

# TRANSPARENCY AND DISCLOSURE REPORT FOR YEAR 2020

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**Identification no: RO 7926069**  
Registered at trade registry under no.  
J40/10296/1995  
EUID: ROONRC J40/10296/1995  
Registered at bank's registry under no. RB-PJR-40-  
028/1999  
Equity: 1.829.253.120 RON

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## INTRODUCTION

This report has been prepared in order to respond to the transparency and publicity requirements covered by Regulation no. 5/2013, issued by National Bank of Romania, regarding prudential requirements for credit institutions, subsequently amended and supplemented, as well to the requirements covered by Regulation no. 575/2013 issued by the European Parliament and Council in 26 June 2013 regarding prudential requirements for credit institutions and investment firms, that amends Regulation (EU) No. 648/2012.

This report is prepared individually for the year ended 31 December 2020 and includes information contained in the financial statements audited at the individual level in accordance with International Financial Reporting Standards. Taking in consideration that the publication of it takes place until 30 June 2021, the bank has decided not to publish the simplified report for the first quarter.

## 1. GENERAL ADMINISTRATION FRAMEWORK OF OTP BANK ROMANIA S.A.

### 1.1 Shareholder structure

**OTP BANK ROMANIA S.A.** is a joint stock company managed in dual system, with registered office in Bucharest, 66-68 Buzesti Street, District 1, registered at the Trade Register under no. EUID ROONRC J40/10296/1995, sole identification no. 7926069, with subscribed and paid up share capital with a value of 1,829,252,160 RON, registered in the Bank Register under no. RB-PJR-40-028/ 1999 and is a member of OTP Bank Nyrt from Hungary.

On 31.12.2020, the structure of shareholders of OTPBANK ROMANIA S.A was the following:

1. OTP Bank Nyrt., Hungarian legal entity, registered with the Trade Register in Budapest under no. 01-10-041585, with registered office in Budapest 1051, 16 Nador Street, holds 6,288,550 nominative shares and a participation to the capital with a value of 1,829,252,160 RON, representing 99.9999475195647% of total share capital;
2. Merkantil Bank Zrt., Hungarian legal entity, registered with the Trade Register Budapest under no. 01-10-041465, with headquarters in Budapest 1051, 8 József A. Street, holds 4 nominative shares and a participation to the capital of 960 RON, representing 0.0000524804353% of the total share capital.

### 1.2 Grup structure of OTP Bank Romania S.A.

The Bank's Group refers to OTP Bank Romania SA and its Subsidiaries.

The Bank's Subsidiaries are legal entities over which OBR has control, or holds a majority stake (over 50% of the share capital).

The Management Board and Supervisory Board of the Bank exercises oversight over its Subsidiaries, while respecting the independent legal and governance responsibilities that apply to regulated Subsidiaries' management bodies.

The Bank must ensure that each of its subsidiary has a sound management framework and shall take into account the interests of all its subsidiaries and the way in which the strategies and policies of OBR contribute to the interest of each subsidiary and to the interests of the whole Group in the long term.

The Management Board supervises the activity of the bank's subsidiaries in order to ensure the implementation of a unitary strategy at the level of the Group.

In order to ensure an adequate corporate governance framework throughout the Group, but also the appropriate policies and mechanisms of governance of the structure, activity and risks posed by the entities within the Group, each organizational unit from the Bank offers the necessary professional support for the Group's subsidiaries and will ensure that all strategic decisions, the standards and policies

implemented within the OBR Group will be observed and implemented in a proportionate manner at the level of each subsidiary.

OBR Subsidiaries must send reports to OBR, as mentioned in their internal regulations and in the OBR internal regulations. For some specific situations, subsidiaries must obtain prior-approvals from OBR's Management Bodies and competent organizational units.

The **OBR subsidiaries** included as part of the Group are the following:

- **OTP Consulting Romania SRL** carries out activities through which it offers consulting services regarding the capital structure, business strategy and other aspects related to commercial business, services related to mergers and acquisitions and the provision of other consulting services;
- **OTP Leasing Romania IFN SA** carries out activities regarding financial leasing;
- **OTP Factoring SRL** carries out activities, which are consisting in the collection of bank receivables;
- **OTP Advisors SRL** carries out activities that consist in intermediating the acquisition of clients for commercial banks, supporting the activity of selling banking products belonging to them;
- **Foundation OTP BANK ROMANIA** promoting in society a complex knowledge on the economic and social realities with impact on the activities in the fields of interest for the Foundation, through information, education, organization of events, research programs and other activities.

The Groups' structure, principles, minimum requirements and operational frameworks, including the main reporting lines and responsibilities between the Bank and its subsidiaries, are described within the OTP Bank Romania Group Governance Policy.

Since the last publication of the Report on transparency and disclosure requirements and to this date, there has been only one significant change in the structure of the OTP Bank Romania S.A. Group, respectively at the beginning of October 2020, OTP Bank Romania S.A. becomes sole associate of OTP Advisors SRL.

### 1.3 The organizational structure

The Bank is divided into organizational units at the Head Office level, regional centers and in 96 territorial units.

At the Head Office level operate divisions, directorates and departments.

At territorial level, there are 6 Retail Regional Centers, which are acting independently in relation with clients and represents the intermediary lead between the Central Administration of the bank and the territorial units allocated.

Regarding the Small and Medium Business Line, this is structured in 5 SME Regional Centers.

Corporate Business Line is present in the territory through 8 Corporate Regional Centers.

The business line for Private Banking and Prestige clients is represented by specialized personnel located in territorial units with portfolio of this nature.

On 31.12.2020 the organizational structure at the level of the central administration of the Bank is organized in 5 functional lines, as follows:

- a functional line directly subordinated to the Chief Executive Officer;
- 4 main activity structured lines organizational units subordinated to the Deputy Chief Executive Officers, organized in the following areas of activity:
  - Corporations
  - Retail
  - Credit and Risk Management
  - Finance and Planning

An extract of the organizational structure of OTP Bank Romania S.A. on 31.12.2020 is presented in Annex 2.

### 1.4. The management body

Within OTP BANK ROMANIA S.A., the management body is represented, according to the stipulations of art.3 (1) points 1-3 of the National Bank of Romania Regulation no.5/2013, by the Supervisory Board as a management body in its supervisory function, and by the Management Board as superior management.



The Management Bodies of OTP Bank Romania S.A. have the overall responsibility for an adequate internal governance across the OTP Bank Romania S.A. Group and for ensuring that there is a governance framework appropriate to the structure, business and risks of the group and its Subsidiaries. The Management Bodies of OTP Bank Romania S.A. ensure that the legal, organizational and operational structure is compliant with the approved business strategy, the risk management strategy and the risk appetite and that this structure is justified and efficient and does not imply an unjustified or improper complexity level.

OTP Bank Romania S.A. Management Bodies ensure and monitor that the structure is clear, efficient and transparent for the personnel and shareholders, or other stakeholders, as well as for the National Bank of Romania.

The OTP Bank Romania S.A. Management Bodies must know not only the organization of the group, but also the purpose of the different entities and the connections and relations between them: legal, organizational and operational structure of the group, but also the purpose and activities of its various entities and the links and relationships between them. In this regard, must be informed on the group-specific operational risks and intra-group exposures, as well as how financing, capital, liquidity and risk profiles at the group level could be affected in the baseline and adverse scenarios.

The OTP Bank Romania S.A. Management Bodies ensures that the Group is able to promptly obtain information about the group regarding the type, characteristics, organizational chart, shareholding structure and activities of each legal entity in the group and that the bank comply with all reporting requirements, at the individual, sub-consolidated and consolidated level.

Also, shall ensure that the various entities in the group receive sufficient information to have a clear perception of the overall objectives, strategies and risk profile at the group level, as well as on the way in which the targeted entity within the group is integrated in the structure and operational functioning of the group.

The competencies and responsibilities of the governing bodies are regulated by the the Constitutive Act, through the dedicated procedural rules, and also by the Organization and Functioning Regulation of OTP Bank Romania S.A.

Until 14.07.2020, the **Supervisory Board** consisted of 7 (seven) members appointed by the General Meeting of Shareholders. Starting with 14.07.2020, the number of members changed, the Supervisory Board being composed of 8 (eight) members. Their term of office is 4 (four) years with the possibility of being re-elected for periods of 4 (four) years.

**The members of the Supervisory Board** in the period 01.01.2020 - 13.07.2020 were:

<b>Name</b>	<b>Function</b>
Antal György Kovács	President
Judit Hanusovszky	Vice-president
Enikő Zsakó	Member
Tibor László Csonka	Member
Ildikó Pál-Antal	Independent Member
Gábor Sudár	Member
Attila Végh	Member

During 14.07.2020-31.12.2020, the members of the Supervisory Board were:

<b>Name</b>	<b>Function</b>
Antal György Kovács	President
Judit Hanusovszky	Vice-president
Enikő Zsakó	Member
Tibor László Csonka	Member
Ildikó Pál-Antal	Independent Member
Gábor Sudár	Member
Attila Végh	Member
Ferenc Berszán	Independent Member

Additional information about the members of the Supervisory Board are presented in the OTP Bank Romania SA Annual Report, published on the bank's site, on the section About OTP Group-About us-OTP Bank Romania –Reports.

The **Management Board** is empowered with the current management of the bank by performing the necessary and useful actions for the accomplishment of its object of activity, except for those reserved by the law in charge of the Supervisory Board and the General Meeting of the Shareholders.

The Management Board consists of 5 (five) members, appointed by the Supervisory Board. The duration of their mandates is 4 (four) years with the possibility of re-election for 4 (four) years.

The members of the Management Board in the period 01.01.2020 - 29.02.2020 were:

<b>Name</b>	<b>Function</b>
Gyula Fatér	President of Management Board and General Manager(Chief Executive Officer)
György Gáldi	Member of the Management Board and Deputy CEO, coordinator of the Lending& Risk Management Division
Roxana Hidan	Member of the Management Board and Deputy CEO, coordinator of the Retail Division
Dragoş Ioan Mirică	Member of the Management Board and Deputy CEO, coordinator of the Corporate Division
Mara Cristea	Member of the Management Board and Deputy CEO, coordinator of the Finance and Planning Division

**The members of the Management Board** in the period 01.03.2020 - 14.10.2020 were:

<b>Name</b>	<b>Function</b>
Gyula Fatér	President of Management Board and General Manager(Chief Executive Officer)
Roxana Hidan	Member of the Management Board and Deputy CEO, coordinator of the Retail Division
Dragoş Ioan Mirică	Member of the Management Board and Deputy CEO, coordinator of the Corporate Division
Mara Cristea	Member of the Management Board and Deputy CEO, coordinator of the Finance and Planning Division

**The members of the Management Board** in the period 15.10.2020 - 31.12.2020 were:

<b>Name</b>	<b>Function</b>
Gyula Fatér	President of Management Board and General Manager(Chief Executive Officer)
Zoltán Balázs	Member of the Management Board and Deputy CEO, coordinator of the Lending& Risk Management Division
Roxana Hidan	Member of the Management Board and Deputy CEO, coordinator of the Retail Division
Dragoş Ioan Mirică	Member of the Management Board and Deputy CEO, coordinator of the Corporate Division
Mara Cristea	Member of the Management Board and Deputy CEO, coordinator of the Finance and Planning Division

In 2020, the management bodies of OTP Bank Romania SA met in ordinary and extraordinary sessions, with the effective participation of the majority of their members, as it follows:

- the Supervisory Board: 4 ordinary meetings and 12 extraordinary meetings;
- the Management Board: 25 ordinary meetings and 76 extraordinary meetings.

