Message from the Chairman & CEO

DEAR SHAREHOLDERS,

In March this year, OTP Bank turned 75 years old, and I think our performance in 2023 is an exemplary way to celebrate this anniversary of three quarters of a century. Last year OTP Group achieved its strongest-ever profit after tax, our total assets exceeded EUR 100 billion, which ranks us among the biggest independent financial players in Central and Eastern Europe.

The excellent results once again praise the dedicated work of our employees, as there was no shortage of challenges last year: the Russia-Ukraine war continued, and the high-interest-rate environment in Hungary noticeably held back our lending activity. Nevertheless, the Group has shown that, thanks to the recent years' acquisition strategy, the temporary difficulties at one Group member can be counterbalanced by other subsidiaries' improving performance. We made two acquisitions in 2023: in February, buying Slovenia's NKBM marked OTP's biggest ever transaction, and in June, with the purchase of Uzbekistan's Ipoteka Bank, OTP Group stepped beyond the CEE region. Currently we are market leaders in five countries in terms of performing loan volumes, and it is our goal to further strengthen our position in all countries of the Group, through continuous development and innovation.

Overview of the performance in financial year 2023

In 2023, OTP Group generated HUF 990 billion profit after tax, almost three times as much as a year earlier. Our consolidated adjusted profit after tax exceeded HUF 1,000 billion.

The main reason for the 70% y-o-y stronger profit was that while operating profit grew by 50%, the negative balance of adjustment items decreased significantly, from -HUF 245 billion in the previous year, to just -HUF 18 billion in 2023. Last year, the negative items stemming from the Russia–Ukraine war and the Hungarian government's measures either disappeared or fell sharply, while the effect of buying two banks and selling the Romanian subsidiary had approximately HUF 65 billion overall positive effect on our profit after tax. The return on equity (ROE) was 27.7% (+9 pps y-o-y) last year.
In profit and loss developments, the dynamic 33% y-o-y income growth is outstanding; within that, net interest income improved by 36%. Even without the effect of acquisitions, there were favourable developments: income surged by 28%, net interest income grew by 25%, and net fees and commissions increased by 15% y-o-y. For the first time in two years, annual consolidated net interest margin picked up, and improved by 42 bps y-o-y (3.93%). In most countries where our subsidiaries operate, the rising interest rates helped the margin grow. OTP Group's operating efficiency has considerably improved. The annual cost/income ratio of 43.3% reflects 4.3 pps y-o-y improvement,

and the cost/total assets ratio (2.59%) slightly rose.

The quality of the consolidated loan portfolio improved further in 2023, and the underlying developments influencing credit quality were overall favourable. The volume of Stage 3 loans under IFRS 9 made up 4.3% of the gross loan book; the ratio improved by 0.6 pp y-o-y. The own provision coverage of Stage 3 loans was 61%. Consolidated total risk costs declined to –HUF 38.5 billion; within that, loan loss provisions dropped to –HUF 35 billion.

The annual credit risk cost ratio was 0.16% (–56 bps y-o-y). Most of the credit risk cost is related to Uzbekistan's Ipoteka Bank; without that, the Group's loan loss provisions balance would have been positive.

The consolidated Stage 1+2 loan portfolio grew by an FX-adjusted 6% y-o-y after adjustment for the impact of the newly acquired Slovenian and Uzbek banks, and reached HUF 21,500 billion. The high inflation and interest rate environment has significantly held back volume growth in many markets. Still, FX-adjusted performing stock volumes grew by 22% in Russia and 20% in Bulgaria; and the 3% loan portfolio growth is quite an achievement, against the backdrop of declining economic performance in Hungary.

FX-adjusted consolidated deposits increased by 7%, to almost HUF 29,500 billion. OTP Group's net loan/(deposit + retail bond) ratio sank to 72% (–1 pp y-o-y).

In addition to the stable liquidity, our capital position also remained strong: our Common Equity Tier (CET1) ratio stood at 16.6% at the end of 2023, despite completing two major bank acquisitions during the year, the ratio is equal to the Tier1 ratio. In the stress test conducted by the European Banking Authority in 2023, covering the 70 largest European banks, we participated as the only Hungarian bank, and became the fourth most stable bank among the audited financial institutions.

In full year 2023, OTP Bank issued a total of EUR 2 billion in MREL-eligible bonds, of which public issuances amounted to approximately EUR 1.7 billion (in the form of Tier2 and Senior Preferred bonds). Thus the Resolution Group comfortably exceeded the 24% MREL minimum requirement applicable as of 1 January 2024. The Slovenian NCBM, which does not belong to the Resolution Group, has issued EUR 400 million worth of Senior Preferred bonds.

Throughout 2023, the management closely watched the operation of OTP Bank's Russian and Ukrainian subsidiaries: the development of the weight of the two operations within the Group was shaped by both conscious and forced business decisions.

In Russia, we deliberately reduced corporate lending, and focussed on consumer loans instead. The weight of Russian net loans in the consolidated book was 2.7% (–0.6 pps). Thanks to the profit after tax in 2023 and the profitable operation in previous years, total shareholders' equity significantly exceeds regulatory requirements. As a consequence, the Central Bank of Russia twice authorized the payment of dividends by OTP's Russian subsidiary in the total amount of RUB 13.4 billion in the second half of 2023.

