



 **otpbanka**

# Annual report 2020.



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01

## OTP Group

- **1,700** branches
- **5,000** ATMs
- **40.000** employees
- **20** million clients

OTP Group provides high-quality financial solutions to meet the needs of almost 20 million private and corporate clients in the Central and Eastern European region, through nearly 1,700 branches and 5,000 ATMs, internet and electronic channels, and with its almost 40,000 employees. Among the European banking groups, it boast one of the best capital and liquidity positions and is always able to provide conditions for stable operations and growth. The profitability of operations is a key precondition for continued growth and sustainable renewal. OTP Group currently operates in Albania (Banka OTP Albania), Bulgaria (DSK banka, Expressbank), Croatia (OTP banka Hrvatska), Romania (OTP banka Romania), Serbia (Vojvodjanska banka, OTP banka Srbija), Slovenia (SKB banka), Ukraine (CJSC OTP banka), Russia (OAO OTP Bank), Moldova (Mobiasbanca) and Montenegro (Crnogorska komercijalna banka, Podgorička banka) via its subsidiaries. The banking group holds market leader or near market leader position in Bulgaria, Hungary, Montenegro, and Serbia.

## Results

In the previous year, the OTP Group achieved a record high consolidated profit of EUR 1.2 billion, ending the third quarter of 2020 with a consolidated profit of EUR 515 million after tax. All banks operated profitably within the group and participated with 50% in the total profit of the Group, with increased market share in all key segments in Hungary and Serbia. Adjusted consolidated profit in the first nine months was almost EUR 637 million, while adjusted return on equity (ROE) for that period increased to 13.2%.

## Digitalization

The Group is a pioneer in digitalization and has been proactive for 25 years in the field of digital transformation of its operations and implementation of new technologies in the financial market. The strategic orientation towards innovations has opened the possibility of working with almost 900 start-up companies, with 30 pilot projects already realized. The fourth OTP Start-up Partnership Program is underway, which is the most comprehensive innovation program of the Group so far, as all members of the group, including Vojvodjanska and OTP banka, are looking for start-up partners who support their business goals.

## OTP Group in Serbia

OTP Group in Serbia is present through the operations of Vojvodjanska banka and OTP banka, which are currently in the process of integration which will last until mid-2021, and which will result in the creation of one of the leading financial institutions in Serbia in terms of assets, number of branches, and size of credit and deposit portfolio.

## Goals

The strategic goal of the OTP Group is to become the most successful universal banking group in Central and Eastern Europe. The banking group spares no effort to constantly evolve in order to provide unique, convenient and contemporary services to both retail and corporate sector, services that are easier and faster to access and that facilitate meeting the challenges of the digital age and customer expectations.





## History

The predecessor of OTP Bank, called the National Savings Bank (OTP Bank) was established in 1949 as a nation-wide, state-owned, banking entity providing retail deposits and loans. In the ensuing years, its activities and the scope of its authority gradually widened. In 1990, the National Savings Bank became a public company with a share capital of HUF 23 billion. Its name was changed to the National Savings and Commercial Bank. Subsequently, non-banking activities were separated from the bank, along with their supporting organisational units.

OTP Bank's privatisation began in 1995. Currently the bank is characterized by dispersed ownership of mostly private and institutional (financial) investors. It started its international expansion in the countries of the CEE region, which offer great economic growth potentials similar to that in Hungary. It has completed several successful acquisitions in the past years, becoming a key player in the region.



02

## A word from the management

**In the coming period, we continue to strategically develop even better customer experience, innovation, and business stability, which, after our merger with Vojvodjanska banka, will be the basis for building a leading bank in the domestic market.**

The year 2020 was in many ways different from all the previous ones. We walked into it fully committed to the project of integration with Vojvodjanska banka, a member of the OTP group, and already in March we faced the COVID-19 pandemic. The new circumstances have brought uncertain times for everyone, which require a thoughtful and a quick reaction, adjustment and making responsible decisions.

The pandemic put us all to various tests. Above all, to the tests of humanity and solidarity, and also of the readiness to transform our business in a very short time in order to protect everyone's health and reorganize our life and business circumstances in line with the challenges we face for the first time in recent history.

We remained a true support to our clients and directed them to our digital channels, such as our online branch, where they can safely and without a physical contact with a banker arrange a cash loan, overdraft, buy insurance, etc. We have been motivated to invest even more in the digitalization of our products and services. For our customers who use iPhones, we have enabled Apple Pay for mobile payments, while the customers who use Android phones have already had the mCard payment option at their disposal. The latest novelty was the arrangement of cash loans by mobile phone, using the mCash option in the m-banking application. Owing to the strong support of the National Bank of Serbia, we have implemented an instant payment system and enabled citizens to make fast transactions and pay with the IPS QR code.

Our priority was to successfully support the economy and citizens by implement-

ing the program of the Government of Serbia, during which the entire financial sector proved to be a reliable and efficient partner to the state and society when it is most needed. Also, our goal was to maintain loan activities in line with our customers' needs and to support companies to successfully overcome the challenges posed by crisis circumstances.

We also provided support to the Serbian health care system when it was most needed, by donating the necessary delivery vehicle to the Torlak Institute of Virology, Vaccines and Sera, as well as by donating funds to a group of six key health care institutions across the country.

We continued our strategic cooperation with innovation and creative hubs and organized the Generator project for the fourth time, with which we invest in innovations in entrepreneurship. This year, we have awarded technological solutions that directly help small and medium-sized businesses overcome the crisis through the digitalization of business.

The changes that have taken place this year have brought us many obstacles that we have overcome, good practices that we adhere to today and the results that we proudly stand behind. In the coming period, we continue to strategically develop even better customer experience, innovation, and business stability, which, after our merger with Vojvodjanska banka, will be the basis for building a leading bank in the domestic market.

Together, we move forward.

**Predrag Mihajlović**, Chairman of the Executive Board of OTP bank Srbija



03

## OTP Bank Serbia A.D. Beograd

- **1.315** employees
- **94** branches



### Availability to customers

With the full commitment of our 1,315 employees, OTP Bank provides quality service and a diverse offer of products to our customers, natural persons and legal entities - large private and state companies, national and multinational companies, financial institutions, and sector of small and medium-sized enterprises, microenterprises and entrepreneurs. Our imperative is to meet the customers' needs where it suits them - in one of our 94 branches across Serbia, at our contemporary e-banking platform, or via mobile applications. Growth and development, dedication to customers and product and service improvements remain the Bank's priorities, with strong support from the OTP Group.

### Next steps

Integration with Vojvodjanska banka is currently underway, expected to be completed in mid-2021. This merger will result in the creation of one of the leading banks in the Serbian market by size, number of branches, loans and deposits. Until then, we will operate as separate legal entities, and our clients will have over 300 ATMs of both banks in the territory of Serbia at their disposal for withdrawing cash free of charge. The strategic vision of the management is to create a company that will focus on innovation and further improve the products, services and customer experience of our clients.



04

## Macroeconomic overview for 2020

- **0.7%** GDP growth in 2015
- **4.2%** GDP growth in 2019
- **5.2%** economic growth in Q1 2020

The pace of economic growth in Serbian had been increasing at a faster pace for five straight years, rising from 0.7% in 2015 to 4.2% in 2019. This trend was expected to continue in 2020 and 2021, with the GDP growing between 4.0% and 4.5%. Such strong growth was expected despite difficult external environment, slow growth among Western European trading partners and in general slow global growth.

However, with the arrival of covid-19, everything changed. Economic growth was strong in Q1 2020, +5.2%, which was a bit less than expected. As a result of covid, European countries started closing their borders and the global supply chain starting breaking down. Serbia too started to implement strict border controls and the government implanted a state of emergency for a period of roughly two months. As a result, Q2 GDP fell by 6.3%, year-on-year. Manufacturing, trade, household spending, investments and foreign trade all crashed. Only government spending, agricultural production and the banking and IT sectors grow.

Due to covid-19, inflation fell around the globe and central banks lowered interest rates and increased asset purchases in order to support the corporate and retail

sectors with low rates and ample liquidity. Even with such measures, most developed economies fell by more than 10% during Q2, especially economies where tourism and hospitality business are large economic sectors.

