Message from the Chairman & CEO

DEAR SHAREHOLDERS,

I started my message last year by saying that 2013 would be a tough year. It turned out I was right, though I'm not at all happy about that. Five years after the global financial crisis broke out, we need to get used to the fact that forecasts carry innumerable risks, and there's no harm in caution. While certain issues appear to be being resolved, or at least are abating, new and often totally unexpected problems, with even more serious outcomes, are surfacing. As regards the global environment, it's clearly a positive development that the eurozone crisis is now effectively off the agenda, the US economy is performing well, and consequently the Fed has gradually started phasing out its earlier liquidity expansion measures. At the same time the BRIC countries, which formerly displayed dynamic growth, are showing signs of a slump in economic performance; one of the most prominent among the emerging markets, Turkey, underperformed massively last year, and, in a development that directly impacts the OTP Group, we witnessed the growth in domestic political tensions in Ukraine from November 2013 onwards, the toppling of its government in February 2014, followed by an increasingly serious Ukrainian-Russian, and indeed a Russian-European and Russian-American conflict. I don't believe that anyone allowed for these problems when putting together their 2013 business plans.

I mention these events merely in order to give a sense of how, in an environment such as this, factors that promote stable operation, such as, for a bank, a sound liquidity and capital position, take on much greater importance. However, this does not mean that we are giving up our constant search for growth opportunities, whether organic or through acquisition.
As far as the Bank Group's regional operating environment is concerned, the picture is still mixed: In Hungary, compared to the weak performance of previous years, the 1.1% GDP growth of 2013 represented something of an upturn, while the financial stability indicators also continued to develop favourably. Inflation fell to a record low (1.7%), and the central bank's base rate dropped by 275 basis points in the course of 2013. At the same time, the ratio of investments is stuck far below the desired level, especially in the private sector, and in spite of the favourable trend in real wages, household consumption remains exceptionally restrained, and the country's ability to attract capital investment has dropped significantly in recent years. I have to say that these factors are by no means unrelated to the frequent, often unpredictable changes in the regulatory environment. Efforts to boost the bank's core activity, namely lending, are not helped by what is even by international standards an unprecedentedly high, and indeed, growing, proportion of burdens borne by the banking sector, with no tangible reference point or timetable with respect to their phasing out.
The solving of the problem of foreign currency borrowers, or to be more precise, the constant mooting of possible solutions, does nothing to strengthen trust between the banks and their customers, but on the other hand, it clearly damages payment discipline. We trust that after the 2014 elections, government measures will be aimed at accelerating economic growth and substantively increasing employment, and for this, the wholehearted participation of the banking sector will also be needed. For its part, with its liquidity and capital, OTP Bank is fully prepared to participate actively in such a process, and as the figures of last year show, so far the Bank

has made the fullest possible use of all available opportunities to expand its loan portfolio.

For the other members of the Bank Group, overall the economic environment improved in 2013; the signs of our activities focused on consumer lending are observable everywhere, and the efforts made since the crisis to strengthen self-financing capacity have led to a notable improvement in the base of deposits at the subsidiary banks. In 2014 we expect to see a continuation of these processes, owing to which the consolidated exchange rate-adjusted loan portfolio could finally begin to grow.

In my introduction I made special mention of Ukraine and Russia: In view of the fact that our subsidiary banks in these two countries represent some 15% of the overall balance sheet total, in terms of the Group's short and medium-term performance the way events unfold there is by no means irrelevant. The performance of our Ukrainian subsidiary depends largely on which scenario develops. We hope and trust that the current political tension will abate; the country has received a financial package from the European Union and international financial organisations that assures the protection of national solvency, and also serves as a guarantee that the necessary structural reforms will get under way. This could stabilise the local currency and strengthen investors' confidence in the country. If the opposite were to occur, however, this would raise the prospect of negative processes similar to those seen in 2008, of an unsustainable macroeconomic environment, and of sustained domestic political tensions. In the case of Russia, a big question is how willing the political leadership is to compromise with respect to Ukraine, and what impact the international sanctions could have on the growth prospects of the already slowing Russian economy.

In other words, the year ahead of us remains fraught with challenges, although there are also developments that give cause for cautious optimism.

