | 31 December 2018 |
|-----------------------|----------------------|---------------------|
| Gross loans | 31,652 | 34,515 |
| Fair value adjustment | <u>(1,702)</u> | <u>(1,770)</u> |

Loans mandatorily measured at fair value through profit or loss total **29,950** **32,745**

Loans measured at fair value through profit or loss are mandatorily measured at fair value through profit or loss.

Loans measured at amortised cost, net of allowance for loan losses

| | 30 September 2019 | 31 December 2018 |
|--------------------------|-------------------------|-------------------------|
| Within one year | 1,637,838 | 1,307,947 |
| Over one year | <u>1,648,958</u> | <u>1,330,274</u> |
| Loans gross total | <u>3,286,796</u> | <u>2,638,221</u> |
| Loss allowance | <u>(75,192)</u> | <u>(66,253)</u> |

Loans measured at amortised cost, net of allowance for loan losses total **3,211,604** **2,571,968**

Loans total **3,241,554** **2,604,713**

Partial write-off

OTP Bank applies partial write-off for loans based on the definitions and prescriptions of financial instruments in accordance with IFRS 9. If OTP Bank has no reasonable expectations regarding a financial asset (loan) to be recovered, it will be written off partially at the time of emergence. A loan will be partially written off if it has matured or was terminated by the Bank.

The gross amount and loss allowance of the loans shall be written off in the same amount to the estimated maximum recovery amount while the net carrying value is being unchanged. In these cases there is no reasonable expectation from the clients to complete contractual cash flows therefore OTP Bank does not accrue interest income in case of partial write-off. Whole amount of accrued interest being part of the amortized cost, recognized as income up to the partial write-off, will be written off.

Loan receivables legally demanded from clients are equal to the full amount of receivables before the partial write-off.

An analysis of the gross loan portfolio by type, before loss allowance on loan losses, is as follows:

| | 30 September 2019 | | 31 December 2018 | |
|---|-------------------------|-------------|-------------------------|-------------|
| Retail loans | 761,213 | 23% | 550,607 | 20% |
| Retail consumer loans | 631,990 | 19% | 401,419 | 15% |
| Retail mortgage backed loans ¹ | 129,223 | 4% | 149,188 | 5% |
| Corporate loans | 2,525,583 | 76% | 2,087,614 | 79% |
| Loans to corporates | 2,400,479 | 72% | 1,990,804 | 75% |
| Municipality loans | <u>125,104</u> | <u>4%</u> | <u>96,810</u> | <u>4%</u> |
| Loans at amortised cost total | <u>3,286,796</u> | 99% | <u>2,638,221</u> | 99% |
| Loans at fair value total | <u>29,950</u> | 1% | <u>32,745</u> | 1% |
| Gross loans total | <u>3,316,746</u> | 100% | <u>2,670,966</u> | 100% |

¹ incl. housing loans

NOTE 6: LOANS (in HUF mn) [continued]

An analysis of the loan portfolio by currency is as follows:

| | 30 September 2019 | 31 December 2018 |
|---------------------|----------------------|---------------------|
| In HUF | 54% | 57% |
| In foreign currency | <u>46%</u> | <u>43%</u> |
| Total | <u>100%</u> | <u>100%</u> |

An analysis of the change in the loss allowance on loan losses is as follows:

| | 30 September 2019 | 31 December 2018 |
|---------------------------------------|----------------------|----------------------|
| Balance as at 1 January | 66,253 | 69,508 |
| Change as a result of applying IFRS 9 | - | 8,931 |
| Reclassification | 18 | 26 |
| Loss allowance | 88,298 | 102,203 |
| Release of loss allowance | (76,362) | (104,855) |
| Portional write-off | (3,015) | (3,444) |
| Partial write-off | - | <u>(6,116)</u> |
| Closing balance | <u>75,192</u> | <u>66,253</u> |

NOTE 7: INVESTMENTS IN SUBSIDIARIES (in HUF mn)

| | 30 September 2019 | 31 December 2018 |
|------------------------------|-------------------------|-------------------------|
| Investments in subsidiaries: | | |
| Controlling interest | 1,853,292 | 1,712,635 |
| Other investments | <u>8,693</u> | <u>1,013</u> |
| | <u>1,861,985</u> | <u>1,713,648</u> |
| Loss allowance | <u>(476,617)</u> | <u>(536,075)</u> |
| Total | <u>1,385,368</u> | <u>1,177,573</u> |

