Message from the Chairman and CEO

DEAR SHAREHOLDERS,

If I had to sum up the past 12-month period in a single sentence, I'd simply say that the OTP Group has closed a successful year! During a time that brought many unexpected developments, OTP Bank, thanks to its excellent fundamentals forged through our exerted efforts, regained its place among Europe's most profitable and most stable banks by the end of 2016. For the first time in many years, we no longer had to devote most of our energies to salvaging situations caused by the deteriorating macroeconomic environment or unexpected regulatory changes and geopolitical developments, but we were once again able to concentrate on developing our business operations, and on continuous innovation, while also implementing and announcing successful acquisitions.

The quality of the macroeconomic environment fundamentally determines the conduct, activity and performance of participants in the economy. This is especially true of the financial intermediation system, where the conduct of the banks and their customers is far more profoundly affected by their negative experiences of recent years, the massive losses and the regulatory changes already implemented, and those that are expected, than by the essentially optimistic analysts' forecasts regarding the years ahead.

I'm pleased to report that after several years of continuous decline, in 2016 we were once more able to register substantive growth in the performing loan portfolios, and I see a good chance of this trend continuing, and indeed strengthening, in the course of 2017. Furthermore, this forecast doesn't relate to only a few of our markets: we expect to see positive GDP growth in every country where members of our group are located in 2017, and growth in business volumes is a realistic expectation. Another defining factor in terms of the Bank Group's performance in 2016, and the substantial y-o-y improvement in after tax profit, was that our Russian and Ukrainian subsidiary banks returned to profit sooner and more markedly than expected. It was also mainly due to the excellent after tax profit in these two markets that, in contrast to 2015 when the foreign subsidiaries negatively impacted the consolidated profit by 3%, in 2016 they contributed 38% to the Bank Group's after tax profit; and as a result of the successful Croatian acquisition announced at the end of last year, as well as our other planned transactions, this proportion is set to increase going forward, to approach a figure of 50%.

An important lesson of the crisis was that, after the state's necessary intervention and the temporary tightening of the rules, there is now a need for compromise and cooperation between the participants in the economy, and a restoration of trust. We're happy to note that the favourable developments in the Hungarian macroeconomic environment – such as the improving growth prospects, the restoration of balance that we've been seeing for several years now, the successes achieved in terms of debt management, the unemployment rate of around 4%, the burgeoning consumption due to the growth in real wages, and the reinstatement of the country's investment-

grade credit rating – have created opportunities to introduce new measures, or fine-tune existing policy tools (reduction of the VAT rate on new homes, family housing allowance, extension of the deadline for submitting applications in the Funding for Growth Scheme, reduction of the bank tax by more than half), which have considerably improved the stability of the banking system. OTP Bank played an active part in these programmes and made full use of the favourable opportunities that they presented, and consequently the bank's market position has improved in virtually all the key product categories.

And such measures are certainly needed, as despite the improvement in business activity, the environment of low interest rates and the narrowing of margins due to intensifying competition will have a seriously negative impact on revenues. Meanwhile, raising efficiency presents the management with another set of challenges, as the upturn in business activity, overall, brings additional expenses; the development and roll-out of new digital technology also raises cost levels initially, and we shouldn't disregard the wage inflation resulting from the increasingly serious problem of labour shortage either.

In my assessment of the year before last I said that: 2015 was a tough period, but one that brought countless useful lessons. I hope that 2016 marks the beginning of a new period, founded on a return to balanced growth and stable operation.

Overview of financial performance in the year 2016

The price of OTP stock rose by 40% in 2016, closing the year at HUF 8,400. Although there were certainly also technical factors that assisted in this excellent performance, I believe that the improvement in the share price is essentially due to the considerable improvement in fundamental performance. The bank's valuation is excellent not only in regional, but also in pan-European comparison; OTP Bank is one of the few players whose stock price is significantly above the pre-crisis level, with our capitalisation approaching EUR 8 billion as at the start of March 2017.

