Message from the Chairman & CEO

DEAR SHAREHOLDERS,

Based on our performance last year I am happy to report that 2015 marked the end of the seven lean years for the OTP Group, and overall the Bank Group has emerged stronger from the global financial crisis that broke out in 2008 and the subsequent period of forced austerity. Here I'm referring to our – even by international standards – exceptionally strong capital adequacy and excellent liquidity. In addition to this, we not only retained but succeeded in improving our positions in our key markets, and also had energy to devote to innovation and development.

And this past year was by no means a straightforward one. Although the burdens related to the settlement and conversion of foreign currency consumer loans in Hungary were reflected mainly in the profit figures for 2014, the tasks associated with this placed massive administrative burdens on the entire domestic banking sector, OTP included. We'd never had to cope with so much extra work and such a drain on our IT capacities as a result of changes to the law! I'm proud to report that our colleagues carried out their tasks in an exemplary fashion.

Last year also represented a turning point in that the problem of foreign currency lending, which had been a bugbear for the banks and of course customers for so many years, and had put a strain on relations between the banking sector and the government, was successfully resolved. The price was enormous, and there will certainly be players who have remained unsatisfied, but overall in Hungary we have now put this issue well and truly behind us.

Indeed, it appears that now that Hungarian politics have tackled the problem of foreign currency loans, other countries are following suit: In Croatia, in September 2015, a law provided for the settlement and conversion by banks of CHF-based mortgage loans; meanwhile in Serbia the central bank has ordered the banks to give certain rebates, and in Romania in November our subsidiary bank launched its own initiative to help foreign currency borrowers, while in Ukraine a major restructuring process has got under way as the result of cooperation between the supervisory authority and the banks concerned. In the course of 2015 the Bank Group set aside the necessary provisions for its expected one-off financial losses in the various countries where it does business; the decreasing revenues realisable on the lower volumes will be largely compensated for in the years to come by the fact that the switch from CHF or USD to the domestic currency or EUR will substantially reduce the risks of customers, thereby improving the overall risk profile of the portfolio.

In another favourable development, there was a significant improvement in the system of regulatory and operating conditions for banks in Hungary: In line with the Declaration of Intent

signed in February 2015 by the Government and the EBRD, from 2016 there will be a substantial drop of more than 40% in the burden of the bank tax, which has remained unchanged since its introduction in 2010, and this will be followed by a further reduction from 2017. Accordingly, in 2016 the annual bank tax liability of the OTP Bank Group in Hungary will decrease, from the previous figure of HUF 34.9 billion, to HUF 16.1 billion. In addition to this, an acceptable decision was also made with regard to the sensible sharing and settlement of the losses caused by the brokerage scandals of 2015. We welcome the fact that this is in tune with our general efforts to promote a culture and attitude of awareness among the consumers of financial products, and to ensure that responsibility for the financial consequences of decisions is not borne solely by the banking sector.

And naturally, we should not forget the most important factor from the perspective of banking operations: since 2013, the performance of the economy has been improving steadily, and this is not only reflected in the favourable development of the indicators, as the structure of growth has also become significantly healthier. Following the 1.5% GDP growth of 2013, the economy expanded by a robust 3.6%, and the 2.9% increase of 2015 also represents a strong performance. While the rate of growth in exports remains stable, household consumption is strengthening in parallel with the continuous growth in real wages, and investments also grew at a rate of over 20%. After years of floundering, the property market has found its feet again, and turnover is rising at a convincing rate, the number of new home construction permit applications is on the rise, and the occupancy of commercial properties is improving rapidly. The Government's latest measures – such as the lowering of VAT on new home construction from 27% to 5% with effect from 2016, or the substantive expansion of the Family Home Making Subsidy (CSOK) and the major increase in the available subsidies – could give a boost to new home building in Hungary, and thus to the construction industry, which employs a considerable number of people; and they could also lead to an improvement in the demographic situation by rewarding families that have more children with a higher amount of assistance.