An analysis of the change in the loss allowance is as follows:

| | 30 September 2019 | 31 December 2018 |
|--------------------------------|-----------------------|-----------------------|
| Balance as at 1 January | 536,075 | 538,846 |
| Loss allowance | 9,998 | 39,430 |
| Release of loss allowance | (5) | (34,994) |
| Use of loss allowance | <u>(69,451)</u> | <u>(7,207)</u> |
| Closing balance | <u>476,617</u> | <u>536,075</u> |

NOTE 7: INVESTMENTS IN SUBSIDIARIES (in HUF mn) [continued]

The Bulgarian Court of Registration registered a capital increase at DSK Bak EAD, the Bulgarian subsidiary of OTP Bank. Accordingly, the registered capital of the Bulgarian subsidiary of OTP Bank was increased to BGN 1,327,482,000 from BGN 153,984,000.

The Slovakian Court of Registration registered a capital increase at OTP Banka Slovensko a.s. the Slovakian subsidiary of OTP Bank. Accordingly, the registered capital of the Slovakian subsidiary of OTP Bank was increased to EUR 126,590,711.84 from EUR 111,580,509.

In 2018 OTP Bank signed an acquisition agreement on purchasing 87.85% shareholding of Mobiasbanca – Groupe Societe Generale S.A. („SGMB”), the Moldovan subsidiary of Societe Generale Group. 25 July 2019 the financial closure of the Moldovan transaction has been completed. As a result, OTP Bank has become 96.69% owner of Mobiasbanca – Groupe Societe Generale S.A. („MBSG”), the Moldovan subsidiary of Societe Generale Group. With a market share of 13.8%, MBSG is the 4th largest bank on the Moldovan banking market and as a universal bank it has been active in the retail and corporate segment as well.

Crnogorska komercijalna banka a.d., the Montenegrin subsidiary of OTP Bank signed an acquisition agreement on purchasing 90.56% shareholding of Societe Generale banka Montenegro a.d. („SGM”), the Montenegrin subsidiary of Societe Generale Group. Based on the acquisition agreement the financial closure has been completed on 16 July 2019. With a market share of 11.9% as at the end of March 2019, SGM is the 3rd largest bank on the Montenegrin banking market and as a universal bank it has been active in the retail and corporate segment as well.

On 29 March 2019 the financial closure of the Albanian transaction has been completed. As a result, OTP Bank has become the 100% owner of Banka Societe Generale Albania SH. A. („SGAL”), the Albanian subsidiary of Societe Generale Group. With a market share of nearly 6%, SGAL is the 5th largest bank on the Albanian banking market and as a universal bank it has been active in the retail and corporate segment as well. With the acquisition of the Albanian bank, OTP Group is already present in 10 countries in the Central and Eastern European region.

OTP Bank signed an acquisition agreement on purchasing 99.73% shareholding of SKB Banka, the Slovenian subsidiary of Societe Generale Group and other local subsidiaries held by SKB Banka. With a market share of nearly 9%, SKB Banka is the 4th largest bank on the Slovenian banking market and as a universal bank it has been active in the retail and corporate segment as well. The financial closure of the transaction is expected in the coming months subject to obtaining all the necessary regulatory approvals.

The Montenegrin Court of Registration registered a capital increase at Crnogorska komercijalna banka a.d., the Montenegrin subsidiary of OTP Bank. Accordingly, the registered capital of the Montenegrin subsidiary of OTP Bank was increased to EUR 181,875,220 from EUR 136,875,398.

DSK Bank EAD and Expressbank AD, the Bulgarian subsidiaries of OTP Bank, as the sellers, signed an acquisition agreement on the sale of their 100% shareholding in Express Life Bulgaria IJSC to Groupama Zhivotozastrahovane EAD, a Bulgarian subsidiary of the Groupama Group, as the purchaser. The financial closure of the transaction is expected in the coming months subject to obtaining all the necessary regulatory approvals.

The Romanian Court of Registration registered a capital increase at OTP Bank Romania SA, the Romanian subsidiary of OTP Bank. Accordingly, the registered capital of the Romanian subsidiary of OTP Bank was increased to RON 1,829,253,120 from RON 1,509,252,960.

