

Message from the Chairman & CEO



DEAR SHAREHOLDERS,

It would be no exaggeration to say that 2020 was an extraordinary year. In relation to the year just past it is not chiefly our financial results that I would like to highlight – although given the circumstances, we have every reason to be proud of these too – but first and foremost the fact that we have triumphed in the face of the considerable challenges posed by Covid-19. The Bank Group passed the test presented by the pandemic with flying colours: we did everything possible to ensure the safety of our employees and customers while ensuring our services remained uninterrupted throughout. In line with public expectations and our market-leading position, we mobilised our financial resources and capital strength to buttress the economy and ensure its speedy recovery, contributed fully to the implementation of the various government and central bank support programmes, and ensured that our lending operations remained strong and robust. At the same time, we mustered the energy to continue and in some cases accelerate our internal development drives, above all in terms of digital services. No further acquisitions were made in 2020; however, we successfully completed the post-merger integration processes in Bulgaria and Montenegro, continued the integration in Serbia, and completed the sale of our subsidiary bank in Slovakia. In accordance with our long-term strategy, OTP Bank intends to remain a key player in the consolidation of the regional banking sector.

As expected, the significant economic downturn and increased uncertainty caused by the Covid-19 pandemic were mainly reflected in a rise in the cost of risk: due to the fourfold year-on-year increase in risk costs, the Bank Group's adjusted after tax profit fell by 26%, though at the same time our 13% return on equity remains outstanding by international standards. The OTP Group's operating profit improved by 5%, and our operating expenses/balance sheet total ratio fell from 3.31% to 2.9%. In 2020, our consolidated FX-adjusted performing loan portfolio was 9% higher than in the previous year – also a commendable achievement. Although the capital strength of the Bank Group is excellent and secure – the CET1 rate of 15.4% at the end of 2020 already includes the amount of net earnings for the year less dividends – following the recommendation of the National Bank of Hungary, no dividend will be paid until 30 September 2021.

The market/investor perception of the Bank's performance and growth strategy remains favourable: the fall in the share price following

the first wave of the pandemic was followed by a significant correction in the autumn of 2020, finishing the year at HUF 13,360, which equates to a market cap of more than EUR 10 billion.

Overview of performance in the financial year 2020

The Bank Group's adjusted profit of HUF 310 billion in 2020 was primarily determined by the surge in the cost of risk: deteriorating economic performance caused by the pandemic was met with prudent risk management. Firstly, the share of loans in the Stage 2 category, denoting higher risk, increased significantly (from 5.3% to 13.9%) and it was mainly in relation to this portfolio that higher risk costs were incurred (due to additional provisioning). At the same time, the share of non-performing loans (Stage 3) improved from 5.9% to 5.7% year-on-year and the growth of loans overdue for more than 90 days also slowed. It is important to emphasise that the provisioning rate for the

performing portfolios (Stage 1+2) increased from 1.6% to 2.4% year-on-year, placing us well above our competitors in terms of this ratio. The change in portfolio quality was significantly affected by the introduction of loan repayment moratoriums for all group members except Ukraine; however, based on OTP's traditionally conservative and prudent risk management and lending practices, we believe that portfolio quality will not deteriorate significantly after the expiry of the moratoriums, and we even expect some Stage 2 loans to return to the Stage 1 category. The pandemic resulted in a significant decline in business activity and in the development of the performing portfolios, mainly in the second quarter of 2020, but despite this, the volume of the consolidated performing loan portfolios increased by 9% in 2020 as a whole (on an FX-adjusted basis), and loan volumes increased in all countries of operation except Russia. It is gratifying that over the period of the pandemic, the volumes of mortgage loans grew in virtually all countries of operation (+10% year-on-year), and the corporate portfolios also increased significantly (+8% year-on-year). The 9% growth in consumer loans marks a slowdown compared to the previous year, and was the result of physical closures related to Covid and to more cautious spending on the part of consumers. Despite net interest margins falling by 50 bps year-on-year, the substantial growth in performing loans meant that net interest income actually increased by 12% while fee and commission income was up 4%.