Another positive development is that the central bank, in addition to its use of conventional monetary policy tools, led the way in creating the conditions for growth and lending, continuously and effectively supporting the healthy, sustainable growth of the economy. In the first and second phases of the Funding for Growth Scheme (FGS), launched in 2013, more than HUF 1,700 billion in loans has been disbursed to companies in the Hungarian SME sector. While the scheme is set to be phased out in 2016, the central bank has also launched its Support for Growth Scheme (SGS), through which the central bank aims to assist banks in making the transition to market-based lending. In addition to the FGS and SGS, the central bank's Self-Funding Scheme assisted a great deal in making the financing of state debt as independent as possible from foreign investors, thereby helping to increase the room for maneuver in economic policy.

All things considered, I can safely say that in 2015 we put behind us not only a difficult financial year, but a tough chapter in our history. All of this provides a good foundation on which the Hungarian economy can smoothly weather the temporary slowing of GDP growth in 2016, which is a prime consideration in terms of banking operations too.

Overview of financial performance in the year 2015

OTP's share price closed at HUF 6,000 in 2015; the 63.5% y/y rise was one of the highest among listed blue chips, not just in Hungary, but internationally too. I believe that, together with the favourable macroeconomic developments and regulatory changes that were supportive of banking operations, the Bank Group's

fundamental performance also played a key role in the development of the stock price and the improvement in our market standing.

In 2015 the Bank Group posted a HUF 120.2 billion adjusted after-tax profit. This exceeded the performance of the base period by 2%. The pre-tax adjusted annual profit excluding one-off items also grew by 3% in comparison to the previous year. Operating profit dropped by 13%, but this was fully offset by the lower cost of risk (–20%).

The change witnessed in 2014 in terms of the relative contributions of individual subsidiaries to the annual consolidated adjusted after-tax profit was repeated last year: again it was OTP Core (HUF 123.4 billion) and DSK Bank (HUF 52.5 billion) that delivered the greatest contribution to profit, while the other Central and Eastern European subsidiary banks – except Serbia – also achieved a profit, overall improving the Group's profit by HUF 5.9 billion. In contrast, the Ukrainian and Russian subsidiary banks made adjusted losses of HUF 40.3 billion and HUF 15.1 billion respectively; these figures combined represent a smaller loss than that of 2014. In 2015 our online 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, realised a loss of HUF 4.8 billion.

The HUF 755 billion in annual consolidated revenue excluding one-off items represents a 9% decrease. Within this, net interest income decreased by 13%: net interest income declined in Hungary and dropped substantially in Russia and Ukraine, but grew at the Bulgarian, Romanian, Croatian and Slovak subsidiary banks. The fall in the Russian and Ukrainian net interest income is partly attributable to the exchange rate effect, as both the ruble and the hryvnia weakened considerably during the past one year. Besides this, in both these countries the decline in the performing portfolios also had a substantial effect on interest income. Net fee and commission revenues decreased minimally. Consolidated operating costs decreased by 5% y/y. The consolidated annual revenue margin (6.96%) narrowed by 78 basis points, while the net interest margin (5.11%) fell short of the base-period figure by 85 basis points.

The consolidated FX-adjusted gross loan portfolio shrank by 8% y/y. Because of the substantial credit write-downs 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; accordingly, the portfolios decreased by 5% at annual level. In terms of the FX-adjusted change in the performing portfolios, the greatest decrease occurred in Russia and Ukraine (26% each); at OTP Core, the fall was 8%. Within the consolidated performing retail loan portfolio, mortgage loans dropped by 6%, and consumer loan volumes shrank by 8%, but by contrast the portfolio of micro and small business loans grew (+16% y/y). The portfolio of loans to large corporations fell by 3% y/y.