The low interest rate policy of the ECB led to lower monthly payments for Serbian entities borrowing Euro, thereby bringing some relief for households and businesses. At the same time, NBS also lowered its Key policy rate from 2.25% to 1.00% by the end of 2020 while increasing the M2 money supply by 30.6% as of November 2020. Even with stimulus it is still a bit surprising that the total number of persons employed increased during most of the year with rising wages, +7.8% y-o-y in October 2020.

The 12-month moving average of monthly net wages in October 2020 rose to EUR 511, compared to EUR 456 in the previous twelve-month period, +9.1%. As was expected last year, this increase is slowing to a more sustainable rate. We continue to expect wages to grow at a faster pace than the overall economy due to the government's campaign to force all companies to report actual wages paid to employees and as a demand for Serbian workers in the EU returns to pre-covid-19



level. This once again, underscores how the Serbian economy is dependent upon and integrated with other European economies.

The global drop in inflation has also been witnessed in Serbia, which has allowed the NBS to further lower its Key Policy Rate. This is leading to increased borrowing while not igniting inflation. Headline CPI averaged 1.9% in 2019 and fell to 1.6% last year, while Core CPI rose from 1.3% to 1.6% during the same period.

Lower interest rates can lead to a depreciation of the local currency, especially in emerging markets, however, that has not been the case with the dinar, as the EUR/RSD rate has fallen from nearly 125.00 in early 2017 to its present market rate just below 117.60, where it has been trading since mid-2019. In 2019 and 2020, the EUR/RSD rate fell by 0.51% and 0.01%, respectively.

Between 2016 and 2019, average government surplus was 0.1%/ GDP. Due to

covid, there will be a deficit in 2020, most likely around 9.0%/ GDP, a result of negative economic growth and increased spending due to covid-19, particularly in Q2 2020. Total public debt was more than 70%/ GDP in 2015 but fell to 52% in 2019. We expect this figure to approach 60%/GDP for 2020. However, we do not expect this to lower Serbia's sovereign rating, which is close to being investment grade. This should lead to even stronger FDI figures and lower borrowing costs on domestic and international markets.

While many headwinds continue to prevail, both internally (need to finalize many economic reforms) and externally (regionally, in the EU and globally), we continue to expect that the local economic cycle will move forward at a reasonable rate of around 4.0%, with low interest rates and a stable currency rate. However, economic results for 2021 will mostly depend on how the corona pandemic is handled and how companies and individuals adapt if it takes longer than expected to be put under control.



05

## Retail Banking Division

In 2020, the Retail Division remained focused on the needs of its customers and the development of long-term relationships. Constant growth in retail loans is one of the key indicators of support that a bank with affiliates provides to its clients, natural persons. Thus, in the last year, 2020, there was an increase in loan growth of 17.2% compared to 2019, to RSD 140.2 billion (EUR 1,193 million), occupying a market share of 11.7%. In 2020, as well, the Bank was among the leaders in the housing loans market.

When it comes to cash loans, OTP banka has strengthened its position as one of the local market leaders. The total amount of deposits in the Retail Division reached RSD 96.2 billion (EUR 818 million), which is an increase of 7.1% compared to 2019.

Since the focus of the retail division is customer satisfaction and outstanding customer experience, many changes have continued to be made in a system that fosters a culture of innovation at the level of the entire Group, which means continuous work on an offer that has a use value for the clients and that facilitates their daily banking activities to the greatest extent possible.

### Innovations in Digital Banking

OTP banka is investing enormous efforts in digitalizing its business and it strives to improve its offer and services on the online channels on a quarterly basis. The function of digital tools is to save both the customers' and the employees' time, which further improves the mutual experience. Also, since the beginning of the pandemic, all digital functionalities of the Bank have notably facilitated the daily

management of customers' finances, which has served as a good indicator of the importance of digitalization of products and services.

Some of the additional innovations introduced into the Bank's operations in 2020 are:

- Launching the Apple Pay option that allows mobile payments to all users of the iOS operating system.
- IPS QR code – the functionality that allows quick and easy payment of monthly utility bills or payment at points of sale without using cash or payment cards.
- mKeš – option within the m-bank application that enables arrangement of a dinar online cash loan with a fixed interest rate.

### Small Business Operations

The Small Enterprises and Entrepreneurs Sector continued its trend of growing the customer base in 2020, as well. The loan portfolio grew by 13,1%, while deposits increased by 13,4% compared to 2019. A unique approach to these customers contributed to this, in which the bank is led by the activity of a particular company or an entrepreneur and where it adapts to specific needs in the fields of production, transport, trade and professional services through a segmental offer. The network of 94 bank branches has personal bankers, specialized in business operations with small businesses and entrepreneurs.

The loan repayment period for permanent working capital is 36 months and the only collateral is a bill of exchange. Investment loans for the purchase of equipment are

approved with 30 to 60 months repayment periods, exclusively with a bill of exchange, i.e., with a pledge on the subject of financing.

Our common goal is to provide clients from the SME segment with more favourable financing to promote their business development, with longer repayment periods and with minimal collateral. We are pleased to join the COSME program, as an important additional form of business improvement support, within our overall SME offer.

COSME (Programme for the Competitiveness of Enterprises and SME) is a European Union programme for the competitiveness of small and medium-sized enterprises, with a budget of EUR 2.3 billion for the period between 2014 and 2020.

OTP banka further confirms its commitment and belief that small businesses have great potential and importance to the national economy by providing support through the fourth Generator competition, which supported digital projects this year - websites, apps, and other digital platforms - that help and offer new opportunities to small and medium enterprises to overcome the challenges they face due to the pandemic. From more than 170 entries, the jury selected ten semi-finalists who were awarded a media promotion so that as many people and small and medium enterprises as possible could hear about their projects. After that, at a large-scale online event, six finalists were selected, out of which the jury chose one winner in each category -

new idea, and existing solution. The prizes were one million dinars per each category, along with the valuable prizes of the partners of the competition.

### Private Banking

OTP banka holds a leading position in the private banking segment in Europe with numerous accolades for the best bank in this field, received from prestigious European institutions, organizations and media that follow the private banking sector.

In our country, it is also recognized as a bank chosen by customers with high expectations in terms of offer, products, services, as a Bank that recognizes the lifestyle of these customers and that provides them with professional and partner support with the help of its bankers.

OTP banka's Private Banking has an exclusive package of accounts and services called Eminent that provides clients with first-class, customized services, investment, and financial consulting, with numerous benefits offered by Visa Infinite debit card. Users of the Eminent private banking package can also expect support in the domain of investment consulting. Licensed investment consultants recommend to each customer individually the way in which they can invest their funds on the domestic or foreign market in accordance with their profile, financial plans, and other factors. The Eminent package also offers a variety of other services for the quick and easy management of funds and a range of benefits within digital banking services.





06

## Corporate banking division

- **11%** corporate loans
- **8.5%** growth of the number of active clients

One of the most significant impacts on the Bank's operations in 2020 and the corporate sector itself was entering into the new banking Group after the acquisition of the Bank by the OTP Group. In this regard, the activities of the sector were focused on maintaining the existing client portfolio, with action to increase the number of active clients, expanding and diversifying the portfolio, and also on harmonization with the Group and its internal strategy, rules and policies. In addition to harmonizing with the OTP Group's principles of operation, the business sector in 2020 was engaged in pre-integration activities that will form the basis for the status change planned for the second quarter of 2021.

Through its close engagement in customer support, the corporate sector has been directly involved in a number of activities launched to mitigate and address the consequences of market developments caused by the Covid-19 pandemic. In line with the occurring changes, the clients were promptly provided with financial, legal, advisory and technical support, relying on internal capabilities, as well as incentive measures of the Government of Serbia.

