Message from the Chairman & CEO

DEAR SHAREHOLDERS,

The Company published its preliminary earnings report on 1 March 2019, the same day as OTP Bank celebrated the 70th anniversary of its establishment. This was a coincidence, but I'm pleased to report that we managed to fittingly commemorate the special day: the Company achieved the highest after tax profit in its history, the equivalent of EUR 1 billion, a respectable performance even by international standards, and this is matched by outstanding profitability in terms of return on equity, secure capital strength and stable liquidity positions.

Thanks to the favourable macroeconomic environment, our business activity continued to expand dynamically; the organic growth rate of our performing loan portfolios is excellent even by European standards. In 2018 the Company continued its successful acquisition drive: through acquisitions implemented and announced over the past two years or still underway – in Croatia, Serbia, Bulgaria, Albania, Moldova and Montenegro – OTP Bank has become the most active consolidator in the CEE/SEE region, significantly improving its market positions and strengthening the contribution of the foreign units to the Group's profits.

Our results were well received by the markets: since the beginning of 2018 OTP Bank's share price has outperformed both the BEUBANK basket containing the banks of the EMEA region and the MSCI emerging markets share index. OTP is one of the few banks that has managed to outperform its pre-crisis peak share price. OTP's 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 11 billion.

Our excellent performance can first of all be attributed to the supportive macroeconomic and regulatory environment. I would especially highlight here the performance of the Hungarian economy: In 2018 Hungary's GDP grew by 4.9% year-on-year, the most dynamic rate of growth of the past 30 years. It is especially pleasing that this robust growth has a broad base; its internal structure is far healthier than in previous years, and growth was chiefly driven by domestic consumption and rapidly growing investment volumes. The Government and the National Bank of Hungary are using targeted measures to help sustain dynamic domestic lending activity, and at the same time the central bank is continuously expanding its macroprudential toolset. In recognition of the positive developments of the recent period, Hungary's credit rating was upgraded in February 2019 by two rating agencies: both Standard & Poor's and Fitch raised Hungary to 'BBB' category.

Overview of financial performance in the year 2018

The Bank Group's record-high accounting and adjusted profits achieved in 2018 were shaped by several factors: thanks to the favourable economic performance of the region, business activity continued to increase, as a result of which our performing loans expanded at a rate that was outstanding even by European standards, at 15% year-on-year (FX-adjusted). In addition, the quality of the loan portfolios continued to improve, which in the case of most subsidiary banks was matched by lower, or occasionally positive, risk costs. Increasing core banking revenues realised on higher volumes more than offset the negative effect of the shrinking interest margin on interest revenues. Another factor that significantly improved consolidated results was that in the case of the Croatian and Serbian operations, the full-year results were included, unlike in the base period: In 2017 only eight months' profit of Splitska banka and just one month's profit of Vojvodjanska banka was consolidated.

The Bank Group's accounting after tax profit was HUF 318.3 billion compared with a profit of HUF 281.3 billion a year earlier. The ROE calculated from the accounting profit was 18.7% (+0.2 percentage point year-on-year). The difference between the accounting and adjusted after tax profits is due to adjustment items, which amounted to HUF 7 billion in 2018.

In 2018 the Bank Group posted a HUF 325.3 billion adjusted after tax profit. This exceeded the performance of the base period by 15%. Just as in the previous year, the Bank Group achieved, and indeed exceeded, its key goals for 2018, 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 19.1% (+0.4 percentage point year-on-year).
- performing loan volumes increased organically by more than HUF 1,000 billion, or by 15%. It is pleasing that the growth rate of the Hungarian operations (18%) exceeded the group average for the third consecutive year.
- the annual net interest margin (4.3%) dropped by 7 basis points before the impact of acquisitions, that is, within the indicated range. It is a positive development that the rate of erosion of the margin decreased year-on-year and showed signs of stabilisation at the end of 2018.
- both the size of risk costs, and the risk cost ratio decreased year-on-year. Meanwhile, the quality of the portfolio continued to improve: the growth rate of loans overdue by more than 90 days halved, and the DPD90+ ratio fell to 6.3% (–2.9% percentage points year-on-year), with the Hungarian ratio dropping to 4.5%. The volume of Stage 3 loans as per IFRS 9 accounted for 8.6% of the gross loan volume at the end of 2018. The ratio of Stage 2 loans was 6.8%.
- the only area where the Group's performance fell behind the target is cost management. Operating costs rose 8.2% year-on-year (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, digital and IT developments also generated significant additional costs.