24 September 2019 the financial closure of the Serbian transaction has been completed. As a result, OTP Bank has become 100% owner of Societe Generale banka Srbija a.d. Beograd („SGS”), the Serbian subsidiary of Societe Generale Group and other local subsidiaries held by SGS. As at the end of June 2019, with a market share of 8.3%, SGS is the 4th largest bank on the Serbian banking market and as a universal bank it has been active in the retail and corporate segment as well.

NOTE 8: SECURITIES AT AMORTISED COST (in HUF mn)

| | 30 September 2019 | 31 December 2018 |
|-----------------------|-------------------------|-------------------------|
| Government bonds | 1,451,645 | 1,428,393 |
| Other corporate bonds | 1,917 | - |
| Mortgage bonds | <u>-</u> | <u>5,064</u> |
| Subtotal | <u>1,453,562</u> | <u>1,433,457</u> |
| Loss allowance | <u>(1,489)</u> | <u>(1,668)</u> |
| Total | <u>1,452,073</u> | <u>1,431,789</u> |

An analysis of the change in the loss allowance is as follows:

| | 30 September 2019 | 31 December 2018 |
|---------------------------------------|----------------------|---------------------|
| Balance as at 1 January | 1,668 | - |
| Change as a result of applying IFRS 9 | - | 1,477 |
| Loss allowance | 241 | 875 |
| Release of loss allowance | <u>(420)</u> | <u>(684)</u> |
| Closing balance | <u>1,489</u> | <u>1,668</u> |

NOTE 9: DEPOSITS FROM CUSTOMERS (in HUF mn)

| | 30 September 2019 | 31 December 2018 |
|---------------------|-------------------------|-------------------------|
| Within one year: | | |
| In HUF | 5,106,084 | 4,788,339 |
| In foreign currency | <u>1,024,947</u> | <u>904,747</u> |
| | <u>6,131,031</u> | <u>5,693,086</u> |
| Over one year: | | |
| In HUF | 46,848 | 48,412 |
| In foreign currency | <u>-</u> | <u>-</u> |
| | <u>46,848</u> | <u>48,412</u> |
| Total | <u>6,177,879</u> | <u>5,741,498</u> |

An analysis of deposits from customers by type is as follows:

| | 30 September 2019 | | 31 December 2018 | |
|---------------------------|-------------------------|--------------------|-------------------------|--------------------|
| Retail deposits | 3,105,533 | 50% | 2,944,174 | 51% |
| Household deposits | 3,105,533 | 50% | 2,944,174 | 51% |
| Corporate deposits | 3,072,346 | 50% | 2,797,324 | 49% |
| Deposits to corporates | 2,517,919 | 41% | 2,340,640 | 41% |
| Municipality deposits | <u>554,427</u> | <u>9%</u> | <u>456,684</u> | <u>8%</u> |
| Total | <u>6,177,879</u> | <u>100%</u> | <u>5,741,498</u> | <u>100%</u> |

NOTE 10: LIABILITIES FROM ISSUED SECURITIES (in HUF mn)

| | 30 September 2019 | 31 December 2018 |
|---------------------|----------------------|----------------------|
| Within one year: | | |
| In HUF | 10,882 | 9,399 |
| In foreign currency | <u>4,285</u> | <u>4,835</u> |
| | <u>15,167</u> | <u>14,234</u> |
| Over one year: | | |
| In HUF | <u>29,259</u> | <u>32,460</u> |
| | <u>29,259</u> | <u>32,460</u> |
| Total | <u>44,426</u> | <u>46,694</u> |

NOTE 11: OFF BALANCE SHEET ITEMS (in HUF mn)

Contingent liabilities and commitments

| | 30 September 2019 | 31 December 2018 |
|---|-------------------------|-------------------------|
| Commitments to extend credit | 1,364,762 | 1,313,715 |
| Guarantees arising from banking activities | 945,433 | 828,843 |
| <i>from this: Payment undertaking liabilities (related to issued mortgage bonds) of OTP Mortgage Bank</i> | <i>457,491</i> | <i>472,213</i> |
| Factoring loan commitment | 216,493 | 179,448 |
| Confirmed letters of credit | <u>88</u> | <u>96</u> |
| Contingent liabilities and commitments total in accordance with IFRS 9 | <u>2,526,776</u> | <u>2,322,102</u> |
| Legal disputes (disputed value) | 5,593 | 3,772 |
| Other | <u>20,500</u> | <u>12,459</u> |
| Contingent liabilities and commitments total in accordance with IAS 37 | <u>26,093</u> | <u>16,231</u> |
| Total | <u>2,552,869</u> | <u>2,338,333</u> |

At the balance sheet date the Bank was involved in various claims and legal proceedings of a nature considered normal to its business. The level of these claims and legal proceedings corresponds to the level of claims and legal proceedings in previous years.

