

Message from the Chairman & CEO



DEAR SHAREHOLDERS,

The year 2019 marks the most successful year in the history of the OTP Group. Our record high after tax profit was well above HUF 400 billion and our return on equity above 20% is outstanding in a European comparison, just as our 48% year-on-year increase in performing loans. Both the supportive operating environment and the six acquisitions contributed significantly to our excellent results. With the dynamic growth of our total assets, our capital adequacy is secure and our liquidity position is stable.

The acquisition negotiations started in earlier years yielded fruit in 2019: as a result of the six transactions completed – Bulgaria, Albania, Montenegro, Moldova, Serbia and Slovenia – our existing market positions were substantially improved; and we gained significant market share in new markets. As a result of transactions completed in recent years, OTP Bank has become the most active consolidator in the CEE/SEE region. Our growth strategy, as well as the fact that the purchase price of the transactions completed was practically the same as the book value of the equity were well received by the markets: OTP Bank's share price rose by almost 37% in 2019 and its market valuation ratios (P/B, P/E) are better than the same indicators of other regional banks active in the region. The bank's capitalisation is close to EUR 12 billion at the end of 2019.

Our excellent performance can first of all be attributed to the supportive macroeconomic environment. Although fears of a slowdown in global growth have intensified, the assessment of our region remains largely positive. The region, including the Hungarian economy, produced robust, broad-based growth. As a

result, in 2019 a number of ratings agencies upgraded credit ratings and outlooks for Hungary, Ukraine, Bulgaria and Serbia.

Overview of financial performance in the year 2019

The Bank Group's record-high accounting and adjusted profits achieved in 2019 were shaped by several factors: thanks to the favourable economic performance of the region, business activity continued to increase, as a result of which the organic (FX-adjusted) growth rate of our performing loans was 15% year-on-year similar to the previous year. In addition, the quality of credit portfolios continued to improve and the cost of credit risk increased only marginally. Increasing core banking revenues realised on higher volumes more than offset the negative effect of the shrinking interest margin on interest revenues, as well as increasing operating costs. The consolidated adjusted profit was improved by the profit contribution of the five newly acquired banks by more than HUF 29.4 billion in total; in the case of the Slovenian subsidiary, at the end of 2019 only the balance sheet was consolidated.

The Bank Group's accounting after tax profit was HUF 412.6 billion (+30% y-o-y), and the ROE calculated from the accounting profit was 20.3% (+1.6 pps y-o-y).

The difference between the accounting and adjusted after tax profits is due to adjustment items, which amounted to HUF 6.5 billion in 2019.

The adjusted after tax profit was HUF 419.1 billion (+29% y-o-y). Just as in the previous year, the Bank Group achieved significantly its key goals for 2019, and accordingly

- our profitability was substantially higher than the 15%-plus ROE set as a target alongside a 12.5% CET1 ratio. The actual figure was 20.3% (+1.6 pps y-o-y);
- performing loan volumes increased organically by more than HUF 1,252 billion, or by 15%. It is pleasing that the growth rate of the Hungarian operations (22%) exceeded the group average for the fourth consecutive year;
- the annual net interest margin excluding the acquisitions was 4.27%, decreasing minimally y-o-y;
- portfolio quality continued to improve: the volume of Stage 3 loans as per IFRS 9 accounted for 5.9% of the gross loan volume at the end of 2019 (-2.7 pps y-o-y); the annual consolidated credit risk cost rate rose to 28 bps (+5 bps y-o-y);
- operating costs rose 6% (FX-adjusted), before the impact of acquisitions. This was mainly due to wage inflation, which was around, or exceeded, 10% in most countries; in addition, business activity remained strong and digital and IT developments also generated additional costs.

As for the annual consolidated adjusted after tax profit, the following key factors are worth considering: although the OTP Core (HUF 191 billion) and the Bulgarian operations (HUF 67.9 billion) are still outstanding in terms of absolute profit size, the year-on-year growth dynamics was outstanding in Serbia, Montenegro, Romania, Russia and Ukraine. Of course, the acquisition and exchange rate

effects were significant in some countries, but overall the results grew faster than in Hungary. Among the subsidiaries, the more than three-fold year-on-year profit growth of OTP Fund Management (Hungary) has to be highlighted. It is very good news that, as in 2018, all subsidiaries were profitable in 2019. Within adjusted profit, the contribution of the foreign subsidiary banks continued to rise: from 38% to 46% year-on-year.