In 2016 the Bank Group realised an accounting profit of HUF 202.5 billion, the third highest such figure in the history of the Company. The 220% y-o-y improvement was chiefly attributable to the higher adjusted profit and the substantial decrease in adjustment items. In the case of the latter, the balance of these items was HUF 1.3 billion (2015: HUF –57 billion), and within this figure the Hungarian bank tax decreased substantially, by more than half, while the one-off negative items related to the conversion of CHF loans at the Croatian and Romanian subsidiary banks, which generated considerable risk costs in 2015, were no longer present. Meanwhile the proceeds from the sale of the shareholding in VISA Europe, which affected several group members, compensated for the negative impact of various tax-related changes. In 2016 the accounting profit was approximately the same as the adjusted after tax profit.

The Bank Group's annual adjusted after tax profit was HUF 201.2 billion (+67% y-o-y). In terms of the geographic distribution of the contributions to profit, the Eastern European operations realised a minimal y-o-y drop in after tax profit (2015: HUF 188.4 billion, 2016: HUF 181.6 billion), with the substantial change occurring in the performance of the Russian and Ukrainian subsidiaries: in contrast to the HUF 60.3 billion loss of one year previously, the two subsidiary banks achieved an after tax profit of almost HUF 25 billion.

As regards individual performances, OTP Core achieved roughly the same profit as in 2015 (HUF 122.2 billion), while in Bulgaria DSK Bank solidly maintains its second place within the Group (HUF 47.4 billion) in spite of a decline in profit. The performance of the Croatian subsidiary bank (HUF 3.8 billion) improved considerably, as did that of the group-member leasing companies (HUF 4 billion) and OTP Fund Management (HUF 6.7 billion), while the profit of the Romanian operation also improved modestly (HUF 1.7 billion). The Russian subsidiary bank contributed HUF 20.5 billion,

and the Ukrainian bank HUF 10.2 billion to the consolidated profit, while our Russian online bank, Touch Bank, remained loss-making (HUF –5.9 billion) in 2016. Our two smaller operations, the Slovak and Montenegrin subsidiary banks, became loss-making due to higher risk provisioning in the last quarter. Based on all these results, the Bank Group's accounting ROE was 15.3%, while the adjusted ROE was 15.2% Just as a reminder:
the 2015 annual General Meeting set the target of an ROE in excess of 15% for 2017, which we have achieved one year earlier than planned, accompanied by a significant improvement in capital adequacy. If we were to base our calculation on the 12.5% CET1 ratio, which has also been expressed as a target by the management, then the Bank Group's ROE would be 17.9%.

Turning our attention to the internal structure of the pre-tax consolidated profit, the HUF 736 billion in annual consolidated revenue excluding one-off items represents a 2% decrease. Within this figure, net interest income fell by 6%, which was clearly due to the erosion of the net interest margin as a result of the continuous decline in the general level of interest rates, as the performing loan portfolios actually grew y-o-y. The consolidated annual net interest margin (4.74%) fell short of the base period by 37 basis points. Fortunately, however, the improvement in business activity was accompanied by an increase in net fee and commission income (+5% y-o-y), which partly made up for the lower net interest income.

The 2% increase in consolidated operating costs can be regarded as a favourable result amid the strong wage inflation experienced in most markets, and alongside the HUF 3 billion y-o-y increase in contributions payable to the various regulatory authorities.

The factor with the most influence on the annual profit growth was the substantial drop in risk costs. In contrast to the HUF 221 billion amount of 2015, in 2016 the total risk cost declined to HUF 93 billion.

In line with the management's preliminary expectations, the quality of the loan portfolios developed favourably throughout the year: the growth in DPD90+ loans in 2016 was HUF 82 billion (FX-adjusted and stripped of the impact of disposals and write-downs). The y-o-y improvement was observed at virtually all the group members, and was at its most pronounced in the case of the Russian subsidiary. The consolidated DPD90+ rate decreased by a substantial 2.3 percentage points to 14.7%, while overall provision coverage rose to 96.8% at the end of 2016.
In parallel with this, the credit-risk cost ratio dropped to 1.13%, the lowest it has been since the crisis.

