

## **Risk appetite Statement of the Supervisory Board of OTP Bank Romania S.A. for 2020**

We, as the Supervisory Board of OTP Bank Romania S.A., have agreed and confirm the following regarding the risk appetite of the organization:

### **I. General principles:**

1. This document is an integral part of the framework on risk appetite developed at the level of OTP Bank Romania S.A. (hereinafter the Bank) and defines the aggregate level and types of risk that the Bank is willing to assume within the limits of its risk capacity, according to its business model, in order to achieve its strategic objectives.
2. The risk appetite is defined both at a general level and at the level of each significant risk for the Bank on a scale of 5 points between the low level and the high level.
3. A high risk appetite is the availability to be exposed to a high probability and / or potential impact of a risk.
4. Having a high appetite for a risk does not mean that the real manifestation of the risk is desirable or the event should be overlooked once it occurs.

### **II. Overall risk appetite**

5. The Bank shall aim to optimize its risk profile so as to achieve its business objectives with the least possible impact in terms of the risks to which it is exposed.
6. Thus, the general objective regarding the risk appetite of OTP Bank Romania S.A. is to have an overall MEDIUM risk profile obtained by aggregating the levels of significant risks.
7. From the perspective of capital adequacy to risk, it corresponds to a minimum level of individual and consolidated overall capital requirement (OCR) of 17.51% (includes the total capital requirement SREP (TSCR), a combined buffer requirement of 4.50 % and a management shock absorber of 1.50%).
8. Risk appetite is an integral part of the Bank's business planning processes to promote the proper alignment of risk, capital and performance objectives, while taking into account risk capacity and appetite constraints in terms of financial and non-financial risks.

### **III. Appetite for significant risks**

9. The diversity of activities carried out at the level of the institution requires the identification, measurement, administration and monitoring of risks on an ongoing basis.
10. The level of risk appetite of the Bank differs among the risks considered significant after the inventory of all risks to which the bank is exposed.
11. OTP Bank Romania S.A. has a **medium - low risk appetite** for:
  - (a) The risk that the recognized credit risk mitigation techniques used may prove less effective than anticipated, resulting in an overestimation of collateral or problems related to their liquidation. In this

sense, a series of management, control and monitoring mechanisms have been implemented both in the process of assuming credit risk and at the level of the risk management function.

- (b) The risk of losses on and off - balance sheet positions due to unfavorable market fluctuations in prices. The Bank manages the market risk exposure of the portfolio held for trading separately from that of the activities outside the trading book. The trading activity is carried out within the approved trading strategy. The trading of highly liquid instruments will be pursued.
- (c) Current or future risk associated with the banking portfolio to negatively affect profits and capital as a result of adverse changes in interest rates. Interest rate risk exposure is monitored on a monthly basis by the Assets and Liabilities Management Committee (ALCO).
- (d) The risk of not being able to meet its obligations at maturity and of a significant increase in the cost of financing. Liquidity is pursued under both normal and crisis conditions, taking into account the resources needed to support the budgetary objectives of business development. Through its activity, the Bank aims to minimize its exposure to liquidity risk and does not seek to make a profit by assuming a high exposure.
- (e) The risk associated with the improper provision of financial services, including cases of intentional or negligent misconduct. The Bank manages the risk of conduct by promoting the Code of Ethics and implementing clear policies on the development of products and services, conflict of interest management, the regime of incentives received from third parties or granted to them regarding investment services.
- (f) The risk of a loss as a result of decisions that could be based primarily on the results of internal models due to errors in the development, implementation or use of those models.
- (g) Risks of loss due to breach of confidentiality, failure to ensure the integrity of systems and data, inadequacy or unavailability of systems and data or inability to change information technology in a reasonable time and at reasonable costs when environmental or business requirements change. These include security risks resulting from inadequate or failed internal processes or external events, including cyber attacks or inadequate physical security. These risks are mitigated within the IT strategy developed at the Bank's level.
- (h) The risk of adversely affecting profits, own funds or liquidity as a result of damaging the credit institution's reputation. The Bank aims to continuously improve its reputation, effectively manage customer requests and complaints and establish appropriate corrective actions.
- (i) The risk that may materialize in operating losses or unrealized income and subsequently in potential reputational damage to the Bank due to its current / future operations performed by third parties on its behalf. The outsourcing of some activities is carried out on the basis of specific internal

regulations and only with the prior approval of the Risk Operations Committee and the Bank's Management Board.

- (j) The risk of adversely affecting profits, own funds or liquidity, which may lead to significant financial losses or damage to a credit institution's reputation as a result of breaches or non-compliance with the legal and regulatory framework, agreements, practices recommended or ethical standards applicable to its activities. The Bank is committed to ensuring a high level of compliance with relevant legislation, regulations, codes and standards, as well as compliance with internal policies and corporate governance principles.
- (k) The risk posed by the impact and likelihood of the Bank's involvement in money laundering and terrorist financing activities. The Bank will implement procedures to ensure the allocation of resources to ensure compliance with regulatory requirements, including the implementation of best practice guidelines in line with European regulations, depending on the size and complexity of the Bank's operations.
- (l) Risks arising from the Bank's inability to properly implement business plans, strategies, decisions, resource allocation and inability to adapt to changes in the business environment. The monitoring and reporting mechanisms developed at the Bank's level provide the premises for mitigating these risks. The fulfillment of the actions and objectives set by the business strategy of OTP Bank Romania S.A. will be pursued.

12. OTP Bank Romania S.A. has a **medium risk appetite** for:

- (a) Credit risk (default of the debtor on fulfilling contractual obligations) and the risk of concentration of credit exposures. The lending activity represents the basic activity of the institution, over 90% of the debt instruments being loans and advances. At the same time, according to the business strategy, the Bank aims to reach a considerable growth of market share in the next three years. It is therefore necessary to take these risks, but to an acceptable level, carefully managed through the three lines of defense of the credit risk management framework. It is also intended to build up sufficient reserves to absorb.
- (b) Operational risk resulting either from the use of inadequate or improperly performed internal processes, persons or systems, or from external events, including legal risk. The Bank pays close attention to operational risk events and constantly monitors the development and improvement of the operational risk management framework.

#### IV. Communication

13. Risk appetite Statement of the Supervisory Board of OTP Bank Romania S.A. will be published as an annex to the Transparency Report.

## V. Monitoring and reporting

14. The monitoring of the risk profile in relation to the risk appetite is performed quarterly by the Risk Administration Directorate by calculating the specific indicators and aggregating the results according to the provisions of the Risk Strategy of OTP Bank Romania.

15. The results are reported to the Operative Risk Committee, the Risk Management Committee and the Bank's Management Board.

16. Deviations from risk appetite are reported quarterly to the Bank's Supervisory Board by the Risk Administration Directorate.

## VI. Revision

17. The risk appetite statement will be revised:

- (a) annually;
- (b) whenever the revision of the Risk Strategy so requires.



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