Within the full-year consolidated adjusted after tax profit, the best performance was shown by OTP Core (180 billion), DSK Bank (47 billion), and the Croatian (25 billion), Ukrainian (24 billion) and Russian (16 billion) subsidiary banks. Of these, the Russian subsidiary bank's profit decreased year-on-year, but after tax profits increased in all other countries, with the Ukrainian subsidiary bank showing excellent profit growth (+73% year-on-year, full-year ROE: 56%). When comparing the performance of the Russian operations, it should be considered that the loss-making Touch Bank was still a separate entity in 2017, but from 2018 it was stated as part of the Russian operations; if we take into account the performance of Touch Bank in the base period as well, the full-year profit of the Russian operations fell by 13% year-on-year in rouble terms.
Among the other subsidiaries, the leasing firms continue to make a reliable contribution to group-level profits (9.8 billion), while the decline in the profit of OTP Fund Management can be attributed to the decrease in the revenue from success fees that was typically high in previous years. The results of the Romanian, Serbian and Montenegrin operations improved significantly, and the Slovakian subsidiary bank had minimal profits in 2018 following its losses in 2017.
As a result, the contribution of the foreign subsidiary banks within the 2018 adjusted

profits rose to 38% from 35% in the previous year.

The OTP Group's IFRS consolidated Common Equity Tier1 (CET1) ratio was 16.5% at the end of 2018 (+1.2 percentage points year-on-year). This already includes the effect of the net profit for the year, less accrued dividends. OTP Bank passed the stress test conducted by the European Banking Authority in 2018 with strong results; the decline in the CET1 ratio calculated based on the stress scenario was the 9th lowest among the 48 European banks.

Individual performance of banks in the group

OTP Core (the Group's Hungarian core operation) achieved a HUF 180.4 billion adjusted after tax profit in 2018, which was 7% higher than in the base period. Behind this lay a year-on-year 4% decline in operating profit plus a 51% higher, positive risk-cost figure. The 20 basis-point fall in the full-year interest margin was offset by a dynamic 18% increase in performing loans, with net interest income improving by 5%. The robust volume growth was matched by improving market shares in all key product segments. Beside the corporate division, which has produced double-digit volume growth since 2016, retail loans, and housing loans in particular, show continuously strengthening growth rates. The Bank plays a major role in the placement of loans disbursed under the Family Home Ownership Subsidy (CSOK) scheme: In 2018 the Bank accepted more than 12,000 registered loan applications in a combined value of more than HUF 40 billion. The Bank's deposit volume grew by 10% year-on-year, with the net loan-to-deposit ratio reaching 52% at the end of the year.

OTP Fund Management posted net profit of HUF 4.1 billion, retaining its position as market leader.

Merkantil Bank had net profit of more than HUF 7.4 billion, and its performing loans grew by 12% year-on-year, thanks to a 26% increase in new loan placements.

The **DSK Group** effectively repeated its performance of the previous two years, and its HUF 47.3 billion after tax profit remains the second highest within the OTP Group; its profitability is outstanding (ROE: 18.4%). While the ongoing repricing of loans is keeping the net interest margin under pressure (–48 basis points year-on-year), this was largely offset by the 11% increase in performing loans; as a result, revenues effectively remained unchanged year-on-year. Portfolio quality continues to show a positive picture: the ratio of DPD90+ loans fell to 6.7%.

The **Russian subsidiary bank** (including Touch Bank) realised an after tax profit of HUF 16.4 billion (–19% year-on-year, also taking into account the losses of Touch Bank in the base period). The Russian subsidiary bank posted the highest organic growth in performing loans at group level (+27%), while the consumer loan portfolio, which is key to profitability, increased by 27%. As a result, the bank's operating result improved by 17% in rouble terms. The loan portfolio shows an improving trend; the ratio of DPD90+ loans fell to 13.4%, and the credit risk cost ratio was 7.4%. In Croatia the integration process following the acquisition of Splitska banka was successfully completed in November 2018; from December 2018, the Croatian operation is now a legal entity, with full-year after tax profit of HUF 25 billion, which corresponds to return on equity of 9.6%. Partly due to the acquisition, operating results rose by 23% year-on-year, with all revenue lines showing an improvement. Performing loans grew by 2% year-on-year even with the integration. The loan portfolio shows an improving trend; the ratio of DPD90+ loans fell to 5.5%.