The consolidated, FX-adjusted gross loan portfolio grew by 3% over the course of the year. Due to the substantial loan write-downs and disposals that took place in the reporting period, a more realistic picture of the actual trends can be given by describing the performing (DPD0–90) loan portfolio; according to this, the portfolios grew by 6% at annual level, and 4% quarter-on-quarter. The portfolio growth can mainly be attributed to the excellent rate of expansion in the corporate portfolio:
the large corporate portfolios grew by 12%, and the micro and small business segment by 13%; the Hungarian, Bulgarian, Ukrainian and Serbian portfolio growth was outstanding. Furthermore, the consolidated consumer loan portfolios also expanded by 2%, and in this respect it was the Ukrainian and Serbian subsidiaries, as well as the Slovak bank, that showed the strongest performance, although given its size the Hungarian portfolio's 4% expansion is also exceptional. The 5% growth seen in the portfolio of mortgage loans is distorted by the fact that AXA Bank's Hungarian portfolio of mortgage loans has also been stated in OTP Core's books since November 2016. Without this, the portfolios would have decreased by 3% y-o-y, which partly reflects the still high rate of amortisation of the existing portfolio, and the negative impacts of the programmes for the conversion of Croatian and Romanian CHF loans.

With regard to the individual performances, in the case of OTP Core the exchange rate-adjusted performing loan portfolio expanded by 12% y-o-y, with exceptional growth seen

in large corporate, as well as micro and small business performing loans, at 15% and 11% respectively. The consumer loan portfolios grew by 4%, and mortgage loans by 12%, although without the AXA portfolio there would have been a 3% reduction in these, which is mainly attributable to the decrease seen in the first half-year; in the second half of 2016 the portfolio would have remained stable even without AXA. As regards the subsidiary banks, the 15% corporate portfolio growth achieved by the Bulgarian DSK Bank was outstanding. In a welcome development, at the Russian subsidiary bank, owing to the seasonally strong fourth-quarter growth in consumer durable loan disbursements, the portfolio decline experienced in recent years has ceased; indeed, the portfolio grew by 1% overall, and a similarly favourable change was also seen in Ukraine.
After the dynamic growth of previous years, the FX-adjusted consolidated volume of deposits grew again in 2016 (+6% y-o-y). With this, the Group's net loan-to-deposit ratio (66%) declined slightly over the past year. On 31 December 2016 the Bank Group's gross liquidity reserve amounted to the equivalent of EUR 8.1 billion.
The OTP Group's IFRS consolidated Common Equity Tier 1 (CET1) ratio was 13.5% at the end of 2016 (+0.3 pp y-o-y). The regulatory capital does not contain either the positive annual net profit (which can only be included in the audited profit figure), or the deduction due to the accrual of dividends. Taking these into account the CET1 ratio would be 15.8%.