The OTP Group's IFRS consolidated (CET1) ratio was 13.9% at the end of 2019. This already includes the effect of the net profit for the year, less proposed dividends. In line with the high profitability, the Bank Group's capital-generating capability was outstanding (440 bps of Tier1 capital per risk-weighted assets). At the same time, this was offset by the impact of the acquisitions, capital requirements for the expanding risk-weighted assets due to organic growth, accrued dividends and certain regulatory effects.

Acquisition developments

The financial closure of the Slovenian transaction took place on 13 December 2019; with its 8.5% market share, SKB Bank is currently the fourth biggest participant of the local market. As the second and third biggest banks have the same owner, a merger of these two banks could take place in the near future and SKB Bank could become the third biggest participant. At the same time, OTP Bank attaches strategic importance to the Slovenian market and intends to substantially increase its market share in the long-term.

On 17 February 2020, the Bank announced that it signed an agreement to sell its Slovakian subsidiary bank to the Belgian KBC Bank NV. The transaction is expected to close in the second half of 2020, once the necessary permits have been obtained.

As we have indicated regarding our acquisition strategy on numerous occasions before: our

aim with the acquisitions is to improve our existing market positions and to boost the profitability of the given banks by achieving optimum market size and exploiting cost synergies. I'm pleased to report that we are well on track to achieving our goals: through the announced transactions, we have become market leaders in the Bulgarian market, we have strengthened our dominant market share in Montenegro, we have become the second biggest player in Serbia, and we have a share of more than 10% of the Croatian and Moldavian markets.

Industry awards, innovation, corporate social responsibility

The Bank Group's excellent performance and innovative services have earned it countless professional accolades: OTP Bank has for almost ten years received the Best Bank in Hungary award from financial journal Global Finance, and our subsidiary banks in Montenegro and Slovenia have also earned the same award. In addition, OTP Bank's private banking service is the proud holder of the Best service provider in Hungary award at financial journals The Bankers and Global Finance. OTP Treasury was named Best FX Service Provider, while the Bank was awarded the title of Best Consumer Digital Bank in Hungary by Global Finance.

At the same time, we have been recognized not only for the high quality of our services and our continued outstanding financial performance: our environmentally conscious business policy and our efforts to develop domestic bond markets and our transparent information practices have also been recognized (MNB: Green Financial Award, BSE: Bond for Growth Scheme, Investment service provider's award, Transparency award).

In recent years, the OTP Group has had to contend not only with its rivals in the industry for its better positions or maintaining its positions, but also with the growing services

and fierce competition of so-called fintech companies. OTP Bank considers it a strategic priority to leverage the opportunities that lie in innovation and to use digital applications as efficiently as possible. The Digital Transformation Programme, launched in 2015, does not only contribute to our customers' satisfaction but also provides continuous support for our business successes. The key to remaining competitive is development and continuous innovation. But for rapid development, it is imperative that we bring IT as close to the business area as possible so that they can get involved in product development tasks at an early stage. In 2019, OTP Bank was the first in Hungary to start agile organizational operations, which affects about 700 employees and brings rapid, tangible changes to our customers. This made it possible, for example, for OTP Bank to come out first with Apple Pay, in 2019, and OTP Bank was immediately available on the market with prenatal baby support loans. Thanks to its rapid response, the Bank's market share in the disbursement of baby support loans was close to 45% in the second half of 2019. In addition, the Bank is participating in financing and launching international start-up programmes for many years as part of OTP Lab.

Aspects of corporate social responsibility, environmentally responsible operation and corporate governance (commonly known as ESG) are increasingly important to the Bank's social, regulatory and investor assessment.

OTP Bank is traditionally one of the largest donors in Hungary; our targeted donations are focused primarily on developing financial literacy, raising awareness of social and environmental issues, creating opportunities, helping the disadvantaged and those in need, as well as supporting culture and the arts and creating and preserving value. We consider it our responsibility to act ethically in all cases and to reduce the environmental burden of the company. The OTP Group maintains stable management, and it is one of the largest employers in Hungary, striving to contribute

to sustainable economic growth and to a sustainable future in all areas. Our goal is to provide responsible, fair financial services while responding to customer needs.

The unexpected events of the first months of 2020 will further emphasize the core values of safe operation, namely stable liquidity and capital. I am convinced that our Bank has these values and also meets the strictest regulatory requirements. As a leading regional bank and a leading financial institution in many countries, we have a strong responsibility in financing the other players of the real economy – micro and small, medium-sized and large companies, municipalities and other communities as well as retail customers – and providing advanced financial services

to them. The past decades have shown that the management has successfully addressed current challenges and that we have always been able to rely on our dedicated employees and loyal customers.

I trust that our stated goals and strategic objectives will meet your expectations. I ask for your assistance and supportive contribution in the achievement of these goals!



Dr. Sándor Csányi

Chairman & CEO