TRANSPARENCY AND DISCLOSURE REPORT FOR FIRST SEMESTER OF 2019

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Registered at trade regisrty under no. J40/10296/1995
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Contents

INTRODUCTION

This report has been prepared to respond to the transparency and publicity requirements of the National Bank of Romania Regulation no. 5/2013 on prudential requirements for credit institutions, as subsequently amended and supplemented, as well as Regulation no. 575/2013 of the European Parliament and of the Council of 26 June 2013 on prudential requirements for credit institutions and investment firms and amending Regulation (EU) No. 648/2012.
This report is prepared individually for 30 June 2019.

Following an overall evaluation of the frequency of information submitted for publication in the Transparency Report according to Pillar 3, this half-yearly report mainly provides an update of the areas mentioned below, which are also in line with the recommendations of the European Banking Authority ("EBA"), in the framework of the "Final Report on the publication requirements under Part 8 of EU Regulation no. 575/2013 (ABE Guide, ABE / GL / 2016/11, version 2).

The areas that require half-yearly publication of information are as follows:

- Information regarding own funds and the relevant indicators based on Regulation no. 1423/2013, which presents the implementing technical standards regarding the publication of the own funds requirements for the institutions;
- Information regarding the leverage indicator based on Regulation no. 200/2016, which presents the implementing technical standards regarding the publication of the leverage effect indicator for institutions;
- Information regarding the total risk-weighted assets and capital requirements in accordance with Article 438 points (c) - (f) of the CRR. According to ABE / GL / 2016/11 Guide, version 2, the EU OV1, EU CR8, EU CCR7 and EU MR2-B forms will be used to publish the necessary information;
- Information on risk exposures and credit quality with the corresponding quarterly or semi-annual frequency according to Guide ABE / GL / 2016/11, version 2, EU forms INS1, EU CR1 - A, EU CR1 - B, EU CR1 - C, EU CR1 - D, EU CR1 - E, EU CR2 - A, EU CR2 - B, EU CR3, EU CR4, EU CR5, EU CR6, EU CR 7, EU CR 10, EU CCR1, EU CRR2, EU CCR3, EU CCR4, EU CCR5 - A, EU CCR5 - B, EU CCR6, EU CCR8, EU MR1, EU MR2-A, EU MR3 and EU MR4;
- Information regarding the indicator Rate of coverage of the liquidity requirement considered as items prone to rapid changes in accordance with Guide ABE / GL / 2017/01.

1. Own fonds

On June 30, 2019, OTP BANK ROMÂNIA S.A. calculated the own funds according to the Regulation of the National Bank of Romania no 5/2013 on prudential requirements for credit institutions and Regulation (EU) 575/2013 on the own funds of credit institutions and investment firms with subsequent amendments and completions.

The Bank's own funds, according to the legal regulations in force regarding capital adequacy, include:

- Level I own funds, which include the subscribed and paid-up share capital, capital bonuses, eligible reserves, the deferred result and the deductions provided by the legislation in force;
- Level II own funds include subordinated loans and deductions provided by the legislation in force.

Common Equity Tier 1 (CET1): Instruments and Reserves	**Individual**
Capital instruments eligible as CET1 Capital	**1,552,004**
Of which: Capital instruments subscribed by public authorities in emergency situations	1,552,004
Retained earnings	(404,107)
Other reserves	62,507
Funds for general banking risk	4,763
Common Equity Tier 1 (CET1) before regulatory adjustments	**1,215,167**
Common Equity Tier 1 (CET1): Regulatory Adjustments	-
Additional Value Adjustments (Negative Value)	(590)
Intangible assets (excluding related tax liabilities) (negative)	(38,214)
Deferred tax assets that are based on future profitability, excluding those resulting from temporary differences (without related tax liabilities when the conditions of Article 38 (3) are met) (negative)	(5,853)

Other transitional adjustments for core Tier 1 own funds	97,811
Basic own-fund items or deductions from them - others	8,580
Basic level 1 core funds (CET1)	**1,276,902**
Additional level 1 own funds (AT1)	**-**
Level 1 own funds (T1 = CET1 + AT1)	**1,276,902**
Level 2 own funds (T2)	**-**
Total own funds (TC = T1 + T2)	**1,276,902**
Total risk weighted assets	**7,462,825**
Rate and amortization of own funds	**-**
Additional Tier 1 own funds (as a percentage of the total exposure amount)	17.11%
Tier 1 own funds (as a percentage of the total exposure value)	17.11%
Total own funds (as a percentage of the total exposure amount)	17.11%
The requirement for own-account silencer (the own-funds requirement of Tier 1 under Article 92 (1) (a) plus the capital buffer and anti-cushioned shock absorbers plus the systemic shock absorber, plus the institution's shock absorber of systemic importance expressed as a percentage of the exposure value)	186,571
of which: the capital buffer	186,571
Basic Tier 1 own funds available to meet the damping requirements (as a percentage of the exposure value)	8.32%

As of June 30, 2019, the value of individual own funds was RON 1,276,902 thousand.

The bank included in the prudential perimeter OTP Leasing, in which it owns a shareholding of 59.99% for the social capital and for which the prudential consolidation conditions provided by Regulation no 575/2013 art 19 were fulfilled. Prudential consolidation has been done through the global consolidation method, and the value of the consolidated own funds is RON 1,279,645 ths.

For the consolidation for accounting purposes, the Bank applied the exception provided in the Financial Reporting Standard 10 Consolidated - Financial Statements para a (point IV), OTP Leasing being included in the consolidated financial statements of the parent company OTP BANK Nyrt.

OTP BANK ROMANIA S.A. does not have hybrid equity instruments, instruments whose provisions provide for a redemption incentive or instruments that are subject to the transitional regime.

- **Internal capital adequacy assessment**

The process of capital adequacy to risks within OTP Bank Romania SA covers both risks for which the Romanian National Bank requires capital allocation and risk which are internally assessed in order to have an adequate internal capital in relation to the risk profile of the bank. The ratio between total capital requirement and regulated capital requirement on June 30, 2019 is 126.93% at consolidated level. The main categories of risks followed are: credit risk, operational risk, residual risk, concentration risk, risks which arise from the activity of granting loans in FX to the debtors which are exposed to foreign currency risk, liquidity risk, reputational risk, stress test component (including external risks to the credit institution) and interest rate risk.

2. Information on the minimum capital requirements

For calculating the capital adequacy to risks, the treatment of the credit risk is made in accordance with the standard approach provided by the EU Regulation 575/2013 of European Parliament and Board from June 26, 2013 regarding prudential requests for credit institution and investment firms and modification of EU Regulation no. 648/2012. For the calculation of the minimum capital requirements related to the position, operational and foreign currency risks, the Bank uses the standard approach.

For the purpose of calculating the additional capital requirement, OTP BANK ROMANIA S.A. evaluates quarterly the capital requirements for the non-regulated risks. In the internal process for assessing the capital adequacy to risks, OTP BANK ROMANIA S.A. uses both quantitative and qualitative approaches.

In the process of evaluating the capital adequacy to risks, OTP BANK ROMANIA S.A. shall prepare annually a plan regarding the capital, approved by the management body. This plan will include estimated capital requirements according to business objectives proposed by the Bank for that year. This plan will be updated whenever will be anticipated situations where, due to changes of the business environment and/ or strategic objectives of the Bank, the capital required for carrying out the Banking activity no longer meets the minimum requirements.

3. Leverage Risk

The risk associated with the excessive use of leverage means the risk arising from the Bank's vulnerability to leverage or contingent leverage that may require unplanned corrective measures of the business plan, including the emergency sale of assets which could result in losses or reevaluation of the assets left.

Through its activity, OTP Bank Romania SA assumes exposure to leverage risk at a level that does not endanger the bank's profitability and capital.

In order to achieve this maximum and warning limits were established, the leverage risk indicator is including in the planning process, a methodology was established to calculate potential extra capital need for leverage risk, the indicator is monitored at ALCO and Directorate level.

During the first semester of the 2019 the leverage risk level has stayed within the approved limit (both maxim and warning limit).

The risk associated with the excessive use of leverage is monitored at a consolidated level. Due to the size of OTP Leasing there is no significant effect on the consolidated leverage risk indicator.

Description of the factors that influenced the leverage indicator over the period covered by the Leverage Leverage Indicator

At 30.06.2019, the indicator of the transitional leverage effect was 10.16%, compared to 31.12.2018 when its value was 10.81%.

Exposures to financial derivatives	**Applicable amounts**
Effective notional effective value of underwriting credit derivatives	6,736,056
Total exposures to financial derivatives	96,087
Alte expuneri extrabilanțiere	**Applicable amounts**
Off-balance sheet exposures denominated in gross notional value	651,516
(Adjustments for conversion into equivalent credit amounts)	-
Financing operations for securities that are not subject to a clearing agreement between different products	235,173
Other off-balance exposures	-
Exposures for calculating the leverage indicator according to the CRR Regulation	**Applicable amounts**
Total balance sheet exposures (excluding financial derivatives, SFT and exempted exposures), of which:	11,581,708
Exposures related to the trading book	-
Exposures related to the banking portfolio, out of which:	-
Guaranteed bonds	-
Exposures considered as sovereign	2,290,088
Exposures to regional governments, multilateral development banks, international organizations and public sector entities that are not treated as sovereign entities	10,880
Institutions	493,966
Exposures secured by mortgages on immovable property	2,704,888
Retail exposures	2,110,098
Companies	2,780,466
Exposures in default	395,468
Other exposures (eg equity securities, securitisations and other assets that do not meet credit obligations)	795,853

Own funds and total exposure measurement indicator	Applicable amounts
Tier 1 capital - transitional definition	1,276,902
Total Leverage Ratio exposure - using a transitional definition of Tier 1 capital	12,564,484
Leverage Ratio - using a transitional definition of Tier 1 capital	**10.16%**

4. Risk management

Within OTP BANK ROMANIA S.A. were established strategies and processes for managing the following risks:

- credit risk;
- risk position and currency risk;
- operational risk;
- residual risk;
- interest rate risk outside the trading portfolio activity;
- concentration risk;
- liquidity risk;
- reputational risk;
- strategic risk;
- external risks;
- compliance risk

The following graphics present the evolution of the main indicators during 2019:

Figure 1 : EBA - defined NPE ratio

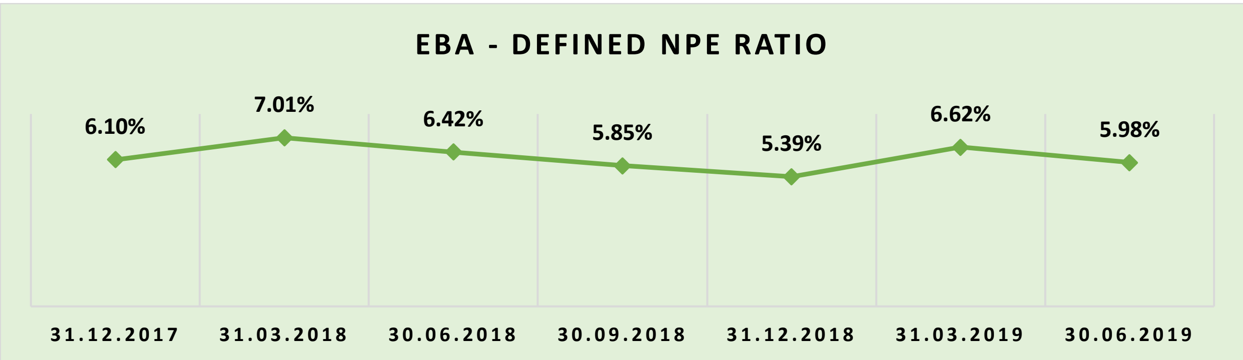


Figure 2: EBA - defined NPE coverage ratio

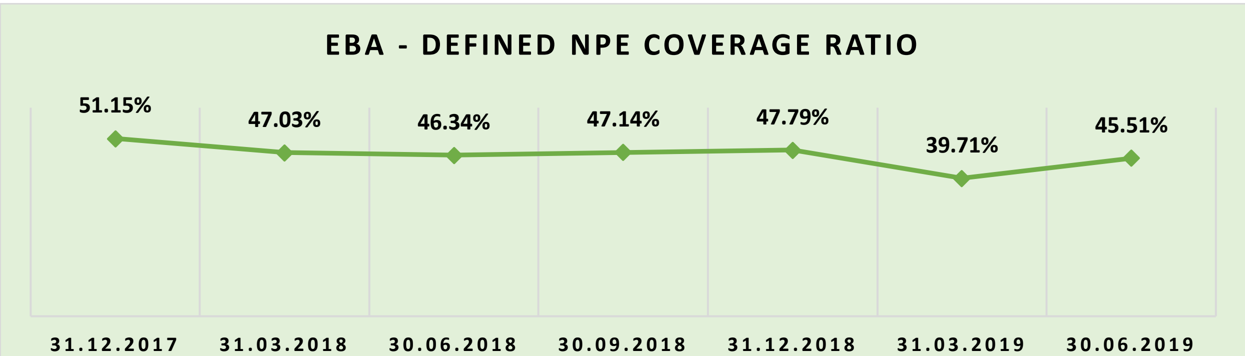


Figure 3 : Return on equity

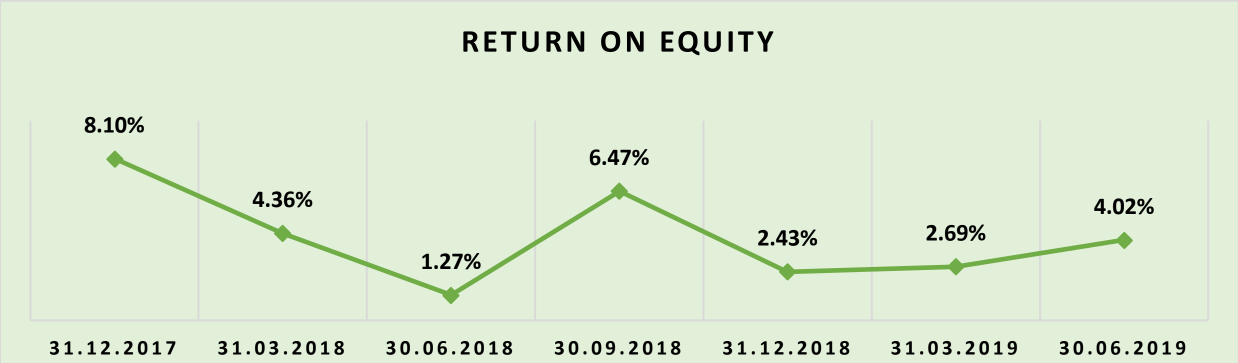
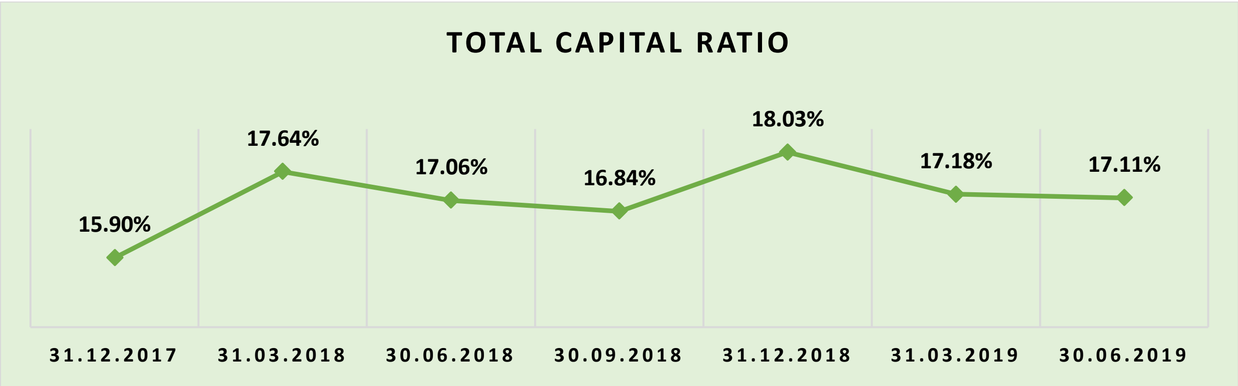


Figure 4: Total capital ratio



The above mentioned indicators show an improvement in the quality of the loan portfolio and a better provisioning of non-performing loans. Also, the solvency is at a comfortable level for the Bank, as is the return on equity.

- ***Affiliates and related parties transactions***

According to NBR Regulation no.5/2013 referring to capital requirements for credit institutions, OTP Bank Romania has established adequate procedures and politics to identify individual exposures and transactions related to affiliated parties, to determine the total amount of this exposures, as well as to monitor and report this type of exposures thru un independent process of verification or of loan activity.

The activity is conduct with respect to the legal provision of art. 399-403 from EU Regulation no. 575/2013, the affiliated parties exposure registered after considering the effect of credit risk reduction during year 2018 is respecting the legal requirement of 25% from its eligible capital or or, if the group of affiliated parties to the institution includes one or more institutions, the exposure value to that group may not exceed either 25% of the eligible credit institution's eligible capital or the equivalent of EUR 150 million depending on which of these the amounts are higher provided that, in the event of the application of the absolute limit, the sum of the exposure values for all related parties which are not institutions, does not exceed, after taking into account the credit risk mitigation effect in accordance with Art. 399-403 of Regulation (EU) No. 575/2013, 25% of the eligible capital of the Bank.

If the equivalent of EUR 150 million is greater than 25% of the eligible credit institution's exposure capital, the exposure value shall not exceed, after taking into account the effect of the credit risk mitigation in accordance with Art. 399-403 of Regulation (EU) No. 575/2013, 100% of the eligible capital of the Bank..

Therefore, on 30.06.2019 the situation of affiliated parties was:

- Individual level (OTP Bank Romania SA)
-

Number of clients	Gross exposure (LEI)	Related provisions	Excluded amounts (LEI)			Own funds %
			without protection	with protection		
				funded	unfunded	
Non-institutions						
51	60,852,391	4,741,408	12,739,763	6,784	0	3.3961
Institutions						
2	443,859,923	47,519	2,502,481	0	0	34.561

- on consolidated level (OTP Bank Romania SA and OTP Leasing):
-

Number of clients	Gross exposure (LEI)	Related provisions	Excluded amounts (LEI)			Own funds %
			without protection	with protection		
				funded	unfunded	
Non-institutii						
50	39,758,759	4,565,072	3,446,041	6,784	0	2.4804
Institutii						
2	443,859,923	47,519	2,502,481	0	0	34.4869

4.1 Credit Risk Management

A. Objectives and strategy

The Bank's objectives in respect of the credit risk management were related to:

- building a diversified portfolio whose performance does not depend excessively on the performance of an industry, geographical region or group of borrowers to ensure long-term stable profitability;
- Increasing the profitability of the credit products;
- Increasing the capacity to collect overdue receivables;
- maintaining the solvency indicator within normal limits sot that the capital requirement for credit risk does not excessively grow;
- Maintaining the portfolio quality through quarterly monitoring of a set of indicators calculated according to the methodology presented by National Bank of Romania:
  - the rate of non-performing loans - the European Banking Authority's definition does not exceed 10%[1];
  - the coverage ratio with non-performing loans - The European Banking Authority's definition does not fall below 50%[2];
  - the rate of non-performing restructured loans out of total restructured loans (forwards) does not exceed 75%[3];
  - the risk-weighted rate (credit risk) does not exceed 60%[4];

[1] Non-performing exposures relative to total exposure - FINREP report, Form F18, [Line 070, 250; Column 060] / [Line 070, 250; Column 010];
[2] Provisions accrued at the level of non-performing exposures reported for total non-performing exposures - FINREP ratio, Form F18, [Line 070, 250; Column 150] / [Row 070, 250; Column 060];
[3] Non-performing restructured exposures relative to total restructured exposures - FINREP report, Form F19, [Line 330, Column 060] / [Row 330; Column 010];
[4] Risk-weighted exposure (related to credit risk), COREP report, form C07.s001, [Line 010; Column 220] + C08.01.s001, Form C08.01.s002, [Line 010; Column 260] / Form C07.s001, [Line 010; Column 200] + C08.01.s001, Form C08.01.s002, [Line 010; Column 110];

- the rate of loans and advances with restructuring measures ("forbearance ratio") does not exceed 7%[5];
- the total write off weight in the total loan portfolio (net) does not exceed 12%.

The Bank's strategy for 2019 related to the credit risk management included:

- digital channel orientation and online credit, dedicated to both new and existing customers;
- continuing to prioritize the management of outstanding loans accumulated during the crisis;
- Constant testing through pilot products of the adequacy of the strategy applied to PFs and SMEs with regard to the exposure considered and the tolerated risk profile;
- Orientation towards more flexible funding structures for corporate customers, such as credit lines or overdraft facilities;
- limitation of pre-approval for state-owned entities such as CNAIR / CFR on which factoring / settlement operations are quickly approved;
- Receivables provided by specialized companies, which can help to fund their clients / prospecting them by accelerating the analysis and approval process;
- the maturity of withdrawals within the settlement ceiling is aligned with the maturity of the invoice;
- continuing the development of commercial factoring (domestic factoring with domestic appeal and non-recourse factoring), including international factoring (export);
- improving the predictive power and predictive power of risk models and credit monitoring activity;
- The financing of clients in the category of corporations that have registered negative own funds in the last closed year or those that have registered negative EBITDA over the last two years is not supported;
- development of new product corporations specially designed to finance agriculture with different guarantee schemes and maturities;
- increasing the number of approved loans through a high level of standardization following the launch / recalibration of credit products dedicated to SME customers;
- land financing (unless land acquisition is part of a funded project) is prohibited;
- placing a great emphasis on preventing problems faced by debtors;
- improving soft collections to maintain the quality of the new loan portfolio: acquiring / developing software to better manage the business;
- encouraging lending activity in LEI to individuals and companies;
- launch of new products dedicated to both categories of customers, meeting both the current requirements of the economy and customer requirements and capabilities;
- loyalty program for individuals, by offering facilities in accessing new credit products;
- offering new loans to individual clients who had a good credit history within the bank;
- Developing credit products for individuals who open a current account for wage transfer at the bank;
- reviewing the desired customer profile for personal need and mortgage credit so that the number of potential customers increases;
- increasing the share of customers who transfer their income to current accounts opened with OTP Bank Romania S.A. in order to ensure the greatest convenience of monitoring the changing circumstances of clients;
- Initiation of promotional campaigns on both asset side, personal and passive loans, for the maintenance of existing deposits;
- Monthly sessions of the Credit Monitoring Committee sessions for a more frequent monitoring of corporate customers with early depreciation signals;
- Weekly organization of the Debt Recovery Committee sessions, with the purpose of approving the debt recovery strategy for the clients in charge of the Restructuring and Recovery Department;

[5] Restructured exposures relative to total exposures - FINREP report, Form F19, [Row 070, 250, Column 060] / FINREP report, Form F18, [Row 070, 250; Column 010].