Individual performances of banks in the group

OTP Core (the Group's Hungarian core operation) achieved a HUF 122.2 billion after tax profit excluding adjustment items in 2016 (–1% y-o-y). The lower annual adjusted profit is attributable primarily to the 6% decrease in net interest income and the 7% increase in operating costs. The 16% y-o-y drop in operating profit was offset by the marked improvement in the total risk cost line: in contrast to the HUF 25.6 billion in risk provisions set aside in 2015, in the year 2016 some HUF 6.1 billion was released, and within this figure HUF 14 billion was released on the credit risk cost line.
The 25 basis-point drop in the annual interest margin (3.36%) was primarily due to the environment of low domestic interest rates, and the increased weight, within the loan portfolio, of the lower-margin corporate volumes.
The change in portfolio quality shows a favourable tendency: the FX-adjusted DPD90+ portfolio, stripped of disposals and write-downs, grew by HUF 12 billion in 2016, but this is almost entirely related to the AXA portfolio that was taken over in November. The provisions coverage for loans more than 90 days past due was 82.7%; the DPD90+ ratio declined by 2.3 percentage points due to write-downs and disposals, dropping below the 10% level (9.8%) for the first time since 2010.
The FX-adjusted performing loan portfolio grew by 12% at annual level (without the AXA portfolio: +5% y-o-y), with strong growth shown mainly by the corporate portfolios, while consumer loans grew by 4%. New mortgage loan placements developed favourably again in 2016 (+40% y-o-y). The bank retained, and indeed improved on its already excellent market position with regard to new contract volumes: at annual level it secured a 29.1% share of the market. OTP Bank also played a key role in the disbursement of subsidised housing loans, with some 75% of applications submitted at sector-level landing at the Bank. OTP is also market leader in the area of direct state subsidies ('CSOK' family housing allowance), with every other CSOK application approved by OTP.
Some 67% of the CSOK applications submitted to OTP in 2016 were linked to a bank loan application.
The FX-adjusted deposit volume, together with retail bonds, grew by 8% at both annual and quarterly level. The year-end volume of the deposits taken over from AXA was approximately HUF 60 billion. The net loan/deposit ratio increased minimally (49%, +1 pp y-o-y, FX-adjusted).
The Hungarian **Merkantil Bank and Car** realised a HUF 2.6 billion positive adjusted

after tax profit in 2016. The 60% y-o-y profit growth can be attributed to the stable revenues (+3% y-o-y) and the decrease in risk and operating costs. The FX-adjusted total gross loan portfolio has started to show growth (+5% y-o-y), with increases in both the corporate and vehicle loan portfolios. The volume of newly placed vehicle loans increased by 9% y-o-y.

OTP Fund Management posted a HUF 6.7 billion annual profit, which is 38% higher than the previous year's figure. The portfolio of management funds decreased by 4% y-o-y (end 2016: HUF 1,530 billion), but in Q4 it grew by 2% relative to Q3. The company continues to maintain its almost 20% share of the domestic fund management market.

The **DSK Group's** contribution to profit remains the second highest within the OTP Group, although the HUF 47.4 billion after tax profit of 2016 was 10% short of the figure for the base period. The Bank's annual operating profit decreased by 4%, and within this figure, revenues eroded 2% y-o-y. The 5% drop in net interest income at annual level was a consequence of the narrowing interest margin; the annual net interest margin (4.63%) decreased by 62 basis points. Fee revenues (+13% y-o-y) developed favourably, however, which was primarily due to the dynamic corporate loan disbursements and the growing deposit and payment commission revenues. The quality of the portfolio improved further, with the DPD90+ rate dropping to 11.5% (–3.4% pp y-o-y), while the overall provision coverage of DPD90+ loans rose to 108%. The FX-adjusted change in the portfolio of DPD90+ loans, stripped of the impacts of disposals and write-downs, also presents a positive picture; after the HUF 6 billion increase of 2015, the decrease in 2016 amounted to HUF 3 billion. The total cost of risk rose by 19% at annual level, but impairment related to lending decreased by 11% y-o-y. This brought the annual credit risk cost ratio to 1.12% (–14 bp y-o-y). The FX-adjusted performing loan portfolios showed a 4% expansion. Within this figure, owing to the dynamic change in sales activity, the corporate portfolios grew by 15% and further improved the bank's market share. The retail segment saw a decrease in spite of the favourable sales trends, with the performing mortgage loan portfolio declining by 1%, and the consumer credit portfolio effectively stagnant y-o-y.

Due to the bank's consistently profitable operation and excellent market reputation, the FX-adjusted volume of deposits grew by 4% y-o-y, and this led to a further reduction in the bank's net loan-to-deposit ratio at annual level (65%). DSK's profitability and efficiency is excellent; the annual ROE was 18.9% and the cost/income ratio 37.7%.

