

# Message from the Chairman & CEO



DEAR SHAREHOLDERS,

were this message written a few weeks earlier, I would highlight our achievements in 2021, including the record-strong annual profit, the excellent performance of all subsidiaries and divisions, our outstanding capital adequacy ratio, stable liquidity, and the robust volume growth, mentioning that we have mostly overcome COVID-19 difficulties, we have successfully handled the challenges, and overall, we have become stronger in the past two years that put to the test both the economy and the society.

However, the armed conflict that broke out in our neighbouring country on 23 February has overridden priorities: millions of people had to flee Ukraine, and the tragic events caused painful human and material losses. I would now like to express our sympathy and thanks, first of all to the employees and families of our Ukrainian subsidiary, for their heroic efforts over the past weeks to carry out their duties and provide our services in a time of military conflict, thus helping their fellow countrymen in distress. And, of course, our thanks go to the staff of our Russian subsidiary, who are also working hard to serve our customers in a dramatically changed operating environment. Thanks also go to all our staff in Hungary and in other countries of the region – on top of their daily work, they provide all the professional and humanitarian assistance to our Ukrainian and Russian colleagues in these difficult times. OTP's management strongly supports philanthropic initiatives to help the refugees arriving in Hungary. OTP Bank is providing substantial financial and material support in many ways, in both Ukraine and Hungary.

2021 was a special year: the severe economic downturn caused by COVID-19 was followed by a faster-than-expected bounce back. Banking systems all over the world have

proved that they were not the cause, but the effective managers, of the crisis. On top of providing traditional financial services, banks' activities have been increasingly focused on environmental and social responsibility, to meet the rapidly growing expectations. This also applies to the OTP Group, which embarked on an ESG transformation, involving both the core Bank and its subsidiaries, and it established the organisational framework for risk management, business transformation, and controlling. Under the ESG strategy, OTP Bank was the first one in Hungary to issue Green Mortgage Bonds. We are a key player in the MNB's Green Home loan programme, the range of corporate green loan segments is firmly expanding, and the Bank has adopted the United Nations' Principles for Responsible Banking. Subject to capital market conditions, the first international Green Bond may be issued in 2022. Thanks to our achievements and commitments, OTP Bank's ESG rating has improved and the range of companies that provide ratings is expanding.

For many years, our strategic objectives have been stability, profitability, growth, as well as permanent improvement and innovation. In 2021, the Group fulfilled all of the management's key objectives: after tax

net profit jumped by 60% year-on-year. This significant improvement stemmed from 23% growth in operating profit and a 61% fall in total risk costs. Our adjusted return on equity (adjusted ROE) rose to 18.5%, which is also outstanding by international standards. Our capital adequacy ratio for both CAR and CET1 rose to its highest level ever (19.1% and 17.5% respectively) and comfortably exceeds the regulatory minimum for 2022. The Group's liquidity is excellent across all key indicators: deposits grew by 25% year over year, and the operational liquidity reserve in Hungary exceeded HUF 3,300 billion.

OTP's share price traded at HUF 16,600 at the end of 2021, in 24% y-o-y improvement, indicating that market/investor perceptions of the Bank's performance and growth strategy remained favourable.

## Overview of performance in the financial year 2021

In 2021, OTP Group realised HUF 497 billion adjusted after tax profit. This excellent performance was driven by the strong growth in business volumes and a stabilising, or even improving, net interest margin in the fourth quarter. Among revenues, the result from core banking activities developed favourably: net interest income grew by 12% y-o-y, and income from fees and commissions increased by 11%.

Most of OTP's foreign subsidiary banks posted double-digit y-o-y growth rates last year, with particularly strong profit growth dynamics in Serbia, Romania and Albania, but the performance in Croatia, Russia, and Ukraine was also excellent. In 2021, the overall profit contribution of foreign subsidiary banks increased to 51%, from 41% in the previous year.

Total risk cost fell sharply, by 61% year-on-year, while the non-performing (Stage 3) ratio improved to 5.3%, from 5.7%. It is important to point out that the 2.3% own coverage ratio of the performing (Stage 1+2) portfolios has been

consistently high, exceeding our peers' ratios by a large margin. The annual credit risk cost ratio was 0.30%.

Performing portfolios grew by 15%, to more than HUF 2,000 billion (FX-adjusted), as a result of favourable macroeconomic conditions and the existing, and even expanded, subsidized loan facilities announced by the governments and central banks, and other incentives in several countries, particularly in Hungary. All countries, except Montenegro, experienced substantial FX-adjusted growth in loan volumes. Encouragingly, all product segments grew in most operations. At group level, the fastest growth was seen in corporate exposure (+16%) and mortgage loan volumes (+15%), but the consumer loan portfolio also expanded comparably (+14%). Leasing's increase (+11%) was likewise impressive.

In 2020, loan repayment moratoria were introduced in many countries of the OTP Group, with different conditions, to mitigate the impact of the covid pandemic's economic and financial consequences. Most of them were phased out in 2020 or in the first half of 2021. In Hungary, the loan repayment moratorium was extended until 30 June 2022, although the scope of eligibility was narrowed, and customers could opt in until 31 October 2021. At the end of 2021, OTP Core and Merkantil Bank had HUF 237 billion of retail and corporate loans participating in the moratorium; this makes up 4.3% of their gross loan portfolio. In Hungary, participation in the moratorium contributed by about 1% to consolidated portfolios' growth.

