

**Annex 2 Risk appetite Statement of the Supervisory Board of OTP Bank Romania S.A. for first semester of 2023**

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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 overall capital requirement (OCR) of 16.74% at individual level and of 17.07% at consolidated level (includes the total capital requirement SREP (TSCR), a combined buffer requirement of 4% at individual level, respectively 4.5% at consolidated level<sup>6</sup> and a management shock absorber of 0.50% at individual level and 0.25% at consolidated level). Concerning liquidity adequacy, the objective is to register a minimum level of the liquidity coverage ratio (LCR) of 120%.
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.

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<sup>6</sup> Starting with October 2023, it will also include the capital countercyclical buffer of 1.0%, becoming 4.5% at standalone level and 5% at consolidated level, and the target rates will change accordingly.

### 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 (general compliance risk). 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) 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.
- (l) 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.

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 market share at the end of 2023 of 3.38%. 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. Detailed provisions concerning compliance risk appetite**

13. As set out in the legal regulations in effect and in the internal provisions and regulations, the executives, managers, employees of the OTP Bank Romania S.A. undertake general responsibility for the application of compliance requirements and rules. All employees of the organization are under an obligation to enforce requirements for compliance, report any circumstances that pose a threat to enforcement, and participate in the elimination of such circumstances. Persons performing outsourced activities or engaged as experts or advisors, whether natural or legal persons, must meet compliance requirements and standards as well.

14. The compliance function is conducted in order to create a corporate culture that ensures the prudential and ethical operation of the Bank in the long term.

15. In the course of operating the compliance function, the Bank applies the following principles:

- Independence
- Integrity
- operation without interference
- objectivity
- preventive and proactive approach
- risk-based approach
- proportionality
- high level of professional care and competence
- full coverage of the Bank's areas of activity through monitoring, control and support
- efficiency, rationalisation of compliance costs

**16. Processing and protection of personal data – GDPR**

a. The Bank is committed to the adequate protection of the personal data processed by it, in accordance with the provisions of the General Data Protection Regulation and the applicable national laws and regulations.

b. As part of that, the Bank has established, operates and applies a system for regulation, implementation and auditing that provides for the adequate protection of personal data by meeting the criteria specified in applicable legislation and safeguarding its core business interests.

**17. Conflict of interest, ethics**

a. The Bank has a vested business interest and a statutory obligation in ensuring that the personal interests of its employees and of members of its management bodies are not in conflict with the business interests and commitments of the Bank and its customers, and that the Bank identifies, prevents and manages the conflicts of interest related to its various activities, and regulates and ensures the assessment of suppliers' compliance (supplier pre-screening). With a view to protecting its values and its customers, the Bank formulates requirements for ethical business operations.

b. The Bank draws up a Conflict of Interest Policy to specify the circumstances that are associated with its investment service activity, ancillary services and related financial services, and which lead or may lead to a conflict of interest potentially causing adverse consequences for the business partner. The Policy also defines the detailed procedural rules and measures that allow the prevention, identification and management of conflict of interest situations that are potentially prejudicial to the business partner.

**18. Compliance with restrictions on information flows between financial and investment service activities**

a. The Bank puts in place an internal organisational, operational and procedural mechanism to ensure that the data and information flows among the organisational units in charge of financial services, ancillary financial services and investment services comply with the applicable legal provisions and recommendations.

- b. The organisational units of the Bank may only disclose confidential banking and securities information to one another as provided for in their own applicable internal regulations.
- c. Additionally, the Bank ensures that any person may only access bank secrets and securities secrets on a need-to-know basis.

**19. Prevention of market abuse (insider dealing, unfair price manipulation)**

- a. Within the meaning of applicable law and of its own regulation, the Bank prohibits insider dealing and attempted insider dealing in respect of the financial instruments of companies whose securities are issued in public offerings and in connection with which the insider person has obtained information. The transmission of such information is also prohibited. The Bank counters all forms of inside dealing, carrying out analyses and examinations of such incidents, and taking action to prevent such incidents, or address incidents that have occurred.
- b. The Bank counters all forms of conduct that involves a potential for market manipulation, or is inconsistent with generally accepted professional principles, or discloses unfounded, false or potentially deceptive information and gives signals of that character about the price of a specific financial instrument, or artificially keeps the price of an instrument at an abnormal level.

**20. Fair treatment of customers, consumer protection**

- a. The Bank is committed to the enforcement of consumers' interests. In this context, it follows consumer protection principles that are consistent in their approach, and takes into account changes in consumer habits and interests.
- b. The Bank continuously monitors and regularly assesses the adequacy and effectiveness of the measures and procedures relating to investment services as well as the measures aimed at addressing compliance deficiencies.
- c. The Bank takes all of the measures required to ensure that orders are carried out in the best interest of customers, and that it exercises utmost care and prudence in managing customers' financial instruments and investments.
- d. The Bank has undertaken a commitment to safeguard the interests of capital market participants, investors and customers, to maintain fair competition, and to prevent market abuse and conflicts of interest.