In the given, multiple challenging circumstances, the Corporate Banking Division managed to exceed the expected market share in the segment of loans to corporate entities, achieving a credit portfolio growth of almost 10%, as well as to raise its deposit base by more than 20% compared to 2019. The increase in the level of credit exposure was accompanied by an improvement in its quality and degree of risk through:

- Improving the maturity structure of loan placements, towards increasing the share of long-term financing, which recorded a growth of 6.5% in the total credit portfolio,
- Increasing the share of dinar loans placed to corporate entities, in line with the dinarization strategy, with the introduction of additional internal measures to hedge against currency risk,
- Portfolio diversification by types of financing and affiliation of clients to different industries.

Portfolio diversification is a consequence of expanding the base and scope of project financing, where the goal is to increase the Bank's presence in the market, and to achieve a solid base of diverse projects through adequate projects of reputable

investors. This goal was achieved with a credit exposure increase of 53% compared to 2019.

The number of active clients also increased, due to the constant growth in the medium-sized enterprise segment, where an annual growth of 8.5% was recorded.

Direct support to the economic sector in the conditions of the pandemic during 2020 is reflected in the placement of loans supported by the guarantee scheme of

the Government of the Republic of Serbia, where the Bank took a significant share of over 11%, which exceeds the Bank's current share in total corporate lending.

In the factoring segment, the volume of activities was directly conditioned by fluctuations in economic activity during the year. A record positive result was achieved in the first quarter of 2020, when the factoring turnover volume exceeded the results of the same quarter of the previous year by over 20%. With the decrease in economic activity and financ-



ing of operations from the guarantee scheme, there was a certain slowdown in sales in the coming months, which led to a slight decline in the total volume of financing in 2020 compared to 2019. The Bank continues to occupy a leading position in the market in the factoring segment, relying on a digital platform, a consistent team of experts, and a stable base of service users.

Continuing its mission of maintaining close contacts with clients and nurturing long-term partnerships, OTP banka con-

tinues to improve and develop transaction banking services, continuously focusing on optimizing the processing time of requests, from requests for opening and activating current accounts, processing domestic and international payment orders, to processing of the request for documentary operations.

In addition, the Bank recognized the increased needs of clients to offer their products and services on the Internet, so in 2020 customer turnover through e-commerce services of the Bank tripled compared to the previous year, with a significant rise in the number of transactions. Simultaneously, there was an increase in traffic at POS terminals by 24% compared to the previous year, which is especially important if we take into account the circumstances and restrictions that characterized most of 2020.

During 2020, independent studies comparing the operations of banks were conducted by PWC, a renowned international consulting agency, and it is especially important to highlight the results of a study that took into account five banks of direct competitors. The aforementioned study shows that OTP banka's Corporate Banking Division achieves the previously presented results with the lowest number of employees compared to the largest competitors, and also that the average volume of financing carried out by one OTP Bank employee exceeds the average of the main competitors by 40%, and to an even greater extent the average of the entire market. This further reflects the effectiveness of the Division itself as one of the most cost-effective in the industry, as well as the efficiency and expertise of the employees.





07

## Financial market activities

- **8.27%** in operations involving domestic legal persons
- **47 billion** total assets of the pension funds

## Activities in the financial markets

Long-term cooperation and stable partnership with clients and users of products and services on the financial market are proof that the Bank continuously and carefully monitors and understands their demands, and provide them with efficient responses and adequate innovative solutions. The Bank has kept its position in the foreign exchange market in terms of volume of transactions involving corporate clients. According to the official statistics of the National Bank of Serbia, the Bank has achieved market share of 8.27% in operations involving domestic legal persons, which ranked the Bank forth for the 2020.

## Custody services

In view of the basic parameters, inter alia the clients' assets under custody, in 2020 the OTP Bank Serbia was among the first three banks in the domestic market that provide custody services in accordance with the permission granted by the Securities commission. The custody services fall within the domain of specialized and sophisticated services being developed in a difficult and competitive environment as is the domestic capital market, with the aim to follow the trends existing in other developing markets, all in accordance with the regulations. The Bank has proven that the quality of the service provided to the clients is the most important part of its strategy and, together with the experience and expertise of the employees, makes a distinction which results in the years-long trust of our clients.

OTP Bank Serbia is a custody bank of seven voluntary pension funds for whom

it has been successfully providing custody services and services of daily evaluation and calculation of assets for years. At the end of 2020, the total assets of the pension funds under the custody of OTP Custody Bank Serbia amounted to RSD 47 billion – for almost RSD 2 billion more than previous year. When it comes to the provision of custody services to the voluntary pension fund segment, the Bank is still an absolute leader in the market with 100% share.

Other custody clients of the Bank, for the largest part, come from the segment of domestic and foreign professional investors. In addition to respectable domestic insurance companies, our custody clients also include the foreign global custodians and investment banks. In 2020, the assets under custody have increased for almost RSD 3 billion – which is great success despite the pandemic situation. The situation in the domestic capital market is very similar to the situation we had previous year, and thus the domestic and foreign custody clients primarily invested into bonds issued by the Republic of Serbia with various maturities. In 2020, this financial instrument also experienced growth in the number of transactions in the secondary market. Also, in 2020, the Bank signed an agreement with OTP bank Hrvatska on the provision of custody services in foreign markets thereby giving clients access to significantly more markets and raised quality custody services at a higher level. Guided by a partnership with clients, constructive exchanges of information, proactivity, commitment and efficiency, OTP Custody Bank Serbia will strive to meet the expectations of custody clients in the next year as well.



08

## Human Resources Department

- **119** new members
- **1.315** employees

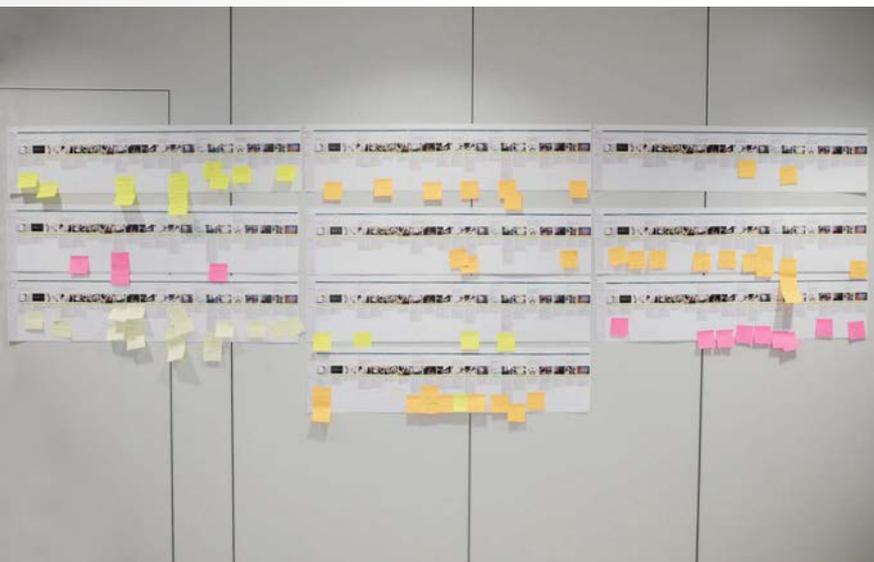
The year 2020 started with big plans for the Bank with demanding tasks related to the integration project. The Covid-19 pandemic that hit the world brought some completely new challenges: organization of work activities during the state of emergency, work from home for all employees at the headquarters, three moratoriums of the National Bank of Serbia, continuation of all integration activities, as well as performing regular operations and achieving set goals. Throughout the year, employee safety and health came first, with ongoing support, digital transformation, and new development models that contributed to outstanding results.

### Employee care comes first

The declaration of a state of emergency required a quick reaction and adaptation to completely new working conditions. Enabling employees to work from home, in addition to technical aspects and access to the necessary applications, also required different organizational models. Team rotation was organized with the aim of optimizing the presence of employees in the Bank, equipment was provided for employees working from the Bank's premises, a service for generating and distributing personal documents was developed, relocation was organized for

key positions and operational teams, and paid absence of particularly vulnerable categories of employees was provided. In the first wave of the pandemic, 95% of employees worked from home, and the current standard is 80%. Constant communication was maintained with infected employees, as well as with employees in self-isolation. The status of these employees was monitored on a daily basis, and a special algorithm of steps was created for all employees so that they could keep track of virus protection measures and take care of their health and the health of their colleagues. After the lifting of state of emergency, organizational models were adapted to current instructions, but the employees' health has always remained in focus.