From the point of view of ensuring the gender diversity, in the structure of the management body, we mention that during 2020, the structure was the following:

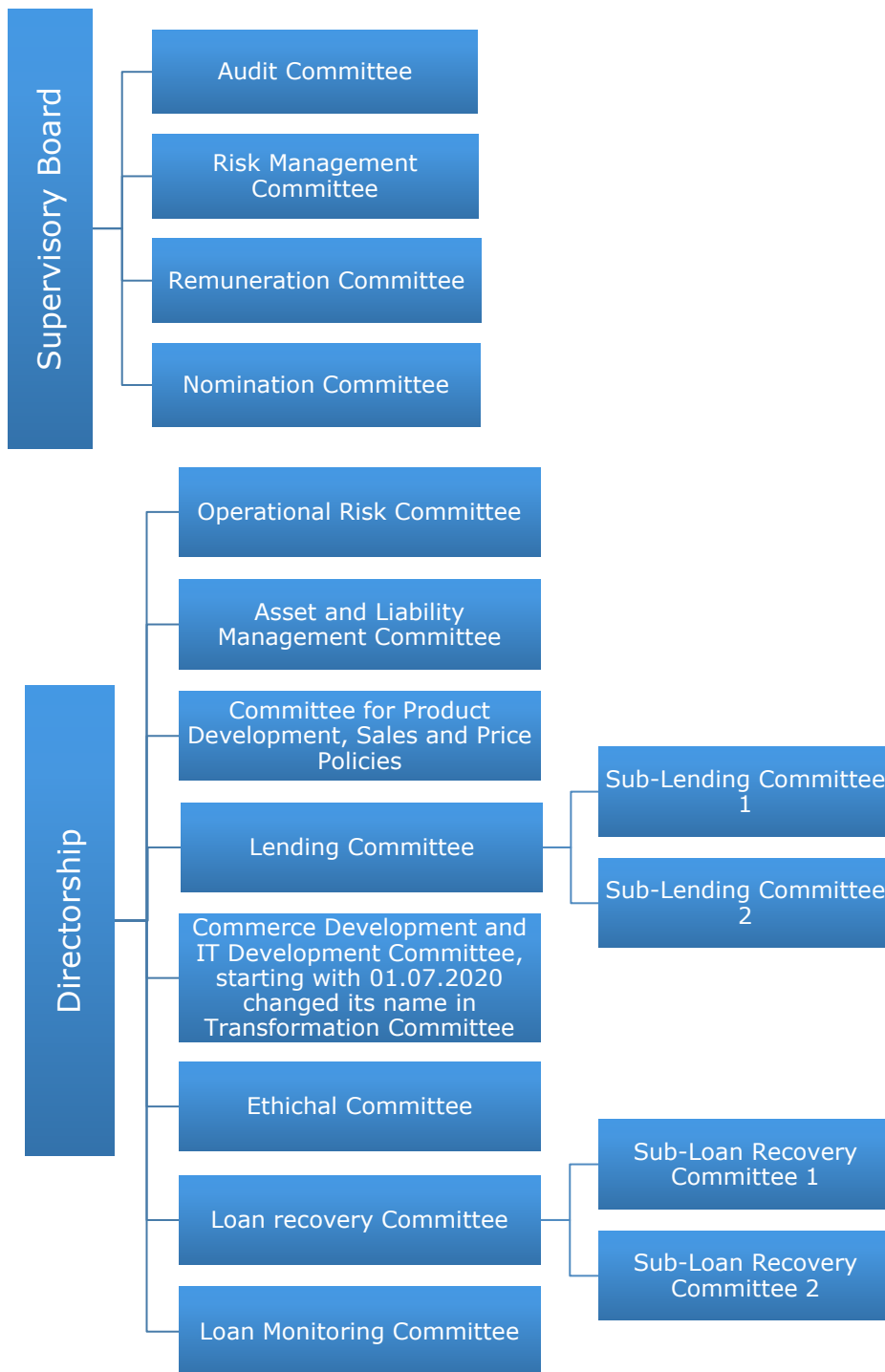
<b>Management Board</b>		
Men	Women	Member no.
60%	40%	5

<b>Supervisory Board</b>		
Men	Women	Member no.
62%	38%	8

### 1.5 Committees

In order to carry out the activity in accordance with regulatory requirements, the Management Board may set up permanent committees and subcommittees subordinated to them in order to ensure a continuing activity.

The Standing Committees and their subcommittees are analysis and decision-making structures, as well as advisory boards, subordinated to the Management Board, with specific competences for each field of activity, operating based on activity plans.



The establishment of the Audit Committee, the Risk Management Committee, the Remuneration Committee and the Nomination Committee, the definition of their structure and competencies are within the competence of the Supervisory Board. The functioning and structure of these committees are governed by the procedural rules applicable to each of them, approved by the Supervisory Board under whose subordination they operate.

The competencies of the other committees are defined by the decision of the Executive Board from which the decision-making powers are delegated and to which they report on the work carried out.

### **Responsibilities of the Audit Committee**

The Audit Committee is a standing committee, which operates independently from the Bank's management, directly subordinated to the Supervisory Board and having an advisory function. The Audit Committee assists the Supervisory Board to carry out its responsibilities.

According to the internal functioning and organization regulation, the Audit Committee meetings shall be held at least on a quarterly basis or whenever it is necessary, at the initiative of the Chairman of the Audit Committee. The meetings may be held also through distance means of correspondence. In exceptional cases, when rapid decisions must be made, the Chairman can request that a proposal be submitted for vote by correspondence (e-mail), without summoning a meeting.

During the year 2020, 8 Audit Committee meetings were held, out of which 4 were ordinary videoconferencing/ by e-mail sessions and 4 were extraordinary meetings by correspondence.

The Audit Committee has the following main responsibilities:

- To approve the Internal Audit Statute and the other methodologies specific to internal audit activity, as well as the Audit Plan and the necessary resources related to this activity;
- To monitor the statutory audit of the financial statements in order to analyze the external auditor's findings and recommendations, as well as their implementation status;
- To approve the contracts concerning not forbidden, non-audit services (established according to the applicable legislation);
- To supervise financial auditors and internal auditors activities;
- To oversee the establishment of accounting policies by the Bank;
- To receive and to analyze internal audit reports;
- To ensure timely adoption by the Bank's management of the necessary measures to solve, remedy the internal control related deficiencies identified by the internal auditors;
- To issue useful and efficient methodological proposals regarding the Bank's activity based on the audit reports and on its own findings;
- To keep track of tasks and recommendations made by Supervisory Board in relation to the internal audit and monitor their implementation in practice;
- To monitor periodically the effectiveness of internal control, internal audit and risk management;
- To advise on matters requested by the Supervisory Board;
- To recommend prior approval by the Supervisory Board of the appointment, remuneration and removal of the external auditor of the Bank;
- Approves requests to extend the implementation deadlines for audit recommendations (and related measures), with the possibility of delegating approval powers to the Committee Chair;
- Supervises the internal audit activity carried out by the Internal Audit Department in relation to the subsidiaries in which the Bank is a sole shareholder or majority shareholder.

Within the Audit Committee's meetings, the following aspects shall be pointed out:

- the functioning of the internal control system and of the internal audit activity;
- the activities affected by risks that are to be analyzed during the respective year within the internal audit engagements and within those of the Bank's statutory auditor;
- the Bank's compliance with the applicable legal provisions, Constitutive Deed, internal regulations and policies approved by Managing Bodies.

During 2020, no changes occurred in the Audit Committee's composition, this being established and approved according to the decision of the Supervisory Board no. 107/13.11.2019.



### **Responsibilities of the Risk Management Committee**

The Risk Management Committee is a permanent Committee that operates independently from the Bank's management and it is directly subordinated to the Supervisory Board, having an advisory function.

The Risk Management Committee assists the Supervisory Board in carrying out its responsibilities and has the following main attributions:

- analyzes, prior to the final approval of the Supervisory Board, the Risk Strategy of the Bank, including the risk appetite or risk tolerance at a level that ensures its healthy functioning and achievement of its strategic objectives;
- analyzes, prior to the approval of the Supervisory Board, the strategies and policies regarding the identification, assessment, monitoring and control of the significant risks, based on the applicable legal framework and group level requirements;
- independently advises the Supervisory Board regarding any breach or non-compliance of the Risk Strategy, risk appetite / tolerance or of the risk limits and makes recommendations to avoid such situations;
- informs the Supervisory Board on a quarterly basis and whenever necessary on the problems and significant evolutions that might influence the risk profile of the Bank;
- analyzes, prior to the final approval of the Supervisory Board, the internal process for the assessment of capital adequacy to risks and reports quarterly to the Supervisory Board the results of the internal process for the assessment of capital adequacy to risks;
- analyzes, prior to the approval of the Supervisory Board, the results regarding the identification, measurement, management and monitoring of the concentration risk, respectively the measures to mitigate the concentration risk;
- analyzes, prior to the approval of the Supervisory Board, the general framework regarding crisis simulations and assesses the related results and mitigation measures;

The frequency of the ordinary meetings of the Risk Management Committee is quarterly. During 2020, 13 meetings of the Risk Management Committee were organized (4 ordinary meetings and 9 extraordinary meetings, organized by correspondence - e-mail).

### **Responsibilities of Remuneration Committee**

The Remuneration Committee was established on 07.05.2018 and is a Standing Committee of the Supervisory Board with an advisory role. The Committee assists the Supervisory Board in fulfilling its responsibilities, namely, advises the Supervisory Board and prepares the decisions to be taken by the Supervisory Board in the field of remuneration policies and practices.

The Remuneration Committee should include members of the Supervisory Board who are not Bank leaders and who should be able to issue competent and independent opinions on remuneration policies and practices and incentives created for risk, capital and liquidity management.

According to the Procedural Rules, the Committee meetings are held at least quarterly or whenever necessary at the initiative of the committee chair. Meetings can also be organized by videoconference. The meeting of the Committee is legally constituted if a simple majority of voting members is present at the meeting.

During 2020, seven meetings took place, three of which 4 were video-conferencing sessions and 6 extraordinary mail meetings.

The Remuneration Committee has the following main tasks:

- supports and advises the Supervisory Board on the drafting of the Bank's remuneration policy, including the principles (policy) for identifying staff members in the category of staff identified;
- ensures the adequacy of the information provided to shareholders on remuneration policies and practices, in particular with regard to the maximum level proposed for the ratio between fixed and variable remuneration, when applicable;

- prepares decisions on the remuneration to be made by the Supervisory Board, in particular as regards the remuneration of the members of the Board, the process and criteria for determining the size of the pensions for the staff identified and the granting of exceptional remuneration to the staff identified;
- makes recommendations to the Supervisory Board on the preparation of the remuneration package and the amount of remuneration paid to the coordinators of the control functions (compliance, risk management, internal audit);
- directly supervises the remuneration of coordinators of control functions (compliance, risk management, internal audit);
- assesses the achievement of performance targets and the need to adjust ex post risk, including the application of malus and claw back measures;
- evaluates the detailed information on the final outcome of the performance assessment and the award process if, after the application of judicial measures, the result is significantly different from the initial result using predefined measures ;
- supervises remuneration policies, practices and processes, and observes remuneration policies and reports to the Supervisory Board; the monitoring process should also include remuneration policies and practices at the sub-consolidated level of the bank;
- assesses the criteria and process of identifying staff members whose activities have a significant impact on the bank's risk profile (the identified staff), including any exceptions made;
- assesses the mechanisms and systems adopted to ensure that the remuneration system takes due account of all types of risk, liquidity and capital levels and that the overall remuneration policy is consistent with and promotes sound and effective risk management and is consistent with business strategy, corporate goals, culture and values and long-term interest of the bank; ensuring the assessment includes the results of the Risk Management Committee's review if the incentives offered by remuneration policies and practices take into account risk, capital, liquidity and probability and timing of earnings;
- reviews a range of possible scenarios to test how remuneration policies and practices react to external and internal events and test back the criteria used to determine the allocation and adjust ex ante risk based on actual risk outcomes;
- ensures that the bank's remuneration policy and practices are subject to central and independent internal review at least once a year;
- ensures that a remedial action plan is proposed, approved and implemented in a timely manner, if periodic reviews indicate that remuneration policies are not working as intended or if recommendations are made.

### **Responsibilities of Nomination Committee**

The Nomination Committee was set up on 07.05.2018 and is a Standing Committee of the Supervisory Board with an advisory role. The Committee assists the Supervisory Board in fulfilling its responsibilities, i.e. advises the Supervisory Board and prepares the decisions to be taken by the Supervisory Board in the field of nominating and assessing the suitability of the members of the management body and of the key function holders.

The Nomination Committee should include members of the Supervisory Board.

According to the Procedural Rules, the Committee meetings are held at least bi-annually or whenever necessary at the initiative of the committee chair. Meetings can also be organized by videoconference. The meeting of the Committee is legally constituted if a simple majority of voting members is present at the meeting.

During 2020, the Nomination Committee seven meetings took place, 3 of which were video-conference session and 4 extraordinary mailing-in meeting.