In my view, the more-detailed-than-usual examination of the factors that fundamentally determine our activity should not be construed as an attempt to explain away the fact that profit in 2013 was slightly lower than analysts had expected. Instead, it should be seen as a demonstration of just how complex the tasks we have had to grapple with in the past five years have been, and I cannot claim that the years ahead will be any easier either.

In 2013 the Bank Group achieved a consolidated, adjusted after-tax profit of HUF 146 billion; our profitability, liquidity position and capital adequacy continue to be exceptionally good by international standards. Although our foreign subsidiary banks' contribution to profit was more modest than in previous years – primarily as a negative consequence of the drop in profit at the Russian subsidiary bank – none of these factors alter our strategic objective of supplementing our relatively limited growth opportunities in the domestic market with other markets and market segments that can compensate for the declining performance of the Hungarian operation in the long term through more rapid growth, greater penetration and higher operating margins.

Our activities focused on consumer lending yielded tangible results again in 2013: many of our subsidiaries produced solid, double-digit growth in this segment, while our successful acquisition in Croatia, which began in 2013 but was completed in February 2014, has further reinforced our strategy in this regard.

Overview of financial performance in the year 2013

The OTP Group achieved an adjusted after-tax profit of HUF 146 billion in 2013, which was 3% below the previous year's figure. The accounting profit, which includes one-off items, was significantly lower than this, amounting to a total of HUF 64 billion. The substantial annual drop of 48% in the latter is essentially due to a tripling of correction items. Firstly, the HUF 28.9 billion Hungarian bank tax bill accounted for in the first quarter of 2013 was added to in the second quarter by a one-off HUF 13.2 billion transaction-duty charge.

In addition to this, the Slovakian bank tax represented a burden of some HUF 1 billion at annual level. Furthermore, in the third quarter, some HUF 37.2 billion out of the HUF 64.0 billion in goodwill recorded in relation to the Ukrainian subsidiary under IFRS was written off. Of the total write-off, HUF 6.4 billion was recognised

against equity, and HUF 30.8 billion against profit and loss. In the fourth quarter two more items – of which the management had given prior warning – were charged to the accounting profit: the HUF 3.2 billion (after corporate tax) fine imposed by the Hungarian Competition Office on OTP Bank (but appealed by the latter), and the one-off tax liability (HUF 5.5 billion) that was payable by OTP Core in relation to the transfer of funds from the general risk reserve into the profit reserve. The correction items listed above amounted to almost HUF 82 billion in 2013.
Within the Bank Group's accounting profit figure, the core activity in Hungary (2012: HUF 68 billion, 2013: HUF 34 billion), and the profit of foreign subsidiaries (2012: HUF 60 billion, 2013: HUF 24 billion) both decreased. In line with this change, the profit contribution of the foreign subsidiaries declined from 49% to 37%.
The Bank Group's profitability indicators remain good by international standards; the adjusted return on assets was 1.4%, while the return on equity came to 9.6%.
The Bank Group's operating profit excluding one-offs was HUF 448 billion, which is effectively the same as in the previous year. I regard it as a clear success that operating profit remained stable, which was primarily due to the net interest income from core banking activity and to the balanced development of net fee and commission income. The 2013 consolidated revenue excluding one-offs continued to rise, with the HUF 865 billion figure representing a 2% growth. Within this figure net interest income grew only minimally as the net result of a decrease in Hungarian and Bulgarian, and an increase in Russian and Ukrainian interest income, while net fee and commission income was 10% higher than in the previous year. It is especially positive that despite its already high value (8.44%) the consolidated gross margin improved further (+13 basis points), and within this figure the net interest margin (6.37%) only decreased minimally. Consolidated operating costs increased by 6% year-on-year, primarily displaying growth in markets where the expansion in lending required additional sales capacity.
As a part of the network rationalisation process, the only major branch closures in 2013 took place in Ukraine (–10 branches y-o-y).
In Russia, on the other hand, 54, mainly small, branches were opened, and in both these markets consumer lending resulted in a further expansion of the network of agents. Besides this, the Bank continues to devote considerable attention to boosting the effectiveness of its collection and factoring operations.
One feature of the crisis is the way all the players in the economy are forced to adapt: the cautious consumption habits of households and the restrained investment activity of companies have clearly inhibited credit demand, and in several markets the strict regulatory measures in place are also far from supportive of lending on a larger scale, although we have also seen examples to the contrary, such as the provision of funds at favourable interest for SME customers.
The Bank Group's exchange rate-adjusted loan portfolio decreased by 1% year-on-year; the annual change was mainly due to the 7% fall in the size of OTP Core's portfolio, and the 2% decline in that of DSK Bank. It is a welcome sign, however, that after several years, the decline in the portfolio came to a halt in Ukraine, while in Montenegro there was a notable (+9%) increase. Mortgage loan portfolios declined in practically every market, with the only exception being Slovakia. At the same time, growth in consumer lending remained strong (+9%), with the largest annual portfolio increases occurring in Slovakia (+175%), Ukraine (+126%) and Romania (+98%), but the portfolio growth was also in double digits at the Russian, Montenegrin and Serbian subsidiary banks (10%, 20% and 26% respectively).
A question that has kept recurring since the crisis hit is that of how long the share of non-performing loans within the portfolio will continue to grow, and whether any improvement is visible. The substantial non-performing loan portfolio and resulting provisions, in themselves, detract considerably from the profit, and they also suppress the banks' appetite for risk. In this regard, it gives cause for optimism that from the second half of 2013 the growth in loans overdue by more than 90 days slowed discernibly, as the increase in loans overdue by more than 90 days dropped from HUF 222 billion in 2012 to HUF 190 billion (adjusted for exchange rates and stripped of the impact of loan sales and write-offs). Furthermore, the share of loans overdue by more than 90 days decreased for the first time since the crisis, from 20.8% at the end of June