During 2020, the Bank's employees received benefits that are especially important to them - private health insurance and supplementary pension insurance with the Bank's participation in a voluntary pension fund. Private health insurance policies are supplemented with financial and logistical support for employees who are hospitalized, as well as with Teledoctor consultations service during recovery. A new way of regulating reimbursement of transportation costs through NIS personalized cards



**During 2020, two Pulse Check surveys were conducted, which in both Banks examine the satisfaction of employees with communication and information exchange within integration projects.**

with remote top-up and Bus plus system, New Year's gifts for children of employees through contactless distribution and use of digital vouchers has been created. In the situation caused by the pandemic, these benefits, as well as the altered model of working from home, additionally affected the satisfaction of employees. During the state of emergency, the policy of salaries and rewards did not change.

Objective circumstances and shifting to predominantly remote work posed an additional challenge to timely consideration of potential risks, but the Bank strived to provide adequate support in critical situations and situations of increased uncertainty, not only in the field of financial compensation, but also in maintaining partnership relationships with employees.

### Development and digital transformation

Although 2020 brought special challenges and unpredictably changed priorities, employee development came first. The digital transformation of the Bank's development activities has been in focus during the previous years as well, so the Bank was ready to meet the challenges and put an additional effort to transform in an even faster and effective way. The whole process of development activities has been completely digitized using various tools (Teams, Zoom, Doodle, Matrix, Vyond, Camtasia, Smart-Survey Slido). Prompted by the situation in which the world found itself and willing to use it as an opportunity for further transformation, the Bank has created a development strategy that relies

on three principal pillars: must have, in line with industry, embracing tomorrow. The HR Department also worked on key competencies through professional trainings such as IT security, SAS and BI tools, data science, Recharge programs, PCM communication models, and innovation programs. During the year, it provided special support to leadership and customer relations: through a remote leadership program for managers who manage teams from home, as well as a program for personal resilience and better communication skills for branch managers and sales managers to work with the corporate entities.

The Bank also recognized the possibility for improving the processes in mentoring during the onboarding process, so it applied for the OTP lab start-up program and received support for the development of a platform that should improve the employees' experience during the first months and enable managers to monitor their work in an easier and more effective way.

### Becoming an attractive employer through a better candidate experience

The digital collaborative tool - ATS system "One Assessment" for managing the recruitment and selection process in both banks has also been implemented. This tool has enabled the automation of the employment process through a defined workflow, and will also be implemented in the future, integrated Bank. Guided by the importance of customer experience as a strategic commitment, the Bank assessed that the Employer Brand is of great significance when it comes to providing

candidates with the best experience in all moments of interaction with the Bank as their potential employer. The result of this is the new Career portal where all the job vacancies are published, and where candidates have an insight into the stage their application is in at any time. When it comes to managing the selection process, the OA tool has enabled the hiring manager and HR to be synchronized at every stage of the process, and to digitize the request for each type of work engagement, applications, and candidate evaluation. This enables a virtual unified base of candidates, which provides the Bank with better efficiency in the process of finding adequate candidates for the vacancies.

The Bank has also participated in numerous events as a desirable employer in the market, and the management is especially proud of its participation in the first online job fair, Career is Not on a Break (*Karijera nije na pauzi*).

Through the My First Salary (*Moja prva plata*) program in cooperation with the National Employment Service, the Bank has employed 32 people in 15 different organizational units of the Bank, both in Belgrade and in 12 branches across the country. The goal of that program is professional development of young graduates and profiling for potential career continuation in the Bank.

### Through open communication to greater employee satisfaction

As it recognizes the importance of carefully created messages, especially in unpredictable circumstances, open communication with employees accompanied all activities of the Human Resources



**During 2020, the Bank's employees received benefits that are especially important to them - private health insurance and supplementary pension insurance with the Bank's participation in a voluntary pension fund**

Department. During the state of emergency, the Department cooperated with colleagues from the Marketing Department on the newsletter Distance Connects Us (*Daljina nas spaja*), and created a special Support Guide for all employees, whether they worked from home or from the Bank's premises. After the state of emergency had been lifted, it conducted a survey on employees' satisfaction with working from home, with the participation of 65% of employees. Based on the results and recommendations of the survey, it created a Guide to Working from Home, a Guide to Managing a Team While Working from Home, and a Guide to Online Meetings that were distributed to employees with symbolic gifts to show that we care. Based on a survey conducted in September, on the occasion of one year anniversary of the change of ownership structure of the Bank and of joining the OTP group, it was determined that over 65% of respondents feel satisfied with being a part of the OTP group and with their work within the group.

### Integration activities

The project of integration of the two banks was a priority throughout the year, and the Human Resources Department contributed through numerous activities. The organization of the future Bank was designed, the systematization of operations was made, the grading structure was established, the remuneration policy was adopted, and all HR processes were designed and adopted. The selection of B2 and B3 level managers was made and all employees from both banks were allocated.

During 2020, integration trainings for employees of both banks were implemented, through which they were introduced to the applications, processes and products selected for the future Bank. The corporate innovations program was realized in cooperation with the ICT Hub, aimed at employees, so that they would nurture innovation in the future Bank as well. The Department is proud of the numbers that summarize the integration training activities: 3,395 participants, 31 internal trainers, 3,194 training hours and 100% of activities conducted through online platforms.

In order to undertake activities on bringing the corporate cultures of Banks closer together by integrating and combining different successful models, the Rotation Leads to Success (*Rotacijom do uspeha*) program was created in the Retail Division, in which 20 outstanding branch managers are rotating their positions until the day of the merger. The rotation initiative was realized in other divisions at different position levels. In addition, the initiative of mutual visits of branch managers from the two Banks has been launched, which will be realized monthly until the end of the integration.

During 2020, two Pulse Check surveys were conducted, which in both Banks examine the satisfaction of employees with communication and information exchange within integration projects. Based on both researches, additional recommendations were created for further improvement in these areas.

# the game changer



**Generator**

powered by OTP banka

09

## Corporate social responsibility



The principles of social responsibility are integrated into all business activities of OTP banka. As part of a large banking group, the Bank applies high standards in its policy towards employees, clients, the local community, and the environment.

As a member and one of the founders of the UN Global Compact Agreement in Serbia, as well as a member and one of the founders of the Responsible Business Forum (RBF) Serbia, the Bank mobilized the most important initiatives in the country by bringing together socially responsible companies. It bases its corporate social responsibility upon support to entrepreneurship and innovation, for creation of better environment and giving back to the community in which it operates, supporting culture and young talents, as well as vulnerable groups of citizens (through social inclusion and professional integration through the education of socially vulnerable groups and volunteering actions).

The strategic guidelines are deeply rooted in the Bank's corporate values and are implemented in accordance with the following priorities:

- integration of the social responsibility principles into business activities,

- responsible management and employee policy,
- reduction of the negative effects of business on the environment,
- contribution to civil society.

In each of these areas, the bank focuses on different activities. In the area of integration of socially responsible criteria in business activities, the emphasis is on the creation of socially responsible products and services, transparency, business ethics, and responsibility towards clients. When it comes to employees, the priorities are corporate management, professional education and training, incentive and reward program and diversity policy, while in the field of environmental protection the emphasis is on reducing the consumption of resources that arise from business activities.

The Bank's active contribution to civil society is reflected in its support for organizations and projects dealing with socially disadvantaged and vulnerable groups of the population, as well as for projects in the field of culture.

Since 2016, OTP banka has been included in the Responsible Business Index list - the first national platform for the assessment of corporate social responsibility,



**This year, the preparation of meals for vulnerable population categories was organized, which brought together the members of the Forum, and many deliciously prepared meals delighted our fellow citizens - the sellers of the Liceulice magazine.**

which enables an objective comparison of the performance and impact that companies have on society through their operations.

As a member of the Responsible Business Forum, the Bank took part in the research "Better Business for a Better Society 2019/2020" and contributed to creating a clearer picture of business sector investments in the community during 2019 and during the crisis caused by the coronavirus pandemic. The results of the research, as well as examples of good practice are presented in the publication Better Business for a Better Society 2019/2020, which is available on the Responsible Business Forum's website.