The Nomination Committee has the following main tasks:

- supports and advises the Supervisory Board on the design of policy for the selection, assessment of suitability and succession of the bank for the members of the governing bodies (the Supervisory Board and the Executive Board) and the key function holders;
- periodically reviews the policy on selection, suitability assessment and succession planning for members of senior management bodies and key function holders and make recommendations to the Supervisory Board;
- supports and advises the Supervisory Board on the numerically weakly gender-sensitive objective within the Supervisory Board / Directorate, as well as the policy to achieve or maintain that objective;
- contributes actively to the assessment of suitability taking into account the aspects related to the balance of knowledge, skills, diversity, experience, role, time allocated and selection of candidates for vacant positions (for the Supervisory Board / Directorate and the coordinators of the internal control functions) in collaboration with the Human Resources Department;
- ensures that collective assessments of suitability of members of the Supervisory Board or the Executive Board are made prior to appointment;
- reviews the process and criteria used to identify key function holders;
- monitors the effectiveness of the bank's selection, suitability and succession policy and review its drafting and implementation;
- carries out at least once a year an individual reassessment of adequacy for the coordinators of internal control functions;
- evaluates periodically, but at least once a year, the structure, size, composition and performance of the Supervisory Board / Board and to make recommendations to the Supervisory Board on any changes; The Committee should assist the Supervisory Board in carrying out the individual reassessment of adequacy as well as in carrying out collective evaluation (self-evaluation) and report the results to the Supervisory Board, even if its composition has not changed or other measures are recommended;
- periodically, but at least once a year, assesses the individual, collective and individual knowledge, skills and experience of Directors and reports to the Board of Supervisors the reason for the reassessment and any recommendation on the identified deficiencies;
- assesses the decision-making process at the level of the Supervisory Board and the Board of Directors to determine whether it is dominated by a person or a small group of people in a way that is to the detriment of the Bank.

### **Responsibilities of Operative Risk Committee**

The Operative Risk Committee is a permanent committee, subordinated to the Management Board, authorized to decide in matters within its competence, and also to submit proposals to the Bank's Management Board regarding the development of adequate strategies, policies and procedures for the identification, assessment, monitoring and control of significant risks, according to the legislation in force and the Internal Organizational Rules of OTP Bank Romania S.A.

The main responsibilities of the Operative Risk Committee are:

- monitors the significant evolutions that might influence the Bank's risk profile and informs quarterly the Management Board related to this topic;
- analyzes and subsequently informs the Management Board regarding all relevant information related to the risks to which the Bank is exposed, in order to establish the level of the risk tolerance and risk appetite;
- independently analyzes any breach or non-compliance of the Risk Strategy, risk appetite/tolerance or of the risk limits and takes decisions to avoid such situations;
- submits for approval to the Management Board appropriate policies and processes for identifying the individual exposures to persons with whom the Bank is in special relations;
- submits for approval to the Management Board appropriate policies and processes for identifying the individual exposures to persons who have special relationship with the Bank;

- submits for approval to the Management Board the Risk Strategy of the Bank, including the risk appetite or risk tolerance at a level that will ensure its healthy functioning and the achievement of the strategic objectives;
- submits for approval to the Management Board the general framework regarding crisis simulations, reports the related results and proposes measures or actions to mitigate the significant risks to which the Bank is or might be exposed;
- submits for approval to the Management Board, the bank's outsourcing policy and the procedures for the management of the risks associated to outsourcing;
- establishes appropriate limits for risks exposure, including in crisis conditions, according to the size, complexity and financial situation of the bank, as well as the procedures necessary to approve exceptions to those limits.

The frequency of the ordinary meetings of the Operative Risk Committee is monthly. In 2020, 45 meetings of the Operative Risk Committee were organized (12 ordinary meetings and 33 extraordinary meetings, by correspondence - e-mail).

### **Responsibilities of the Asset and Liability Management Committee**

The Assets and Liabilities Committee makes decisions related to the management of the assets and liabilities of the Bank. Duties include continuous monitoring of financial and capital market trends, as well as important changes in the structure of assets and liabilities and, based on this analysis, responding appropriately.

The main responsibilities of this Committee are:

- submits for approval to the Management Board and the Supervisory Board The liquidity Management Strategy;
- submits for approval to the Management Board internal regulations concerning:
  - Stress testing in the OTP Bank Romania SA;
  - Liquidity risk management;
  - Management of the interest rate risk outside the trading book
- approve the system limits on the maximum exposure to liquidity risk. It also analysis the liquidity gap report and liquidity limits breaches, approves the measures and actions to be implemented;
- approves the limits system and the maximum level of exposure to interest rate risk;
- approves proposals for medium and long term investment and funding proposals;
- approves the maximum permissible exposure level and trading strategy for Treasury's Directorate trading book;
- establishes limits concerning securities and derivative transactions related to bank customers;
- approves alternative financing plans to establish formal strategy to address liquidity shortfalls recorded in crisis situations, for both bank specific scenarios and market scenarios;
- approves the methodology for calculating the potential changes in the economic value of the Bank as a result of applying a / some sudden and unexpected changes in interest rates;
- approves minimum margin for loan products;
- monitors, controls and manages the bank's liquidity using the monthly liquidity report;
- monitors, controls and manages interest rate risk outside the trading book using the monthly interest rate risk report;
- monitors Treasury's profitability based the monthly Treasury Profitability report;
- considers proposals of Assets and Liabilities Management Department and Risk Administration Directorate on hedging solutions (interest rates, liquidity, foreign exchange) and decides how to act;
- approves transfer pricing methodology;
- approves, if necessary preventive or remedial measures, according to results of macroeconomic stress testing;
- submits to the Management Board and to the Supervisory Board (by means of the Management Board) briefings on liquidity;
- decides the composition of the non-trading portfolio, hedging policy and tactics;

- approves Treasury instruments portfolio, product development strategy, as well as the plans for the securities by currency, maturity and product groups ;
- analyzes and acknowledges the sales situation, balances of loans and deposits, cost of funds based on Business Evolution report prepared monthly / bimonthly;
- ongoing monitors financial and capital market trends and significant changes in the structure of assets and liabilities and then, based on this analysis, take appropriate measures;
- approves the size and currency of standby credit lines;
- decides on the opportunity of reviewing trading limits in situations when the annual stop-loss limit is breached;
- any other duties stipulated by law, as determined by the internal regulations of the Bank or, as the case may be, delegated by the Board.

### **Responsibilities of the Product Development, Sales and Pricing Committee**

The main responsibilities of the Product Development, Sales and Pricing Committee:

- is responsible at the level of the Bank for the management of the customer experience area, having the role of the customer experience management committee; focuses on issues related to customer experience and satisfaction, as well as defining the Bank's strategy on customer experience, defining major objectives in business / activity areas;
- appraises and approves the banking products and services development;
- analyses and approves the proposals regarding the development of banking products and services, launching/ modifying/suspension/cancelling of all existing and new banking products and services, together with all the related internal regulations (e.g. Products descriptions, work flow);
- analyses and approves the internal regulations (product descriptions, working procedures, workflows) regarding lending (or lending related) existing or future products/services (including modification, cancelling, suspension, withdrawal, etc.) and also pricing related decisions;
- supervises the implementation process of the new banking products and services in accordance with the approved implementation plans and approves any amendments thereto;
- approves the commercial conditions of the banking products and services, including "Private Banking" products and services, such as fees, commissions, interest, margins, etc., under the minimum price conditions approved by the ALCO for credit products.
- approves the standard and negotiated competence levels for approval regarding the price of goods and services addressed to customers and partners;
- elaborates monthly reports to Management Board if necessary, as required in the Management Board decisions;
- establishes the distribution channels for banking products and services;
- analyzes the performance of the banking products and services, their profitability (also considering the risk cost elements) and life cycles, and sets out the measures to optimize the banking products and services;
- decides on the campaigns' prioritization for banking products and services and the calendar of the respective campaigns and performs follow-up of the campaigns;
- analyzing and being informed about the evolution of sales, loans and deposits outstanding, costs of fund based on the "Business evolution" report developed and presented at least monthly by the Strategy, Management and Asset and Liability Management Department;
- any other attributions clearly referred by the law, established by the Bank's internal regulations or, where necessary, delegated by the Management Board.

### **Common Responsibilities of the Lending Committee (CC) and Sub-Lending Committees (SCC)**

The main responsibilities are the following:

- to approve the credit reports and undertaking of commitments, according to competence limits as established by IOR and with the legislation in force;
- in approving loans, the CC, SCC2 and SCC1 shall take into consideration at least:
  - the current and forecasted financial performance of the counter-parties;

- the concentration of exposures to counterparties, the markets in which they operate, the economic sectors and countries where they are set up;
- the capacity to implement, from the legal point of view, the contractual commitments;
- the capacity and possibility to enforce the collateral under market conditions;
- contractual commitments towards persons which are in special relations with the Bank, the Bank's employees or their family;
- large exposures;
- operations under favorable conditions;
- seeks that large exposures, loans involving a high credit risk or those not included in the Bank's lending policy are approved at the level of the Management Board;
- when approving credits, the Credit Committee(CC) and Sub-credit committees (SCC1 and SCC2) must take into consideration the integrity and reputation of its clients as well as their legal capacity to assume obligations;
- sees that the Bank uses adequate work procedures;
- sees that the Bank uses procedures to assess real collaterals on a permanent basis;
- as regards the personal guarantees, the CC, SCC1 and SCC2 shall evaluate the capacity of the guarantors to assume obligations;
- CC, SCC1 and SCC2 see that responsibilities within the lending activity are adequately distributed, in order for the personnel not to be assigned with responsibilities that might generate interest conflicts;
- approves other requests of conditions change, afferent tot the approved facilities at least at the competency level of the CC, SCC1 and SCC2;

The attributions of the CC can be completed by express provisions of the internal regulations regarding the lending activity, as well as based on the delegation decisions of the Management Board / Supervisory Board. The approval competencies of the CC are included in Chapter I of the ROF (matrix M2 and M4) and within the Internal Norm on Assuming the Credit Risk.

The attributions of SCC2 and SCC1 can be completed by express provisions of the internal regulations regarding the lending activity, as well as based on the delegation decisions of the Credit Committee / Management Board / Supervisory Board.

The approval competencies of SCC2 and SCC1 are included in Chapter I of the ROF (matrix M2) and within the Internal Norm regarding the Assumption of Credit Risk.

## **Responsibilities of the Commerce Development and IT Development Committee**

**Starting with 01.07.2020 the above mentioned Committee changed its name into Transformation Committee**

The main responsibilities of the committee are the following:

- develops and assumes the annual business strategy;
- approves in advance according to the Project Management Procedure, the Action Plan and strategic projects, as well as the related budgets, which will determine the priorities for projects and any other necessary developments; this will be granted on the basis of a Feasibility Study for strategic projects and actions applicable under the procedures in force prior to the approval of the Directorate;
- monitor the Action Plan and Strategic Projects monthly;
- approves in advance the Budget Redistribution Directorate to other strategic initiatives than those initially budgeted, based on a Feasibility Study for projects - carried out by the initiator, even after the approval of the annual budget;
- monthly reporting to the Directorate of the status of the Action Plan and Strategic Projects within the monthly activity report of the Committee.
- proposes for the six-monthly approval by the Directorate, prior to the start of the semester, the calendar of ordinary meetings of the Committee and the subjects to be discussed, including the strategic digitization projects and the organizational culture.
- proposes to the Directorate the prioritization and allocation of resources, OPEX and CAPEX, both for business and back office developments, taking into account: the strategic importance of the proposals, correlated with the IT development needs, the cost-benefit analysis realized, correlated with non-IT projects; focus and functionalities;

- report the activity of the Business and IT Development Committee on a monthly basis to the Executive Board, including the report on Prioritization, planning and status of IT & C projects and software development.  
In making prioritization and allocation of resources, the Committee has the following responsibilities:
  - analyzes the opportunity for development requests in the software and IT & C domains and estimates of the resources needed to solve these requests;
  - analyze the opportunity and decide on applications or IT development projects and prioritize them;
  - decides to prioritize development requests in the software and IT & C areas respectively;
  - approve priority lists for software development and IT & C developments, based on proposals received from bank structures
  - approve the proposals that will be included in or excluded from the priority lists;
  - track the state of IT & C and approved software development;
  - reports top priority lists for software development and IT & C developments to the Directorate;
  - monitor the resources allocated to projects and development requests (Service Request);
  - inform the Directorate in writing about the change in the order of priority for the development requests generated by the projects;
  - approve the Bank Data Ownership Scheme based on the Bank Data Ownership Policy;
  - approve criteria and methodology for prioritizing development requests;
  - approve the cost-benefit methodology applicable to development requests;
- coordinates and updates the marketing plan related to the bank's strategy; tracks the effectiveness of different campaigns from the perspective of business strategy;
- monthly, analyzes and proposes measures to improve the processes of the bank coming from members of the Committee, as well as any other attributions stipulated in the bank's internal regulations or, where appropriate, delegated by the Directorate.
- the Committee may make recommendations to the other committees, the Directorate and the Supervisory Board, on the overall business strategy and sales policy.
- any other attributions provided by the law, internal regulations of the bank or, where applicable, delegated by the Directorate.