In terms of the performance of the individual subsidiaries, the Romanian and Serbian banks saw the highest rate of growth in the performing gross loan portfolio, while consumer loans in Russia, which had grown dynamically in previous years, dropped by 26%, and in Ukraine by 28%. The mortgage loan portfolio declined everywhere except at the Romanian subsidiary. In the large corporate segment, the performance of the Romanian and Serbian subsidiaries stands out, with each achieving growth of more than 30%. The Hungarian micro and small business DPD0–90 portfolio expanded by 14% year on year, due in part to the Funding for Growth Scheme.

After the dynamic growth of previous years, FX-adjusted consolidated deposits grew again in 2015 (+5% y/y). With this, the Group's net loan-to-deposit ratio (67%) declined by almost 9% last year, sinking to below 100% in all countries with the exception of the Romanian and Serbian subsidiary banks. On 31 December

2015 the Bank Group's gross liquidity reserve amounted to the equivalent of EUR 8.6 billion.

The DPD90+ portfolio growth trend (FX-adjusted, stripped of the impacts of sales and write-downs) presents a favourable picture of the quality of the portfolio, showing that the previous year's record HUF 254 billion portfolio growth decreased to HUF 133 billion in 2015. The year-on-year improvement was observed at virtually all the group members. The cost of risk amounted to HUF 221 billion at annual level (–20% y/y). The extent of provisions coverage for loans more than 90 days past due was 93.4% at group level at the end of 2015 (+9.1 pp y/y). Behind this figure, the annual improvement in coverage was substantial at OTP Core (+9.3 pp), Ukraine (+21.3 pp), and at DSK Bank (+4.3 pp).

The OTP Group's IFRS consolidated Common Equity Tier 1 (CET1) ratio was 13.3% at the end of 2015. 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.

Individual performances of banks in the group

OTP Core (the Group's Hungarian core operation) achieved a HUF 123.4 billion after-tax profit excluding correction items in 2015 (–10% y/y). The lower annual adjusted profit is attributable primarily to the 6% decrease in net interest income and the 9% increase in the cost of risk. The likewise 6% drop in operating profit, excluding one-off revenue items, was the combined result of the lower revenues (–2% y/y) and the 2% increase in operating expenses. The 30 basis-point drop in the annual interest margin (3.62%) 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 DPD90+ portfolio, adjusted for exchange rates and stripped of sales and write-downs, grew by HUF 48 billion in 2014, but fell by HUF 11 billion in 2015. The provisions coverage for loans more than 90 days past due increased (85.8%), in addition to which the DPD90+ ratio declined by 5.4 pp (to 12.1%) due to write-downs and sales. The total cost of risk increased by 9% y/y, and with this the annual risk-cost ratio rose from 0.73% to 0.84%.

The FX-adjusted gross loan portfolio shrunk by 13% at annual level, predominantly as a result of the settlement and conversion to forint of retail mortgage loans implemented during the year. The retail gross loan portfolio decreased in the case of both mortgage loans (–19% y/y) and consumer loans (–17% y/y). Within the corporate portfolios, the 58% annual drop in municipality loans reflects the impact of the mid-year early repayment of debt assumed by the state. In the medium-sized and large corporate segment the portfolios decreased by 3% y/y, mainly as the consequence of early repayments by a few large clients. At the same time, the portfolio of loans provided to micro and small enterprises grew by 11%, partly due to the National Bank of Hungary's Funding for Growth Scheme.

Although the 19% drop in the mortgage loan portfolio is substantial, without the impact of the settlement and forint conversion of foreign currency loans the decrease would only have been 7%; in other words, regular amortisation and the increasing early repayments still exceed new disbursements for the time being. It is encouraging, however, that the improvement in households' financial positions and the continuous rise in property prices are generating strong demand: In 2015 the volume of loan applications rose by 24% y/y, and that of disbursements by 33%.

The FX-adjusted deposit volume, together with retail bonds, increased by 2% over the year as a whole. The net loan/deposit ratio dropped further (47%, –6 pp y/y, FX-adjusted).
Of the Hungarian subsidiaries, **Merkantil Bank and Car** realised a HUF 1.6 billion positive adjusted after-tax profit, which is in contrast

to the almost HUF 1.5 billion loss of the previous year. The improvement is the combined result of the 13% growth in operating profit and 32% decrease in the cost of risk. The several-year decline in the FX-adjusted total gross loan portfolio came to a halt, and the volume of newly placed vehicle loans expanded by 36% y/y.