The Bank believes that the various asserted claims and litigations in which it is involved will not materially affect its financial position, future operating results or cash flows, although no assurance can be given with respect to the ultimate outcome of any such claim or litigation. Provision due to legal disputes was HUF 682 million and HUF 691 million as at 30 September 2019 and 31 December 2018, respectively.

NOTE 12: DERIVATIVE FINANCIAL INSTRUMENTS (in HUF mn)

Fair value of derivative instruments

| | 30 September 2019 | | 31 December 2018 | |
|--|--------------------------|-------------------------|-------------------------|------------------------|
| | Assets | Liabilities | Assets | Liabilities |
| Held for trading derivative financial instruments | | | | |
| Interest rate derivatives | | | | |
| Interest rate swaps | 32,842 | (31,065) | 22,862 | (21,669) |
| Cross currency interest rate swaps | 1,177 | (1,360) | 17,078 | (17,164) |
| OTC options | 480 | (480) | 256 | (256) |
| Forward rate agreement | <u>7</u> | <u>(25)</u> | <u>17</u> | <u>(57)</u> |
| Total interest rate derivatives (OTC derivatives) | <u>34,506</u> | <u>(32,930)</u> | <u>40,213</u> | <u>(39,146)</u> |
| <i>From this: Interest rate derivatives cleared by central counterparty</i> | - | (215) | 581 | (142) |
| Foreign exchange derivatives | | | | |
| Foreign exchange swaps | 51,504 | (48,798) | 27,705 | (25,982) |
| Foreign exchange forward | 7,209 | (6,695) | 2,435 | (2,914) |
| OTC options | 5,402 | (5,304) | 3,310 | (3,377) |
| Foreign exchange spot conversion | <u>460</u> | <u>(390)</u> | <u>69</u> | <u>(32)</u> |
| Total foreign exchange derivatives (OTC derivatives) | <u>64,575</u> | <u>(61,187)</u> | <u>33,519</u> | <u>(32,305)</u> |
| <i>From this: Foreign exchange derivatives cleared by central counterparty</i> | 9,415 | (8) | 5,859 | (1,741) |
| Equity stock and index derivatives | | | | |
| Commodity Swaps | 317 | (215) | 1,883 | (1,048) |
| Equity swaps | <u>5,015</u> | <u>(472)</u> | <u>6,728</u> | <u>(568)</u> |
| OTC derivatives total | <u>5,332</u> | <u>(687)</u> | <u>8,611</u> | <u>(1,616)</u> |
| Exchange traded futures and options | 116 | (194) | 105 | (965) |
| Total equity stock and index derivatives | <u>5,448</u> | <u>(881)</u> | <u>8,716</u> | <u>(2,581)</u> |
| Derivatives held for risk management not designated in hedge | | | | |
| Interest rate swaps | 28,040 | (22,323) | 23,495 | (8,107) |
| Foreign exchange swaps | 3,573 | (8,412) | 5,675 | (615) |
| Foreign exchange spot conversion | - | - | 436 | (57) |
| Forward | 25 | (8) | 8 | (27) |
| Cross currency interest rate swaps | <u>11</u> | <u>(196)</u> | <u>-</u> | <u>-</u> |
| Total derivatives held for risk management not designated in hedge | <u>31,649</u> | <u>(30,939)</u> | <u>29,614</u> | <u>(8,806)</u> |
| <i>From this: Total derivatives cleared by central counterparty held for risk management</i> | 96 | (9,971) | 119 | (8,329) |
| Total Held for trading derivative financial instruments | <u>136,178</u> | <u>(125,937)</u> | <u>112,062</u> | <u>(82,838)</u> |
| Derivative financial instruments designated as hedge accounting | | | | |
| Derivatives designated in cash flow hedges | | | | |
| Interest rate swaps | <u>11,378</u> | <u>(5)</u> | <u>3,751</u> | <u>(523)</u> |
| Total derivatives designated in cash flow hedges | <u>11,378</u> | <u>(5)</u> | <u>3,751</u> | <u>(523)</u> |
| Derivatives designated in fair value hedges | | | | |
| Interest rate swaps | 2,406 | (11,419) | 4,467 | (6,050) |
| Cross currency interest rate swaps | 3,520 | (1,385) | 4,003 | (352) |
| Foreign exchange swaps | <u>57</u> | <u>(47)</u> | <u>-</u> | <u>-</u> |
| Total derivatives designated in fair value hedges | <u>5,983</u> | <u>(12,851)</u> | <u>8,470</u> | <u>(6,402)</u> |
| <i>From this: Total derivatives cleared by NBH held for hedging</i> | - | (4,024) | 21 | (5,057) |
| Total derivatives held for risk management (OTC derivatives) | <u>17,361</u> | <u>(12,856)</u> | <u>12,221</u> | <u>(6,925)</u> |