In 2020, adjusted after tax profit decreased year-on-year at all operations, except at the Moldovan subsidiary. The contribution of the foreign subsidiaries to the overall profit figure fell from 46% in the previous year to 41% last year. The declining profit at virtually all operations can be explained by the temporary increase in the costs of risk.

Consolidated, FX-adjusted deposit volumes at the Bank Group increased by 13% year-on-year, i.e. by more than HUF 2,000 billion, and thus

the group-level net loan-to-deposit ratio fell from 79% to 76% over the past year. The consolidated basic Tier 1 capital ratio (CET1) of the OTP Group according to IFRS was 15.4% at the end of 2020 (+1 ppt year-on-year). This already reflects the impact of net earnings for the year less proposed dividends (HUF 140.2 billion). The HUF 119 billion deducted from the regulatory capital is equal to the overall dividends that the management would have proposed to the General Meeting, had the National Bank of Hungary (MNB) not put all dividend payments on hold until 30 September 2021. The sum of dividends deducted partly includes the HUF 69.44 billion in dividends that were not paid for 2019 but that the management had planned to pay. After 30 September, the payment of an advance on dividends may be considered by the Board of Directors. In addition, a secure capital position allows management to continue to seek acquisition opportunities in line with the strategic objectives.

As in previous years, the Bank Group's key objectives for 2020 were largely met, and accordingly:

- our profit rate was significantly higher than the target ROE of more than 10%. The actual figure was 13%;
- the cost-of-risk ratio turned out to be lower (115 bp) than we had previously forecast (125 bp);
- performing loans increased organically by HUF 1,129 billion, or 9%. It is pleasing that the growth rate in Hungary (17%) exceeded the group average for the fourth year in a row, but volume growth in Serbia and Ukraine was also outstanding.

Acquisitions

No new acquisitions were made in 2020, following the six bank acquisitions that were completed in 2019, 2020 was a year of consolidation:

- In Bulgaria, the integration process was completed on 4 May 2020, and this during

a period of restrictive measures due to the first wave of the epidemic;

- In Montenegro, the merger of the two banks was completed in early December 2020;
- In Serbia, the merger process is also progressing according to plan, and is expected to be completed in the second quarter of 2021;
- In Slovenia, Albania and Moldova, where the Group was not previously present, the newly acquired banks were integrated into the Group;
- The sale of the Slovak subsidiary announced in early 2020 was completed at the end of November.

As we have indicated many times in the past in relation to our acquisition strategy, our goal is to improve our existing market positions through acquisitions and to increase the profitability of specific banks by achieving optimal market size and exploiting cost synergies. I am pleased to report that the realisation of these goals is well under way. We are currently looking into three acquisition options, one of which is within the geographical scope of the existing Bank Group. We hope to make a specific announcement in the second half of 2021 with regard to two transactions.

Industry awards, innovation, corporate social responsibility

The results, safe operation and successful strategy of the Bank Group are chiefly reflected in the development of the share price. In addition, its excellent performance and innovative services have earned it countless professional accolades: OTP Bank has for every year in almost a decade now been named best domestic bank by **Global Finance**, and in 2020 our subsidiary banks in Slovenia and Montenegro received the same title. OTP Bank won the Best Bank in Hungary award in **Euromoney's Awards for Excellence**, and the Montenegrin and Albanian subsidiary banks also received **Euromoney's** best bank award. According to