- organizing monthly sessions where the evolution of the bank's strategic products is monitored to maintain this portfolio at a high quality level;
- the involvement of the territorial network and the Corporate Division in managing the problems faced by the bank's clients as well as in the troubled problem recovery business by introducing portfolios quality indicators (PMUs) in the Performance Planning and Evaluation (PMP) document will be involved only in the activity of recovering credits granted to individuals);
- tracking the quality and evolution of the loan portfolio, the monthly and quarterly presentation within the Risk Operations Committee of the analyzes and the prepared statements, as well as presenting these materials to the Bank's Board of Directors for information;
- organizing the TOP 30 review meetings within the Restructuring and Recovery Division of Credits to monitor the main exposures and decide on the recovery strategy;
- organizing pre-filter sessions to help the sales team by accelerating the process of selecting the proposed files for approval and streamlining the approval process for credit applications;
- monitoring and modifying the value of guarantees so that their value reflects as closely as possible the major changes in the various markets (mortgage revaluation every 3 years according to the regulations in force and the reassessment of the mortgages related to the credits included in the client protection program);
- details of the credit risk profile for both corporate banking and retail banking are set in the bank's lending policy, which is updated annually.

The Bank does not finance:

- **Customers:**
  - against whom risk assumption is excluded by international accords, European Union acts and international legal regulations;
  - whose activity presumably violates public morals, social value systems or is related to crimes;
  - which can be possible connected to crimes, directly or indirectly, the conscious violation or evasion of legal regulations.
- **Transactions:**
  - Aiming to violate legal regulations. Illegal arms trade, prohibited gambling, drug trade and all other activities that breach legal regulations qualify as prohibited business areas (e.g. money laundering, black economy);
  - Do not comply with environmental requirements;
  - not complying with the principles of responsible lending (for example, the amount of credit that can be granted must be determined by the customer's ability to repay the loan in monthly installments);
  - involving the acquisition of securities representing membership rights issued by a member of a group of credit institutions or an undertaking closely linked to it or the acquisition of the cooperative holding;
  - where the performance of the guarantee is reputational.

B. Bank’s exposure to credit risk and the risk of diminishing the amount of the claim

Definition of Approaches and Applied Methods for Recognizing Amendments to Expected Loans Losses under IFRS 9

IFRS 9 establishes a new depreciation model based on a forward-looking approach to "losses expected "that apply:

- Financial assets measured at amortized cost;
- Assets valued at fair value recognized in other comprehensive income, and
- Financing commitments and financial guarantee contracts.

According to the expected loss pattern set by IFRS 9, a credit event (impairment indicator) should not take place before the recognition of the loss adjustments. Consequently, expected losses should always be recognized at the level of at least the next 12 months. The expected loss over the entire period of the financial instrument will be recognized in the event of a significant increase in credit risk compared to the time of initial recognition.

OTP Bank Romania considers a wide range of relevant, reasonable and justifiable information when applying ECL accounting models relating to historical data, current conditions and projections of the future economic environment, as detailed in the continuation of this document. The judgment based on credit experience is taken into account when establishing future scenarios and potential consequences arising from the occurrence of risk events.

IFRS 9 sets out a three-stage depreciation assessment model according to which financial assets have (or have not) suffered a significant increase in credit risk compared to the time of initial recognition. The three stages determine the level of impairment to be recognized in the form of expected loss (ECL) (as well as the level of interest income to be recognized) at each reporting moment:

- **Stage 1**: Performance exposures and credit risk did not significantly increase - Recognition of expected losses for the next 12 months;
- **Stage 2**: Performance exposures but credit risk increased significantly from the time of initial recognition - Recognizing the expected lifetime loss;
- **Stage 3**: Non-performing exposures so that the financial asset is depreciated - Recognizing the expected lifetime loss.

The Bank uses two approaches to estimate the expected losses:

- Individual assessment
- Collective assessment

Recognition of the expected loss on loans on a collective basis

Recognition of the expected loss over the life of the financial assets on a collective basis should take into account comprehensive credit risk information. Comprehensive information on credit risk incorporates both historical and present-day relevant information, including macroeconomic forward-looking information to estimate a result close to recognizing expected loss over the life of individual financial assets. All credit exposures are subject to collective analysis without exception, even though some exposures are eventually analyzed and provisioned on an individual basis.

In order to determine the significant increase in credit risk and the recognition of an adjustment for impairment on a collective basis, the Bank will group financial instruments on the basis of common credit risk characteristics in order to facilitate the early identification of significant credit risk growth.

Analysis of portfolio granularity for segmentation purposes is the first step of the collective analysis and is based on the analysis of default rates at sub-segments compared to upper segments. A significant deviation in these values indicates the favorable relevance of including the collective analysis sub-segment.

Recognition of expected loss on loans on an individual basis

Exposures will be analyzed on an individual basis if they meet the following depreciation and exposure conditions:

- Exposures related to legal entities or other economic entities with group values of more than EUR 300 thousand in equivalent, classified in Stage 3
- Exposures to legal entities or other economic entities managed by the Restructuring and Recovery Department Loans (regardless of value)
- Exposures related to real estate mortgaged individuals with RON 500 thousand equivalent equivalents, classified in Stage 3
- Exposures subject to notification under the "Law on the payment of real estate in order to settle the liabilities assumed by credits no.77 / 2016"

If the exposure improves its status and is reclassified in more favorable Stages than Stage 3, the exposure will be moved to the collective area.

The individual rating can be performed for exposures below the threshold above. Transfer from collective evaluation to individual assessment (and vice versa) is subject to the approval of the responsible person / s in accordance with this standard.

The individual assessment could be considered in the case of an independent / external valuation of a portfolio before the sale. In this case, independent / external evaluations must meet all the individual assessment requirements defined in these Norms.

If the exposure to a legal entity does not improve your status and remains classified in Stage 3 but its value falls below the established materiality thresholds, the customer will remain in the individual-based scope of analysis for the entire period during which the Stage 3 classification maintained.

If a legal entity customer or other economic entities are individually analyzed, all of the Bank's exposures to that client will be individually analyzed.

4.2 The management of the concentration risk

The concentration risk is that kind of risk arising from exposures towards counterparties, groups of related counterparties and counterparties from the same economic sector, geographic region or the same activity or goods or credit risk mitigation techniques and includes particularly the risks with large indirect exposures to credit risk (e.g. towards a single collateral issuer).

Concentration risk is measured and mitigated through the use of internal limits. Setting the internal limits shall be done after analyzing the structure of the loan portfolio, including its estimate trends.

In order to manage the concentration risk, the Bank assumes a MEDIUM to HIGH level of concentration risk, because it has a solid limits system and procedures that are periodically amended in accordance to the market and portfolio evolution.

4.3 Quantitative and qualitative information on credit and concentration risks

Table 1: Form 4: EU OV1 - Overview of RWA

		Risk-weighted assets (RWA)		**Minimum capital requirements**
		30/06/2019	**30/06/2018**	**30/06/2019**
1	**Credit risk (excluding CCR)**	**6,593,849**	**5,832,175**	**527,508**
2	Of which the standardized approach	6,593,849	5,832,175	527,508
3	Of which the core IRB (FIRB) approach			
4	Of which advanced IRB (AIRB) approach			
5	Of which equity securities from the IRB Approach under the simple risk-weighted approach or AMI			
6	**CCR**	**7,035**	**726**	**563**
7	Of which method of marking the market	-	-	-
8	Of which initial exposure method			
9	Of which standardized method			
10	Of which the Internal Model Method (MMI)			
11	Of which the amount of risk exposure for contributions to the CCP guarantee fund			
12	Of which credit assessment adjustment (CVA)	7,035	726	563
13	Settlement risk	-	-	**-**
14	Exposures in securitization in the banking portfolio (after the ceiling)			
15	Of which IRB approach			
16	Of which the IRB regulated formula method (SFA)			
17	Of which the Internal Assessment Based Approach (IAA)			
18	Of which the standardized approach			
19	**Market risk**	**13,247**	**3,159**	**1,060**
20	Of which the standardized approach	13,247	3,159	1,060
21	Of which AMI			
22	Large exposures	-	-	**-**
23	Operational risk	**848,694**	**800,417**	**67,895**
24	Of which basic approach	848,694	800,417	67,895
25	Of which the standardized approach			
26	Of which advanced assessment approach			
27	Values below the deduction thresholds (which are subject to a 250% risk weight)			
28	Adjustment for the minimum threshold			
29	**Total**	**7,462,825**	**6,636,477**	**597,026**

The following table shows the total and average value over the period of the net exposure broken down by exposure classes:

Table 2: Form 7: EU CRB-B - Total and average net exposures

(mii RON)	Valoarea netă a expunerilor la sfarșitul perioadei	Expuneri nete medii aferente perioadei
Central governments or central banks	1,983,409	1,769,422
Regional governments or local authorities	12,185	11,998
Public sector entities	803,523	908,432
Companies	4,201,462	4,223,864
Retail	3,006,342	2,950,770
Exposures secured by mortgages on immovable property	2,751,297	2,681,615
Exposures in default	406,562	445,197
Collective investment (OPC)	12,097	12,060
Other items	783,756	804,858
Total	**13,960,635**	**13,808,216**

In order to analyze the diversification of the credit portfolio, OTP Bank Romania S.A. follows the distribution of the portfolio on the five geographical regions in which it divided the country's territory.

Table 3: Geographical breakdown of exposures

(mii RON)	Center	North East	North West	South East	South West	Other countries	Other areas	Total
Central governments or central banks	-	-	-	1,983,409	-	-	-	1,983,409
Regional governments or local authorities	1,832	1,228	-	9,125	-	-	-	12,185
Public sector entities	-	-	-	474,458	-	305,121	23,945	803,523
Companies	575,489	509,836	483,256	2,540,553	90,359	-	1,969	4,201,462
Retail	426,215	482,169	445,811	1,239,980	411,940	-	226	3,006,342
Exposures secured by mortgages on immovable property	336,059	272,651	479,914	1,247,784	414,889	-	-	2,751,297
Exposures in default	50,919	68,438	96,874	167,231	23,099	-	-	406,562
Collective investment (OPC)	-	-	-	12,097	-	-	-	12,097
Other items	24,697	20,626	24,163	689,044	25,226	-	-	783,756
Total	**1,415,212**	**1,354,949**	**1,530,018**	**8,363,682**	**965,513**	**305,121**	**26,140**	**13,960,635**

The Bank monitors quarterly the concentration of the portfolio by sectors of activity and compliance with the limits set by the risk strategy. Below are the classes of exposures according to the main sectors of activity on June 30, 2019:

Table 4.a. : Concentration of exposures by sector and type of counterparty

(ths.RON)	**Accommodation and food service activities**	**Administrative and support service activities**	**Agriculture, forestry and fishing**	**Arts, entertainment and recreation**
Central governments or central banks	-	-	-	-
Regional governments or local authorities	-	-	-	-
Public sector entities	-	-	-	-
Companies	74,027	110,425	406,981	-
Retail	56,708	10,074	211,718	7,752
Exposures secured by mortgages on immovable property	4,770	2,450	11,689	264
Exposures in default	2,432	4,642	7,000	166
Collective investment (OPC)	-	-	-	-
Other items	14	65	49	0
Total	**137,951**	**127,656**	**637,437**	**8,183**

Table 4.b. : Concentration of exposures by sector and type of counterparty

(ths.RON)	***Construction***	***Education***	***Electricity, gas, steam and air conditioning supply***	***Financial and insurance activities***
Central governments or central banks	-	-	-	-
Regional governments or local authorities	-	-	-	-
Public sector entities	-	-	-	-
Companies	182,320	-	275,783	192,123
Retail	150,426	4,237	21,007	9,900
Exposures secured by mortgages on immovable property	18,490	50	14,573	5,922
Exposures in default	18,250	2	19,723	310
Collective investment (OPC)	-	-	-	-
Other items	126	1	0	16,693
Total	**369,611**	**4,290**	**331,086**	**224,947**