### **Responsibilities of the Ethics Committee**

The main responsibilities of the Ethics Committee are:

- give opinions and recommendations in general and special cases which falls under his competences relating failure to comply with the Code of Ethics requirements;
- take decisions against of non-observance of the Code of Ethics;
- make recommendations on the basis of its practice for the development of the Code of Ethics;
- any other responsibilities stipulated by the law, by the Bank's internal regulations or, as the case may be, delegated by the Management Board.

It is the task of the Ethics Committee to analyse and issue decisions related to founded reports according to the provisions of internal provisions for reporting unethical conduct.

### **Responsibilities of the Loan Recovery Committee (LRC)**

The main responsibilities of the Restructuring and Workout Committee:

- approves the proposals for starting the Workout procedures for the clients, according to the competence limitations established within IOR and observing the relevant laws;
- upon the approval of the non-performing reports, Workout Committee takes into account at least the following:
  - unfavorable changes both in the financial performance and the status of the guarantees established by the borrowers;
  - the continuous deterioration of the business sector of the client;
  - registration of credits, interests or past due commissions;
  - the start by other creditors of the procedures for the recovery of their receivables, including but not being limited to the insolvency procedure, the application of garnishments on the amounts in the accounts of the borrower opened with OTP BANK ROMANIA S.A. and/or other banks, personal and real property forced executions;
  - protest movements of the employees of the borrower, mass resignation;

- the lack of a professional management;
- the initiation by other creditors of certain forced execution procedure on personal and real assets, which represent guarantees for the credits granted by OTP BANK ROMANIA S.A.
- monitors the fulfilment by the Restructuring and Workout Directorate of the approved/disposed measures regarding the recovery of the amounts from the clients, according to the competence limitations established within IOR and observing the relevant laws;
- upon the approval of the reports, Workout Committee should take into account the history of the relation of the bank with the client as well as the monitoring reports;
- ensure that the Bank has adequate procedures for recovering claims;
- seeks the Bank to have procedures for the ongoing assessment of the situation of customers who are in debt repayment (loans, credits), or whose financial situation is clearly impaired when the credit / credit is given;
- in relation to the real and personal guarantees made by customers with arrears, the CRC pursues and orders specific measures (including granting new loans to the clients in charge of Restructuring and Recovery Credits Department, loan rescheduling / rescheduling as well as other measures presented in the regulations internal Banking) for the quickest and most beneficial use of the bank on the basis of the non-performing credit report, the legal opinion and the opinion of the Restructuring and Recovery Department;
- approves other requests for changes to the initial decisions regarding the switch to forced execution / bankruptcy if the client's situation is significantly improved and there are real possibilities for full reimbursement of overdue receivables;
- approves the Reports of the Restructuring and Recovery Division Credits on the need to pass on losses, due to the finding of the impossibility of selling receivables, guarantees and the completion of all legal recovery procedures without the recovery of all or part of the receivables;
- approves the client's return to normal administration, at the proposal of the Restructuring and Recovery Department, with the approval of the Bank's Credit Committee;
- approves the off-balance sheet records of the Bank, exposures that meet these conditions, in accordance with the Applicable Procedure;
- any other statutory tasks specified by the Bank's internal regulations or, as the case may be, delegated by the Directorate.

The activity of Restructuring and Recovery Committee is sustained by two permanent committees, which function as subcommittees of Restructuring and Recovery Committee and are named Recovery Subcommittee 1 and Recovery Subcommittee 2. The attributions, responsibilities and competencies of these two subcommittees are detailed in Restructuring and Recovery Committee procedural rules and Matrix 4 (M4) of ROF's appendix.

During 2020, the Workout Committee has met 78 times.

### **Responsibilities of the Loans Monitoring Committee**

The responsibilities of the Committee are:

- Reviews and evaluates on monthly basis, in detail, the problematic and expecting to be problematic in the future clients/client groups (regardless the exposure);
- After this review, the committee shall discuss the further steps to do concerning problem management. The Committee has the authority to decide the following:
  - To keep the receivable in ordinary procedure in the portfolio of the given business unit;
  - Prescribing further, stricter monitoring tasks;
  - Assigning responsibilities, deadlines, management strategies (restructuring proposal, strengthening collateral, requesting information, additional monitoring tasks, etc.);
  - Transferring the client in the management of the Restructuring& Work-Out Directorate and drafting a loan transfer report;
  - Asking for review of the client/transaction in the following Committee, etc.
  - Decides upon the risk status of the clients (normal/Watch List/work-out) and on the Watch List categories, based on the Early Warning Signals determined and presented;
  - Asking for review of the client/transaction in the following Committee, etc.
  - Decides upon the risk status of the clients (normal/Watch List/work-out) and on the Watch List categories, based on the Early Warning Signals determined and presented;
  - The Monitoring Committee decides and reviews on actions/strategies to mitigate the risks of watch-listed customers, controls the timely execution of the corrective actions and their outcome;
  - Decides on risk category contamination (default) at the level of group of connected clients. The default of the group member whose performance has a significant influence on the other



members of the group entails the contamination of all members of the group. The client risk status will be examined and can be assigned individually to the members of the client group, based on the Committee's decision;

- Can decide the delisting of the Watch List clients;
- Makes proposals for IFRS provisions to be set and approves the final provision amounts for the normal managed legal entities clients that are individually provisioned;
- Follow up previous decisions and strategies;
- Any other responsibilities required by national laws, set up by the internal rules in force, or delegated by the Management Board.

Problematic clients/client groups means:

- the client was discussed in the previous Monitoring Committee meeting, and further tasks were prescribed concerning it;
- there is delay in fulfillment the payment obligation concerning the deals of the client of more than 15 days;
- there are legal actions in process concerning the client which can disturb the normal course of business of the client and the client/transaction is not in the management of the Restructuring& Work-out Directorate;
- clients classified as watch list/work-out according to the Early Warning System, for which is requested the Committee's decision regarding the final risk status;
- the restructured clients, depending on the decision of the first Committee after the restructuring;

In special cases other non-problematic clients could be also brought to Monitoring committee meetings, at its special request (for example all clients who operate in a problematic industrial sector).

Thus, clients without EWS signals, with client/client group exposures greater than 6 million EUR should be reviewed in the Monitoring Committee meetings with semi-annual frequency.

After the first appearance in the committee according to this rule, the committee has the power to decide, depending on the client's situation, a higher or lower frequency than the semi-annual frequency.

- Any other duties set forth by the internal regulations in force.

During 2020, the Credit Monitoring Committee met 29 times (both e-mail and meeting).

## 1.6. Organization of internal control system functions

The internal control framework aims the institution as a whole, including the activities of all operational units, support and control functions, and is constituted of appropriate internal regulations, mechanisms and plans that help identify the internal and external risks to which the bank is exposed.

For a prudent management of these risks, the head office unit responsible for an activity area of the bank, develops and implements internal regulations corresponding to the administrated activity with the formalization of all the processes and control activities to be carried out in that area of activity.

Organizational units and support functions have the primary responsibility for establishing and maintaining adequate internal control procedures.

A comprehensive framework for internal control also requires the verification by independent control functions of being compliant with these policies and procedures.

At OTP Bank Romania level, the internal control framework is organized on three levels: according to the pyramid of the internal control system, as follows:

- **The first level** or first line of defense has as main objective the prevention of errors occurrence during the processing of banking transactions/operations/activities. The responsibility belongs to all Bank's employees. The controls and the responsible for their performance are defined in specific regulations and the controls are based on the principle of the 4 eyes. Carrying out the activity accordingly is a first step in carrying out the control activity at this level.
- **Second level** or risk management controls are the responsibility of:
  - **Risk Management function** (provided through the following organizational units: Risk Administration Directorate, Strategy, Controlling and Asset and Liability Management Directorate);
  - **Compliance function** (provided through the Compliance Directorate).

- **The third level** of control is provided by the **Internal Audit Function**, exercised by the Internal Audit Directorate, which regularly verifies the completeness, functionality and adequacy of the internal control framework. Internal audit is independent of the other two levels of internal control already mentioned.

The three independent control functions mentioned above operate independently from the operational and support function they monitor, control, and are organizationally independent from each other.

An extract of the Organizational chart of OTP BANK ROMANIA S.A. on divisions at 31.12.2020 is presented in Annex 2, with the indication that the directions belonging to the independent functions of the internal control system are highlighted in red.

### Independent control functions

**The risk management function** is centrally organized, including a group risk management function within the parent credit institution of the group: OTP Bank Nyrt. The Bank has a robust culture of risk management, extended to its structures as well as to its line of business.

Responsibility for risk management lies with the staff of all lines of activity not being limited to risk specialists or control functions.

The risk management function ensures that all significant risks are properly identified, measured and reported, and actively involved in the risk management strategy of the bank in all significant risk management decisions.

The overall risk management framework encompasses the entire process of policy, procedures and systems that enable the bank to manage prudently the potential risks that can be generated by the business carried out, thus ensuring that they fit into the risk appetite of the bank.

Each line of activity provides for the management of risks through various lever / tools, among which we mention: the supervision / control provided by the bank's management structure, the steering committees of the Bank, the separation of responsibilities, the principle of the four eyes, policies and procedures dedicated to each area of activity. Controls are preventive, detective and corrective being aligned with the risks and associated lines / processes.

The person who coordinates the Lending and Risk Management Division is the coordinator of the risk management function within the Bank.

**The compliance function** advises the management body on the provisions of the legal and regulatory framework and on the standards that the bank must meet and assesses the possible impact of any changes in the legal and regulatory framework on the credit institution's activities.

The compliance function is provided by the Compliance Directorate, which is responsible for managing the compliance risk within the Bank.

In order to ensure rigorous compliance risk management within the bank, the Compliance Directorate has developed OTP Bank's Compliance Policy and Strategy, approved by the Supervisory Board, which is the level of the entire bank and communicated to all staff.

The compliance function also has the role of checking whether the new products and new procedures are in line with the regulatory framework in force and any amendments thereto included in the adopted normative acts whose provisions will become applicable subsequently.

The Executive Director of Compliance Directorate assures the Compliance Directorate's management and holds the position of coordinator of the compliance function within the Bank, in accordance of NBR's Regulation No. 5/2013 on prudential requirements for credit institutions, with the subsequent amendments and supplementations, subordinated to the CEO, having direct reporting line to the Management Board and Supervisory Board.

**The Internal Audit** function assesses whether the quality of the internal control framework is both effective and efficient. Also, the internal audit function also assesses whether existing policies and procedures remain appropriate and comply with legal and regulatory requirements.



The Internal Audit Directorate fulfills the internal audit function in the Bank. Internal Audit Directorate's Director is the coordinator of the internal audit function within the Bank, and has direct reporting line to the Management Board, Audit Committee and Supervisory Board.

The Internal Audit function assesses the compliance of all the Bank's operations and operational units (including risk management function and compliance function) with the credit institution's policies and procedures. In this sense, the internal audit function must be independent of the audited activities and must not be combined with any other function.

The internal audit function reports directly to the management body and the Audit Committee its findings and suggestions on the significant improvement of internal controls.

**Control functions** are set to an appropriate hierarchical level and direct reporting lines to the management body are defined. The control functions at the group level supervise control functions at branch / subsidiary level.

Internal control functions periodically transmit to the governing body official reports on the major deficiencies identified. The type and frequency of these reports is defined in specific regulations. These reports include tracking measures for previous findings and, for any new major identified deficiency, the relevant risks involved, an impact assessment and recommendations. The management body must act on the findings of the control functions in a timely and effective manner and should seek appropriate remedial action.

## 2. RECRUITMENT AND REMUNERATION PRACTICES

During the reported period, OTP BANK ROMANIA S.A. has reached over 1.723 employees, and 5 (five) persons the Bank concluded a management contract with, the approaching strategy being focused on stability and balance. The Bank applies flexible solutions for stability and safety, the maximum focus concentrating on the most important resource, namely the human resource.