2013, to 19.8%. Meanwhile, due to the prudent provisioning regime and to the higher costs of risk, the provision coverage ratio of the non-performing loans increased (+4.4% y-o-y).
The consolidated deposit volume adjusted for exchange rates rose 5%, and as a consequence of all these factors, by the end of 2013 the Bank Group's net loans/deposits + retail bonds) ratio (89%) had fallen by five percentage points.
Capital and liquidity positions improved further in 2013: the OTP Group's IFRS consolidated capital adequacy ratio was 19.9% at the end of December (+0.2 ppt y-o-y), the Tier1 capital ratio was 17.4% and the Core Tier1 capital ratio was 16.0% (+1.4 ppts y-o-y). On 31 December 2013 the Bank Group's gross liquidity reserve was the equivalent of EUR 6 billion, and by the end of the year the Bank had also fully renewed its FX swaps that were due in 2014.
So as far as OTP Bank is concerned, its capital and liquidity position would certainly permit more active lending, but in terms of demand, there are significant differences between the markets.

Improvement in profitability in Hungary due to the lower cost of risk, stable market shares, constant developments in the area of service, declining foreign contribution to profit, improvement in portfolio quality

Within the Bank Group, in 2013, the adjusted profit of the **Hungarian core operation** was HUF 115 billion, which is 21% higher than the figure for the previous year. The improvement in profit was due, first and foremost, to the 40% decrease in risk costs, while the operating profit decreased by 8%, which was the combined result of the lower net interest income (–7% y-o-y) on the one hand, and the 4% increase in operating costs on the other. The annual accounting profit fell from HUF 68 billion to HUF 34 billion (–50% y-o-y).
The 27 basis point shrinkage in the annual interest margin (4.31%) was primarily due to the reductions in the base interest rate and the resulting environment of lower general interest rates.
A favourable development was the further slowing in the rate of portfolio deterioration, factors in which were the stability of the forint on average over the year, and the increased use of the exchange rate cap scheme. Against the backdrop of a significant decrease in the cost of risk, the provision coverage ratio of loans overdue by more than 90 days improved notably (85.2%, or +3.3 ppts y-o-y).
The exchange rate-adjusted loan portfolio shrank by 7% at annual level. The retail portfolio decreased both in the case of mortgage loans (–9%) and in the case of consumer loans (–5%), while the 21% annual drop in municipality loans principally reflects the impact of state debt consolidation.
It is a positive development that – due in part to the Funding for Growth scheme of the National Bank of Hungary – loans granted by OTP Bank to Hungarian companies increased by 8%, while the banking sector's corporate placements overall declined at a similar rate over the same period.
In keeping with the management's objective, the Bank increased its loans to micro and small business customers, and to agricultural enterprises, by 2% and 6% respectively, which is an outstanding achievement. Besides this, the contribution of the Bank's retail lending activity remains decisive; its share of disbursements was 29% in the mortgage loans market and 52% in the personal loans market.
As one of the most important strategic objectives of recent years, we focused on continuously improving the standard of service, and as a part of this we have launched 24 different projects focusing on the intensification of customer acquisition and cross-selling, as well as strengthening operational efficiency.
In recognition of our efforts and innovations, in addition to the usual professional accolades (World's Best Emerging Markets Banks in Central and Eastern Europe and Best Bank in Hungary award from trade magazine Global Finance), in 2013 OTP Bank also earned the MasterCard Most Innovative Hungarian Bank in the Development of Financial Literacy award, while a professional panel invited by The Banker judged OTP Private Banking to be the best in two categories.
Among the key members of the Hungarian group, **OTP Fund Management** posted an annual after-tax profit, excluding bank tax and one-offs, of HUF 3.6 billion; the substantial 76% year-on-year improvement was due to the growth in the fund and asset management portfolios and, in connection with this, the massive increase in fee and commission revenues. In Hungary's