### Partners in innovation

Wishing to give additional contribution to empowering technological entrepreneurship in Serbia, the Bank has initiated cooperation with the ICT Hub Centre for Technological Entrepreneurship and Innovation, creating a long-term partnership. Joint organization of various events, such as three FinTech Hackathons and several Open Innovation Challenge, which rewarded teams with the best ideas applicable in the development of the banking future. Also, the cooperation opened the Bank's door to new partners from the start-up ecosystem that are developing innovative products and services for users in an increasingly advanced digital environment.



### The Generator project

At the end of 2017, together with numerous partners, the Bank launched the Generator project.

Generator is a long-term platform where the initiatives and events that contribute to the development of innovation and entrepreneurship are promoted. After two successful competitions (Generator and Generator Fluo - the first competi-

tion for the best student entrepreneurial innovations), which have so far promoted and awarded 60 entrepreneurial innovations, at the end of 2018 the Generator 2.0 project was launched with the aim of empowering small and medium enterprises and giving them the opportunity to improve their knowledge in the field of digital transformation and gain access to the necessary tools that can help them further develop their business using digital technologies. In 2019

and 2020, the digital transformation was applied on their products and included a complete analysis of the current state of business and recommendations with the action plan, implementation of one of the proposed recommendations worth up to EUR 5,000, as well as marketing make-over and a media campaign.

At the end of 2019, and also within the Generator project, the Good Deed Generator initiative was launched, which supports social entrepreneurship and those who create within it. In the lobby of the new OTP Banka building, the employees had the opportunity to get acquainted with and support six companies. This activity does not end there, as the support to social enterprises will also continue in 2020.

In 2020, the Bank launched the fourth Generator competition called Gamechanger, considering the challenges small and medium-sized businesses in our country faced due to the COVID-19 pandemic. This year's competition focused on supporting digital projects - websites, applications, and other digital platforms - that help and offer new opportunities for SMEs to successfully overcome the effects of the crisis. The competition was open to all individuals, informal teams, entrepreneurs, and companies that have a new idea that needs support to come to life, or an existing solution that needs to be improved. Based on the 170 applications received, the jury made a shortlist of ten semi-finalists who received video material, as well as media promotion and promotion through the Bank's channels, so that as many people as possible could learn about their solution. Six finalists were then selected to compete for the grand

prize. At the presentations, the finalists introduced their solutions, after which the jury announced two winners who won a prize of one million dinars. The semi-finalists also won special awards from the competition partners - Vojvodjanska banka and the ICT Hub Centre for Technological Entrepreneurship and Innovation, TeleGroup, BOS - Belgrade Open School, and ENECA.

## COVID-19

Considering the need to involve the business sector in solving the serious challenges that the health care system has been facing, OTP banka was among the first to get involved in various initiatives.

In order to support to our health care system, at the beginning of April, the Bank provided what was most needed at the time and donated a delivery vehicle worth over 3 million dinars to the Torlak Institute of Virology, Vaccines and Sera. The vehicle has been used since day one as it plays a significant role in transporting COVID-19 tests and thus directly help in faster and more efficient delivery of test results. It is fully adapted for these needs and has additional equipment that includes a built-in thermal insulation, a cooling device, and a thermal recorder that records the temperature. Gratitude is also due to the Bank's partners who contributed to this donation - Renault Nissan Serbia and Renault Sava.

In addition, to improve the general working conditions and procurement of necessary medical and protective equipment, the Bank donated a total of RSD 2,650,000 to the General Hospitals in Sremska Mitrovica and Subotica, the Nis Clinical Center,

**Wishing to give additional contribution to empowering technological entrepreneurship in Serbia, the Bank has initiated cooperation with the ICT Hub Centre for Technological Entrepreneurship and Innovation, creating a long-term partnership.**

the Institute of Oncology and Radiology of Serbia - Children's Department, and to the city of Valjevo, which raises funds for local health care institutions.

The Bank also invited its clients to help the health care system financially if they have the opportunity. To facilitate the process, the bank has included the NHIF account in predefined templates within its e-banking application.

**Culture**

Wishing to support the nurturing of Serbian culture and the Serbian language and recognizing the true values that "Politika" and "Politikin Zabavnik" stand for, the Bank decided to be the patron of the award for the best literary work intended for young people. Jury's unanimous decision was to award Sonja Ciric for the novel "I Will Not Think of Prague", published by "Laguna" Belgrade, for the best literary work intended for youth that was published in 2019.

**Our Belgrade in the spirit of solidarity with the most vulnerable #zanašebeograđane**

Although more than a decade has passed since the first "Our Belgrade" action was organized, this day of volunteerism continues to inspire engagement and support to local communities in an innovative and efficient way. So far, volunteering actions organized by the Responsible Business Forum have brought together over 3,500 employees from more than 30 companies and directly improved the quality of life for over 11,000 fellow citizens from vulnerable social groups.

OTP banka also fosters the culture of employee volunteerism and traditionally responds to this action. This year, the preparation of meals for vulnerable population categories was organized, which brought together the members of the Forum, and many deliciously prepared meals delighted our fellow citizens - the sellers of the Liceulice magazine.



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## Risk management

## Operational risk

Operational risk is the risk of possible adverse effects on the Bank's financial result and capital due to errors (either intentional or accidental) made by employees, inadequate internal procedures and processes, inadequate management of information and other systems in the Bank, as well as due to unforeseen external events, especially including those with a low probability of occurrence but with a risk of high loss, risks of internal and external fraud, and model-related risks. Apart from strategic risk, operational risk includes legal risk, regulatory compliance risk, as well as reputational risk. The Bank includes in its risk management system the risks arising from the introduction of new products, services and activities related to its processes and systems, as well as risks arising from the activities the Bank outsourced to third parties. In order to successfully manage operational risk, OTP banka Srbija has introduced a continuous system for identifying, measuring, monitoring and controlling/mitigating operational risk.

Operational risk management includes:

- Activities to identify, monitor and measure operational risks through:
  - Collection of internal operational risk data
  - Key risk indicators
  - Self-assessment and risk control
  - Scenario analysis
  - Assessment of operational risk when introducing/modifying new products and outsourcing activities to third parties
  - Assessing the impact of disruption on business
- Preventive activities such as:
  - Permanent supervision or Managerial supervision as part of the internal control system
  - A business continuity plan that provides protection against disruptions in business activities and against extreme risks.

Operational risk is an integral part of all products, activities, procedures and systems

of the Bank. Operational risk management is an integral part of management functions at all levels. It is based on the part of the internal control system, which includes the Management Supervision system that is implemented at all levels, as well as the periodic controls conducted by the internal audit department.

The system of internal controls implies that operational risk is viewed as a separate type of risk and thus subjected to specific methods of detection and assessment, monitoring and control, in order to develop appropriate risk mitigation measures and enable to review the Bank's risk profile. For operational risk management to be effective, it is necessary to have an appropriate management structure, led by a specialized Operational Risk Committee (ORCO), implemented the aforementioned internal controls and appropriate organizational structure, whose cornerstone is the Operational Risk Control and Management Department, which proposes policies, methodologies, plans and procedures for managing operational risk, as well as the necessary management tools (data collection, RCSA, etc.).

For the purpose of calculating the regulatory capital requirement for operational risk, the Bank uses the basic indicator approach in accordance with the Bank's Decision on Capital Adequacy. The internal capital requirement for operational risk is quantified using a special approach based on internal losses and scenario analysis.

### Business continuity plan

In order to ensure business continuity, the Bank has implemented a business continuity plan aimed at enabling the smooth

and continuous functioning of all significant systems and processes of the Bank, as well as limiting losses in emergency situations. This plan is based on business impact analysis and risk assessment. Key business activities for which it is necessary to maintain business continuity in emergency situations are determined, the plan is regularly updated in accordance with business changes, changes in products, activities, processes and systems, changes in the environment, as well as with the business policy and strategy of the bank; the plan is tested, and test results are reported to the Bank's authorities - the Board of Directors and the Executive Board.