The Bank sustains participation to various motivational programs, and also participation to seminars on various interest topics with the purpose of sediment the knowledge in certain specialized areas well known within the Banking system. Beside the training sessions and testing coming from the strategy of the current year, the Bank has in its integration program also the training and on-line testing annual plan on Banking security and compliance areas, both for the new and existing employees, with the scope of training them and to prevent the occurrence of specific risks.

Another objective for the Bank is to provide to the employees a more stable and enjoyable working environment. Therefore, within OTP BANK ROMANIA S.A. a Collective Labor Contract is in place. Furthermore, in order to create a transparent environment, within the Bank were approved clear and brief defined methodologies, responsibilities, fulfillment stages, information flow and documents required in the human resources processes. In addition, the human resources policies, norms and procedures are updated in line with the approached strategy, and we mention: Professional Inadequacy Procedure, Remuneration Policy of OTP Bank Romania S.A., Training Norm and Policy, Policy on recruitment and selection, "Performance Measurement Policy".

The recruitment policy of OTP Bank Romania S.A. is based on the principle of ensuring equal employment opportunities to all applicants in order to select the most suitable candidate within the requirements of the vacancy, considering:

- technical knowledge,
- human specific skills,
- previous professional experience,
- requirements related to banks, operational, reputational, professional risk and related partners / customers,
- allocated budget for the position

Regardless of race, nationality, ethnicity, religion, social category, beliefs, sex or sexual orientation, age or affiliation to a disadvantaged groups.

OTP Bank Romania S.A aims to recruit, select and retain professionals who represent the best choice from the point of view of the foregoing requirements.

The second principle within Recruitment and Selection Policy is to facilitate the selection and promotion of internal candidates whenever possible.

## **2.1 Selection and Appropriateness Assessment for Key Persons at OTP Bank Romania S.A. and the OTP Bank Group**

Key functions at OTP Bank Romania S.A. (OBR) and OTP Bank Group are owned by staff members with significant influence in OBR and / or OTP Bank Group. This category includes two types:

- Group key functions - OTP Bank Romania staff members: functions within the OBR that were defined by OTP Bank Plc. as being of significant importance - based on predefined criteria - on hierarchy levels other than level 1 and 2 managers.
- People holding key local functions: staff members whose duties have a significant influence on the direction of the Bank, but which are not members of the governing body.

When identifying key local staff, the following key criteria are considered:

- the person is not a member of the Supervisory Board or of the Management Board and
- the person is head of a Directorate/ Department directly subordinated to one of the Management Board members within the following areas:
  - Business line (treasury, corporate lending, retail lending etc.);
  - Credit risk management functions (workout, restructuring, loan approval)
  - Internal control function (risk management/ compliance/ internal audit)
  - key support function e.g. Finance, IT, Legal, Operations, Human Resources;

In addition to the general principles about the selection of group key staff, the following additional aspects are considered for Key function holders:

- In the interest of the safe operation OTP Bank Romania S.A., it is essential that it be governed by professionally suitable and, in business terms, reliable persons of good business repute.
- Key function holders must at all times be suitable for the role undertaken, including solid knowledge, skills and experience for their positions.
- Prior to the appointment of the Key function holder, and subsequently on a yearly basis or whenever the necessity arises, the suitability of the Key function holder must be assessed.
- A person can be appointed as a Key function holder only if he/ she meets the specific requirements identified by the Bank.
- In order to ensure the standardization, harmonization and consistency of the corporate governance systems, the compliance requirements are consistent with applicable principles at OTP Group level, as long as these provisions do not contravene Romanian legislation.

### **Criteria for the assessment of the suitability of Key function holders**

In the assessment of the suitability of Key function holders, the following minimum criteria must be considered:

- **Reputation and integrity**

When assessing the reputation, the following aspects are considered:

- The existence of convictions or ongoing prosecutions for criminal offences;
- The existence of other relevant current or past measures taken by any regulatory or professional body for non-compliance with any relevant provisions governing banking, financial, securities or insurance activities;
- Evidence of misconduct or dishonesty (e.g. background check, past employers, media).

The existence of conflicts of interest should be also considered before the person is appointed for the specific role.

- **Knowledge, skills and experience**

All Key function holders should have finalized higher education. Moreover, the Key function holder (or a candidate) should have:

- A sound knowledge about the regulatory framework applicable to credit institutions as well as the rules of prudent banking practices.
- Good understanding of the activities of the credit institution, including major risks, especially by reference to the area of his/her role. The technical skills and knowledge required for the specific role it will perform.

## • Competences

During the selection process for Key function holders, the following competencies will be taken into consideration:

- Integrity: communicates and acts authentically, generating trust; promotes values based on integrity and personal responsibility.
- Innovation: acts for the development of personal skills and creates a stimulating environment for learning and knowledge upgrade; encourages the development of new ideas and actively gets involved in putting them into practice.
- Results Orientation: sets ambitious objectives by putting the client in the centre of his actions and then mobilizes himself in order to achieve them; takes documented decisions, taking into account their long-term impact.
- Collaboration: offers his support unconditionally; acts in order to obtain consensus within the team; openly communicates, actively listens and integrates feedback and other people's opinions in his actions.
- Team Management: acts in order to maximize the team members' results; organizes and motivates team members.
- Leadership: builds the company's vision and strategy and puts it into practice; mobilizes and inspires through personal example; contributes to the organization's talent development and to the alignment of personal aspirations with the company's mission;
- Vision, thinking and strategic planning.
- Knowledge and excellent negotiation and management capabilities.
- Excellent organizational and planning skills.
- Control and monitoring of the decision-making process.
- English - advanced level.

## 2.2 Recruitment, selection and assessment for management body members

Within OTP Bank Romania SA the management body members are:

### • Executive management of the bank - Members of the Management Board

Represent the members of the Management Board of OTP Bank Romania SA. who, according to the Constitutive Deed and / or decisions of decisional bodies of the Bank are empowered to lead and coordinate its daily activities and are invested with the power to bind the Bank. When performing the suitability assessments for Management Board members both the suitability of the composition of the body and the suitability of each individual member are assessed.

At aggregate level, the following aspects must be considered:

- **Size:** the Management Board has the required number of members to effectively perform its duties;
- **Expertise and experience:** reflects overall an adequately broad of experiences; collectively have knowledge, skills and expertise to allow them to understand the business activity of the Bank, including their risks and to pronounce, in full awareness about all the aspects they have to decide upon, according to their competencies; and sufficient practical experience in credit institutions; and
- **Diversity:** an adequate diversity level considering criteria such as gender, age, cultural and educational background or professional experience; The Bank's target for the underrepresented gender is to maintain a minimum of 20% representation.

At individual level the Management Board members must fulfil the general conditions provided by OTP Bank Plc policies and by the laws in force, as well as the special conditions relating to such position, stipulated in the Company Law, Banking Law and in the regulations issued by NBR as well as in other European pieces of legislation, as applicable from time to time which include:

- **Reputation:** should be no evidence to suggest otherwise and no reason to have reasonable doubt about the member's good reputation;
- **Experience & expertise:** should have sufficient experience and expertise to perform his/her roles and responsibilities, considering the theoretical experience attained through education, training and the practical experience gained in previous occupations;
- **Time commitment:** should be able to allocate the minimum expected time commitment required for the individual responsibilities, as well as for the specific responsibilities as part of the Management Board; and
- **Objectivity:** should be able to act objectively, critically and independently. In this regards, any conflicts of interest need to be identified and adequately managed.

- 
- **Non-executive management of the bank - Members of the Supervisory Board**

It represents the management structure in the supervisory function, respectively the management structure that acts as a supervisory function, supervises, and monitors the decision-making process of the executive function.

When performing the suitability assessments for Supervisory Board members both the suitability of the composition of the body and the suitability of each individual member are assessed.

At aggregate level, the following aspects must be considered:

- **Size:** the Supervisory Board has the required number of members to effectively perform its duties;
- **Expertise and experience:** collectively the required knowledge, skills and experience in order to be able to understand the activities of the Bank, including the main risks thereof, and decide in full knowledge of the aspects falling under its competences;
- **Diversity:** an adequate diversity level considering criteria such as gender, age, cultural and educational background or professional experience; The Bank's target for the underrepresented gender is to maintain a minimum of 33% representation.
- **Independence:** a sufficient number of independent members on the Supervisory Board where independence is assessed by reference to the applicable regulatory framework.

At individual level the Supervisory Board members must fulfil the general conditions provided by OTP Bank Plc policies and the laws in force, as well as the special conditions relating to such position, stipulated in the Company Law, Banking Law and in the regulations issued by NBR as well as in other European pieces of legislation, as applicable from time to time which include:

- **Reputation:** should be no evidence to suggest otherwise and no reason to have reasonable doubt about the member's good reputation;
- **Knowledge, skills and experience:** must have sufficient knowledge, skills and experience to fulfill its role and responsibilities, and appropriate managerial skills to be able to understand and challenge the practices of applied management and decisions made by the Directorate. The Bank considers the theoretical experience gained through education, training and practical experience gained in previous occupations;
- **Time commitment:** should be able to allocate the minimum expected time commitment of effective participation and adequately exercise of prerogatives as a member of the Supervisory Board; and
- **Objectivity:** should be able to act objectively, critically and independently. In this regards, any conflicts of interest need to be identified and adequately managed.

When assessing the experience & expertise, either at individual or collective level, the following areas should be considered:

- financial markets;
- regulatory framework and requirements;
- strategic planning and understanding of a credit institution's business strategy or business plan and accomplishment thereof;
- risk management (identifying, assessing, monitoring, controlling and mitigating the main types of risk of a credit institution, including the responsibilities of the member);
- accounting and auditing;
- assessing the effectiveness of a credit institution's arrangements, creating effective governance, oversight and controls; and
- interpreting a credit institution's financial information, identifying key issues based on this information and appropriate controls and measures.

The selection of the members of Supervisory Board takes into account the provisions of the Romanian legislation in force and the requirements and norms of the NBR.

## 2.3 Performance measurement

Performance Measurement Policy - OTP Bank Romania S.A. ("The Bank" or "OBR") forms an integral part of the Bank's Corporate Governance Framework and aims to establish, in relation to the OBR Remuneration Policy, the detailed requirements for the methods / set of instruments used to measure performance and evaluate the entire staff.

The recognition of the performance of incentive staff to achieve the Bank's and OTP Bank Group's objectives and incentives should be in line with the long-term strategy, objectives, values and long-term interests of OTP Bank and the Bank, and to facilitate their achievement.

The bank applies different performance measurement systems to its staff.

The staff members identified are assessed in the two-tier performance measurement system that targets individual strategic objectives and objectives. For the identified staff, the assessment of the strategic and individual objectives is done on a scale of 0 to 100% based on the weighting of both types of targets. Unidentified staff members are assessed within the single-level performance measurement system that focuses only on individual goals.

The Non-Identified Staff members are subject to the single-tier performance measurement system, which is completely tied to individual performance. For the employees subject to the one-tier performance measurement system the targets and appraisal criteria, as well as the conditions of payment shall be defined based on uniform principles; in this case there is no need to conclude separate target agreements. Non-Identified Staff members comprise head office personnel, including managers and staff.

The objectives set for both the identified staff and unidentified staff will have performance indicators (KPIs) on which to assess their performance. Performance indicators are a set of quantifiable measures that the Bank defines to determine the extent to which organizational goals are being achieved and business strategies are effective.

### Evaluation of Identified Personnel

The performance serving as a benchmark for performance-based remuneration is determined as the weighted arithmetic average of the institutional and individual targets, with the weight of the indicators at the institutional level decreasing for each manager as the management levels decrease. In the case of managers performing the internal control function (internal audit, compliance, risk administration), this principle applies with the difference that the institutional level indicators are taken into account with a lower weight - one lower than the given organizational level.

Individual performance cannot be "pulled up" by the performance of the group (entity), i.e. if the performance of the group (entity) is greater than the result of the individual performance evaluation, then the individual evaluation shall prevail.

The financial indicators used to assess performance would be assessed by two thresholds: performance threshold (minimum level) and tolerance threshold. Achieving a given target below the performance threshold means 0% fulfillment, in which case the employee is not entitled to performance-based remuneration. Performance between the performance threshold and the tolerance threshold means the actual evaluation of the indicator, in which case the employee is entitled to performance-based remuneration based on the measured performance. In the case of performance above the tolerance threshold, in addition to the measured performance, subjective aspects may be taken into account when determining the performance value of the indicator between tolerance threshold and 100%, acknowledging the actual effort of the employee to achieve the given numerical target, or the lack thereof.