Table 4.c. : Concentration of exposures by sector and type of counterparty

(ths.RON)	***Human health and social work activities***	***Information and communication***	***Manufacturing***	***Mining and quarrying***
Central governments or central banks	-	-	-	-
Regional governments or local authorities	-	-	-	-
Public sector entities	-	-	-	-
Companies	9,386	4,450	552,323	6,931
Retail	7,422	25,276	175,697	5,378
Exposures secured by mortgages on immovable property	1,281	5,275	15,509	-
Exposures in default	140	4,813	113,712	-
Collective investment (OPC)	-	-	-	-
Other items	0	0	1,551	0
Total	**18,229**	**39,814**	**858,793**	**12,310**

Table 4.d. : Concentration of exposures by sector and type of counterparty

(ths.RON)	***Other service activities***	***Professional, scientific and technical activities***	***Public administration and defence; compulsory social security***	***Transportation and storage***
Central governments or central banks	-	-	-	-
Regional governments or local authorities	-	4,217	3,060	-
Public sector entities	-	-	-	-
Companies	9,649	80,095	-	1,122,501
Retail	10,965	31,251	-	77,658
Exposures secured by mortgages on immovable property	3,549	7,587	-	21,469
Exposures in default	421	41,379	-	5,339
Collective investment (OPC)	-	-	-	-
Other items	262	18	0	393
Total	**24,845**	**164,547**	**3,060**	**1,227,361**

Table 4.e. : Concentration of exposures by sector and type of counterparty

(ths.RON)	***Transportati on and storage***	***Water supply, sewerage, waste management, and remediation activities***	***Wholesale and retail trade; repair of motor vehicles and motorcycles***	***Others***	***Total***
Central governments or central banks	-	-	-	1,983,409	1,983,409
Regional governments or local authorities	-	-	-	4,908	12,185
Public sector entities	-	-	-	803,523	803,523
Companies	153,726	19,298	776,361	225,082	4,201,462
Retail	54,823	2,509	350,363	1,793,179	3,006,342
Exposures secured by mortgages on immovable property	6,401	1,918	65,321	2,564,779	2,751,297
Exposures in default	8,355	69	56,365	123,444	406,562
Collective investment (OPC)	-	-	-	12,097	12,097
Other items	9	4	380	764,189	783,756
Total	**223,313**	**23,797**	**1,248,790**	**8,274,612**	**13,960,635**

Table 5: Form 11: EU CR1-A - Exposure credit grade by exposure class and instrument

	Gross carrying values of		Specific credit risk adjustmen	General credit risk adjustmen	Credit risk adjustment charges of the period	Net values (a+b-c-d)
	Defaulted exposures	Non - defaulted exposures				
Central governments or central banks						
Institutions						
Corporates						
Of which: Specialised lending						
Of which: SME						
Retail						
Secured by real estate property						
SMEs						
Non-SMEs						
Qualifying revolving						
Other retail						
SMEs						
Non-SME						
Equity						
Total IRB approach						
Central governments or central banks	-	2,521,607	1,302	-		2,520,306
Regional governments or local authorities	-	12,293	108	-		12,185
Public sector entities	-	-	-	-		-
Multilateral development banks	-	-	-	-		-
International organisations	-	-	-	-		-
Institutions	-	696,537	-	-		696,537
Corporates	-	4,155,626	75,950	-		4,079,676
Of which: SMEs	-	2,856,715	55,519	-		2,801,196
Retai	-	2,770,213	71,971	-		2,698,242
Of which: SMEs	-	1,204,704	24,467	-		1,180,237
Secured by mortgages on immovable property	-	2,751,297	-	-		2,751,297
Of which: SMEs	-	177,264	-	-		177,264
Exposures in default	631,988	-	225,426	-	187,912	406,562
Items associated with particularly high risk	-	-	-	-		-
Covered bonds	-	-	-	-		-
Claims on institutions and corporates with a short-term credit assessment	-	-	-	-		-
Collective investments undertakings	-	12,097	-			12,097
Equity exposures	-	-	-	-		-
Other exposures	-	1,029,140	245,384	-		783,756
Total standardized pproach	**631,988**	**13,948,812**	**620,141**	**-**	**187,912**	**13,960,659**
Total	**631,988**	**13,948,812**	**620,141**	**-**	**187,912**	**13,960,659**
Of which: Loans	617,621	10,797,060	589,295	-	187,912	10,825,386
Of which: Debt securities	-	1,110,325	1,302	-		1,109,023
Of which: Off - balance- sheet exposures	14,367	2,041,427	29,544	-		2,026,534

Table 5.1: Form 12: EU CR1-B - Quality of exposure credit by industry or counterparty type

	Gross carrying values of		Specific credit risk adjustmen	General credit risk adjustmen	Credit risk adjustment charges of the period	Net values (a+b-c-d)
	Defaulted exposures	Defaulted exposures				
Agriculture, forestry and fishing	8,718	642,737	11,563	-	1,341	639,893
Mining and quarrying	-	12,506	196	-	-	12,310
Manufacturing	158,087	946,833	63,502	-	20,355	1,041,418
Electricity, gas, steam and air conditioning supply	49,411	323,051	23,298	-	605	349,164
Water supply	70	24,230	422	-	-	23,878
Construction	56,271	951,835	48,073	-	19,943	960,033
Wholesale and retail trade	102,593	1,214,611	67,947	-	103,960	1,249,257
Transport and storage	9,404	218,893	4,147	-	16,737	224,150
Accommodation and food service activities	4,078	137,576	3,694	-	276	137,961
Information and communicatio	6,802	35,971	2,655	-	11,293	40,118
Financial and insurance activities	4,059	2,980,365	253,157	-	77	2,731,268
Real estate activities	491	649,592	8,131	-	585	641,952
Professional, scientific and technical activities	59,257	134,089	19,887	-	2,423	173,459
Administrative and support service activities	10,442	146,871	8,437	-	9,539	148,876
Public administration and defence, compulsory social security	-	1,101,297	1,307	-	-	1,099,990
Education	10	4,346	64	-	32	4,291
Human health services and social work activities	140	18,462	371	-	-	18,231
Arts, entertainment and recreation	252	8,138	202	-	15	8,188
Other services	340	3,500	187	-	47	3,653
Households	161,564	4,393,907	102,903	-	684	4,452,568
Total	**631,988**	**13,948,812**	**620,141**	**-**	**187,912**	**13,960,659**

In terms of maturity of loans, the Bank has a predominantly long-term loan portfolio:

Table 6: Maturity of exposures

(ths.RON)	**On demand**	**<= 1 year**	**> 1 year <= 5 years**	**> 5 years**	**No maturity declared**	**Total**
Central governments or central banks	-	20,741	892,067	170,236	900,366	1,983,409
Regional governments or local authorities	-	2,639	7,714	1,832	-	12,185
Public sector entities	-	405,182	50	-	398,291	803,523
Institutions	-	1,736,180	1,272,192	1,175,547	17,543	4,201,462
Companies	36	756,196	1,128,366	1,121,400	344	3,006,342
Retail	-	115,909	94,106	2,541,282	-	2,751,297
Exposures secured by mortgages on immovable property	0	223,216	80,472	99,927	2,947	406,562
Exposures in default	-	-	-	-	12,097	12,097
Collective investment (OPC)	-	10,758	253	1	772,743	783,756
Total	**36**	**3,270,821**	**3,475,220**	**5,110,225**	**2,104,331**	**13,960,635**

Table 7: Form 15: EU CR1-E - Non-performing and restructured exposures

ths. RON	Gross book value for non-performing and non-performing exposures							Depreciations, provisions and adjustments of negative cumulative fair value determined by credit risk				Material and financial guarantees received	
		Of which performant, but DPD > 30 days and <= 90 days	Of which restructured performing exposures	Of which non-performing				Asupra expunerilor performante		Asupra expunerilor neperformante			
					Of which in default	Of which depreciated	Of which restructured		Of which restructured		Of which restructured	On non-performing exposures	Of which restructured exposures
Debt securities	487,705	-	-	-	-	-	-	(945)	-	-	-	-	-
Credits and advances	10,322,936	98,667	80,753	617,591	617,591	617,591	262,880	(435,684)	(22,248)	(281,046)	(115,250)	205,294	149,316
Off balance exposures	2,081,722	-	1,109	14,669	14,395	-	257	37,934	-	4,612	-	-	-

The table below shows the movements in depreciation adjustments.

Table 8.1: Form 16: EU CR2-A - Changes in the stock of general and specific credit risk adjustments

	Specific adjustments for cumulative credit risk
Opening balance	(400,803)
Increases due to initiation and purchase	(153,088)
Decreases due to derecognition	8,160
Changes due to changes in credit risk (net)	-
Variations due to changes without derecognition (net)	40,238
Variations due to updating the institution's estimation methodology (net)	-
Decrease in the depreciation adjustment account due to off-balance sheet removals	74,676
Other adjustments	(6,520)
Closing balance	(437,337)
Recoveries of amounts previously removed from the balance sheet directly recognized in profit or loss	1,079
Sums deducted directly from the profit or loss statement	14

Table 8.2: Form 16: EU CR2-B - Changes in the stock of loans and debt securities in default and impaired

	Specific adjustments for cumulative credit risk
Opening balance	(279,807)
Increases due to initiation and purchase	(72,006)
Decreases due to derecognition	7,719
Changes due to changes in credit risk (net)	2,921
Variations due to changes without derecognition (net)	(10,109)
Variations due to updating the institution's estimation methodology (net)	-
Decrease in the depreciation adjustment account due to off-balance sheet removals	74,640
Other adjustments	(4,405)
Closing balance	**(281,046)**
Recoveries of amounts previously removed from the balance sheet directly recognized in profit or loss	1,079
Sums deducted directly from the profit or loss statement	14

4.4 Using credit risk mitigation techniques

The bank has developed internal regulations which state the types of accepted collaterals regarding contracts which imply any level of exposure, as well as the conditions for accepting these collaterals. At the same time, the Bank makes efforts to include, as part of loan transactions, collaterals which do not have a guarantee value, in order to improve the safety of the lending process and to consolidate the solvability of its debtors.
The policies and processes used for the assessment and management of real collaterals contain the following:

- the legal provisions and types of collateral most frequently used as guarantee in loans contracts
- the criteria and factors which serve as basis for collateral valuation, depending on collateral type
- the requirements for the legal options for enforcement of collaterals and the acceptability of their values
- methods applied for collateral valuation
- procedures to be applied in case changes appear with respect to collateral availability, valuation and the legal options for enforcement of collaterals
- the frequency of periodical reevaluation of collaterals.