OTP Fund Management posted a HUF 4.8 billion profit in 2015. The portfolio of management funds decreased by 9% y/y against a backdrop of declining yields, but stabilised in Q4. The company maintained its leading position in the domestic fund management market.

The performance of DSK Bank stands out among the foreign subsidiaries, as the **Bulgarian subsidiary bank** realised a HUF 52.5 billion profit in 2015, which exceeded the previous year's figure by 34%. This exceptional performance was due to strong revenues from basic banking services, and the 21% fall in the cost of risk. The annual net interest margin is stable (5.24%), and the quality of the portfolio is continuously improving. The provisions coverage for the DPD90+ portfolio increased substantially (2015: 95.8%) despite the lower cost of risk; the DPD90+ rate (14.9%) decreased on a y/y basis. The bank's FX-adjusted loan portfolio grew by 1% y/y, and thus the share of the corporate portfolio expanded further (+5% y/y), and the bank's share of the corporate market also improved. Owing to the bank's excellent operation and market reputation, the FX-adjusted deposit volume rose by 16%. The bank's profitability and efficiency is excellent: the annual ROE was 21% and the cost/income ratio 36.1%. In recognition of these outstanding results, The Banker magazine awarded DSK Bank the title of Bank of the Year of Bulgaria in 2015.

The **Russian subsidiary bank** remained loss-making in 2015; the HUF 15.1 billion negative result excluding Touch Bank exceeds that of the base period by 4%. The loss calculated in forint can be attributed primarily to the 36% y/y drop in operating profit, which was only partially offset by the 30% decrease in the cost of risk. In its operations in 2015 the bank focused on more effective cost control and collection, an approach that yielded a number of favourable results: From the second half of 2015 the deterioration of the portfolio slowed considerably, while the bank's operating expenses decreased by 38% at annual level due to the headcount reduction and branch closures carried out during the year. Business activity remained cautious and targeted, as the bank primarily focused on consumer goods loans; the disbursement of personal loans was restrained, and there was effectively no cross-selling of credit cards at all. A positive development was that, in line with the management's aims, the risk-cost ratio for consumer goods loans dropped nearly 10% for the year as a whole, and an improvement is also being seen in the case of personal loans. The bank's annual net interest margin decreased on a y/y basis, but is still the highest (15.6%) in the Group.

The loss made in 2015 by 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, came to HUF 4.8 billion. This was principally a result of the bank's operating expenses, which in turn were due in part to intensive customer acquisition and marketing activity. The bank's customers now number almost 20,000, with deposits approaching the HUF 4.3 billion mark.

The **Ukrainian subsidiary bank** generated a HUF 40.3 billion adjusted negative result, which is 7% smaller than the loss incurred one year previously. The cost of risk generated on the Crimean and East Ukrainian exposures represented HUF 2.4 billion (after tax); these were stated as correction items at consolidated level.

Due to the hryvnia's substantial y/y weakening against the forint, the changes in business results can be better described in terms of the local currency. On this basis the operating result improved by 46% over the year as a whole, and within this, the amount of interest income

remained effectively unchanged relative to the previous year, whereas fee and commission revenues improved by 19%, and other revenues improved substantially, due partly to the base effect. Revenues grew by 22% overall, while operating expenses dropped by 3%.

The rate of growth in the FX-adjusted DPD90+ portfolio (excluding sales and write-downs) decreased considerably at annual level (2014: HUF 61 billion, 2015: HUF 11 billion); the DPD90+ ratio increased by 2.4 pp y/y (48.6%). The cost of risk increased by 35% y/y in hryvnia terms. The provisions coverage of the DPD90+ portfolio rose by 21.3 pp y/y to reach 118.5%.