The operation of the **Russian subsidiary bank** (excluding Touch Bank) turned a corner in 2016: in contrast to the previous year's HUF 15.1 billion loss, in 2016 the bank realised a HUF 20.5 billion after tax profit. The substantial improvement is mainly attributable to the 58% y-o-y fall in risk costs, which more than compensated for the 4% decrease in operating profit at annual level. Parallel with the stabilisation of the Russian macroeconomic environment, favourable trends emerged in terms of portfolio quality: the FX-adjusted change in the DPD90+ portfolio, stripped of disposals and write-downs, was HUF 110 billion in 2015, and HUF 48 billion in 2016. Owing to the write-downs and disposals of non-performing loans, the DPD90+ rate declined to 20.2% by the end of the year (–3.2 pp q/q), and the overall provision coverage of DPD90+ loans was 117.6%.

The FX-adjusted performing loan portfolio grew by 1% y-o-y overall. Consumer durables lending continues to lie in the focus of business activity: due in part to the exceptionally high disbursements in Q4 (+32% q/q), the consumer durables loan portfolio grew by 17% at annual level. The portfolio of performing card-based loans continued to decrease at annual level, while the portfolio of personal loans grew by 7%.

The bank's FX-adjusted volume of deposits dropped 6% y-o-y, bringing the net loan-to-deposit ratio to 108% at the end of the year.

The cost of risk ratio, expressed in forint, decreased significantly over the year as a whole (7.7%). The bank's annual net interest margin

expressed in forint was 16.25% (+0.69% y-o-y), and remains the highest within the Group; the bank's ROE was 19.1%.

The digital bank **Touch Bank,** which in legal terms operates as a part of the Russian subsidiary but in practice functions as a stand-alone key business line, continued to make a loss (HUF –5.9 billion, +22% y-o-y) in the second year of its operation, principally due to a 25% annual increase in the bank's operating costs. Customer acquisition and the building of portfolios continued, but on the asset side this progressed at a slower pace than planned. The volume of deposits at the end of 2016 was close to HUF 20.5 billion. From 2016 Q2 the disbursement of card-based credit and renewable personal loans also got under way; the volume of these is marginal so far.

The **Ukrainian subsidiary bank,** after the massive losses of the previous 2 years, produced a positive net result in 2016; its profit for the year was HUF 10.2 billion. This major turnaround in profitability is essentially attributable to the fall in risk costs. The trends in loan quality were clearly favourable: following the substantial portfolio cleansing that took place in 2015, the annual costs of risk decreased substantially (–84% y-o-y). The FX-adjusted DPD90+ portfolio growth, stripped of the impacts of disposals/write-downs, stabilised at the 2015 level (HUF 11 billion) over the year as a whole. The ratio of DPD90+ loans decreased to 41.9% (–6.6 pp y-o-y); the overall provision coverage of DPD90+ loans is stable at over 118%. The FX-adjusted performing loan portfolio grew by 5% over the past 12-month period, and within this the retail portfolio shrank by 5%, but the corporate portfolios grew by 8%. Mortgage lending is still suspended, and the rate of credit card disbursement is relatively restrained. At the same time, consumer durables credit shows a continuously improving rate of growth: at annual level the placements increased by 62%, while the performing portfolio expanded by 49%. The FX-adjusted volume of deposits grew by 13% y-o-y. The bank's net loan-to-deposit ratio remained almost unchanged (84%).

During the year the volume of group financing decreased by HUF 61 billion, and at the end of 2016 amounted to the equivalent of HUF 46 billion.

The **Romanian subsidiary bank's** adjusted annual profit came to HUF 1.65 billion, representing a 12% improvement y-o-y. The operating profit grew by 41% y-o-y; the moderate drop in revenues was amply offset by the 16% decrease in operating costs, which already reflects the cost synergies of Banca Millennium, which was purchased in 2015. Within basic banking revenues, net interest income dropped by 11% y-o-y as a consequence of the programme launched by the bank for the conversion of CHF mortgage loans; in Q4, however, an improvement was already being observed. The annual 80-basis-point decline in the net interest margin (3.29%) can also be linked to the conversion programme.