### Internal audit

Through the performance of planned audits and special engagements / investigations, the Internal Audit assesses the adequacy and reliability of the Bank's internal control system and the function of controlling the compliance of the Bank's operations. The internal audit communicates the results of its work to the Bank's management, ensuring that the risks are properly identified and controlled. Internal Audit regularly prepares reports on its activities and submits them to the Board of Directors and the Audit Committee.

### The risk of non-compliance of bank's operations

The risk of non-compliance of bank's operations is the possibility of adverse effects on the financial result and the capital of the bank due to failure to harmonize the bank's operations with the law, by-laws, internal acts of the bank, as well



as with the rules of profession, good business practices, and business ethics of the bank. The bank's operations compliance controlling function enables identification, assessment, and monitoring of the risks of the bank's operations non-compliance that include the following three risk groups:

- Regulatory body sanctions risk,
- Risk of financial losses,
- Reputational risk.

In accordance with the Law on Banks, the Bank has established an independent organizational unit - the Operations Compliance Controlling Department in charge of identifying, monitoring, and managing the risk of non-compliance. In order to perform tasks within its scope, the Operations Compliance Controlling Department monitors the compliance of internal acts of the Bank with the regulations, in particular those relating to the protection of client's interests, adequate informing and

notification of clients, protection of personal data and banking secrecy, identification and assessment of clients, customer complaints management, sales and marketing relations, market integrity, market abuse and insider trading, compliance with professional behaviour codes, risk of conflict of interest, risk of bribery and corruption, internal whistleblowing rights, and other regulatory areas in accordance with the adopted program of the operations compliance controlling function.

The Department conducts continuous monitoring in a manner that ensures the identification and management of existing and potential risks of non-compliance, which is reported to the competent authorities of the Bank. It strives to promote the highest standards of compliance and raises the employees' awareness of the need to operate in accordance with regulations, internal acts, and good business practices.



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## Liquidity and interest rate risk management

Liquidity is the ability of the bank to provide sufficient liquid assets to unconditionally settle all due liabilities arising from balance sheet liabilities (withdrawal of deposits and other sources of financing), balance sheet assets (financing of new placements), as well as from off-balance sheet positions.

Liquidity management represents a continuous process of reviewing the need for liquidity in regular business situations (“business as usual”), but also management planning in unforeseen circumstances, by providing an adequate level of liquid assets based on an analysis of needs for liquidity, as well as reviewing changes in the structure of the Bank’s balance sheet and off-balance sheet positions.

During 2020, the Bank’s liquidity level was above the minimum required, and the Bank placed excess liquidity in debt securities of the Republic of Serbia. All liquidity indicators were in line with regulatory and internally set limits. Stress tests performed on a quarterly basis and within the recovery plan showed the Bank’s high resilience to potential stressful situations.

Within the liquidity management process, the Bank:

- Continuously monitors and analyses all the factors that influence the Bank’s liquidity position,
- Maintains the required level of the obligatory dinar and foreign currency reserves, in accordance with the regulations of the National Bank of Serbia,
- Continuously work on optimizing daily liquidity by providing funds in sufficient amount and currency structure (at the level of each currency) for the smooth settlement of liabilities, which includes estimating the expected cash flows for a period of 30 days,
- Reviews and monitors the long-term liquidity position based on the projections of liquidity gaps, i.e., monitoring the compliance of cash inflows and outflows on the basis of balance sheet and off-balance sheet items in the long run,
- Provides diversified sources of funding,
- Maintains liquidity reserves, including a portfolio of securities issued by



**In the process of diversifying the sources of funding, in 2020 the Bank successfully worked to preserve the stability of the deposit base of both retail and corporate, with further diversification in terms of maturity structure and cost reduction.**

the state or the NBS, at an adequate level and structure,

- Places liquidity surplus within the defined limits.

The Bank manages liquidity in a way that ensures the stability, diversification, and flexibility of the sources of funding.

In the process of diversifying the sources of funding, in 2020 the Bank successfully worked to preserve the stability of the deposit base of both retail and corporate, with further diversification in terms of maturity structure and cost reduction. The Bank also achieves diversification of funding sources by contracting loan arrangements with the international financial institutions and the parent bank and its affiliates.

The achieved liquidity indicators are presented in the following table:

The daily indicator of the level of liquidity	2020	2019
Period average	1.90	1.68
Highest	2.36	2.17
Lowest	1.45	1.37
On December 31	1.89	1.99

In accordance with the applicable regulations, the Bank also calculates the Liquidity Coverage Ratio (LCR), which is a measure of the bank's ability to provide sufficient liquid assets in order to fulfil all outstanding liabilities under the assumed stressed conditions. The Liquidity Coverage Ratio (LCR) during 2020 was above the regulatory and internally prescribed limit and ranged between 113% and 140%, and on 31 December 2020 it amounted to 130%.

## Interest Rates Risk

Interest rate risk is defined as the risk of possible negative effects on the financial result and capital of the Bank due to unfavourable trends in the interest rates market. The main types of interest rate risk are the risk of maturity time mismatch (for items of assets and liabilities related to a fixed, invariable interest rate) and re-determination of prices (for items related to variable interest rate), yield curve risk, base risk and embedded options risk, i.e. optionality risk.

The process of managing the interest rate change risk involves monitoring, identifying, measuring, and mitigating the effects that adverse interest rate movements can have to the financial result and capital of the Bank. Measurement of the impact of the interest rate risk to the Bank's financial result can be made by calculating changes in the net interest margin in certain scenarios of future trends of market interest rates (NIM sensitivity analysis), while the measurement of the impact of the interest rate risk to the Bank's capital is made by monitoring the change in the economic value of capital in the event of a change of interest rates (EVE sensitivity analysis).

In order to adequately manage the interest rate risk, the Bank has established limits that are monitored on a regular basis. Compliance with the limits is regularly reported to the relevant boards (Assets and Liabilities Management Board of the Bank, Executive and Management Board). During 2020, the Bank followed the defined limits.



The basic strategic goal of the Bank in terms of capital management is the effort to use the available capital resources economically and in accordance with the defined business development prospects of the Bank. The Bank's capital management policy priority is to cover the potential losses of the Bank and the resulting negative effects arising from risk exposure, in relation to yield performance. In the process of capital management, the focus is on continuous monitoring of capital adequacy. The Bank's capital level that is considered as adequate is the level of capital that ensures the implementation of the Bank's strategy and business policy, and at the same time provides cover for all the risks that the Bank is exposed to in its operations. Capital management is based on:

- The process of risk identification, measurement, and assessment,
- Ensuring an adequate level of capital in accordance with the risks that the Bank is exposed to in its operations,
- Adequate incorporation of capital management into the Bank's management and decision-making system,
- Regular analyses, monitoring and verification of the capital management process of the Bank.

The central role in the capital management process is the Bank's management - the Assembly, Board of Directors, and the Executive Board. It is the responsibility of the Bank's Assembly to decide on all capital increases, as well as the adoption of the Bank's business policy and strategy, which defines the input data for the Bank's capital planning for the next business year.

It is within the competence of the Bank's Board of Directors to establish a strategy for risk management and risk supervision that the Bank takes over as part of its business activities, which affect the level of the Bank's capital adequacy, as well as the strategy for managing the Bank's capital.

Within the function of the Bank's strategic risk management, the Executive Board of the Bank proposes the Bank's business policy and strategy of the Bank, capital management strategy, and risk management strategy and policies to the Board of Directors, implements all these policies and strategies and adopts the procedures to identify, measure, assess and monitor the risks to which the Bank is exposed in its business operations, and which affect

the adequacy of the Bank's capital and hence the future business decisions.

Within the process of capital management, the competence of the Executive Board of the Bank is to incorporate the planning of capital into all business decisions and procedures related to business planning, timely inform the Board of Directors of the needs for capital and enable adequate reporting of the bank's external supervisory authorities on the level of capital adequacy. Considering that the Bank's capital management is in high correlation with the risk profile of the Bank, in addition to the Bank's organizational parts belonging to the standard management hierarchy, the Bank has established a number of committees in charge of monitoring the exposure to existing risks, as well as planning and anticipating the potential exposure to new types of risks.