In Ukraine, the loan portfolio's erosion continued, with FX-adjusted portfolios declining by 22% y-o-y, but deposits increased by 3%. Following a loss-making year of 2022, our Ukrainian subsidiary generated HUF 45 billion profit after tax in 2023. Ukraine's weight in net lending decreased to 1.4% (–0.8 pp).

In both subsidiary banks, the 'going concern principle' is followed, but the management continues to explore all strategic options in the case of the Russian operation, including the possibility of sale, but the latter is practically prohibited for foreign-owned banks, by a presidential decree issued in October 2022.

Change in OTP Group structure

As a further step in the acquisition activity, which has produced spectacular results since 2017, the financial closure related to the purchase of Nova KBM in Slovenia was completed on 6 February 2023, marking OTP Group's largest acquisition to date. The integration processes are planned to be completed in September 2024, and the consolidated financial institution is likely to become the market leader in terms of net loans. The management expects significant cost synergies in excess of EUR 30 million from the merger.

The financial closure and the consolidation of the transaction related to the purchase of Ipoteka Bank of Uzbekistan, announced on 12 December 2022, was completed in the second quarter of 2023; the integration is likely to be concluded by the end of 2024. The bank is the fifth largest player in the local market, and the market leader in mortgage lending with a weight of over 22%.

As a result of the successful acquisitions in recent years, the Bank Group's structure has significantly changed: within consolidated net loans, the eurozone and ERM II countries have become dominant (on pro forma basis): their weight has grown from 6% in 2016 to above 40% by the end of 2023. Meanwhile, Hungary's share has fallen from 47% to 32%, and Russia's and Ukraine's weight has declined from 10% to 4%. The profit contribution of foreign group members has also changed notably: in 2023, foreign operations generated already 64% of adjusted profit, up from the 38% weight in 2016.

As a combined result of the resumption of acquisitions since 2016 and the dynamic organic growth, OTP Group's total assets (*pro forma,* i.e. also taking into account the consolidation of NCBM in Slovenia and Ipoteka Bank in Uzbekistan) have grown by 2.9 times. We do hope that after the moderate pace of growth in 2023, organic growth will re-accelerate in 2024. Besides, we never stop seeking value-creating acquisition opportunities.

Dear Shareholders,

As the saying goes: what does not kill you makes you stronger. In recent years, we have faced several challenges, but I think we have handled most of them well: not only have we gained valuable professional experience, but we have emerged from these situations stronger and stronger.

It is enough to look at our share price – it confirms our successful work: the price increased by 56% y-o-y in 2023, and we reached again, and even exceeded the HUF 17,000 mark in the first months of 2024. Thus we are the largest-capitalization company of the Budapest Stock Exchange, which turns 160 this year, and we have been generating the largest turnover for years.

Although the macroeconomic indicators of most group members overall deteriorated y-o-y in 2023, OTP Group continued to play a decisive role in financing the economies of Hungary and of our subsidiary banks.

In Hungary, we participated in the disbursement of various subsidized loan programmes to an extent beyond our market share.

This excellent performance was above all due to our dedicated employees and, of course, the loyalty of our customers was also decisive.

Based on macroeconomic forecasts, 2024 could be somewhat better than the year we left behind: in all group member countries, we expect higher GDP growth rates, moderating inflation and interest rate environment, as well as stable labour market conditions.

Last year, the focus was on buying two banks, and this year the main task is to integrate them as quickly and efficiently as possible.

At the same time, we pay special attention to developments and innovations, in an attempt to improve the quality of customer service, in addition to cost-effective operation. In 2023, our total assets exceeded EUR 100 billion, and we hope that with our high single-digit organic loan volume growth target for this year, our total assets will continue to grow, which, together with our profit after tax of more than EUR 2.5 billion, helps us to remain a dominant financial group of our region, and one of Europe's most profitable financial institutions.

Thanks to our stable capital position and our strong organic capital generation capacity, the management decided to buy back HUF 60 billion worth of treasury shares in addition to the planned dividend payment of HUF 150 billion from our 2023 performance. Following the supervisory authorisation, buybacks began on 23 February 2024.

As we continue to trust in accelerating organic growth and continue to seek value-creating acquisition opportunities, growing stronger than the sector's average remains at the heart of our strategic thinking for the year ahead. Although the focus of our activities is on efficient and improved profitability, we implement all this in a way that is in line with our ESG endeavours and commitments. In 2023, the prestigious financial magazine Global Finance named OTP Bank the Best Bank for Sustainability Transparency in the global category. Our sustainability goals are prominent in the Bank's operations, risk management processes, in the continuous growth of our retail and corporate green portfolio, in our sponsorship activities, and we are on track to achieve our green and decarbonization goals for 2025. The legal predecessor of OTP Bank was established on 1 March 1949, and over the past 75 years, rapid adaptation and the ability to continuously renew have become our distinctive qualities. Experience and development: these two pillars underlie the lasting success that help us stand out from our competitors. Despite the challenges of the recent period, we have accomplished countless feats: we have strengthened our market leadership position as a service provider, we have achieved exceptional financial performance as a company, we have set a new industry standard in digitalization, and in the meantime we have become a most attractive employer in Hungary and our region.

On behalf of my colleagues, I can assure you that our commitment, our willingness to act, and OTP Group's loyalty and team spirit will remain the decisive keys to our joint success for the next 75 years.

I hope that our strategic objectives meet your expectations. I ask for your help and supportive contribution to their implementation.

Dr. Sándor Csányi
Chairman and Chief Executive Officer