As at 30 September 2019 the Bank has derivative instruments with positive fair values of HUF 153,539 million and negative fair values of HUF 138,793 million. Corresponding figures as at 31 December 2018 are HUF 124,283 million and HUF 89,763 million.

NOTE 12: DERIVATIVE FINANCIAL INSTRUMENTS (in HUF mn) [continued]

Positive fair values of derivative instruments designated as hedge accounting relationships are included in derivative financial assets designated as hedge accounting, while positive fair values of derivative instruments designated as held for trading are included in financial assets at fair value through profit or loss. Negative fair values of derivative instruments designated as hedge accounting relationships are included in derivative financial liabilities designated as hedge accounting, negative fair values of derivatives designated as held for trading are included in the derivative financial instruments designated as held for trading line.

NOTE 13: NET INTEREST INCOME (in HUF mn)

| | Nine month period ended 30 September 2019 | Nine month period ended 30 September 2018 | Year ended 31 December 2018 |
|---|---|---|-----------------------------------|
| <i>Interest Income:</i> | | | |
| Loans | 118,317 | 110,019 | 142,130 |
| Placements with other banks, net of allowance for placement losses | 57,008 | 44,513 | 70,219 |
| Securities fair value through other comprehensive income | 25,588 | 23,369 | 31,660 |
| Securities at amortised cost | 35,768 | 34,794 | 47,342 |
| Amounts due from banks and balances with National Bank of Hungary | 866 | 9,599 | 1,660 |
| Interest Income from financial liabilities | <u>1,177</u> | <u>821</u> | <u>1,243</u> |
| Total Interest Income | <u>238,724</u> | <u>223,115</u> | <u>294,254</u> |
| <i>Interest Expense:</i> | | | |
| Amounts due to banks and deposits from the National Bank of Hungary, other banks and the Hungarian Government | (66,327) | (41,383) | (54,945) |
| Deposits from customers | (16,489) | (22,297) | (26,925) |
| Liabilities from issued securities | (143) | (75) | (157) |
| Subordinated bonds and loans | (3,319) | (2,234) | (2,994) |
| Interest Expense from financial assets | <u>(1,639)</u> | <u>(16,664)</u> | <u>(2,278)</u> |
| Total Interest Expense | <u>(87,917)</u> | <u>(82,653)</u> | <u>(87,299)</u> |
| NET INTEREST INCOME | <u>150,807</u> | <u>140,462</u> | <u>206,955</u> |

NOTE 14: RELATED PARTY TRANSACTIONS (in HUF mn)

The Bank enters into transactions for services with a number of subsidiaries. Such transactions are conducted at rates which approximate market conditions.

Related party transactions can be detailed as follows:

Transactions related to OTP Mortgage Bank Ltd.:

| | 30 September 2019 | 30 September 2018 |
|---|----------------------|----------------------|
| Fees and commissions received from OTP Mortgage Bank Ltd. relating to the loans | 8,663 | 9,666 |
| Loans sold to OTP Mortgage Bank Ltd. (including interest) | - | 395 |
| The gross book value of the loans sold | - | 391 |

Transactions related to OTP Factoring Ltd.:

| | 30 September 2019 | 30 September 2018 |
|--|----------------------|----------------------|
| The gross book value of the loans | 12,280 | 10,307 |
| Loss allowance on the loans sold | 8,042 | 6,229 |
| Loans sold to OTP Factoring Ltd. without recourse (including interest) | 2,438 | 3,358 |
| Loss on these transaction (recorded in the separate financial statements as loan and placement loss) | 1,800 | 720 |

The underlying mortgage rights were also transferred to OTP Factoring Ltd.