The FX-adjusted gross loan portfolio decreased by 3% y-o-y; but in Q4 a 1% expansion was already observed. The erosion of the retail portfolios, which is attributable in part to the conversion programme, was partially offset by the 2% expansion in the corporate portfolio. In Q4 there was already strong growth in disbursements in all product segments. As a result of the slight increase in customer deposits, the net loan-to-deposit ratio dropped to 134% (–8 pp y-o-y, FX-adjusted). The DPD90+ rate rose to 17.4% and the overall provision coverage of DPD90+ loans improved (81.7%).

The **Croatian subsidiary bank** further improved its performance in 2016, as the almost HUF 3.8 billion adjusted after tax profit exceeds the previous year's figure by 27%. The operating profit increase by 25% y-o-y, while credit risk costs decreased by 22%. The bank's net interest margin (3.51%) improved by 39 basis points y-o-y. The FX-adjusted loan portfolios remained effectively unchanged y-o-y, reflecting the negative volume impact related to the settlement of retail CHF mortgage loans, but in Q4 they grew by 2% relative to the previous quarter. The quality of the loan portfolio shows

an improving trend; the ratio of DPD90+ loans dropped to 12.1% (–1 pp y-o-y), and the overall provision coverage of DPD90+ loans increased substantially (87.6%, +16.7 pp y-o-y).

The **Slovak subsidiary bank** was unable to repeat its profitable operation of the previous two years, and produced a HUF 2.2 billion loss in 2016. This was chiefly the result of the tripling of risk costs, relative to the previous quarter, in the last quarter of 2016.

The operating profit improved by 3% y-o-y, while risk costs jumped 78% at annual level. A positive development was that the bank consistently maintained its annual net margin (3.15%) in spite of the environment of falling interest rates. The FX-adjusted loan portfolios grew by 2% y-o-y, with disbursements at their most dynamic in the case of mortgage loans. The quality of the portfolio deteriorated; the ratio of DPD90+ loans rose by 1.5 percentage points y-o-y to 11.2%; the overall provision coverage of DPD90+ loans increased substantially (74.2%, +11.2 pp y-o-y).

The **Serbian subsidiary bank** realised minimum profit (HUF 39 million) in 2016. At annual level the operating profit dropped considerably (–46% y-o-y), but this was offset by the 59% decrease in the costs of risk. The FX-adjusted performing loan portfolio grew by 12% y-o-y, with substantial growth in volumes observed in both the retail and corporate divisions, while the greatest rise was observed in the SME segment. The ratio of DPD90+ loans decreased further (32.7%); their overall provision coverage was stable (74.2%).

The **Montenegrin subsidiary bank** was unable to continue its profitable operation produced since 2013, and in 2016 the bank realised a HUF 1.8 billion loss. The main reason for this was the doubling of the cost of risk, and alongside this, the operating profit also decreased by 15% in 2016. The FX-adjusted loan portfolio shrank by 4% y-o-y, and deposits grew by 1%. The portfolio of loans overdue by more than 90 days decreased (its ratio is 42.2%), but its overall provision coverage improved by 10 percentage points y-o-y (92.9%).

Innovation, accolades

OTP Bank was among the first to recognise the opportunities inherent in innovations related to digital channels, and this is one reason why the Bank is the market leader in respect of all digital channels in Hungary. It is a strategic priority of the Bank to achieve full digital transformation. At the beginning of 2015 we launched our Digital Transformation Programme with the objective of providing a better digital customer experience, achieving cost-effective operation, and introducing automated processes. Our aim with these developments is to provide our customers with new options in addition to the personal service offered in our branches:

OTP Bank's digital services are helping to make banking simpler, quicker and more convenient than ever before. As a part of this, online corporate and retail account opening, personal loan and overdraft applications via the internet banking platform, and a customisable retail account structure, all became available in 2016. Besides this, we also expanded our range of non-traditional banking services, examples of which include the SIMPLE mobile application and the OTP Discounts Programme.