The Banker's rankings, OTP Bank was named Bank of the Year in 2020, and our Bulgarian and Slovenian subsidiaries received the same recognition. OTP Bank was awarded the title of Safest Bank in Hungary by **Global Finance**. In addition, OTP Bank's private banking division holds the title of Best Private Banking Service Provider in Hungary at both **The Banker** and **Global Finance**. OTP Treasury won the title of Best Foreign Exchange Provider and the Bank won the title of Best Digital Bank for Consumer Loans from **Global Finance**. In addition, **Global Finance** chose OTP LAB as one of the best financial innovation workshops in the world in 2020 as well. At the same time, we achieved recognition not only for the high quality of our services but also for our continuously outstanding financial achievements: our innovative, digital solutions, environmentally conscious business policy, efforts to develop domestic bond markets, and transparent information practices were also recognised (MNB: Innovative Bank Award, BSE: Growth Bond Programme Investment Service Provider Award, Transparency Award, Social Responsibility Award). Today, OTP holds dominant market positions in many countries and segments. This did not come free: we have worked very hard for it over the past decades and now we are reaping the rewards in many respects. At the same time, we cannot sit back and relax: a leading position today is no guarantee of the same tomorrow, and so development and innovation must be a continuous process! In the future, IT will not only have to perform service tasks, but will also increasingly have to fulfil business functions. In order for IT to be brought to bear in product development at an early stage, in 2019, 'agile operations' were introduced at OTP Bank – as a first in Hungary. By the end of 2020, this had involved more than 1,000 of our employees (+30% year-on-year) and allowed many high-priority developments to be implemented significantly more rapidly (e.g. Apple Pay, the launch of a new mobile and internet banking platform, loan repayment moratorium, gradual introduction of new mortgage applications etc.). As a result, not only has the overall customer experience

and customer satisfaction improved, but our market position has remained stable or even improved in several segments.

In addition to the challenges it has presented, the pandemic has also brought about huge changes, accelerating the transformation of customers' banking habits. The number of OTP SmartBank mobile banking users reached 1.3 million by the end of 2020, a whole order of magnitude ahead of our local competitors. The number of transactions via our digital channels increased significantly, and the number of digitally active retail customers grew by 18% in the space of just one year. Robotic process automation is playing an increasingly important role, and some of the back-office operations required for *babaváró* lending (subsidised loans for expectant parents) and the management of the loan repayment moratorium were already being performed by robots programmed by us. Launched years ago, the Simple service has now grown into a veritable ecosystem of applications (Simple Business, SimplePay), and its range of services and customers is constantly expanding.

Aspects of corporate social responsibility, environmentally responsible operations and corporate governance (commonly known as ESG) are increasingly important in terms of how the Bank is perceived among the public, regulators and investors. In 2020, the Bank received several ESG ratings: we have a rating of Average from Sustainalytics and "A" from MSCI, which is broadly on a par with other banking groups active in the region. Investment strategies focusing on sustainability are becoming increasingly important; we cannot ignore the long-term prospects of climate change and the associated risks, and the shift towards a zero-emission economy is also reflected in our business model.

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 on value creation and preservation. **We have made a significant contribution to alleviating the difficulties caused by the coronavirus by supporting healthcare and educational institutions.** We consider it our responsibility to always act ethically and to reduce the environmental impact of our company.

The OTP Group is a stable company, one of the largest employers in Hungary, which strives to contribute to sustainable economic growth and a sustainable future in all areas. Our goal is to provide responsible, equitable financial services that can also adapt effectively to customer needs.

Dear Shareholders,

I am confident that our Bank has all the core values, resources and commitment needed to enable us to achieve our long-term strategic goals. As a key regional bank and a financial institution that holds leading positions in many countries, we have a major responsibility towards all players in the real economy in terms of the financing of micro and small businesses, medium and large companies, municipalities and other stakeholders, as well as retail customers, and for providing advanced financial services to them. In addition, the past decades have proven that in difficult times, our management has been able to successfully address the latest challenges, assuring appropriate responses to them, and in doing so we have been able to consistently rely on the commitment of our staff and the loyalty of our customers.

I trust that our stated goals and strategic objectives will meet with your approval. I ask for your continued assistance and support for their implementation!



Dr. Sándor Csányi

Chairman & CEO