The Management Committee of OTP Bank Plc. may also set stricter thresholds than the thresholds set by the Supervisory Board of OTP Bank Plc., in which case these stricter thresholds shall prevail.

If institutional objectives are not met but the Supervisory Board of OTP Bank Plc. has established the existence of an objective circumstance negatively affecting performance, and the value of the indicator is above the tolerance threshold, then the Supervisory Board of OTP Bank Plc. is entitled to divert the evaluation of the institutional level indicators.

In case of performance above the tolerance threshold, the employer exercising the employer's rights/evaluation manager is entitled to decide on the fulfillment value of the indicator between the tolerance threshold and 100%.

The evaluation manager must always justify the proposed deviation between the tolerance threshold and 100%, which must also be approved by the Management Board of the Bank, after the OTP Bank Plc has made a decision regarding any proposed deviation in the case of managers identified at consolidated level.

In the case of employees identified at the consolidated level, the deviated evaluations are submitted to the President& CEO of OTP Bank Plc. by the head of Human Resources Management Directorate, based on a preliminary examination of the adequacy of the evaluations. In the case of employees identified at the sub-consolidated and local levels, they are checked by the head of the Human Resources Directorate of OBR, if he/she deems them inappropriate, initiates consultations with the evaluation manager.

With respect to identified staff members that have the most significant effect on risk profile at consolidated level (the chief executive of OBR), the key indicators for performance measurement, as well as the main principles of performance measurement relating to the assessed year, are approved by the Supervisory Board of OTP Bank Plc by the date of the General Meeting closing the previous business year the latest.

The following persons/bodies are authorised to determine the structure of the institutional and individual target tasks set out in the individual agreement, taking into account the KPI library:

a) in the case of Management Board Members, the objectives (performance indicators and levels) are set in accordance with the business plan of the Bank and are approved by OBR Supervisory Board, conditional on the prior approval of the OTP Bank Plc.

b) with regard to the other identified staff, the setting of performance indicators (targets) for the year concerned shall be the task and responsibility of the direct superior of the person concerned, with the provision that the targets must be in line with the targets applicable to the Management Board member to which he/ she is subordinated. In order to ensure consistency, the cascading down of financial, operational and risk indicators could be based on pre-defined minimum criteria/ steps.

### **Evaluation of non – identified personnel**

The evaluation of individual objectives is carried out annually and is mainly the responsibility of the hierarchical superior who reviews the employee's self-evaluation. The evaluation process considers business indicators (quantitative, qualitative), professional development objectives and skills that capture desirable behaviors.

The final evaluation score is validated in a calibration process, consisting of three sequential stages: Directorate level calibrations, Division level calibrations and Bank level calibrations. The purpose of the calibration process is to ensure an objective evaluation process, which uses a performance standard aligned within the organization and which relates to a recommended distribution of evaluation scores.

### **Evaluation of sales personnel**

The Relevant Persons - Sales personnel category refers to employees, staff and managers, who are involved directly or indirectly in the sale and provision of Bank products and services to customers

Targets are established in accordance with the strategy of the bank and they are cascaded from Bank targets to employees. These will be subject to OBR Management Board approval.

The performance of Sales personnel considers strictly the achievement of business specific performance indicators which are included in Performance Management Plans (hereinafter as PMP); the structure of the PMP is standardised at role level, within each business line and are approved by the Management Board on a quarterly, monthly or yearly basis (i.e. Branch Manager PMP, Client Advisor PMP etc.).

The performance measurement indicators should:

- a) take into account the rights and interests of consumers (ensure fair treatment and transparency);
- b) include both qualitative and quantitative criteria;
- c) not solely link remuneration to a quantitative target for the offer or provision of products and services;
- d) not promote the offer or provision of a specific product or category of products over other products, such as products which are more profitable for the Bank or for a Relevant person, to the potential detriment of the consumer; i.e. quantitative sales of products and services to be assessed together with the satisfaction of the quality and quantity of information provided to the clients with regards to the services purchased.



Performance compensation is set in accordance with the "Remuneration Policy OTP Bank Romania S.A."

## 2.4 Remuneration in case of Bank's employees

The remuneration policy is applicable to all staff members and is subject to approval by the Supervisory Board.

Remuneration comprises a fixed and a performance-based remuneration element.

The Bank can grant the following types of remuneration:

- Monetary remuneration:
  - Basic salary
  - Bonuses or premiums
- Benefits such as meal tickets, medical services etc.

The Bank classifies remuneration granted to its staff as fixed if its award and its amount meet the following conditions simultaneously:

- are based on predetermined criteria;
- are non-discretionary reflecting the level of professional experience and seniority of staff;
- are transparent with respect to the individual amount awarded to the individual staff member;
- are permanent, i.e. maintained over a period tied to the specific role and organizational responsibilities;
- are non-revocable;
- cannot be reduced, suspended or cancelled by the Bank;
- do not provide incentives for risk assumption; and
- do not depend on performance.

All other types of remuneration, which do not meet the criteria above, are to be considered variable remuneration and will be subject to the applicable limitations.

- **Fixed remuneration**

- **Basic Salary**

When determining the salary level, the following aspects are considered:

- **Internal equity** i.e. when setting the salary scale/ level the level of education, expertise and skills, complexity and organizational responsibility the position entails are considered;
- **External equity** i.e. when setting the salary scale/ level the Bank considers information gathered from salary polls and market data on financial institutions to ensure adequate resources are attracted and maintained. As such, the Bank benchmarks itself to its relevant market.

Basic salary is negotiated in gross and in RON.

- **Other types of fixed remuneration**

The Bank may grant the following additional types of fixed remuneration:

- **Payment for relocation purposes** – applicable for employees relocated on a position outside their residing locality/ changing residence for employment purposes at the specific request of the Employer, for a period of a minimum 3 months. The maximum amount in this case is RON 11,000 gross value per relocation;
- **Monthly housing allowance** – applicable for employees relocated on a position outside their residing locality/ changing residence for employment purposes. The amount to be granted is decided on a case-by-case basis and is subject to the approval of the Chief Executive Officer/ Deputy General Manager;
- **Loyalty bonus** - depending on the seniority in the bank of the employees, taking into account the Bank's performance. The value of this bonus, as well as the conditions for granting it (number of years of seniority, the result of the last performance evaluation, date and frequency of granting the bonus) will be established annually by the Bank's Management and subsequently communicated to the employees;
- **Ordinary shares** - provided in the management contract.

The Bank can grant additional fixed remuneration according to the provisions of Collective Labour Agreement.

- **Extraordinary allowance** - depending on the bank's budget, it may be granted discretionary, for a fixed duration, for exceptional (unpredictable) situations such as, but not limited to, natural calamities, extreme weather events, riots, war, terrorist attacks or

invasion, government or regulatory action, famine, global health emergency, epidemics / pandemics.

In addition, for expatriates Management Board members the benefits are detailed in the regulations of the Group.

#### - **Benefits**

The Bank sets through its Collective Employment Agreement and by this policy benefits applicable to all its employees. Benefits applicable to employees are subject for approval of the Management Board or Supervisory Board (based on prior assessment by the Remuneration Committee), considering their approval limits from Internal Organizational Rules competencies matrix.

### • **Variable remuneration**

#### - **Bonuses**

- The Bank may grant variable remuneration related to:

- **Overall performance** – based on the assessment of the individual, unit and Bank performance;
- **Incentive schemes** – based on specific Bank, business line and individual objectives and can be set for periods up to one year or more (Incentive systems: e.g. START Retail, START Corporate, Work Out, Soft Collection, Treasury).
- **Special projects** – bonuses granted in exceptional cases, such as participation in a specific project.

#### - **Exceptional payments**

The extraordinary benefits can include:

- buyout from a previous contract;
- retention bonus;
- proportional compensation for a non-competition clause;
- individual severance payments;
- mandatory severance payments.

Application of exceptional payments according to points a) - d) is possible solely in cases justified for business reasons and for Identified staff belongs to the Supervisory Board approval, based on the recommendation of Remuneration Committee with the prior consent of the OTP Bank Group, and for the Non Identified staff, belongs to the General Manager of the bank.

#### - **Pension benefits**

The Bank does not award discretionary pension benefits.

#### - **Remuneration upon the termination of employment relationship**

Upon the termination of the employment relationship, the Bank may pay the following:

- basic salary until termination of the employment relationship or discharge from the obligation to work; (i.e. normal payments for remuneration relating to the length of a notice period, and not compensatory payments);
- benefits provided in accordance with the collective agreements and internal regulations; (i.e., related to regular remuneration);
- mandatory severance pay according to the Collective Labor Agreement;
- individual severance payments applicable in case of termination of employment relationship by agreement of the parties, in order to settle a legal dispute, to avoid a decision by the courts. These payments that meet the regulatory requirements for variable remuneration will not exceed 100% of the fixed annual remuneration and should not be taken into account when calculating the ratio between variable and fixed components of the total remuneration or for the application of deferral;
- Compensation for a non-competition agreement provided that there is a contract to this effect, based on which the non-competition obligation remains in effective for a certain period of time after termination of the employment relationship;

The compensation for the non-competition agreement shall not exceed the amount the employer would have paid as basic remuneration for the duration of the non-competition obligation. Any consideration for a non-compete commitment exceeding this amount shall be classified as variable remuneration, and thus the amounts exceeding the proportionate consideration shall be subject to the rules of instrument-based payment, deferral and risk adjustment.

- settlement of the performance-based remuneration upon termination of the employment relationship with the observance of the applicable requirements for variable remuneration.

Payments related to the early termination of a contract will reflect the performance achieved over time and will not reward the failure.

Settlement and payment of the performance-based remuneration upon termination of the employment relationship shall take place in accordance with the general rules, based on performance evaluation, according to the original schedule.

## 2.5 Rules applicable to all staff

- **The remuneration framework ensures alignment of the objectives of its staff with the long-term objectives of the Bank and avoids conflicts of interest.**

The Bank develops, maintains and implements a remuneration policy which:

- is consistent with and promotes sound and effective risk management and does not encourage risk-taking that exceeds the level of tolerated risk of the Bank.
- is in line with the business strategy, objectives, values and long-term interests of the Bank and its shareholders; and
- incorporates measures to avoid conflicts of interest (including about miss selling).

The payment of the performance-based remuneration, in accordance with the provisions stipulated herein, conforms to the business cycle of the Bank and of OTP Bank Group.

Conflicts of interests with regard to the remuneration policy and remuneration awarded must be identified and appropriately mitigated, including by:

- Identifying and assessing such circumstances;
- Establishing objective award criteria based on the internal reporting system/ data;
- Applying appropriate controls, including the four eyes principle within the performance measurement and award processes.

The Bank will not pay variable remuneration through vehicles or methods, which may aim at or effectively lead to regulatory non-compliance or decrease in the effectiveness of the remuneration framework in supporting a sound performance of the Bank.

- **Remuneration is aligned with performance**

Remuneration is based on individual performance, business unit performance and the overall performance of the Bank.

Individual performance is assessed considering both financial and non-financial criteria (such as skills, leadership abilities, compliance with Bank's internal rules etc.).

- **Fixed - variable ratio**

The fixed and variable components of the total remuneration are appropriately balanced.

The variable component may not exceed 100% of the fixed component of the remuneration.

- **Variable remuneration is flexible**

The fixed component will represent a sufficiently high proportion of total remuneration ensuring the operation of a fully flexible variable remuneration policy, including the possibility to pay no variable remuneration.

Variable remuneration budgeted during the business planning process will not represent a commitment on behalf of the Bank and can be reduced to zero in case of a negative or subdued performance of the OTP Bank Group, OBR, the business unit or the individual.

Variable remuneration is subject to the preliminary and subsequent evaluation of risks being linked to the realization level of the targets at OTP Bank Group, OBR level and individual level.

Up to 100% of any variable remuneration granted by the Bank shall be subject to malus and claw-back arrangements.

Guaranteed variable remuneration can be granted only in exceptional cases upon hiring new staff for a period not exceeding 1 year provided the Bank has a sound capital base with subsequent notification of OTP Bank Plc's Supervisory Board.