The Bank Group's excellent performance and innovative services have earned it countless professional accolades: OTP Bank has for many years received the Best Bank in Hungary award from financial journals The Banker, Euromoney and Global Finance, and besides these, OTP's private banking service is also the proud holder of the title of best domestic, and indeed regional, service provider. In the competition run by MasterCard, in 2016 it won the Bank of the Year award, the highest honour for commercial banks providing retail banking services in Hungary; and to top this off, OTP Bank also came first in three other categories in the same competition: Socially Responsible Bank of the Year, Most Likeable Bank of the Year, and Banker of the Year.

Expectations for 2017

As I already mentioned in the introduction, 2017 could be the first post-crisis year in which

we predict positive GDP growth in the countries of all the group members. Besides this, we have put behind us the era in which local regulators had to deal with the retail foreign currency loans that had previously caused so many problems. In the medium term we essentially take an optimistic view of the development prospects of the Central and Eastern European region, which as well as organic growth also offers further acquisition opportunities. The management maintains its objective of strengthening our positions in markets where our presence falls short of the optimal market size. And our excellent liquidity and capital strength provide us with the means for doing so. In 2016 we completed one successful acquisition, and announced another: In Hungary we purchased AXA Bank's portfolio; the integration was completed in November, and as a result of this, our share of the domestic mortgage market, in terms of volume, rose from around 3% to 28.5%. The purchase of the Croatian subsidiary bank of Sociéte General was announced by us in December, and the consolidation of Splitska banka will take place in the second half of 2017. As a result of the transaction, the new bank's market share by total assets will exceed 11%. I believe that both transactions are consistent with our strategic objectives and will substantially boost the Bank Group's capacity to create value.
The management has articulated the following expectations with respect to 2017:

- our objective with regard to a return on equity (ROE) of more than 15% (assuming 12.5% Tier1 capital adequacy) remains in place;
- apart from the HUF 15.4 billion (after tax) negative impact of the Hungarian and Slovak bank tax, we do not expect any more significant adjustment items;
- the rate of growth in the performing loan portfolios – with the impact of acquisitions – is expected to accelerate further, but will remain in the single digits;
- the decline in the net interest margin is expected to continue, albeit at a slowing rate, by around 15–20 basis points;
- the quality of the loan portfolios will continue to develop favourably, and the total cost of risk is expected to decrease further;
- operating costs could increase by 3–4% y-o-y, partly due to wage inflation and to the costs arising in connection with the ongoing digital transformation;
- the stable capital position and strong internal capital-generating capacity make more acquisitions possible;
- in keeping with the practice of the previous 2 years, the nominal amount of dividend paid in respect of the year 2017 can be expected to grow by 15% in the base scenario.

I am confident that the year 2017 will be as successful as the previous year. Hopefully the years ahead will be characterised by predictable business operation, organic growth supported by acquisitions, constant innovation, further improvements in the quality of our services, the capital strength and liquidity that, although they may seem dull, have been shown by the past years' events to be essential for ensuring our stability, and profitability that stands out even in international comparison.

While retaining the values that we have always upheld, there is a need for constant renewal. This is not only something that is dictated by the competition; for ourselves, too, we need to set objectives that are in line with what is expected of a market-leading financial institution, and which also offer a realistically attainable vision for our employees and customers. We have every reason to believe that the OTP Group will fulfil society's expectation that, while ensuring stable, predictable operation, it will provide individuals and communities with an effective service and a positive customer experience in the management of their day-to-day finances.

I truly appreciate your help and support in achieving the objectives described above.

Dr. Sándor Csányi
Chairman & CEO