The FX-adjusted DPD0–90 loan portfolio shrank by 26% year on year; a more pronounced decrease occurred in respect of performing retail loans (–36%), while the corporate loan portfolio decreased at the more moderate rate of 22%. Lending activity generally continued to be restrained and conservative. The customers' confidence in the bank is reflected in the fact that the FX-adjusted deposit volume grew by 2% year on year. The bank's net loan/deposit ratio dropped to 85%, which conceals a high degree of adaptation (–63 pp y/y, FX-adjusted). Parallel with this, in 2015 the volume of group financing (including subordinated loan capital) decreased by almost USD 250 million, amounting to the equivalent of HUF 107 billion at the end of Q4.

The **Romanian subsidiary bank's** adjusted annual profit almost doubled year on year, to nearly HUF 1.5 billion. The main balance sheet and profit-and-loss items were influenced in a considerable extent by the consolidation of Banca Millennium S.A. in Q1 of 2015.
The 18% y/y increase in revenues was offset by the jump in operating expenses (+59% y/y), and as a result of this, the operating profit also decreased by 38% in comparison to the previous year. The annual cost of risk halved. The FX-adjusted gross loan portfolio expanded by 23% over the past one-year period as a result of the acquisition. The volume of personal loans was 9% higher and the portfolio of mortgage loans 19% greater than one year previously. The corporate loan portfolios expanded at a higher rate than this, at 30%. Deposits showed strong growth, with volumes increasing by 51% y/y, and consequently the net loan/deposit ratio dropped to 142% (–30 pp y/y, FX-adjusted). The DPD90+ ratio declined to 16.7%, with stable coverage (79.1%).

The almost HUF 3 billion adjusted after-tax profit attained by the **Croatian subsidiary bank** in 2015 represents a substantial improvement on the previous year's figure (HUF 104 million). Operating profit grew dynamically year on year (+44), and all these factors more than compensated for the increase in the cost of risk (+32%) that occurred in the same period. The bank's net interest margin for the year improved (3.12%). The FX-adjusted loan portfolios showed minimal growth, while deposits decreased by 2%, with the result that the net loan-to-deposit ratio increased slightly (84%). The loan portfolio shows an improving trend; the ratio of DPD90+ loans was 13.1%, and their coverage increased (70.9%).

The **Slovak subsidiary bank's** adjusted net earnings of over HUF 900 million is a major improvement on the HUF 32 million profit achieved in 2014. This favourable change is due to the combined impact of the 12% improvement in operating profit and a 6% drop in operating expenses. The bank's interest margin was unchanged from the previous year (3.18%). In the favourable macroeconomic environment the FX-adjusted loan portfolios grew by 4% and deposits by 3% y/y.
The proportion of DPD90+ loans decreased by 0.6 pp to 9.7%, and their coverage increased (61.2%).

The **Serbian subsidiary bank** was unable to maintain its profitable operation, eventually closing the year 2015 with a loss of close to HUF 400 million. At annual level the operating profit was weaker (–5%), while the cost of risk increased by 28%. The FX-adjusted loan portfolio grew by 9% y/y, with substantial growth in volumes observed in both the retail

and corporate divisions. The ratio of DPD90+ loans decreased further (39.3%), with stable coverage (74.9%).

The **Montenegrin subsidiary bank,** as in 2013 and 2014, turned a profit again in 2015 (HUF 909 million), which was more than double that of the previous year. The 17% y/y drop in operating profit can primarily be attributed to the decrease in revenues (–9%); this was only partially offset by the bank's effective cost management. The improvement in after-tax profit was due to the 35% y/y decrease in the cost of risk. The FX-adjusted loan portfolio grew by 5% y/y, and deposits by 4%. The portfolio of loans more than 90 days in past due grew (42.7%), but its coverage improved (83%).

Innovation, accolades

Although we continue to have a dominant branch presence in many of our core markets, 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, which, beyond the development of internal processes, also aims to provide an outstanding customer experience. As part of this, the Digital Transformation Programme was launched, and has set itself the goal of implementing more than 100 projects.