Table 9: Form 18: EU CR3 - Credit risk mitigation techniques - Overview

	Unsecured exposures - Book value	**Guaranteed Exposures - Book Value**	**Exposures secured by collateral**	**Exposures secured by financial guarantees**	**Exposures secured by credit derivatives**
Total loanes	9,168,695	3,682,917	3,381,244	301,673	-
Total debt securities	1,109,023	-	-	-	-
Total exposures	**10,277,718**	**3,682,917**	**3,381,244**	**301,673**	**-**
Of which in default	206,526	200,036	200,036	-	-

Table 10: Form 19: EU CR4 - Standardized Approach - Exposure to Credit Risk and CRM Effects

Exposure classes	**Expuneri înainte de CCF și de CRM**		**Expuneri după CCF și CRM**		**RWA și densitatea RWA**	
	Valoare bilanțieră	**Valoare extrabilanțieră**	**Valoare bilanțieră**	**Valoare extrabilanțieră**	**RWA**	**Densitatea RWA**
Central governments or central banks	1,983,409	-	2,290,089	-	238,239	1.96%
Regional government or local authorities	10,880	1,306	10,880	125	2,201	0.02%
Public sector entities	-	-	-	-	-	0.00%
Multilateral development banks	-	-	-	-	-	0.00%
International organisations	-	-	-	-	-	0.00%
Institutions	532,149	36,201	587,858	79,842	202,612	1.67%
Corporates	2,836,701	1,364,761	2,753,496	342,812	3,030,946	24.97%
Reta	2,418,446	587,919	2,102,074	55,274	1,493,751	12.31%
Secured by mortgages on immovable property	2,704,888	46,409	2,704,888	14,219	942,530	7.77%
Exposures in defau	395,467	11,094	395,467	4,827	436,619	3.60%
Exposures associated with particularly high risk	-	-	-	-	-	0.00%
Covered bonds	-	-	-	-	-	0.00%
Institutions and corporates with a short-term credit assessment	-	-	-	-	-	0.00%
Collective investment undertakings	12,097	-	12,097	-	12,097	0.10%
Equity	-	-	-	-	-	0.00%
Other items	783,756	-	783,756	-	234,853	1.93%
Total	**11,677,794**	**2,047,690**	**11,640,604**	**497,098**	**6,593,849**	54.33%

Table 11: Form 20: EU CR5 - Standardized Approach

Exposure classes	**Risk weight**																
	0%	**2 %**	**4 %**	**10 %**	**20%**	**35%**	**50%**	**70%**	**75 %**	**100%**	**150%**	**250%**	**370 %**	**1250 %**	**Others**	**Deducte**	**Total**	**Of which unrated**
Central governments or central banks	1,534,564	-	-	-	163,934	821,808	-	-	-	-	-	-	-	-	-	-	2,520,306	2,187,185
Regional government or local authorities	-	-	-	-	12,185	-	-	-	-	-	-	-	-	-	-	-	12,185	12,185
Public sector entities	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Multilateral development banks	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
International organisations	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Institutions	-	-	-	-	449,541	-	-	244,705	-	-	2,292	-	-	-	-	-	696,537	580,762
Corporates	53,933	-	-	-	-	-	-	-	-	-	4,025,743	-	-	-	-	-	4,079,676	4,079,676
Reta	17,524	-	-	-	-	-	-	-	-	2,680,694	-	-	-	-	-	-	2,698,218	2,698,218
Secured by mortgages on immovable property	-	-	-	-	-	-	2,751,297	-	-	-	-	-	-	-	-	-	2,751,297	2,751,297
Exposures in defau	-	-	-	-	-	-	-	-	-	-	330,566	75,996	-	-	-	-	406,562	406,562
Exposures associated with particularly high risk	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Covered bonds	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Institutions and corporates with a short-term credit assessment	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Collective investment undertakings	-	-	-	-	-	-	-	-	-	-	12,097	-	-	-	-	-	12,097	12,097
Equity	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Other items	514,122	-	-	-	43,475	-	-	-	-	-	226,158	-	-	-	-	-	783,756	773,335
Total	**2,120,143**	**-**	**-**	**-**	**669,135**	**821,808**	**2,751,297**	**244,705**	**-**	**2,680,694**	**4,596,856**	**75,996**	**-**	**-**	**-**	**-**	**13,960,635**	**13,501,318**

The main categories of collateral accepted by the Bank in the lending process are:

Table 12: Type of collaterals

Crt. No.	COLLATERAL TYPE
1	Mortgages
2	Claims on central and local public administrations, insurance companies, Central Bank and Banking activity sector
3	Pledges
4	Securities
5	Items in collection - Order of payment, checks, promissory notes
6	Cession of incomes, invoices and other
7	Collateral to another Bank
8	Collateral cash, cash
9	Guarantee fund facility
10	Life insurance and financial risk

Evaluation and management of these types of collateral is defined in the Bank's internal regulations approved by the National Bank of Romania. Depending on the type of guarantee, their evaluation is either outsourced or done internally.

4.5 Management of the large exposures towards clients or group of connected clients

According to the stipulations of the EU Regulation no. 575/2013 of the European Parliament and of the Council from June, 26th 2013 on prudential requirements for credit institutions and investment firms and amending EU Regulation no.648/2012, the Bank monitors and quarterly calculates the exposures towards third parties, identifies the large exposures and reports them to the NBR and inform about them the Risk Management Committee and Management Board.

4.6 Management of the countries exposures

The country risk is associated to the credit risk, determined by the economic, social and politic conditions of the borrower's country of origin.

The country risk is managed through permanent monitoring of the evolutions in those countries where the Bank registers exposures and by taking decisions related to the available limits, when appropriate. Also, country risk will be considered by Treasury Directorate in all risk assumptions towards counterparties, particularly towards the Banks that are making deals with.

The Risk Management Committee oversees the use and compliance of the country limits.

4.7 Management of the counterparty's exposures

The Bank maintains a detailed list of approved counterparty limits, both individual counterparty limits and counterparty counterparty limits. The List of Banking and Financial Institutions Contracts is maintained and renewed by the Operational and Market Risk Department. It defines the limits for each counterparty, specific products and maximum duration.

The limit for a counterparty is determined based on:

- counterparty's rating
- the counterparty's regulatory capital
- aspects related to the business strategy, along with the compliance with legal provisions regarding risk taking activity.

The value of the counterparty limit is defined by taking into account the weight of the counterparty's rating category and the company's own funds.

During the process of limit setting for a counterparty, the Bank also respects the provisions of EU Regulation 575/2013 of the European Parliament and of the Council of 26 June 2013 on prudential requirements for credit institutions and investment firms and amending Regulation (EU) No 648/2012.

The counterparty limits are approved by OTP Bank Nyrt. Hungary and the Operational and Market Risk Department has the responsibility to perform the financial analysis and to manage the counterparty limits, to monitor the exposures and to present them to the Risk Management Committee. Regarding the limits with credit institutions used daily by Treasury Directorate, The Operational and Market Risk Department within Risk Administration Directorate, updates the limits in Fusion Risk system (implemented at OTP Bank Nyrt), in order to determine at any time the available limits. The Operational and Market Risk Department presents a quarterly report to Risk Administration Directorate regarding the bank's exposure to counterparty.

The own funds requirement for credit risk adjustment (CVA) for derivatives is calculated in accordance with EU Regulation 575/2013, article 382, point 1. intragroup transactions are excluded from the application of own funds requirements for CVA risk in accordance with Article 382 (4), lt.b

In the calculation algorithm of CVA, OTP Bank Romania SA applies the standardized method described in article 384 of the same Regulation. Thus, the own funds requirement is determined at portfolio level for each counterparty.

Table 13: Form 25: EU CCR1 - Exposure to CCR exposure based on approach

	Notional	**Replacement cost/ current market value**	**Potential future credit exposure**	**EEPE**	**Multiplier**	**EAD post CRM**	**RWA**
Mark to market		30,488	65,599			96,087	31,359
Original exposure							
Standardised approach							
IMM (for derivatives and SFTs)							
Of which securities financing transactions							
Of which derivatives and long settlement transactions							
Of which from contractual cross-product netting							
Financial collateral simple method (for SFTs)							
Financial collateral comprehensive method (for SFTs)						235,173	991
VaR for SFTs							
Total		**30,488**	**65,599**			**331,260**	**32,350**

Table 14: Form 26: EU CCR2 - Capital Requirement for CVA

30/06/2019	**Exposure value**	**RWA**
Total portfolios subject to the advanced method		
(i) VaR component (including the 3×multiplier)		
(ii) SVaR component (including the 3×multiplier)		
All portfolios subject to the standardised method	40,434	7,035
Based on the original exposure method		
Total subject to the CVA capital charge	**40,434**	**7,035**

Table 15: Form 31: EU CCR5-A - Impact of compensation and real guarantees held on exposure values

	Gross positive fair value or net carrying amount	**Netting benefits**	**Netted current credit exposure**	**Collateral held**	**Net credit exposure**
Derivatives	30,488	0	30,488	0	30,488
SFTs	235,173	0	235,173	230,216	4,957
Cross-product netting					
Total	265,661	0	265,661	230,216	35,445

Table 16: Form 31: EU CCR5-B - Composition of real guarantees for exposures to CCR

	Collateral used in derivatives transactions				Collateral used in SFTSs	
	Fair Value of Collateral Received		Fair Value of Collateral Posted		Fair Value of Collateral Received	Fair Value of Collateral Posted
	Segregated	Unsegrgated	Segregated	Unsegrgated		
	0	0	0	0	235,205	0
Total	0	0	0	0	235,205	0

4.8 Residual Risk Management

The residual risk is the risk that the credit risk mitigation techniques used by the Bank are less effective than projected and derive from the application of credit risk mitigation techniques used under the minimum capital requirements.

The Bank's objective of managing the residual risk is to monitor and maintain the value of certain indicators within the limits set by the Bank. Risk Profile - OTP Bank Romania S.A. proposes an average low level of exposure to residual risk as the share of personal guarantees and financial guarantees is very low.

4.9 Market Risk Management

The market risk is the risk that the movement of the prices on the financial markets (exchange rates, interest rates, value of the shares and other securities, the prices commodities, etc modify the value of the trading portfolio (Trading Book) of the Bank. This definition can be extended so that it also includes the interest risk given by the products outside of the trading portfolio (Banking Book).

The bank targets a medium level of market risk. For this purpose, market risk level will be permanently measured and monitored in view of its mitigation.

Objectives
The purpose of managing market risk is to minimize the potential losses that may be caused by the unfavorable evolution of exchange rates, interest rates and shares prices. At the same time, OTP Bank Romania SA aims to maintain market risk at a level correlated with the Group's business strategy.

Strategy
The Bank's strategy related to the market risk management includes:
- the management of a trading portfolio within the approved limits;
- maintaining a specialized, dedicated department for the Market Risk;
- improving the existing procedures for management and monitoring exchange rate risk and position risk;
- professional training of the employees involved in the market risk monitoring activity;

Table 17: Form 34: EU MR1 - Market risk according to the standardized approach

	RWAs	Capital requirements
Outright products		
Interest rate risk (general and specific)	13,247	1,060
Equity risk (general and specific	-	-
Foreign exchange ris	-	-
Commodity risk	-	-
Options		
Simplified approach	-	-
Delta-plus method	-	-
Scenario approach	-	-
Securitisation (specific risk)	-	-
Total	**13,247**	**1,060**

4.10 Foreign currency risk

The Bank is engaged in proprietary trading on foreign currency market. The Bank may perform transactions and open only for the following foreign currency position: EUR, USD, GBP, CHF, CAD, JPY, HUF, AUD, SEK, DKK, NOK, PLN and CZK. New foreign currencies can be included with the approval of the Product Development, Sales and Pricing Committee.

The foreign currency risk monitoring is insured through compliance with the defined internal limits.

The risk limits established for the foreign currency position (that is the main tool for measuring the currency risk) are prudent and there is a VaR type system that centrally monitors this position by the OTP Group in the informatics application Market Risk Portal. Also, limits were set for the open foreign currency position for each currency (intraday and overnight), VaR limit and stop-loss limits (daily, monthly, annual). The indicators that have established limits are monitored daily, with special attention being paid to risk coming from trading activities.

VaR is a statistically measure used to determine a potential loss. VaR is defined as the maximum estimated loss by a certainty given degree (interval), for a given period, caused by the variation of risk elements in that specific period.

4.11 Interest Rate Risk

Interest rate risk is the risk of registering losses or not accomplishing the estimated profits due to interest rates fluctuations on the market. The management of this risk concerns the balance and extra balance sheet items that are sensitive to changes of the interest rates. The Bank manages the interest rate risk in the Banking Book separately from the interest rate risk in the Trading Book.