The **Ukrainian subsidiary bank** realised an after tax profit of HUF 24.4 billion, 73% more than its net earnings for 2017. The ROE ratio reached 56% in 2018, the highest among the Group's subsidiary banks. Profitability was mainly driven by rising operating results and by risk costs, which halved year-on-year thanks to the favourable trends in loan quality. The DPD90+ ratio fell significantly, by 11.3 percent-age points year-on-year to 15.1%. The FX-adjusted performing loan portfolio, showing exceptional dynamism, increased by 30%.

The **Romanian subsidiary bank** realised an after-tax profit of HUF 3.9 billion (+27% year-on-year), mainly thanks to a 13% improvement in operating results. The FX-adjusted performing loan portfolio grew by 14% year-on-year. The DPD90+ ratio fell to 5.1%.

Among the **smaller foreign subsidiary banks,** the performance of the Serbian, Montenegrin and Slovakian operations improved substantially over the year (by HUF 5.9 bn, HUF 2.4 bn and HUF 2.1 bn year-on-year). At the Serbian and Montenegrin subsidiary banks, a significant improvement in operating results should be highlighted. Within the HUF 3 billion Serbian after tax profit, Vojvodjanska banka's contribution was HUF 2.7 billion. Both markets showed outstanding growth in lending volumes (31% each year-on-year), the highest at Group level. The Slovakian subsidiary bank's modest result (HUF 44 million) can be attributed to a large decrease in risk costs.

Acquisition developments

In 2018 OTP Bank continued its regional acquisition activity, announcing in August the acquisition of Société Générale's Bulgarian and Albanian operations and in December its Serbian operation. The Bulgarian transaction was completed on 15 January 2019, and the Albanian and Serbian transactions are expected to be completed in H1 2019. Accordingly, the financial statements for the year 2018 do not yet contain the balance sheet and results of these banks. In February 2019 we announced two transactions: the acquisition of Société Générale's Moldavian and Montenegrin operations.

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 will become market leaders in the Bulgarian and Serbian markets in terms of total assets and lending volumes, we will strengthen our dominant market share in Montenegro, and we will have a share of more than 10% of the Croatian and Moldavian markets.

Of course, price is also a decisive factor in our specific moves: on the whole the weighted purchase price of the transactions implemented and announced since the start of 2017 effectively equalled the book value of equity. In other words, we effectively allocated the same amount of capital to these acquisitions as the organic growth of the given markets would have required. I believe the management took responsible decisions with regard to all these transactions, and our primary concern was to further increase shareholder value over the medium term.

Innovation, accolades, corporate social responsibility

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. In the past three years, 38 major and 70 medium-sized developments have been implemented so far in the framework of the programme: we introduced a full online application process for personal loans, with the online channel now accounting for 21% of the sales of this product, we launched a financial package called eBiz for small and medium-sized businesses, which now has more than 3,000 users, while our Simple Application is used by more than 120,000 of our own and external customers, and in November 2018 we opened a new innovative branch at the Árkád shopping centre. Thanks to digitalisation, paperless, digital administration also accounts for an increasing share of our banking processes. In addition, the Bank is continuously participating in financing and launching international start-up programmes.

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 this, OTP Bank's private banking service is also the proud holder of the title of Best Domestic Service Provider, 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. We are particularly pleased that in 2018 OTP Bank won, for the first time, the accolade of Best Bank in CEE from Euromoney.

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.