environment of declining interest rates, the popularity of alternative forms of investment grew considerably. The **Merkantil Group** produced an adjusted after-tax profit of HUF 2.0 billion in 2013; this improvement can be attributed to a significant decrease in the costs of risk. The loan portfolio continued to decrease, but the pace of growth in new loans is showing an improvement.

The contribution of the foreign subsidiary banks to profit fell in comparison to 2012, with the most important factor influencing the after-tax profit – in both a positive and negative sense – being the trend in the costs of risk. Where profit improved, it was mainly due to the lower costs of risk – positive exceptions to this were Ukraine and Romania, which also saw a substantial improvement in the operating profit. Where there was a significant fall in profit – primarily in Russian and Serbia – the costs of risk had increased considerably.

The excellent performance of the **Bulgarian** DSK Bank in 2013 also stood out in terms of its weight: in a relatively stable macroeconomic environment it succeeded in raising its after-tax profit by 25% (HUF 30.2 billion), while its market position in the most important segments is stable or improving. The improvement in profit at the **Ukrainian** subsidiary bank is also outstanding; following the HUF 0.5 billion profit in 2012, the 2013 profit came in at HUF 6.7 billion, owing to a 20% year-on-year improvement in operating profit. The portfolio of consumer loans grew 126%, and all these factors improved net interest income through the higher interest margin. It appears, therefore, that we have successfully adapted the Russian model in Ukraine as well; indeed, the risk cost ratio is lower there than in Russia.

The performance of the **Russian** subsidiary in 2013 fell significantly short of our expectations, with profit far below the levels seen in 2011–2012, at only HUF 2.4 billion. The cost of risk almost doubled, and the 2% increase in operating profit was insufficient to compensate for this. In the period ahead, the main focus will shift from the growing of portfolios to improving profitability, specifically focusing on boosting the effectiveness of collection activity, while we also intend to strengthen the bank's positioning as a universal bank, for example by making inroads into the SME sector.

Together, the above three subsidiary banks represent almost 30% of the Bank Group's total asset portfolio, and the bulk of the profit generated by the subsidiaries originates from here; so for the OTP Group, the future performance of the Russian, Bulgarian and Ukrainian subsidiary banks is of particular importance.

It is a welcome development that, among the smaller subsidiaries of the Bank Group, following their loss-making operation of the past year **Montenegro** and **Slovakia** turned a profit in 2013, while in **Romania** the losses decreased year-on-year, as the combined result of a 10% improvement in operating profit and a decrease in the cost of risk that was of a similar extent.

The **Croatian** subsidiary bank was profitable again, and in 2013 it contributed HUF 2.2 billion to the group-level profit. In February 2014 the bank carried out a successful acquisition, buying up the Banco Popolare's Croatian subsidiary, which mainly specialises in consumer lending. As regards the **Serbian** subsidiary bank's considerable, HUF 13.2 billion annual loss, this is due to the bank's revised provisioning policy, and the exceptionally conservative estimate relating to the likely return on collaterals securing non-performing loans, and on the loans themselves. Owing to the substantial costs of risk, the coverage ratio of non-performing loans rose to 82.6%.