- **Personal hedging is forbidden**

In respect of those shares which make up the share-based part of the share-based performance-based remuneration, and which will be paid to the identified employee in the future (in particular the deferred and retained part), the employee does not have a right of disposal (so as an example for this part the employee is not entitled to conclude a preliminary or binding contract, and cannot offer it as a collateral), and moreover, concerning these shares the employee is not entitled for dividends until the time of acquiring such shares.

Staff members are forbidden to transfer the downside risks of variable remuneration to another party through hedging, insurance or any other type of mitigation technique which compensates them in the event of a downward adjustment in remuneration.

If a staff violates the prohibition stipulated in the previous paragraph, the Bank may:

- claim indemnification and apply malus and claw back, or
- demand instead of indemnification that the staff concerned cede the transaction concluded for his/her own benefit, or
- demand him/her to release his/her gain originating from the transaction concluded on a third party's account or to assign his/her related receivable to the Bank.

## **2.6 Rules applicable to Identified staff**

- **Identified Staff Policy**

The Bank performs at least on an annual basis a self-assessment in order to identify (or assess if changes are required with regards to) the categories of staff having a material impact on the Bank's risk profile.

The identified staff has been determined on three levels:

- consolidated-level (group-level) personal scope includes those (staff members identified at consolidated level) whose professional activity has a material impact on the risk profile of the entire OTP Group;
- sub-consolidated-level personal scope includes those (staff members identified at sub-consolidated level) whose professional activity has a material impact on the risk profile of OTP Bank Romania and its subsidiaries;
- local (individual)-level personal scope includes those (staff members identified at local level) whose professional activity has a material impact only on the risk profile of OTP Bank Romania.

The process considers the following perspectives:

- Quantitative and qualitative criteria as prescribed in EU Reg. 604/2014;  
The total remuneration awarded to staff in the preceding financial year are taken into account in the identification at the beginning of the following financial year. Total remuneration includes all monetary and non-monetary fixed and variable remuneration components awarded for professional services in the preceding financial year. For the variable component these can be amounts that have been awarded in the preceding financial year for the complete previous accrual period, independent of the fact that only parts of the variable remuneration were paid out in the preceding financial year and other parts were deferred (for example for the identification in early 2016 the fixed remuneration awarded and paid in 2015 and the variable remuneration awarded in 2015 for the previous accrual period e.g. 2014 will be added to calculate the amount to be used for the identification under the quantitative criteria).
- Where needed to ensure a complete identification of all staff whose professional activities have a material impact on the Bank's risk profile, additional criteria set forth by the Bank that reflect the levels of risk of different activities within the Bank and the impact of staff members on the risk profile (e.g. KRIs used as part of the Bank's risk strategy) in addition to the qualitative criteria provided in Assessment methodology of staff members whose professional activities have a significant impact on the institution's risk profile.

If an employee qualifies as Identified Staff in accordance with perspective above, the Bank shall, based on an internal approval process and notification to NBR, treat the technical/ professional activities of that employee as activities without having major impact on the Bank's risk profile, provided the following conditions are met simultaneously:

- the employee's impacts on the risk profile does not qualify as material according to the results of the risk analysis carried out in accordance with the risk assessment methodology prescribed in the prevailing administrative instruction setting out the Assessment methodology of staff members whose professional activities have a significant impact on the institution's risk profile.

- the employee does not actually have a material impact on the Bank's risk profile in view of the absolute amount of the performance-based remuneration that may be allocated to him or her.

The decision on exemption passed in line with the provisions of the above mentioned paragraph – provided that the content of the position does not change – is valid in that year, when the decision was made, and in the next business year as well.

The following events will not lead to a person not being considered as pertaining to the Identified Staff category:

- the full-time employment of the person within the scope is transformed into part-time employment;
- the indefinite-term legal relationship changes into a defined-term legal relationship;
- the person performs his/her tasks based on other work-related legal relationship instead of employment relationship;
- the person falls or is likely to fall under the qualitative criteria for a limited period of time which is longer than three months in a financial year or performs on a temporary basis for a minimum of 3 months a role which pertains to the Identified Staff category.

### **Self-assessment process**

#### **Annual review**

- The Human Resources Directorate performs a preliminary identification (annual re-assessment) based on the specific regulatory criteria and based on the results of the application of the Assessment methodology of staff members whose professional activities have a significant impact on the institution's risk profile performed by Operational and Market Risk Department (Risk Administration Directorate).
- The list of Identified Staff will be reviewed by the other control functions within the Bank, respectively by Risk Administration Directorate, Compliance Department and Legal Directorate.
- The list of Identified Staff and any exemptions thereof are reviewed by the Remuneration Committee before they are submitted for approval to the Supervisory Board.

The prior approval of the Supervisory Board of OTP Bank Plc is also required.

#### **Extraordinary review**

- The Human Resources Directorate ensures the list of Identified Staff is updated during a financial year if specific changes occur (e.g. changes in roles and responsibilities of staff members). The Risk Administration Directorate should communicate to the Human Resources Directorate any significant changes in the Bank's risk appetite/ risk profile which could lead to additional staff members meeting the Identified Staff criteria and hence to a revision of the list of Identified Staff members.
- Significant changes (e. g. introduction of a new product/ business line, changes in the regulatory requirements with impact on the activities/ authority of staff members, changes in the target risk profile of the Bank/ risk profile outside target level) performed during the year to the list of Identified Staff will be subject to the review of the Remuneration Committee who submits it to Supervisory Board.

The Human Resources Directorate maintains a clear and consistent record concerning the identification process and the staff members included in the Identified Staff category as well as any exemptions applied, which includes at least the following information:

- The results of the self-assessment process, including results of the application of the Assessment methodology of staff members whose professional activities have a significant impact on the institution's risk profile performed by Operational and Market Risk Department (Risk Administration Directorate);
- The approach used to assess the risks emerging from the Bank's business strategy and activities (e.g. risk strategy for the period under consideration and the current risk profile of the Bank);
- The role and responsibilities of the different units and internal functions involved in the design, oversight, review and application of the self-assessment process;
- The identification outcome which covers:
  - The list of identified staff based on the names (or another unique identifier) and their allocation to business areas as well as when the person entered/ exited the Identified Staff category;
  - Key information with regards to the criteria leading to inclusion in the list of Identified Staff (e.g. the job responsibilities and activities);
  - Changes since the last assessment.

- **Fixed to variable ratio**

OTP Bank Romania S.A. will not grant Identified Staff members variable remuneration exceeding 100% of the fixed remuneration.

When determining the ratio, the sum of all variable components of remuneration that could be awarded are considered divided by the sum of all fixed components of remuneration to be awarded in relation to the same performance year. Some of the fixed remuneration components may be omitted, where they are not material, e.g. where proportionate non-monetary benefits are awarded.

The Bank sets differentiated levels for the fixed and variable ratios while ensuring a sound proportion of the variable remuneration versus fixed remuneration by considering the following:

- the performance measurement system and method for determining the risk levels,
- ratio of deferral of performance-based remuneration,
- length of the deferral and retention period,
- structure of the organizational unit / Bank, the nature and complexity of its activity,
- position of the staff member in the organizational hierarchy,
- type of function discharged by the staff member (business, support, control), and
- risk assumption/ decision-making levels allocated to the various positions.

Considering the above as well as functional partitioning, the highest variable remuneration should be defined for business function, followed by "other staff" category functions, whilst the lowest ratio should be set for control functions.

The allocated ratios for Identified Staff are approved by Supervisory Board, based on the prior assessment by the Remuneration Committee and prior approval of Supervisory Board of OTP Bank Plc.

In case of material financial losses at OTP Bank Romania level, the Supervisory Board, at the proposal of the Remuneration Committee, can modify the original ratios by reducing the ratio of performance-based remuneration.

In the case of the Identified Staff individual agreements are concluded after decision is taken by the OTP Bank Romania's Supervisory Board concerning the definition of the structure of the performance measurement indicators, deferral schedule, payment in instruments, ex-ante/ ex-post adjustments, etc. based on the Remuneration Committee assessment and proposal. The individual agreements shall be concluded by the body exercising employer's rights above the person concerned. The Human Resources Directorate shall be responsible for the preparations of the conclusion of the agreements.

#### **Supervisory Board members**

Members of the Supervisory Board can be compensated only with fixed monthly remuneration. Incentive-based mechanisms based on the performance of the Bank are not permitted.

- **Performance measurement and risk alignment**

The rate of performance-based remuneration is established firstly on the basis of the collective evaluation of targets (i.e. bonus pool ex-ante adjustment).

In the case of Identified Staff members the risk alignment process is performed not only at performance measurement process but also as part of deferred remuneration vesting process and as part of the pay-out in instruments process. At each stage of the risk alignment process the variable remuneration is adjusted for all current and future risks taken.

For performance measurement necessary to award a specific variable remuneration the principles related to selection of KPIs and risk adjustments.

For Identified staff OTP Bank Plc. compiles a "KPI library" that contains the individual optional indicators by institution, their definition, unit of measure and data owner. The KPI library is approved every year by the Supervisory Board of OTP Bank Plc.

In the case of Management Board members, the performance measurement system will include a RORAC+ (ROE/COE) indicator in line with OTP Bank Group remuneration framework provisions. RORAC+ (ROE/COE) is calculated based on OTP Bank Group performance measurement and monitoring methodology taking account of the following:

- The value of adjusted profit after tax is to be established by applying the definition of "stock exchange profit or loss", i.e. the accounting profit or loss is adjusted by the special items not related to the business activity (e.g. goodwill impairment, potential one off sales profit or loss from disinvestment, tax imposed on bank, etc.).
- The cost of equity (Country COE) is determined based on the CAPM model, as the sum of the beta times the risk-free return and the market risk premium, where beta is the sensitivity to market movements. In the calculation, the risk-free return varies from country to country, while the beta (1.3) and market risk premium (6%) are the same for each country.

The determination of the target value of the return on risk-adjusted capital (RORAC+) indicator for the given business year is based on the latest annual financial plan approved by OTP Bank Group level.

Granting of performance based remuneration to staff members which qualify as Identified Staff members at OTP Group level is approved by the Supervisory Board based also on the prior approval of the OTP Group as part of the application of the remuneration policy at group level and Remuneration Committee assessment and recommendations.

- **Payment in instruments**

At least 50% of variable remuneration granted will be paid in instruments and subject to deferral as outlines in the following section.

During the deferral period, the employees will not have a right to receive compensation equivalent to any dividends/ interest, which were distributed for the specific instruments.

Variable remuneration paid in instruments will be subject to 1-year retention after vesting.

The specific type of instruments granted are described in the individual target agreement, in line with the provisions of the Group Remuneration Policy, and refers to: ordinary shares, remuneration converted into shares, preferentially priced share award.

- **Deferral**

Remuneration of the identified staff members – unless stipulated otherwise in this regulation – may only be paid out in accordance with the time schedule determined by the deferral and retention rules set out in this section.

The performance-based remuneration payable to identified persons under a deferred payment schedule is divided up into short-term (non-deferred) and deferred instalments.

The variable remuneration will be subject to deferral over a period of 3 years with a pro-rata vesting mechanism. For senior management, the postponement period will be at least 5 years.

For the positions identified at a consolidated level, 60% of performance-based remuneration shall be paid in a deferred manner.

For the staff identified at sub-consolidated and local levels, as a general rule, deferred payment shall be applied to 40% of performance-based remuneration, provided that the total remuneration of the person does not exceed EUR 210,000.

For staff identified at sub-consolidated and local level, 60% of the performance-based remuneration is deferred if the total remuneration awarded to the identified person in the year preceding the assessed year exceeded EUR 210.000.

The deferred portions will vest if and only if:

- The Bank meets its objectives during the vesting period (financial and risk targets);
- Individual performance criteria is achieved.

For bank level, vesting conditions the following minimum criterion shall be used:

- **Financial performance** – indicators reflecting the Bank's profitability;
- **Risk adjusted performance** – RORAC+ indicator;

- **Key risk indicators** reflecting measuring solvency, liquidity and/ or specific risk indicators (e.g. for credit risk) cost of risk, the cost of collection and return on overdue receivables;

Criteria must include fulfilment of the regulatory capital adequacy requirement, disregarding capital raises carried out to supplement capital in the years after the year serving as the basis for payment (T+1, T+2, T+3 or T+1, T+2, T+3, T+4, T+5 for senior management members), and the accumulated risk cost, relative to the target, in the years after the year serving as the basis for payment.