- **Interest Rate Risk in the trading portfolio**

In order to manage the interest rate risk in the Trading Book, the following limits are established: bond position limit, Value at Risk (VaR) limit, Basis Point Value limits and stop-loss limits. The limits are monitored at OTP Bank Romania level and throughout OTP Bank Group using the Kondor+ and Market Risk Portal systems.

- **Interest Rate Risk outside the trading portfolio**

The main sources of interest rate risk in the Banking Book are given by the imperfect correlation between the maturity date of cash-flows (for assets and liabilities bearing fixed interest rates) or modification date (re-pricing) interest (in case of assets and liabilities bearing variable interest rates), the adverse evolution of rate yield curve (the unparalleled evolution of interest rates return on assets and interest bearing liabilities) and/ or imperfect correlation between changes of the interest rates for funds raised and placed on instruments with similar characteristics of interest rate re-pricing.

OTP BANK ROMANIA S.A. manages exposure to interest rate risk on Banking Book with the view of limiting the potential losses due to adverse movements of the interest rates, so these potential losses cannot jeopardize the Bank's profitability, own capital and safe operation.

For the purpose of measuring and managing this risk, the Bank uses the re-pricing gap analysis, the modified duration indicator analysis, the sensitivity, extreme market scenarios, observing the possible effects of the changes in interest rates on Bank profits and economic value.

For reporting purposes, the Bank uses the contractual maturity and cash flows for assets and liabilities that are sensitive to interest rate – adjusted for optionality risk (early prepayment/ withdrawal of loans/ deposits), as well as working hypotheses for items that do not have clearly specified contractual maturity. The Bank grants loans mainly with variable interest rate indexed by a reference public rate (benchmark ex.: Euribor, Robor) and aims to harmonize as possible the financing structure with the structure of assets so that to maintain a low interest rate risk exposure of the Bank.

The average maturity of customer resources, remained at a level where the Bank considers that is appropriate with the current structure of the balance sheet.

Interest rate risk exposure har remained similar to the previous year level and the bank has stayied the entire year withing the mediu-low assumed risk profile level.

RONEQ mio	EVE	NII
Year	S1 2019	
Parallel up	(60.1)	2.6
Parallel down	18.3	-2.6
Steepener	(59.6)	
Flattener	25.3	
Short rate up	(14.0)	
Short rate down	3.3	
Maximum	60.1	2.6
Year	S1 2019	
Tier 1 Capital	1,276.90	

To assess the risk of interest rate the Bank uses sensitivity indicators that measure the potential impact in economic value of the balance due to the parallel variation to 100 bp and to 200 bp of interests.

To evaluate the vulnerability of the Bank to losses in case of adverse fluctuation of the interest rates, the Bank makes stress tests that show the impact of interest rates shocks in the economic value of the Bank.

The interest rate risk for those activities outside the trading portfolio is determined on a monthly basis by the Asset & Liability Management Department within Strategy, Controlling and ALM Directorate. The risk exposure (risk profile included), compliance with the internal and NBR limits is presented monthly to the Asset & Liability Committee and periodically to the Management and Supervisory Board.

OTP Leasing has a simple interest rate risk structure. Most loan, as well as funding received, are of floating rate type with 3 months repricing period. Fixed rate loans are hedged for interest rate risk using fixed rate funding.

Interest rate risk is measured by OTP Leasing using the same method as the bank. The exposure is also monitored at consolidated level. Given the size and profile of OTP Leasing’s interest risk profile the effect at consolidated level is not significant.

4.12 Management of the Liquidity Risk and disclosure requirements for Liquidity Risk in accordance with article 435 of Regulation (EU) No 575/2013

- **Strategies and processes in the management of the liquidity risk**

OTP BANK ROMANIA S.A. aims to maintain a constant comfortable liquidity in both normal and crisis conditions, taking also into account the issue of the cost of obtaining this liquidity.

- **Structure and organization of the liquidity risk management function**

The management of the liquidity risk function is provided by the Asset & Liability Management Department within Strategy, Controlling and ALM Directorate. Monitoring the tools for the management of the liquidity risk to which the Bank is exposed, the values of the indicators and setting them into limits are monthly reported to the ALCO and periodically to the Risk Management Committee, the Management Board and Supervisory Board of the Bank.
Close monitoring and prudent management of liquidity are permanently supervised by the Asset & Liabilities Committee and at the Group level.

- **Scope and nature of liquidity risk reporting and measurement systems**

Based on the Liquidity Strategy and Policy on liquidity risk management, constantly improved and updated in accordance with prudential regulatory requirements of the domestic market and also of the group, OTP BANK ROMANIA S.A. has developed and uses an internal system for identification, measurement, monitoring and control of the liquidity risk, based on several levels:

- ***Current management of liquidity*** – developing the current activity in normal condition. Ensure the fulfillment of financial obligation anticipated and unexpected by maintaining the balance between incoming and outgoing cash. Determining the daily cash flow and operative liquidity to cover liquidity needs on 3 months horizon are the basic used tools. In the case of operative liquidity, prudential, is included a possible shock applied to attracted resources, determined by statistical methods.

- ***Structural liquidity management*** - aims to ensure proper liquidity on medium and long term in order to avoid any pressure on current and future sources of liquidity.
- ***Liquidity management in crisis situations*** - the pursuit of activity on individual crisis conditions (idiosyncratic scenario), in conditions of a general crisis, when the entire liquidity of the Banking system is affected, and also for another more complicated situation including both an individual and generally system crisis. The Bank follows to ensure enough liquidity reserve so it allows to fulfill its financial obligations in stress situations on an acceptable time horizon, without being forced to modify significantly its strategy or business model.

OTP BANK ROMANIA S.A. manages the liquidity risk having in view: the dimensioning of the short-term cash-flow and operative liquidity, the daily established structure of the Bank's balance sheet, the daily evolution of customer resources, the liquidity GAP – on main currencies and also for the total, the level and structure of the liquid assets portfolio (including those unencumbered by tasks), liquidity indicators and having early warning limits internally established, the assessment of the risk in crisis conditions based on the stress testing.

Policies for hedging and mitigating the liquidity risk and strategies and processes for monitoring the continuing effectiveness of hedges and mitigants

The bank's funding structure is comprised of a significant part of Group funding (around 30% of total liabilities). In the management of liquidity OBR assumes that maturing Group funding can be rolled over and that new Group funding can be accessed according to approved budgets or to meet any liquidity need during the normal course of business.

For liquidity contingency planning, supplementary to the bank's own on balance sheet liquidity, stand-by lines from the OTP Group are considered as available liquidity.

Other than Group funding there are is no other concentration of funding on other funding providers.

The bank monitors the level of available liquidity and Group Stand-by facilities compared to various crisis scenarios and takes appropriate actions (increasing funding including thru use of new Group funding, increasing liquid assets) based on the results, on the bank's budget and the bank's strategy.

Declaration on the adequacy of liquidity risk management arrangements of the institution
The bank considers that the liquidity management process to be adequate with regards to the bank's liquidity risk profile and strategy and in the context of the Group's liquidity policy. Group liquidity can be used to support the bank's strategy.

Liquidity risk statement describing the overall liquidity risk profile associated with the business strategy.
The liquidity risk profile of the bank is comprised of a set of indicators considered relevant to the bank's liquidity position and funding structure: standard regulatory indicators (LCR, immediate liquidity); balance sheet ratios (loans/deposits, liquid assets/potential liabilities outflows in the next 12 months), measures of Group Funding dependency, internal liquidity indicators and liquidity crises simulation results.

Liquidity risk profile of the Bank has remained constant over the first semester of 2019, registering a medium-low level (assumed risk appetite of the Bank for 2019) level and fits within the limits set by national regulatory framework as well within the bank's risk tolerance of medium-high.

As part of the Basel 3 rules, the Basel Committee on Banking Supervision has proposed minimum two standard bank liquidity ratios:

- **The Liquidity Coverage Ratio (LCR):**

  The LCR is intended to promote the short-term resilience of a bank's liquidity risk profile over a 30 days stress scenario. The ratio is defined as the amount of High Quality Liquid Assets ("HQLA") that could be used to raise liquidity, measured against the total volume of net cash outflows, arising from both actual and contingent exposures, in a stressed scenario.

  This requirement has been implemented into European law, via the Commission Delegated Regulation (EU) 2015/61, adopted in October 2014. Compliance with the LCR was required from October 1, 2015.

The final EBA guidelines on LCR disclosure released on the March 8, 2017 (EBA/GL/2017/01) requires us to disclose the average of month-end observations over twelve months preceding the end of each quarter.

Average LCR (twelve months average) has been calculated in accordance with the Commission Delegated Regulation (EU) 2015/61 and the EBA Guidelines on LCR disclosure to complement the disclosure of liquidity risk management under Article 435 CRR.

Concentration of funding and liquidity sources:
The only concentration of funding is related to Group Funding obtained to various Group entities (30% of total liabilities). The bank considers that maturing Group funding can be rolled over at any time.

Derivative exposures and potential collateral calls
Most liquidity outflows on derivatives are counterbalanced by similar liquidity-related inflows of derivatives.

Coin mismatch at CRL level
The LCR is calculated in all major currencies representing at least 5% of the bank's debt (RON, EUR, occasionally HUF and total cumulative in RON equivalent). During the first semester of 2019 no specific minimum level was set for individual currencies even if all values were monitored, after which the bank pursued a minimum of 100% for all significant currencies.

Approach to centralized group liquidity management and individual legal entity liquidity management:
The OTP Group manages liquidity in a centralized manner, using a liquidity pooling concept, and preparing at Group level for liquidity contingency situations at subsidiary level. OTP Leasing Romania Funding is also covered by other entities in the OTP Group.

		Q2 2019		Q1 2019		Q4 2018		Q3 2018	
Scope of consolidation : consolidated Currency and units (RON million)		Total unweighted value	Total weighted value	Total unweighted value	Total weighted value	Total unweighted value	Total weiehted value	Total unweighted value	Total weiehted value
Quarter ending on (DD Month YYY)		30.06.2019	30.06.2019	31.03.2019	31.03.2019	31.12.2018	31.12.2018	30.09.2018	30.09.2018
Number of data points used in the calculation		12	12	12	12	12	12	12	12
HIGH-QUALITY LIQUID ASSETS									
1	Total high-quality liquid assets (HQLA)		1,580		1,427		1,341		1,210
CASH-OUTFLOWS									
2	Retail deposits and deposits from small business customers, of which:	2,094	157	2,046	155	1,985	151	1,961	150
3	*Stable deposits*	1,461	7	1,415	7	1,373	6	1,341	67
4	*Less stable deposits*	632	8	631	8	612	8	620	83
5	Unsecured wholesale funding	2,826	1,535	2,539	1,393	2,239	1,218	2,008	1,063
6	*Operational deposits (all counterparties) and deposits in networks of cooperative banks*	-	-	-	-	-	-	-	-
7	*Non-operational deposits (all counterparties)*	2,826	1,535	2,539	1,393	2,239	1,218	2,008	1,063
8	*Unsecured debt*	-	-	-	-	-	-	-	-
9	Secured wholesale funding		-		-		-		-
10	Additional requirements	198	3	213	3	230	4	260	4
11	*Outflows related to derivative exposures and other collateral requirements*	5		2		1		-	-
12	*Outflows related to loss of funding on debt products*	-	-	-	-	-	-	-	-
13	*Credit and liquidity facilities*	193	3	210	3	229	4	260	4
14	Other contractual funding obligations	134	114	139	122	139	125	154	142
15	Other contingent funding obligations	1,397	7	1,404	7	1,340	6	1,264	6
16	**TOTAL CASH OUTFLOWS**		1,913		1,781		1,605		1,463
CASH-INFLOWS									
17	Secured lending (eg reverse repos)	104	104	40	4	-	-	-	-
18	Inflows from fully performing exposures	867	798	886	816	760	686	697	614
19	Other cash inflows	15		15		14		14	
EU-19a	(Difference between total weighted inflows and total weighted outflows arising from transactions in third countries where there are transfer restrictions or which are denominated in non-convertible currencies)		-		-		-		-
EU-19b	(Excess inflows from a related specialised credit institution)		-		-		-		-
20	**TOTAL CASH INFLOWS**	986	907	940	861	774	691	711	618
EU-20a	***Fully exempt inflows***	-	-	-	-	-	-	-	-
EU-20b	***Inflows Subject to 90% Cap***	-	-	-	-	-	-	-	-
EU-20c	***Inflows Subject to 75% Cap***	986	907	940	861	774	691	711	618
			TOTAL ADJUSTED VALUE		TOTAL ADJUSTED VALUE		TOTAL ADJUSTED VALUE		TOTAL ADJUSTED VALUE
21	**LIQUIDITY BUFFER**		**1,580**		**1,427**		**1,341**		**1,210**
22	**TOTAL NET CASH OUTFLOWS**		**995**		**882**		**827**		**767**
23	**LIQUIDITY COVERAGE RATIO (%)**		**161%**		**163%**		**166%**		**161%**

OTP Leasing has a low level of liquidity risk. The entire funding need is covered by Group entities. Short term needs are covered from available funds or existing revolving facilities. Once the utilization level of the facilities increases it is converted into medium/long term funding. OTP Leasing monitors liquidity risk at standalone level using a liquidity gap analysis including a 6 month projection of business needs in order to allow timely undertaking of new funding.