So with regard to our business policy objectives for 2013, although the exchange rate-adjusted loan portfolio has decrease in a minimal extent, the growth in consumer lending remains strong. On the funding side, our base of deposits continued to strengthen; we did not procure any funds from the capital market, and had no need to do so. Our operating margin and net interest margin remain stable. In line with our expectations, the rate of deterioration in the consolidated loan portfolio slowed, and at the same time we succeeded in substantially improving – by more than 4.4 ppts – the coverage ratio of problem loans.

As regards the share price, we effectively ended the year at the 2012 closing market price (HUF 4,100), although the price topped HUF 5,300 in the first half of the year. The Fed's liquidity reduction and the more cautious attitude of investors towards the emerging markets kept the share price under pressure in the second half of the year. Naturally it did not help that the Hungarian banking sector has been loss-making for four years now, and the best that can be

said is that OTP Bank maintained its profitability throughout this period, and the overall trend is that the sector's losses are on the decline.
As Hungary's market-leading financial institution, we are committed to providing our domestic retail and corporate customers with a high standard of service. In the first phase of the Funding for Growth scheme announced by the National Bank of Hungary we concluded contracts for loans totalling HUF 91 billion, and it is our firm intention to participate actively in the second phase as well. Our branch network is making concerted efforts to contact the highest possible number of customers with home or mortgage loans that are in arrears or at risk, and who may be in need of the scheme, to inform them about the opportunity to fix their repayment instalments for a period of five years; and we are also playing an active part in the disbursement of the subsidised home loans that have been available since August 2012.

Expectations for 2014

As we expect all the countries where the Bank Group does business to show positive GDP growth, and the trend of deterioration observed in the portfolio to date has come to a halt, and indeed an improvement can be seen in the case of new portfolios, in 2014 even the formerly loss-making subsidiaries can hopefully be expected to break even; in order words, in a cautiously optimistic scenario not a single subsidiary bank will make a loss.
The crisis also brings opportunity: the challenges of recent years have constantly motivated the Bank's management, while retaining the key values espoused to date, to seek opportunities to ensure that the Company's operation is stable and predictable, as well as efficient and profitable, even when compared with that of our regional competitors. We continuously sought acquisition targets that complement our business policy strategy, and thus contribute to increasing shareholder value. At the same time, we took care to ensure that the Bank's capital strength complies with the strictest regulatory requirements that are set to be introduced in the future. We believe that our 16% Core Tier1 capital ratio represents a safe level, but also provides the opportunity to pay out an increasing dividend: since 2010 we have been steadily raising the amount of dividend paid, and we hope that in respect of the 2013 financial year this will exceed HUF 40 billion, which represents a dividend yield of HUF 145 per share, or around 3.8–3.9%.
As for the perception of financial institutions in society, I feel I should point out that this is considerably better than the politicians of a few countries would have us believe. This is another reason why I hope that, against the backdrop of improved economic performance there could be an abatement of the distorting effect of special taxes burdening the sector, and other fines that are sometimes difficult to justify on a professional basis. The appropriate functioning of the financial intermediation system is a shared interest and responsibility of the credit institutions, the economic policy makers and the regulatory authorities. And lasting trust is a primary prerequisite for ensuring that we can perform our work successfully.
Looking back over the Bank Group's performance during the crisis I am proud to say that our operation has been successful in spite of all the difficulties, and besides the stable fundamentals – the excellent, and improving, capital and liquidity positions – we owe this to the selfless, dedicated attitude and receptiveness to innovation displayed by the Bank's employees. It fills me with pride that we succeeded in increasing our market share in numerous markets that are of key important to us, which is due in no small measure to the Bank's excellent reputation. With respect to 2014, for me the greatest achievement would be if our exchange rate-adjusted consolidated loan portfolio were to grow again, and OTP Bank could claim the largest share of the improvement in lending activity, thus contributing to the development of the national economies concerned, and to increasing the prosperity of our retail, corporate and municipality customers.
I would ask for your continued support and confidence in the fulfilment of the objectives we have set ourselves.

Dr. Sándor Csányi
Chairman & CEO