**21. Corporate governance**

- a. In the spirit of responsible corporate governance, the Bank has guidelines in place ensuring that the operations of the Bank comply with the internationally recognised rules and standards of responsible corporate governance, and that the public disclosure of information on its governance and operations makes it a transparent and verifiable company.

**22. Compliance with international tax agreements**

- a. The Bank has a fundamental interest and a legal obligation in ensuring its full compliance with the customer identification and reporting requirements set out in international tax arrangements (FATCA for the US, CRS/DAC2/DAC6 for the OECD and the European Union), and in applicable local law.

**23. Compliance with the requirements of international sanctions and mitigation of risks associated with sensitive transactions**

- a. Upon the establishment and maintenance of its relationships and making its business decisions, the Bank takes into account the economic, financial and commercial sanctions and embargo requirements approved by international organisations and specific states, thus, in particular, by the

b. In pursuing its business policy goals, the Bank strives to avoid sensitive transactions that may be detrimental to the reputation and business relations of the Banking Group and accordingly, it inspects – in particular but not limited to – active transactions related to military goods, dual use products and technologies, the extraction of crude petroleum, nuclear energy and crypto instruments.

## V. ESG risks appetite

24. OTP Bank Romania's mid term objective is to develop a comprehensive ESG risk management framework able to ensure alignment with the definitions and requirements of EBA and ECB, local integration the parent bank's strategy for green financing and ESG risk management and increased understanding and capability to quantify ESG risks in order to set limits (at the level of business line, economic sector or product) that adequately reflect the appetite for ESG risks.

25. In 2021, the Bank implemented a methodology for the assessment of ESG risks at initiation of exposures to corporate clients and over the life of the exposure. Economic activities whose nature and impact are incompatible with the values set at the level of the OTP Group in terms of providing responsible financial services and promoting sustainable development will be excluded from financing on the basis of a defined list.

26. In relation to our customers, OTP Bank Romania's ESG Exclusion List is the central steering document that lists the activities that are not supported by the Bank. The bank's new customers should not engage in the activities listed in the ESG Exclusion List, which incorporates the following:

- Transactions with the purpose to violate legal regulations of the host country or international law, like: illegal arms trade, prohibited gambling, illegal trading in drugs, production or trade in products containing PCBs (Polychlorinated biphenyls are a group of highly toxic chemicals), production or trade in pharmaceuticals, pesticides/herbicides and other hazardous substances subject to international phase-outs or bans, production or trade in ozone depleting substances subject to international phase out, trade in wildlife or wildlife products regulated under CITES, Transboundary movements of waste prohibited under international law;
- Production of or trade in controversial weapons (anti-personnel landmines, biological, chemical and nuclear weapons etc.);
- Trade in goods without required export or import licenses or other evidence of authorisation of transit from the relevant countries of export, import and, if applicable, transit;
- Activities prohibited by host country legislation or international conventions relating to the protection of biodiversity resources or cultural heritage;
- Drift net fishing in the marine environment using nets in excess of 2.5 km in length;
- Shipment of oil or other hazardous substances in tankers which do not comply with IMO requirements;
- Mining, exploration and upgrading of shale gas in Europe;
- Mountain top removal – mining;
- The keeping of animals for the primary purpose of fur production or any activities involving fur production;

- The manufacture, placing on the market and use of asbestos fibres, and of articles and mixtures containing these fibres added intentionally;
- The export of mercury and mercury compounds, and the manufacture, export and import of a large range of mercury added products.

27. A distinction in engagement with controversial activities may apply for an existing client as opposed to a new client. For activities listed in the ESG Exclusion List, while new clients will be subject to zero credit tolerance, existing clients' term loans will be subject to natural amortisation, while their short-term loans may be renewed for a specific period upon the consideration of specific ESG, credit, and reputational risks. This distinction is based on the general notion that the Bank will have less leverage on a new client to agree on a strategy to exit from the activities listed in the ESG Exclusion List in the future.

28. OTP Bank Romania's ESG Strategy was defined in 2022 considering OTP Group ESG Strategic directions, regulatory recommendations, NBR expectations, market opportunities and challenges.

#### **VI. Risk appetite metrics**

29. In order to ensure the proper implementation of the risk appetite, the Bank has established the RAS dashboard, a set of metrics specific for the main risk categories which are monitored towards the triggers and limits set at the parent bank level (OTP Bank PLC).

30. The metrics cover credit risk, market risk, operational risk, liquidity and IRRBB risks, solvency, ESG credit risk, general compliance risk, KYC & AML / CFT risk, cyber risk and are reviewed periodically as well as in case of material changes to the Bank's business and risk strategies.

#### **VII. Approval and Communication**

31. The Risk Appetite Statement will be approved by the Supervisory Board together with the Risk Strategy of the Bank.

32. For disclosure, the Risk Appetite Statement will be published as an annex to the Transparency Report.

#### **VIII. Monitoring and reporting**

33. The monitoring of the risk profile in relation to the risk appetite and of the RAS dashboard 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 S.A..

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

#### **IX. Revision**

35. The risk appetite statement will be revised:

- annually;
- whenever the revision of the Risk Strategy so requires.

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Antal György Kovács  
Chairperson of the Supervisory Board of  
OTP Bank Romania SA