### Capital of the Bank in 2020

The total capital of the Bank consists of Common Equity Tier 1 capital, additional Tier 1 capital, and Tier 2 capital.

The Tier 1 capital of Bank consists of: share capital based on ordinary shares, share premium, revalorization reserves, profit reserves, regulatory adjustments of value of the Bank's basic share capital elements value, intangible investments, deferred tax assets that are dependent on the future profitability of the Bank, other than those arising from temporary differences, decreased for deferred tax lia-

bilities and other deductible items prescribed by Decision on capital adequacy.

Tier 2 consists of subordinated liabilities that are included in the supplementary capital of the Bank in accordance with the valid Decision on capital adequacy.

In accordance with the valid Decision on capital adequacy, the Bank is obliged to calculate the following indicators:

- the Bank's basic Common Equity Tier 1 capital adequacy ratio which is equal to the ratio of the CET1 capital and the risk-weighted assets of the Bank and cannot be below 4.5%,
- the Bank's Tier 1 capital adequacy ratio which is equal to the ratio of the Tier 1 capital and the risk-weighted assets of the Bank and cannot be below 6%,
- the Bank's total capital adequacy ratio, which is equal to the ratio of the total capital and the risk-weighted assets of the Bank and cannot be below 8%.

Also, the Bank is required to maintain capital adequacy ratios increased in a manner that allows it to cover the combined capital buffer requirements.

The Bank's risk assets represent the sum of the total amount of risk-weighted exposure to loan risk, counterparty risk, and price risk for trading book activities, foreign exchange risk, and risk of adjusting loan exposure for all business activities the bank and for operational risk.

In 2020 the level of capital and the indicator of adequacy had the following trend:

Capital In RSD 000	MAR 2020	JUN 2020	SEP 2020	DEC 2020
Total capital	50,220,779	56,078,840	55,773,957	57,169,615
Tier 1 capital	40,997,953	47,026,067	46,898,478	48,471,769
Common equity Tier 1 capital	40,997,953	47,026,067	46,898,478	48,471,769
Share capital and share premium	23,724,274	23,724,274	23,724,274	23,724,274
Profit reserves	16,396,831	22,543,492	22,543,492	24,043,492
Revalorization reserves	1,996,760	1,845,252	1,720,455	1,645,008
Intangible investments	-744.213	-714.600	-708.394	-702.186
Deductible items related to DTI ratio and maturity exceeding in case of cash, consumer, and other loans placed to retail segment	-276.249	-275.733	-282.794	-196.880
Deferred tax assets dependent on the future profitability	-55.717	-55.717	-55.717	0
Other regulatory adjustments	-43.734	-40.902	-42.839	-41.939
Additional Tier 1 capital	0	0	0	0
Tier 2 capital	9,222,826	9,052,773	8,875,478	8,697,846
Subordinated obligations	9,222,826	9,052,773	8,875,478	8,697,846
Total risk-weighted assets	239,960,692	253,615,265	260,466,896	264,538,384
Total risk-weighted assets for credit risk	211,656,179	224,801,875	232,356,009	234,936,640
Total risk-weighted assets for market risk	403.556	926.958	216.167	654.239
Total risk-weighted assets for operational risk	27,753,045	27,753,045	27,753,045	28,833,402
Total risk-weighted assets for CVA risk	147.913	133.388	141.675	114.104
Total capital adequacy ratio 8%	20,93%	22,11%	21,41%	21,61%
Tier 1 capital adequacy ratio 6%	17,09%	18,54%	18,01%	18,32%
CET 1 adequacy ratio 4.5%	17,09%	18,54%	18,01%	18,32%

During 2020, the Bank maintained the level of capital adequacy in regulatory frameworks.

During 2020, there was no need for recapitalization in the form of the new issue of shares.



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## Financial indicators of the Bank

## 1. Income statement

RSD 000	2020	2019	VAR 20/19
<b>OPERATING INCOME</b>	<b>15,110,613</b>	<b>16,048,234</b>	<b>-5.8%</b>
Interest income	12,929,236	13,977,507	-7.5%
Interest expense	-1,436,922	-2,268,089	-36.6%
<b>Net income from interests</b>	<b>11,492,314</b>	<b>11,709,418</b>	<b>-1.9%</b>
Fee and commission income	4,991,492	5,629,676	-11.3%
Fee and commission expense	-1,855,047	-2,137,860	-13.2%
<b>Net income from fees and commissions</b>	<b>3,136,445</b>	<b>3,491,816</b>	<b>-10.2%</b>
Net gain (loss) based on change of fair value of financial instruments	-612,355	270,188	
Net gain (loss) based on cease of recognition of financial instruments valued based on fair value	0	141,097	
Net income (expense) from exchange rate differences and effects of contracted currency clause	575,404	-324,773	
Net gain from investments in associates and joint ventures			
Other operating income	383,826	370,158	3.7%
Other income	134,978	390,330	-65.4%
<b>OPERATING EXPENSE</b>	<b>-7,623,754</b>	<b>-8,313,922</b>	<b>-8.3%</b>
Salaries, wages and other personal expenses	-3,334,593	-3,256,995	2.4%
Depreciation costs	-827,774	-835,481	-0.9%
Other expenses	-3,461,387	-4,221,446	-18.0%
<b>REGULAR OPERATING PERFORMANCE</b>	<b>7,486,859</b>	<b>7,734,312</b>	<b>-3.2%</b>
Net income/expense based on decrease of impairment of financial assets that are not valued at fair value through income statement	-5,003,411	-2,972,110	
Net (loss)/gain based on cease of recognition of financial instruments valued based on depreciated value	46,391	149,987	
<b>INCOME BEFORE TAXES</b>	<b>2,529,838</b>	<b>4,912,189</b>	<b>-48.5%</b>
Income tax	-158,175	-581,677	
Deferred taxes gain (loss)	-18,602	199,664	
<b>INCOME AFTER TAXES</b>	<b>2,353,061</b>	<b>4,530,176</b>	<b>-48.1%</b>

The total operating income of the bank reached RSD 15,1 billion (EUR 128,5 million), which is a -5.8% (RSD -937,6 million) drop compared to the previous year. The biggest impact on the decline in total operating income comes from net fee and commission income by -10,2% (RSD -355 million), which mostly stems from the decline in net payment card income (RSD -237 million), as well as from the decline in total net income from financial transactions (RSD -66 million), primarily as a consequence of the strong effect of the pandemic and the state of emergency during the second quarter of 2020. Also, net income from interests of RSD 11,5 billion (EUR 97,7 million) was at a slightly lower level compared to 2019, with a decrease of -1,9% (RSD -217 million), mainly as a result of decrease in interest income. Despite the strong growth of the loan portfolio during 2020, lowering the dinar reference interest rate several times during the year to the level of 1% (the level of the reference rate in December 2019 was at the level of 2.25%), as additional support to economic recovery, affected the decline in all basic dinar rates and thus the nominal decline in interest income, as well as the decline in the average net margin during 2020.

Total operating expenses at the end of 2020 amounted to RSD 7,6 billion (EUR 64,8 million), which is by 8,3% (RSD 690 million) below the 2019 level, mainly as a consequence of lower other expenses. Within other expenses, the biggest cost reduction was achieved on deposit insurance costs (RSD 352 million), on transportation costs for employees and other travel expenses (RSD 36 million), and the rest comes from efficient cost control in most positions, as well as reduced write-offs compared to the previous year (related to the integration process).

**In 2020, the bank generated a profit after taxes of RSD 2,4 billion (EUR 20 million) at the consolidated level, which is a -48,1% (RSD -2,2 billion) decrease compared to 2019.** The decline in net results, in addition to a slight decline in net operating result (-3,2%, RSD -247 million), was primarily influenced by net expense based on decrease of impairment of financial assets that are not valued at fair value through income statement, marking an increase of RSD -2,0 billion, which is primarily due to the prudent cost of risk policy during 2020, with regard to the pandemic and the effects of COVID-19.

