

Message from the Chairman & CEO



DEAR SHAREHOLDERS,

Year 2022 was full of challenges: the Russia-Ukraine war, which broke out in February, had a huge impact on OTP Group's performance, in a number of direct and indirect ways. In addition, the government measures and high inflation in Hungary, the forint's weakening, and the hike in the benchmark interest rate in October have strongly affected our operating environment.

Before evaluating the financial year, I would like to express our thanks and appreciation to all the staff of our Ukrainian subsidiary for their heroic efforts in the recent period, to ensure that our bank continues to provide essential banking services to our customers even in times of war. Thanks to their excellent work, we have been able to return to profitability starting from the second half of 2022, and our business strategy and timely action have strengthened our resilience to crises. We hope that the conflict will end soon; meanwhile, we will provide all possible financial and moral support to our staff and their families. OTP Bank is committed to supporting the Ukrainian economy in the long-term, and we intend to play an active role in the reconstruction of the country through our banking and financial services.

Overview of the performance in financial year 2022

In 2022, OTP Group's consolidated after tax profit amounted to HUF 347.1 billion. The main reason for the 24% y-o-y lower profit was a sixfold jump in the negative balance of adjustment items: its size was -HUF 245 billion last year, versus the -HUF 41 billion in 2021,

whereas operating profit grew by 32%.

The major negative items can be linked to the Russia-Ukraine war, and the government's measures in Hungary; they amount to -HUF 94 billion and -HUF 138 billion, respectively; other items worsened the after tax profit by further HUF 14 billion. The return on equity (ROE) was 11% (-6 pps y-o-y) in 2022.

The adjusted after tax profit was almost HUF 593 billion (+19% y-o-y).

Balance sheet and P&L items were largely influenced by exchange rate developments: the HUF's average exchange rate has substantially weakened against all currencies y-o-y, particularly against the RUB (-37.5% y-o-y).

Among P&L developments, the dynamic 26% y-o-y income growth is outstanding; within that, net interest income improved by 24%.

The consolidated annual net interest margin remained flat (3.51%) y-o-y. OTP Group's operating efficiency has substantially improved. The annual cost/income ratio of 47.6% reflects 2.1-pps y-o-y improvement, and the cost/assets ratio (2.53%) also dropped.

The quality of the consolidated loan portfolio improved further in 2022, and the underlying developments in credit quality were overall favourable. The volume of Stage 3 loans under IFRS 9 made up 4.9% of the gross loan portfolio; the ratio improved by 0.3 pp y-o-y.

The own coverage ratio of Stage 3 loans was 61%. Consolidated total risk costs grew to HUF -178 billion; within that, loan loss provisions increased to HUF 135.2 billion. The annual credit risk cost ratio was 0.73% (+42 bps y-o-y), but without the significant loan loss provisions in Russia and Ukraine, the annual balance of credit risk costs would have been HUF 7 billion, and the credit risk cost ratio would have been 0.04%.

The consolidated FX-adjusted performing (Stage 1+2) loan volume expanded by 12% y-o-y. Excluding the Russian and Ukrainian subsidiaries' volumes, but including the stock of the acquired Alpha Bank in Albania, the growth rate was 15%. Volumes grew by at least near-10% rates across the board, except in Russia, Ukraine, and Moldova. Encouragingly, this was coupled with improving market shares in a number of markets and product segments.

The FX-adjusted consolidated deposit book grew by 14% y-o-y, bringing OTP Group's net loan/deposit ratio down to 74% (-1 pp y-o-y). In addition to the stable liquidity ratio, our capital position also remained strong: the consolidated Common Equity Tier1 ratio (CET1) stood at 16.1% at the end of 2022, the same as the Tier1 ratio.

In 2022, OTP Bank arranged two public bond transactions, with nominal values of EUR 400 million and EUR 650 million, in addition to a 60-million-dollar private placement. In Hungary, the Bank sold retail bonds worth a total of HUF 36.2 billion. All securities are MREL-eligible.

Throughout 2022, a great deal of attention was paid to OTP Bank's strategy for its Russian and Ukrainian subsidiaries: any change to these two operations' weight in the Group was shaped by both deliberate and forced business policy decisions.

We have significantly transformed our strategy in Russia: we deliberately cut back corporate lending, and focussed on consumer loans instead. We have reduced intragroup financing to zero; nearly HUF 66 billion was paid back to the parent bank. The Russian subsidiary's after tax profit fell by 57% y-o-y in RUB.

However, its equity capital is more than twice as much as regulatory requirements stipulate, thanks to its full-year profit and its gainful operation in previous years. The weight of Russian assets in the consolidated total assets was 3.1%, and the weight of net loans was 3.3%. In Ukraine, the full-year operation generated almost HUF 16 billion loss, owing to the jump in risk costs, but the operation turned profitable in the second half-year. Loan volumes have materially subsided, but FX-adjusted deposits expanded by 21% y-o-y, the bank's liquidity and capital position is stable. Ukraine's weight in total assets makes up 3.2%, and that of net loans is 2.2%.