With no client funding the impact of OTP Leasing on the consolidated liquidity risk is not significant.

		Q2 2019		Q1 2019		Q4 2018		Q3 2018	
Scope of consolidation : solo **Currency and units (RON million)**		**Total unweighted value**	**Total weighted value**	**Total unweighted value**	**Total weighted value**	**Total unweighted value**	**Total weiehted value**	**Total unweighted value**	**Total weiehted value**
Quarter ending on (DD Month YYY)		**30.06.2019**	**30.06.2019**	**31.03.2019**	**31.03.2019**	**31.12.2018**	**31.12.2018**	**30.09.2018**	**30.09.2018**
Number of data points used in the calculation		**12**	**12**	**12**	**12**	**12**	**12**	**12**	**12**
HIGH-QUALITY LIQUID ASSETS									
1	Total high-quality liquid assets (HQLA)		1,540		1,427		1,341		1,210
CASH-OUTFLOWS									
2	Retail deposits and deposits from small business customers, of which:	2,076	157	2,046	155	1,985	151	1,961	150
3	*Stable deposits*	1,434	72	1,415	71	1,373	69	1,341	67
4	*Less stable deposits*	642	85	631	84	612	82	620	83
5	Unsecured wholesale funding	2,798	1,529	2,549	1,403	2,247	1,226	2,015	1,070
6	*Operational deposits (all counterparties) and deposits in networks of cooperative banks*	-	-	-	-	-	-	-	-
7	*Non-operational deposits (all counterparties)*	2,798	1,529	2,549	1,403	2,247	1,226	2,015	1,070
8	*Unsecured debt*	-	-	-	-	-	-	-	-
9	Secured wholesale funding		-		-		-		-
10	Additional requirements	186	35	197	38	212	42	243	41
11	*Outflows related to derivative exposures and other collateral requirements*	4	4	2	[illegible]	1	[illegible]	-	-
12	*Outflows related to loss of funding on debt products*	-	-	-	-	-	-	-	-
13	*Credit and liquidity facilities*	182	31	194	35	212	41	243	41
14	Other contractual funding obligations	137	121	135	122	135	125	151	143
15	Other contingent funding obligations	1,434	72	1,414	72	1,350	69	1,274	66
16	**TOTAL CASH OUTFLOWS**		1,914		1,790		1,612		1,469
CASH-INFLOWS									
17	Secured lending (eg reverse repos)	79	79	40	40	-	-	-	-
18	Inflows from fully performing exposures	963	902	874	809	750	681	689	609
19	Other cash inflows	15	[illegible]	15	[illegible]	14	[illegible]	14	4
EU-19a	(Difference between total weighted inflows and total weighted outflows arising from transactions in third countries where there are transfer restrictions or which are denominated in non-convertible currencies)		-		-		-		-
EU-19b	(Excess inflows from a related specialised credit institution)		-		-		-		-
20	**TOTAL CASH INFLOWS**	1,057	987	929	854	764	685	703	613
EU-20a	***Fully exempt inflows***	-	-	-	-	-	-	-	-
EU-20b	***Inflows Subject to 90% Cap***	-	-	-	-	-	-	-	-
EU-20c	***Inflows Subject to 75% Cap***	1,057	987	929	854	764	685	703	613
			TOTAL ADJUSTED VALUE		TOTAL ADJUSTED VALUE		TOTAL ADJUSTED VALUE		TOTAL ADJUSTED VALUE
21	**LIQUIDITY BUFFER**		**1,540**		**1,427**		**1,341**		**1,210**
22	**TOTAL NET CASH OUTFLOWS**		**945**		**897**		**839**		**778**
23	**LIQUIDITY COVERAGE RATIO (%)**		**165%**		**161%**		**163%**		**158%**

- **The Net Stable Funding Ratio (NSFR):**

  Basel 3 also contains a proposal to introduce a net stable funding ratio (NSFR) to reduce medium to long-term funding risks by requiring banks to fund their activities with sufficiently stable sources of funding. The NSFR requires banks to maintain a stable funding profile in relation to their on- and off-balance sheet activities. The ratio is defined as the amount of Available Stable Funding (the portion of capital and liabilities expected to be a stable source of funding), relative to the amount of Required Stable Funding (a function of the liquidity characteristics of various assets held).

  In the EU, on November 23, 2016, the Commission published a legislative proposal to amend the CRR. The proposal defines, among other things, a mandatory quantitative NSFR requirement and which would apply two years after the proposal comes into force. The proposal was adopted on 16.04.2019 by amending Regulation (EU) No. 575/2013.

4.13 Management of the Operational Risk

The operational risk is the risk of loss resulting either from the use of processes, people and systems or inadequate internal not function properly fulfilled, or from external events, and includes legal risk.

Objectives

The objectives had in view in order to have a good management of the operational risk are:

- avoiding unexpected operational losses, with serious consequences for the business;
- avoidance of recording a large number of operational losses generating events, with low consequence on the activity of the organizational unit and a high probability of occurrence;
- improving operational efficiency inside the operational risk management process;
- increasing customer service quality;
- enhanced attention for the operational risk within the risk management activity frame;
- efficient management of information and human resources within the Bank;
- improvement of the system for reporting and monitoring the losses caused by the operational risk;
- assessment of exposure to operational risk based on the history of registered losses and permanent updating of the database on events that generate losses due to operational risk, reported by all organizational units;
- assessment of the activities and processes, products and systems by preparing annual self-assessments for the activities and processes carried out within all the organizational units with

the view of reporting the risks already identified during the performance of the activities or of the potential risks and the control measures taken to mitigate or eliminate the risks.
The self-assessment of the risks within the Bank is made annually based on the activities/ processes, and the responsible persons within the organizational units have to assess the operational risk for their own activities, the modifications and the effectiveness of the control measures based on a methodology issued by the Operational and Market Risk Department, with the involved Organizational Units. Also, action plans for the management of the identified issues may be drawn-up;

- Risk Management Committee Management Board and Supervisory Board shall be informed on the operational risks events that were reported by the organizational units towards Operational and Market Risk Department;
- permanent information of the Organizational Units over the decisions taken by the Risk Management Committee, the Management Board and the Supervisory Board related to the operational risk management;
- permanent monitoring of the key operational risk indicators; the key risk indicators are defined for various activities/ Banking processes, both individually and for the entire Bank.
Their objective is to offer an accurate and global image over the operational risks evolution and development through monitoring the values and changes occurred. If necessary, based on them, it can be established the interventions that can be made at the activities/ processes level (e.g. staff turnover, complaints number, etc.);
- drawing-up plausible scenarios to establish plans for resuming or continuing the activity and for unforeseen situations.
The business continuity plan is one of the tools used for the management of the operational risks. Considering the normal function of the Bank, mapping the support processes of the business has the role of identifying and classifying the processes critical for the Bank, making additional detailed risk analysis, together with organizational units, in order to maintain the sustainability of the process. Alternative solutions that can be applied in case of any failure of the critical resource are defined. The business continuity plan guides and coordinates the preparation, testing and updating of the unique action plans, adapted to changes occurred in the functioning of the Bank. The Bank implements this activity, based on a Group uniform methodology, granting a special attention to the communication in case of crisis that are to be applied in situations of crisis;
- presenting of case study describing the causes of loss events with a high consequence over the Bank's activity, identifying hidden risks and analysis of all necessary control measures to mitigate risks.

Strategy
The Bank's strategy for acquiring the objectives related to operational risk includes:

- the improvement of the operational risk management framework; periodic review of the regulatory framework for a good management of the operational risk within the Bank, development of new key risk indicators in order to use them for a better management of operational risks and connecting them to the specific and monitored activity;
- keeping records of operational risk reported at the level of the entire bank within the operational risk management database;
- Operational risk loss events are recorded in an integrated IT system with a Group level uniformity in line with Basel III requirements so that loss development and distribution can be continually analyzed and tracked based on the data for longer periods of time and also to identify the reasons that generated the losses. The operational risk database is updated whenever it is needed with new information on risk events already reported and introduced within it.
- Creating provisions for operational risk to minimize the impact of losses from operational risk events at the level of the entire bank;
- permanent support offered to the organizational units when drawing-up their operational risk reports;
- informing the organizational units on the decisions made by the Risk Management Committee and the Management Board and the Supervisory Board, related to operational risk;
- assessment of exposure to operational risk based on losses history and permanent update of the database on loss generating events of operational risk, reported by the organizational units;
- assessment of the activities and processes, products and systems by preparing annual self-assessments for the activities and processes carried out within all the organizational units with the view of reporting the risks already identified during the performance of the activities or of the potential risks and the control measures taken to mitigate or eliminate the risks;
- preparing plausible scenarios to establish plans for resuming or continuing the activity and for unforeseen situations;
- The business continuity plan and the Communication plan in case of crisis represent tools used for the management of the operational risks.

Management of the operational risk within the Bank is based on the responsibility of both Head Quarters and territorial units to identify, monitor and report any operational risk.

For a permanent assessment of the exposure to operational risk, OTP BANK ROMANIA S.A. has the following approaches:

- identification of the exposures towards the operational risk and monitoring of information and relevant data related to the operational risk including those of significant operational losses;
- Integration of operational risk management system into the risk management processes existing at OTP Group level. The results of operational risk management will be an integrant part of the monitoring and control of the Bank's operational risk profile;
- Development of internal reporting system, that provides monthly reports related to the operational risk to the management structures and management persons within the Bank.

The regulatory capital requirement for operational risk is determined in accordance with Regulation no. 575/2013 of the European Parliament and of the Council of the European Union on prudential requirements for credit institutions and investment firms.

The Bank determines the regulatory capital requirement to cover operational risk in line with the Basic Indicator Approach (BIA).

OTP Bank Romania S.A. targets a medium risk profile for its exposure to operational risk.

4.14 Management of the Reputational Risk

In order to avoid losses or to fail in achieving the estimated profits, due to the lack of trust of the clients or the potential clients in the Bank, we grant a special attention to the perception they have in the image of OTP BANK ROMANIA S.A.