Expectations for 2019

In 2019, in many respects I expect to see a continuation of the positive trends seen in 2018: business activity will remain strong, net interest margins should stabilise overall, while credit risk costs should remain roughly unchanged from their 2018 level. At the same time, it is important to prepare for the fact that the period ahead will not be as supportive as that seen in recent years. The year 2019 carries a number of risks for the operation of the Bank Group, although our forecast shows that macroeconomic trends will remain favourable in the baseline scenario, while growth will slow in virtually all member states. At the same time, regulatory capital requirements are increasing, and the concepts related to the resolution mechanism (e.g. MREL regulation) will require some concrete steps. While the Bank Group will continue to pursue its regional acquisition strategy, organic growth and the more stringent regulatory requirements will place even more emphasis on the core values of safe operation, namely stable liquidity and capital strength. In other words, meeting these expectations will be at the focus of the management's activity as much as maintaining the dynamism of business activity, preserving our market positions, and continuously improving the standard of our services and increasing investment into developments. Based on the above, the management has articulated the following expectations with respect to 2019:

- The objective with regard to a return-on-equity (ROE) figure of more than 15% (assuming 12.5% Tier1 capital adequacy) articulated by the General Meeting of 2015 remains in place.
- Besides the HUF 16 billion (after tax) negative impact of the Hungarian and Slovak bank tax, the impact of the Romanian bank tax, the amount of which is currently unclear and which is expected to be introduced from 2019, and of acquisitions, may result in significant adjustment items.
- The growth rate of the FX-adjusted performing (IFRS 9 Stage 1 and 2) loans may – before the impact of any further acquisitions – be at around the 10% mark in 2019.
- The net interest margin showed signs of stabilising in 2018, and in 2019 it is not expected to fall below its level of Q2 2018 (4.25%). The forecast does not take account of the impact of the already completed Bulgarian acquisition, or of those currently underway in Albania, Serbia, Moldavia and Montenegro, or of any possible further acquisitions.
- Unless the external environment changes considerably, the favourable trends in loan quality seen in 2018 should continue in 2019. The Stage 3 and DPD90+ ratios could decrease further, while credit-risk cost ratio levels could remain roughly unchanged from 2018.
- Operating costs, before the impact of exchange rates and acquisitions, could rise by about 4%, mainly due to wage inflation, ongoing digital and IT developments and strong organic growth, but these effects will be partially offset by the cost synergies in Croatia.
- The management plans to allocate most of the capital generated in excess of the capital

required for organic growth to further value-creating acquisitions.

- The proposal for the dividends to be paid on the year 2018 will be HUF 61.32 billion, the same as the total dividends paid on the year 2017.
- The proposal for the dividends to be paid on the year 2019 will be drafted by the management in the first quarter of 2020 (as was the case in relation to the 2018 dividends), and will take into account the pace of organic growth achieved and the acquisition measures implemented. The Bulgarian acquisition was completed in January 2019; the Albanian, the new Serbian, the Moldavian and the new Montegrin transactions are underway. These banks have combined shareholders' equity of around EUR 1 billion according to figures from the end of 2018 and the latest available data. At the same time, the management is considering possibilities for further acquisitions, creating additional shareholder value.
- In the financial data published in relation to the interim stock-market reports in the various quarters of 2019, the amount of dividends stated and deducted will be based on the 2018 dividend proposal (HUF 61.32 billion). However, the final dividend proposal may differ.

I am convinced that our goals set for 2019 are realistic and will meet the interests of our shareholders in general. Although the dividend payment ratio applied by OTP may seem modest in comparison to our competitors, the management believes that in addition to organic growth, the most effective way to increase shareholder value is to make further acquisitions that promise good returns and come with significant cost synergies. Our region continues to enjoy the benefits of a favourable macroeconomic environment, low banking penetration levels and higher growth potential. With its after tax profit achieved in 2018 and its total assets increasing significantly with the acquisitions, the OTP Group has become one of the major participants in regional comparison as well. All this means major further opportunities, but comes with serious responsibility as well.

Continuous development and transformation generates significant challenges and expectations for our staff and for the entire organisation. We must be able to keep pace with our customers' expectations and respond more quickly and efficiently to market changes. To ensure the OTP Group is able to meet societal expectations, operate in a stable and predictable manner and provide high-quality, innovative services and a positive customer experience to our clients, we have – as a key milestone in our development – implemented an organisation-wide, agile operating model as the first among the domestic credit institutions. Although we are still the strongest retail bank, we are playing an increasingly important role in financing the real economy – micro and small businesses, as well as medium-sized and large companies – as well as municipalities and other communities, by providing advanced financial services.

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