OTP Group's consolidated FX-adjusted deposits increased by 16%, to almost HUF 3,000 billion. This brought the Group's net loan-to-deposit ratio to 75% over the past year, down from 76%.

OTP Group's Common Equity Tier1 capital ratio (CET1) under IFRS was 17.5% at the end of 2021 (+2.1 pps y-o-y), its highest ever. In the fourth quarter, two factors did a lot to improve the consolidated regulatory capital calculated

for the accounting consolidation scope: (1) the annual accounting profit less dividends (totalling HUF 455 billion), and (2) the impact of selling shares to the Special Employee Stock Ownership Plan's entities (+HUF 198 billion, which was recognised in the retained earnings in the fourth quarter) on regulatory capital.

## Acquisitions

Two acquisitions were announced in 2021:

- On 31 May an agreement was signed for the purchase of 100% of Nova KBM d.d. and its subsidiaries, 80% of which is held by the investment funds managed by Apollo Global Management's subsidiaries, and 20% of which is owned by the EBRD.
- On 6 December, the Bank signed an agreement of sale with Alpha International Holdings Single Member S.A., to purchase 100% of the shares of the Albanian subsidiary of Greece's Alpha Bank SH.A.

The financial closure of the two transactions is expected to take place in the second quarter of 2022; it is subject to the receipt of the necessary regulatory approvals.

Meanwhile, the integration in Serbia was completed in the second quarter of 2021; the expected cost synergies continue to materialise.

All this means that OTP Bank has completed eight successful acquisitions in the past five years. Hopefully, this will continue in 2022 with the announced Slovenian and Albanian transactions. These acquisitions have not only materially increased OTP Group's balance sheet total and profit, but have also improved the efficiency of the Group's operations, through cost advantages from economies of scale. The integration processes have been completed on time or ahead of schedule, with no disruption to operations or loss of customers, even if the covid pandemic hampered our work in many countries. The acquisitions of recent years added a lot to our know-how, and OTP Group now has one of the most efficient teams of

acquisition experts. Our bank has clearly become a key player in the consolidation of the banking system in Central and Eastern Europe.

## Industry awards, innovation

The Bank Group's achievements, safe operation, and successful strategy are reflected primarily in its share price's performance. Nevertheless, OTP Bank received a string of accolades for its excellent performance and innovative services: we have been named Best Domestic Bank by Global Finance for over a decade now. Our Slovenian and Montenegrin subsidiaries won the same award in 2021. We are particularly pleased that in 2021, not only OTP Core, but the Croatian, Montenegrin and Slovenian banks also won the Bank of the Year award in The Banker's rankings, but we also managed to win the Best Central and Eastern European Bank award, as well as that of Euromoney. In addition, our Private Banking, Treasury, and SME services in Hungary and other subsidiary banks have also received industry awards. However, it is not only the high quality of our services and our consistently outstanding financial performance that have earned us recognition: our transparent issuance practices have also been recognised by the Budapest Stock Exchange, where OTP Bank won the Transparency Award for three consecutive years.

In addition to the challenges, the pandemic has also created significant opportunities, as customers' needs for banking and financial services have changed, which materialized in accelerating digitalisation: the number of mobile banking users has doubled in two years, and the number of transactions through digital channels has substantially increased, as did the volume of online applications for cash loans.

In 2021, our internet and mobile banking service was renewed, to replace Smart Bank at the end of March 2022. Its functionality in cash loan applications, savings management, and account operations has been significantly

enhanced. The possibility of opening a Selfie account has been available since June 2021. VideoBank's functionality was further widened. The renewed branch and front-end systems enable faster, more user-friendly, and customized services. In an important milestone, OTP Bank, in partnership with the Ministry of Innovation and Technology, has undertaken to build one of Europe's largest supercomputers, which will be able to process huge amounts of data rapidly, revolutionising customer service activities, data management, analysis, and decision-making, thereby reducing turnaround times to a fraction, by running GPT-3 level artificial intelligence in Hungarian language.

On top of our excellent financial results, our permanent improvements helped us maintain and even improve our market positions in most product segments, despite growing competition. While maintaining our traditional market leader position in Hungary's retail segment, our share in corporate lending has more than doubled since 2008, and by the end of 2021 we will become the market leader with 18.6% share, playing an active role in both the *NHP Go!* and *Széchenyi Kártya Go!* loan programmes.

Over the past two years, the challenges and difficulties of the pandemic situation have demanded maximum effort from all of us. Having fulfilled our responsibilities and stood our ground, we rightly felt that now is the time for a more consolidated period. Unfortunately, that is not what is happening. The current

geopolitical conflict is once again testing our ability to deliver, and in this humanitarian crisis, a large number of colleagues and acquaintances are also affected. Hopefully, these problems will be resolved in time, but it is important that we will then be able to say that the Bank and its staff, as a major regional financial institution, have done everything possible to support our clients and, more broadly, the real economic development of the countries concerned, in a useful and humane way.

Our long-term strategic objectives remain unchanged, and we have the capital, liquidity, human and material resources and the commitment to achieve them. In addition, the past decades have proved the management's ability to successfully tackle the emerging challenges and adequately respond to them even in the most difficult times, and we could always rely on the commitment of our employees and the loyalty of our customers.

I hope that our goals and strategic objectives meet your expectations. To achieve them, I ask for the continued perseverance of my colleagues, and for your help and support.

March 2022



**Dr. Sándor Csányi**

Chairman & CEO