## 2. Balance sheet

<b>Assets in RSD 000</b>	<b>31/12/2020</b>	<b>31/12/2019</b>	<b>VAR 20/19</b>
Cash and assets with the central bank	52,426,136	39,923,286	31,3%
Pledged financial assets	1.000.000	-	
Receivables coming from derivatives	158,115	145,131	8,9%
Securities	40,515,224	41,346,380	-2,0%
Loans and receivables from banks and other financial organizations	3,840,516	6,125,768	-37,3%
<b>Loans and receivables from customers</b>	<b>271,229,196</b>	<b>241,059,970</b>	<b>12,5%</b>
Retail	136,927,102	116,853,180	17,2%
Corporate	134,302,094	124,206,790	8,1%
Investments in associates and joint ventures	149,650	149,650	0,0%
Investments in subsidiaries	314,098	314,098	0,0%
Intangible investments	702,186	804,147	-12,7%
Real estates, plants and equipment	3,698,562	3,564,815	3,8%
Investment real estates	35,219	36,523	-3,6%
Current tax assets	804,830	420,109	91,6%
Deferred tax assets	-	-	
Other assets	1,003,212	1,675,785	-40,1%
<b>Total assets</b>	<b>375,876,944</b>	<b>335,565,662</b>	<b>12,0%</b>
<b>Liabilities</b>	<b>31/12/2020</b>	<b>31/12/2019</b>	<b>VAR 20/19</b>
Liabilities coming from derivatives	200,386	189,074	6,0%
Deposits and other financial liabilities to banks, other financial organizations and the central bank	103,216,841	88,990,661	16,0%
<b>Deposits and other financial liabilities to other customers</b>	<b>204,957,343</b>	<b>181,867,166</b>	<b>12,7%</b>
Retail	96,177,952	89,819,807	7,1%
Corporate	108,779,391	92,047,359	18,2%
Subordinated obligations	9,427,824	9,429,522	0,0%
Provisions	2,057,074	1,341,635	53,3%
Current tax liabilities	0	0	
Deferred tax liabilities	25,025	87,767	-71,5%
Other liabilities	3,953,169	3,713,452	6,5%
<b>Total liabilities</b>	<b>323,837,662</b>	<b>285,619,277</b>	<b>13,4%</b>
<b>Capital</b>	<b>31/12/2020</b>	<b>31/12/2019</b>	<b>VAR 20/19</b>
Share capital	23,724,274	23,724,274	0,0%
Gain	2,353,061	7,646,662	-69,2%
Loss	-	-	
Reserves	25,961,947	18,575,449	39,8%
<b>Total capital</b>	<b>52,039,282</b>	<b>49,946,385</b>	<b>4,2%</b>
<b>Total liabilities</b>	<b>375,876,944</b>	<b>335,565,662</b>	<b>12,0%</b>



The balance sum is increased by 12.0% to RSD 375,9 billion (EUR 3.2 billion) in 2020.

At the end of 2020, the amount of loans to customers reached RSD 271,2 billion (EUR 2,3 billion), which is an increase of 12,5% compared to the previous year. The positive trend of increase in placements in the retail segment continued in 2020 and amounted to 17.2% compared to 2019, i.e., it reached the level of RSD 136,9 billion (EUR 1,2 billion), which is largely a result of increase in placements of cash (+22.3%) and housing loans (+14.6%).

The corporate sector reached RSD 134,3 billion (EUR 1,1 billion), recording a 8,1% growth compared to the previous year, due to the continued dynamic growth in the corporate segment.

Total deposits at the end of 2020 reached RSD 205 billion or EUR 1.7 billion (+12.7% compared to 2019). The retail deposits at the end of 2020 reached RSD 96.2 billion (EUR 818 billion, +7.1% compared to 2019). On the other hand, corporate deposits reached RSD 108.8 billion (EUR 925 million) in 2020, which is an increase of 18.2% compared to 2019.



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## Future development of the Bank

Favorable macroeconomic trends from the previous year continued at the beginning of 2020 in the Serbian market, but since March, as in other European countries and countries worldwide, economic activity in the country has been negatively affected by the corona virus pandemic. The crisis caused a significant decline in economic activity in the second quarter of 2020. The National Bank of Serbia and the Government of the Republic of Serbia have accordingly adopted a significant package of monetary and fiscal stimulus measures to support the economy in overcoming the negative effects of the pandemic.

At the beginning of March, the National Bank of Serbia decided to lower the reference interest rate by 50 basis points to 1.75%. Also, at the sessions held in April, June and December, the reference interest rate was lowered by 25 basis points to 1.00%, since the proportions of the crisis worldwide caused by the pandemic required additional support from the monetary policy. This provides additional support to the domestic economy, given the repeated deterioration of the epidemiological situation and slowing down of the economic recovery, and contributes to a further decrease in interest rates on the interbank money market, as well as to lowering interest rates on dinar loans to the new lowest level so far. The

National Bank of Serbia has taken additional measures to support the real sector, providing a significant amount of dinar and foreign currency liquidity to banks through direct repo operations, swap auctions and bilateral purchases of dinar government securities from banks. A moratorium on repayment of loans and financial leasing obligations has also been prescribed in order to alleviate the burden of the crisis on the citizens and the country's economy. In July, stimulative measures were introduced within the guarantee scheme of the Government of the Republic of Serbia, which contribute to better conditions for lending in RSD currency to the corporate sector, and thus increase the degree of dinarization and further strengthen financial stability.

Despite the uncertainty regarding the pandemic, the National Bank of Serbia revised the GDP growth projection for 2020 upwards (to the level of -1%) as a result of faster recovery of industrial production, smaller decline in investments, better performance of the service sector and better agricultural season. A swift economic recovery driven by domestic demand and exports is expected next year, with an economic growth rate of around 6%. The commercial activity of OTP banka Srbija (OTP) remained stable during 2020. despite the unfavorable economic environment, which is the result of quality



**The commercial activity of OTP banka Srbija (OTP) remained stable during 2020. despite the unfavorable economic environment, which is the result of quality operations in the corporate and retail sector through stable production of cash, consumer and housing loans**

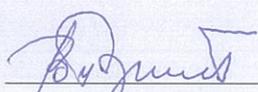
operations in the corporate and retail sector through stable production of cash, consumer and housing loans, enabling the Bank to maintain the position of one of the leading banks in the market (fifth in terms of assets, third in terms of loans, and fifth in terms of total deposits at the end of the third quarter of 2020).

On September 24, 2019, the Bank changed its ownership structure, following the completion of the acquisition process in which OTP Bank Plc Budapest bought 100% of the shares from the previous owner - Societe Generale SA Paris. By doing so, the Bank became a member of the OTP Group, a dominant player in the Central and Eastern European region. At the same time, the Bank changed its business name to OTP banka Srbija AD Beograd. In addition to the strategic goals of the OTP Group to increase market share in the countries in which it operates, the business policy includes the successful completion of the integration project at the end of April 2021 and the merger with Vojvodjanska banka. That is why OTP banka created its plan for 2021 up to April 2021, when the integration process with Vojvodjanska banka is expected to be completed. OTP banka remains focused on strengthening customer relations, as well as improving efficiency, which contributes to excellent commercial results in all segments:

- In the retail segment, the Bank continued to improve its product offering as well as tariffs, simplifying the process of accepting new clients and activities aimed at reducing customer churn, as well as improving the process of approving small business loans.
- In the corporate segment, the proactive approach to the development of client cooperation with the Bank in all operating segments continued, as well as support through additional lending for various needs, including loans from the business support programs, so-called guarantee schemes. In addition to focusing on clients, the bank continued with the integration process in order to ensure the efficiency of future processes and maintain the quality of services after the integration of the two banks.

The Bank's innovative approach, customer focus, together with the expected growth of the economy in 2021, lower unemployment and higher wages leading to increased spending and lending activity, will enable OTP banka to further strengthen its commercial activity and consolidate its rating among leading market players.

Annual report of OTP banka Srbija a.d. Beograd for the year that ended on December 31, 2020 is approved by the management of the OTP banka Srbija a.d. Beograd on March 30<sup>th</sup>, 2021.



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