Objectives
The objectives of management of the reputational risk are:

- avoiding losses or the failure in achieving estimated incomes as a result of events triggering reputational risks;
- avoiding the damaging, direct or indirect, of the Bank's reputation;
- improving the Bank's image;
- avoiding the disclosure of secret or confidential information;
- avoiding using internal/ professional/ secret/ confidential information by the Bank employees for personal benefits or to any other purpose that may have detrimental consequences in the Bank's or in its clients image;
- reducing the number of complaints from the clients and improving the flow for their solving.

Strategy
The Bank's strategy related to the reputational risk management includes:

- defines the image attributes of the Bank in fully accordance with the strategy and the values of the company;
- defines the methods to improve the Bank's image and their implementation;
- defines methods for assessing the Bank's reputation and their implementation;
- setting action plans for eventual reputational crisis situations and ensures their implementation in such conditions, if necessary;
- continuously training of the employees from the sales activity in all the aspects related to the Bank's products and services, so they can offer to the clients the necessary information in order for them to make an informed, correct and in accordance with their needs decision in terms of acquisition or use of financial products and services offered by the Bank;
- periodically review of the internal regulations related to customer due diligence for the purpose of avoid entering into business relationships with clients having a fraudulent past, involved in terrorist acts, money laundering, major payment incidents, bad payers, and/ or involved in production or selling of forbidden substances and/ or illegal activities (such as production or selling outlawed narcotics, weapons and ammunition);
- automation, wherever possible, of the checks mandatory to be made when staring a business relationship, in order to prevent the enrolment of a clients from the above mentioned categories;
- development of the existing IT application in order to improve the process of identifying the suspicious transactions;
- establishing and developing the trust of shareholders/ customers;
- improving the relationship with the Bank's clients by correct, complete and timely information provided to them in respect of the new products and services, changes in the existing products

portfolio and by communicating them all aspects that might have an influence on the activity performed through the Bank;
- Aligning the internal regulations and the Bank's activities to all the legal provisions applicable to the credit institutions. Changes affecting their status will be communicated to customers in accordance with legal requirements.
- increasing the customer loyalty;
- educating customers in order to achieve a behavior-oriented daily use products and Banking services;
- attracting the loyalty of the clients and providers;
- attracting resources/ investments necessary for the development in optimal conditions of the specific Banking activity;
- implementing the necessary measures to limit the unauthorized access to the Bank's resources, irrespective of their type;
- ability to recruit/ retain the best professionals;
- capital storage for reputational risk that protects from future crises etc.;
- preparing the plans for resuming or continuing the activity and for unforeseen situations. The business continuity plan is one of the tools used for the management of the reputational risk;
- drawing up plans in case of crisis communication in order to ensure the normal operation of business in entire Bank.

OTP Bank Romania S.A. targets a medium - low level of exposure to reputational risk.

4.15 Management of the Strategic Risk

Strategic risks are risks that affect or are created by the bank's business strategy and strategic objectives. They arise from the bank's inability to implement appropriate business plans, strategies, decisions, resource allocation and its inability to adapt to changes in its business environment. This risk is therefore a function of:
- the bank's strategic goals;
- the business strategies developed to achieve the goals;
- the resources deployed in pursuit of these goals and the quality of implementation;
- the resources needed to carry out business strategies.

- **Strategic planning process**

OTP Bank România aims to put in place strategic plan(s) supported by realistic budget(s). Any strategic plan clarifies the bank's overall purpose, defines goals and priorities and determines practical approaches for achieving them.
If the strategic planning process is not appropriate or if the assumptions are not realistic, the strategic plan will be flawed thereby exposing the bank to the strategic risk.
In this regard, OTP Bank România aims to have an appropriate strategic planning process, encompassing the following:
- support or participation of the board, delegated committees, and senior management;
- participation of staff from various departments;
- adequacy of information in developing assumptions in relation to economic factors, position of the bank compared to competitors, current competitive position, future market trends and customer needs;
- consistency of the operational plans with the overall objective of the bank;
- assessment of actual performance against strategic plans.

- **Assessment of the occurrence of the strategic risk**

In order to assess the occurrence of the strategic risk, the bank carried backward looking analysis on its strategic objectives from past years (3-5 years) and compares them with actual figures / ratios or other soft facts, non-quantifiable, for example:
- market penetration;
- product development;
- enhancement of certain qualities / attributes of the bank's product portfolio;
- segmentation of customers or of products;
- deployment of Group of local initiatives etc.

- **Capital requirements for strategic risk for OTP Bank România (individual and consolidated level)**

One of the most important outcomes of a successful strategy, that reaches its goals, is to generate profit. The lack of profit or losses requires additional funds, usually from shareholders, in order to ensure the capital adequacy of the bank, Therefore, the occurrence of strategic risk could lead to capital requirements.
In order to determine the capital requirement for strategic risk the bank uses the underachievement of budgeted profits, on a country consolidated base according to Group definition. Although capital adequacy is monitored on a separate basis, for the stand-alone bank, from an economic perspective, the Group consolidated approach is more sensible, as it is the view of the whole Group and thus that of the bank itself.

In the actual vs. plan analysis special events that occurred due to market opportunities and that could not have been foreseen will not be taken into consideration (CHF conversion, gain from Millennium acquisition).
The bank examines the fulfillment of the plan on a quarterly basis for the last 5 years.
For each quarter between Q1 2013 and Q4 2018 a comparison actual vs. plan is made for profit before tax. A weight is distributed for each period (the more recent periods receive a higher rate as it is more relevant and the older periods receive lower weights).
The gap between actual and plan (in mil RON) are weighted for each quarter. The gaps for the analyzed period (2013-2018) are added up to **+31.9 million RON**.
For the calculation of the capital requirement for strategic risk for OTP Leasing (the subsidiary included in local consolidation), the actual differences versus budget for the last 4 years were analyzed. The calculation method is used to calculate the bank's capital requirement. The gap calculated for the analyzed period (2014-2018) is +**6.2 million** RON.
The capital required for strategic risk is calculated as the negative amount of the current difference versus the plan, so it only occurs if the realization was below the plan.
The positive result means that for the period under review the realization exceeded the plan, highlighting the lack of the capital requirement for the individual and consolidated strategic risk.

- **Risk categories**

In order to determine the risk category that the calculated strategic risk falls in (low, medium, high) the capital requirement is calculated as a share out of own funds, the result will be categorized in the following risk categories accordingly:

- <5% - low risk
- 5%-10% - medium risk
- >10% - high risk

Calculation of capital requirement for strategic risk, exemplified for 2017 for OTP Bank România
Since the capital requirement for strategic risk in 2017 at the consolidated level is null, the strategic risk is low.

4.16 Management of the external risks of the credit institution

Macroeconomic crisis simulations are a forward-looking exercise whose purpose is to estimate incomes, potential losses and capital requirements under two crisis scenarios (two macroeconomic - one being more severe than the other, one internal and one combined).

It should be emphasized that these capital requirements are determined before applying any measures to supplement the own funds or reduce the risks to which the bank is exposed.

In the event of any unfavorable scenario, the bank will take preventive risk mitigation measures (risk-weighted assets and other risk mitigation techniques) as well as additional capital measures.

However, in addition to raising capital, the bank will look into if a more drastic scenario can become real, all possible ways of raising own funds and reducing additional provisions (one way would be to shut down unused facilities to reduce additional capital including, if possible, analyzing the possibility to sell the collateral covering the related exposures, the sale of fixed assets of the bank that have no direct impact on the bank's business development).

Macroeconomic crisis scenarios include values of the macroeconomic indicators that have the most impact on the profitability of OTP BANK ROMANIA S.A., such as EUR / RON exchange rate, LIBOR CHF, ROBOR, unemployment rate and others.

The steps taken to estimate the implications for OTP BANK ROMANIA S.A. in the crisis simulations are the following:

- identification of risk factors;
- generation of macroeconomic scenarios;
- estimating the evolution of non-performing loans;
- estimating the cost of risk, provisions and risk weighting factors;
- assessing the impact on profitability and on the adequacy of capital.

The results of the crisis simulations are reported to the Risk Management Committee that analyzes and approves these results. Follow-up to the discussions in this Committee:

- inform the Bank's Board of Directors of the results of the macroeconomic crisis simulation;
- it may decide to inform the Assets and Liabilities Committee, which, according to its attributions, may propose remedies to be approved by the Bank's Directorate

5. Encumbered and unencumbered assets

The situation of the assets and unencumbered by the tasks is presented as follows:

	Carrying amount of encumbered assets	**Fair value of encumbered assets**	**Carrying amount of unencumbered assets**	**Fair value of unencumbered assets**
Assets of the reporting institution			**11,777,822**	
Equity instruments			15,574	15,574
Debt securities			1,109,380	1,109,380
Other assets			10,652,868	

At 30.06.2019 the Bank did not have any encumbered assets.

Anexa1

IFRS 9-FL Form: Comparison of own funds, capital ratios and leverage of institutions, depending on the application or non-application of the transitional measures on IFRS 9 or ECLs analogous

		a	b	c	d	e
		30-06-2019	31-03-2019	31-12-2018	30-09-2018	30-06-2018
	Available capital (amounts)					
1	Common Equity Tier 1 (CET1) capital	1,276,902	1,277,085	1,281,713	1,146,550	1,132,224
2	Common Equity Tier 1 (CET1) capital as if IFRS 9 or analogous ECLs transitional arrangements had not been applied	1,179,090	1,173,399	1,172,176	1,039,962	1,027,000
3	Tier 1 capital	1,276,902	1,277,085	1,281,713	1,146,550	1,132,224
4	Tier 1 capital as if IFRS 9 or analogous ECLs transitional arrangements had not been applied	1,179,090	1,173,399	1,172,176	1,039,962	1,027,000
5	5 Total capital	1,276,902	1,277,085	1,281,713	1,146,550	1,132,224
6	Total capital as if IFRS 9 or analogous ECLs transitional arrangements had not been applied	1,179,090	1,173,399	1,172,176	1,039,962	1,027,000
	Risk-weighted assets (amounts)					
7	Total risk-weighted assets	7,462,825	7,433,205	7,047,816	6,808,703	6,636,477
8	Total risk-weighted assets as if IFRS 9 or analogous ECLs transitional arrangements had not been applied	7,376,017	7,341,184	6,950,602	6,714,106	6,543,091
	Capital ratios					
9	Common Equity Tier 1 (as a percentage of risk exposure amount)	17.11%	17.18%	18.19%	16.84%	17.06%
10	Common Equity Tier 1 (as a percentage of risk exposure amount) as if IFRS 9 or analogous ECLs transitional arrangements had not been applied	15.99%	15.98%	16.86%	15.49%	15.70%
11	Tier 1 (as a percentage of risk exposure amount)	17.11%	17.18%	18.19%	16.84%	17.06%
12	Tier 1 (as a percentage of risk exposure amount) as if IFRS 9 or analogous ECLs transitional arrangements had not been applied	15.99%	15.98%	16.86%	15.49%	15.70%
13	Total capital (as a percentage of risk exposure amount)	17.11%	17.18%	18.19%	16.84%	17.06%
14	Total capital (as a percentage of risk exposure amount) as if IFRS 9 or analogous ECLs transitional arrangements had not been applied	15.99%	15.98%	16.86%	15.49%	15.70%
Leverage ratio						
15	Leverage ratio total exposure measure	12,526,270	12,139,680	11,821,162	11,272,188	10,609,108
16	Leverage ratio	10.19%	10.52%	10.84%	10.17%	10.67%
17	Leverage ratio as if IFRS 9 or analogous ECLs transitional arrangements had not been applied	9.41%	9.67%	9.92%	9.23%	9.68%