In both subsidiaries, the 'going concern' principle is followed, but the management is examining all strategic options for the Russian operation, including selling it. However, a presidential decree signed in October 2022 practically bans selling foreign-owned banks. Despite the war, we maintained our financial services in Ukraine – OTP Group and its tight-knit community of employees did its best to provide effective help to our Ukrainian colleagues and their families, as well as to the refugees who had to flee their country. In Hungary, we offer discounts and simpler administration for our Ukrainian customers, and tried to target the aids and donations as effectively as possible – including those offered by our customers.

Acquisition developments

As part of the ongoing acquisition activity, OTP Bank has successfully concluded the acquisition of Alpha Bank in Albania; the balance sheet and P&L figures were consolidated starting from the third quarter of 2022. Furthermore, on 6 February 2023, the financial closure of purchasing Slovenia's Nova KBM was completed, the balance sheet and P&L figures were consolidated in the first quarter. Buying this bank is OTP Group's biggest acquisition so far, and the transaction will enable OTP to be a leading financial institution in terms of loan portfolio size in five countries

of our region: in Hungary, Bulgaria, and on pro-forma basis in Slovenia, Serbia, and Montenegro.

The financial closure and the consolidation of Uzbekistan's Ipoteka Bank, a purchase announced on 12 December 2022, is likely to take place in the second quarter of 2023. The recent years' successful acquisitions have significantly changed OTP Group's structure: in consolidated net loans, the eurozone and ERM 2 countries have become dominant (pro forma); their weight has grown from 6% in 2016 to 41% by the end of 2022. Meanwhile, Hungary's share sank from 47% to 31%, and the weight of Russia and Ukraine dropped from 10% to 5%.

As a combined result of the acquisitions that restarted in 2016 and the dynamic organic growth owing to the benign macroeconomic and regulatory environment, OTP Group's FX-adjusted performing loan stock (pro forma, i.e. including the consolidation of NKBM in Slovenia, and Ipoteka Bank in Uzbekistan) has grown 3.4 times – this is consistent with nearly 23% annual expansion, of which 15.5% growth is organic. This is much faster than the growth dynamics of our regional competitors. We hope that after this year, which is a period of consolidation, organic growth will re-accelerate in 2024. However, we never stop seeking value-creating acquisition opportunities.

Recently we have made a number of important steps in order to achieve our sustainability objectives and commitments. Our foreign subsidiaries have prepared their own ESG strategies, defining their medium-term objectives, and determining their share of contribution to Group-level priority goal of reaching HUF 1.500 billion worth of green loans by 2025. In order to effectively implement these plans and support professional work, we set up local ESG organizations, bearing in mind subsidiaries' peculiarities. Thanks to all the work we invested in recent years, we can present concrete results in the area of sustainability: OTP was the first bank in Hungary to receive supervisory approval to launch the Green Loan Framework, based

on international standards. We were the first to issue green bonds, in the summer of 2022. Considering macroeconomic expectations, the successful issuance was far from being self-evident; yet investors in our region, including Hungary, were greatly interested and their confidence was obvious.

In the field of green lending, we reached our target of HUF 230 billion worth of loans by the end of 2022. In our loan portfolio, corporate green bonds make up the biggest share, in addition to project financing and the Funding for Growth Scheme's Green Home Programme loans. In the following period, we are planning to introduce further green products at group level, thereby supporting transition to a low-carbon economy.

As part of our ESG strategy, we pay special attention on realizing our social sustainability goals, therefore we have defined important strategic objectives and performance indicators. It is our guiding principle that OTP Group can only be successful together with its employees, by keeping individual and community goals and values in mind, thus we continue to lay great emphasis on strengthening our employees' engagement. Nevertheless, given the challenges of year 2022, the need to improve financial literacy has become more topical and imperative than ever – as a responsible company, we take a significant role in raising awareness about the impact of financial and economic processes on everyday finances. Accordingly, the organizations linked to OTP Group have arranged educational programmes and training events for tens of thousands of young people.

Dear Shareholders,

In the past three years, the number of challenges did not decline at all – instead, they became even more complex, and with longer-term effects. This appears to be the new standard, and we have to adjust ourselves to that. One of the most important indicators of our performance is the share price. Unfortunately,

last year was not too successful in this respect: the price dropped almost 40% y-o-y, and the average rate of negative correction exceeds that of the Budapest Stock Exchange (-14%), and the fall in the price of our regional peers. Regrettably, the war raging in the neighbouring country, and the negative effect of the Hungarian government's measures temporarily discouraged investors, even though our fundamental performance and indicators are still outstanding. Despite the difficulties, we played a key role in financing the Hungarian economy in 2022: corporate loan volumes expanded by an unprecedented 33%, and we participated in disbursing subsidized loans to a greater degree than our market share would suggest. This excellent performance is attributable to our committed employees first of all, and of course, our customers' loyalty was also a decisive factor. The year ahead does not look to be an easy one: even as economic growth is slowing, we pay special attention to development,

innovation, and the effective integration of the newly purchased banks. We hope that OTP Group's total assets will draw near or even exceed EUR 100 billion by the end of 2023, clearly demonstrating that we reached the next level in the region's financial market. I am confident that our stated strategic objectives meet your expectations. To achieve them, I ask for the continued perseverance of my colleagues, and for your help and support. This report is OTP Group's first Integrated Report. Please read the following pages to learn more about OTP Group's financial results and actions for sustainable development.

Sincerely,



Dr. Sándor Csányi

Chairman and Chief Executive