Meanwhile, the role of the branches is gradually changing, with simple transactions – where the role of the online channels is growing steadily – increasingly giving over to the sale of complex products and the provision of advice.
Last year we once again received numerous professional accolades, but the one closest to my heart was the award that the bank has now received for many years running, for its outstanding role in the promotion of financial literacy. This is all a part of our efforts to provide the younger generations with a diverse and varied range of essential skills, within the context of our active CSR commitments. Through the OTP Fáy András Foundation's Training Centre, since November 2012 tens of thousands of secondary school students have received education in finance, economics and money management, free of charge.

OTP Bank has for many years received the Best Bank in Hungary award from financial journals The Banker, Euromoney or Global Finance, but OTP's private banking service is also the proud holder of the title of best domestic, and indeed regional, service provider.

Expectations for 2016

Given the favourable macroeconomic environment mentioned in the introduction, and the constructive attitude displayed by the regulators, I am essentially optimistic with regard to 2016. Accordingly, I can confirm that this year we are steadily approaching the target that was set at the Annual General Meeting of 2015, specifically: by 2017 the Bank Group's return on equity (ROE) will exceed 15% (alongside a 12.5% CET1 ratio), and besides the Hungarian and Slovak bank tax and the revenue derived from the sale of our stake in Visa Europe Ltd. (approx. HUF 10.5 billion), there are no other one-off items that will influence our consolidated after-tax profit in 2016. In effect, this means that I expect to see a substantial improvement in both our accounting profit and in our after-tax profit adjusted for one-off items. Furthermore, the previous years' erosion of the group-level performing loan portfolio will come to an end in 2016, and hopefully we can also expect to see slight growth. I have faith particularly in lending to the corporate, and specifically the micro and small enterprise, as well as the agricultural sector, but decisions by the Hungarian government may also have a favourable effect on the growth of domestic mortgage lending. The consolidated net interest margin may decline slightly, because for one, the weight of the higher-margin Russian and Ukrainian operations will decrease, and for another, we expect lower margins in both

Bulgaria and Hungary, especially if the central bank carries out further interest rate cuts in the course of the year. The favourable trends that have got under way in terms of portfolio quality will continue, and the cost of risk will decrease significantly at the Russian and Ukrainian subsidiary banks, and to a lesser extent in Hungary and Bulgaria too. Operating expenses will develop similarly to the 2015 trend; the nominal extent of these will be substantively influenced by the fact that a growing number of group members will incur an obligation to pay into the National Resolution Funds that must be established under EU regulations, and by the amounts payable into deposit protection and investment protections funds, which are also rising at annual level.

The greatest positive changes relative to the past two years is that this year we do not expect losses at either the Russian or the Ukrainian operation.

Our stable capital strength makes it possible for us to increase the dividend payout from year to year: subject to approval from the General Meeting, in respect of the 2015 financial year we expect a dividend payout of HUF 46.2 billion, which translates to approximately HUF 165 per share. Alongside organic growth, we are constantly seeking acquisition opportunities: there have been positive examples of this in Croatia and Romania; in both countries the integration related to the bank purchases has been completed, and the market positions and profit-generating capacity of our subsidiary banks were strengthened. Furthermore, in February 2016 we purchased the Hungarian portfolio of AXA Bank, which predominantly consists of mortgage loans. The integration process could be completed at the end of 2016, and as a result of the transaction our mortgage loan portfolio could improve considerably, by more than 20%, bringing a parallel improvement in our market positions.

I am confident that 2016 and the years to come will now be about normal banking operation, lending growth rates and the expansion of portfolios, with activities focusing on improvements to the quality of customers service, risk management and effectiveness.

While retaining the values that we have always upheld, there is a need for constant renewal and innovation. 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 ask for your assistance and supportive contribution in the achievement of these goals!

Dr. Sándor Csányi
Chairman & CEO