Based on the values of the criteria assessing prudent operation the Remuneration Committee shall propose and OTP's Supervisory Board shall decide whether the deferred instalments can be paid, with the proviso that based on the evaluation of the individual risks attached to the activity of those concerned, the entitlement to the individual level deferred instalments and the rate thereof shall be defined taking into consideration the following:

- performance of the obligations arising from the employment relationship;
- compliance with the regulatory provisions, internal regulations, management regulations relating to the performance of work, and the professional requirements applicable to the position;
- compliance with the employer's expectations towards the employee's managerial behavior;
- review of the operation of the persons and domains concerned (revelation of severe errors, misconducts or shortcomings).

Payment of deferred part is approved by the OTP Bank Romania SA's Supervisory Board, based on the recommendation of the Remuneration Committee and prior approval of the Chairman and Chief Executive Officer of OTP Bank Plc.

In accordance with the deferral schedule the Human Resources Directorate informs the persons concerned in writing about their entitlement to and the rate of the individual instalments as well as the corresponding vesting conditions, based on the Management Body decision.

The settlement of the due deferred instalment takes place as follows:

- the settlement of the cash part shall take place within 30 days from establishing the entitlement but no later than 30th June the performance-based remuneration is paid by the Employer,
- the settlement of remuneration converted into shares shall take place within 30 days from establishing the entitlement, but not later than 30th June.

In the context of the state of emergency caused by exceptional (unpredictable) situations such as, but not limited to, natural calamities, extreme weather events, riots, war, terrorist attacks or invasion, government or regulatory action, famine, global health emergency, epidemics / pandemics, may be considered the following measures:

- Deferment with a longer period of variable remuneration;
- Establishing a substantial part of variable remuneration that can be paid in equity instruments or non-cash equivalent instruments.

- **Ex-post adjustment**

**Criteria and application**

Ex-post assessments consider performance indicators, which provide information concerning performance outcomes after the award of the variable remuneration. Such indicators can be qualitative or quantitative and relate to aspects such as:

- participation in or responsibility for conduct which resulted in significant losses to the Bank;
- failed to meet appropriate standards of fitness and propriety;
- criminal offence or failures, abuses or deficiencies (e.g. breach of code of conduct and other internal rules, especially concerning risks) that have significantly damaged the good standing and/ or profitability of the Bank or its Group;
- whether the Bank and/or the business unit in which the identified staff member works suffers a significant failure of risk management;
- significant increases in the Bank's or business unit's economic or regulatory capital base;
- any regulatory sanctions where the conduct of the identified staff member contributed to the sanction.

It would not be possible for the framework to be exhaustive given that the business and economic environment are complex and undergoing significant changes (the professional judgment of the Management Board, Supervisory Board or experts are considered in the assessment).



When ex-post adjustments are applied, the Supervisory Board will assess the need to apply ex-ante or ex-post adjustments to all the remaining portions of deferred variable remuneration and variable remuneration, which may be awarded in the current year.

### **Malus**

Before the payment of any deferred portions of variable remuneration the Bank performs an assessment about the occurrence of any events, which could trigger the application of malus arrangements (i.e. circumstances described above), and the fulfilment of the vesting conditions. If vesting conditions are not met or if any circumstances/ events as the ones described above are identified which indicate that either the Bank should not pay or the individual should not be entitled to the deferred portion, the Bank shall perform the required assessments and decide not to pay the deferred portion either in part or in full.

### **Clawback**

The performance-based remuneration paid to an individual earlier on must be refunded if the individual is found not up to the requirements pertaining to suitability or conformity by, considering he/she has committed a criminal act or in the case of such serious omission, abuse or defect that had significantly deteriorated the creditworthiness and/or profitability of the Bank. The Bank can claim any variable remuneration paid within a period of at least three but not shorter than the cumulative period of deferral and retention applicable to that specific variable remuneration.

### **Process steps**

#### **Malus**

- Identified staff is informed when variable remuneration is awarded about the application of malus arrangements and about the ranges of cases, which may trigger them.
- Ex-post assessments are performed before vesting of each portion of the variable remuneration awarded (within 45 days of the regular general meeting closing the business year preceding the due year) by the Human Resources Directorate together with, Compliance and Risk Administration Directorate.
- Results are presented to the Supervisory Board who assesses them and takes decision about the application of malus on deferred variable remuneration for the remaining periods.

#### **Clawback**

- Identified staff is informed when variable remuneration is awarded about the application of claw back arrangements as well as about the ranges of cases, which may trigger them, and the relevant period of application.
- In accordance with the Bank's internal framework, all staff members are required to report inappropriate behavior of other staff members. Such cases are treated in accordance with the disciplinary procedure and will trigger the requirement to assess the application of claw back arrangements.
- Risk Administration Directorate will be responsible for reporting to the Management Board, in case of employees, and to Supervisory Board in case of Management Board members, risk events, which had as a source inappropriate behavior (e.g. excessive risk taking, fraud). The Compliance Directorate as well and Internal Audit Directorate are also responsible to report such events (e.g. misconduct in the application of risk management policies or processes identified during their control activities).
- Regardless, of the statute (employee or member of the Management Board) the Supervisory Board will assess based on specific reports the events triggering the application of claw back and decide upon the measures to be taken by the Bank.

We mention that there are no other variable components of remuneration.

## 2.7 The remuneration paid in the financial year 2020

For the year 2020, the following remunerations were paid:

Nr. crt.		Members of the management body in its supervisory function	Members of the management body in its management function	Investment banking Services	Retail Banking Services	Assets administration	Corporate functions	Independent control functions	All other activity areas
		(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
(1)	No of members of personnel	9	9						
(2)	Total no of employees in equiv. of a full time			21	1,286	0	264	103	147
(3)	Net profit of N year (in th ron)				29,759				
(4)	Total remuneration (in th ron)	477	10,517	5,948	140,531	-	39,741	16,860	21,277
(4.1)	Out of which: Variable Remuneration (in th ron)	1	3,443	2,215	22,593	-	2,491	977	1,906

For the members of identified personnel (including the members of the management body) the quantitative information on remuneration for the year 2020 is presented below:

Nr. crt.		Members of the management body in its supervisory function	Members of the management body in its management function	Investment banking Services	Retail Banking Services	Assets administration	Corporate functions	Independent control functions	All other activity areas
		(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
(1)	No of members of personnel	9	8						
(2)	No of members of Identified staff, in equiv. of a full time			1	18	0	6	5	3
(3)	No of members of Identified Staff within Management Body								
(4)	Total fixed remuneration (in th ron), out of which:	37	5,965	475	7,036	0	2,611	2,122	1,680
(4.1)	cash	37	5,965	475	7,036	0	2,611	2,122	1,680
(4.2)	shares and instruments related to shares	0	0	0	0	0	0	0	0
(4.3)	other types of instruments	0	0	0	0	0	0	0	0
(5)	Total variable remuneration (in th ron), out of which:	1	3,224	295	2,659	0	366	263	437
(5.1)	cash	1	1,612	148	1,329	0	183	132	219
(5.2)	shares and instruments related to shares	0	1,612	148	1,329	0	183	132	219
(5.3)	other types of instruments	0	0	0	0	0	0	0	0
(6)	Total amount of variable remuneration granted in the fiscal year N and deferred (in th ron), out of which:	0	1,898	177	1,134	0	146	105	175
(6.1)	cash	0	949	89	567	0	73	53	87
(6.2)	shares and instruments related to shares	0	949	89	567	0	73	53	87
(6.2)	other types of instruments	0	0	0	0	0	0	0	0
<b>Additional information regarding the amount of the total variable remuneration</b>									
(7)	Article 450 h(iii)CRR – total amount of outstanding deferred variable remuneration awarded in previous periods and not in year 2019 (in LCY) (17)	0	1,904	159	1,057	0	83	105	206

In 2020, there were not registered cases for miscarriage of the conditions for entering in rights in case of deferred remuneration or reduced through performance adjustments.

## 2.8 Compensators related to cessation of employment

In the financial year 2020, no payments were made for new employment or compensation payments for the cessation of employment relationships for members of senior management or members of staff whose actions have a significant impact on the institution's risk profile.

## 2.9 The number of persons benefiting from a remuneration of EUR 1 million or more per financial year:

There are no persons who received a remuneration of 1 million EUR or more in the financial year 2020

### 3. RISK MANAGEMENT

#### 3.1 Objectives and policies related to risks management

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

- credit risk;
- risk position and currency risk;
- residual risk;
- interest rate risk outside the trading portfolio activity;
- concentration risk;
- liquidity risk;
- operational risk;
- conduct risk;
- model risk;
- information and communication technology (ICT) and security risk;
- reputational risk;
- outsourced activities risk;
- compliance risk including GDPR (general compliance risk and the risk associated to know-your-customer activities and the activities regarding the prevention of money laundering and terrorism financing (KYC & AML/CFT));
- strategic risk;
- external risks;

Within OTP BANK ROMANIA S.A., the risk management is performed by the following subunits:

#### Risk Administration Directorate

**Operational and Market Risk Department** – which has the role of:

- defining the adequate systems, processes and policies for identification and assessment of the operational and market risks, including pricing, FX and interest rate risks related to the trading portfolio.
- systematic monitoring of compliance with the Bank's risk strategy and operational and market risk management system;
- development and implementation of adequate systems, processes and policies for identifying and assessing operational and market risks.

**Credit risk Department** – has the role of:

- systematically monitoring of the compliance with the Bank's risk strategy and the risks management system for lending activity;
- maintaining an appropriate quality of the credit risk portfolio and to control the exposure to credit risk by developing and implementing adequate systems, processes and lending policies;
- developing and implementing appropriate systems, processes and policies for lending risk management;
- Establishing procedures for exposures identification and recording and for their potentially changes, as well as monitoring mechanisms of those exposures, in accordance with the exposure policy.

#### Strategy, Controlling and Asset and Liability Management Directorate

**Assets and Liabilities Management Department** – has the role to:

- ensure the management of liquidity risk and interest rate risk on the banking book (elaborates norms and procedures, strategies; sets limits; defines stress tests scenarios; monitors the liquid assets; defines the methodology of supplementary capital allocation process for liquidity risks and interest rate on the banking book; elaborates internal and external reporting; provides support for finding solutions for covering the risks)
- perform liquidity indicators simulation, in compliance with the NBR's regulation
- determine supplementary capital requirement for liquidity and interest rate risk on banking book.
-

**Risk Controlling Department** - has the role to:

- acts as a controlling function for credit risk
- monitors and reports the risk cost of the bank to top management and group on segments, products
- understand and monitor the key drivers of the risk calculation

Regarding the scope and types of reporting and risks quantification systems, the reports prepared for risks quantification are:

- limits monitoring for various economic sectors, geographic regions and specific Banking products (as required by NBR Regulation no. 5/2013, UE Regulation no. 575/2013);
- monitoring the limits specific to concentration risk management (as required by NBR Regulation no. 5/2013, UE Regulation no. 575/2013);
- monitoring of the limits established by the Bank's Risk Strategy;
- monitoring of the limits in compliance with the internal regulations, according to the Group's Lending Policy, counterparty limits
- annual reports on:
  - internal process for assessing the capital adequacy to risks;
  - measures taken in respect of significant risks management.
- the results of the crisis simulation carried out and measures taken, as consequence by the management structure of the Bank.

### 3.2 Management Body Declaration

In accordance with **the requirements of Article 435, (1) (e) of Regulation No. 575/2013 of the Parliament and the European Council on the prudential requirements for credit institutions and investment companies**, the Management body of OTP Bank Romania S.A. declares that the applied risk management systems are adequate taking into account the profile and strategy of the institution. The Bank has adequate risk reporting and monitoring systems that involve risk analysis and portfolio analysis to identify, control and manage the risks, as well as to provide their reporting to the management body of the bank.

This statement is approved by the Management body of OTP Bank Romania S.A. by approving this report.

According to the information presented below, the Management body of OTP Bank Romania S.A. declares relating to **the Article 435, (1) (f) of Regulation No. 575/2013 of the Parliament and the European Council on the prudential requirements for credit institutions and investment companies** that the risk profile is built in accordance with the Bank's risk appetite assumed by OTP Bank Romania SA's Risk Strategy and aims at a sustainable development of the Bank's activity. This statement is approved by the Management body of OTP Bank Romania S.A. by approving this report.

The risk profile represents all the risks the Bank's exposures to actual and potential risks in a particular moment in time. Risk appetite is the absolute level of risk, expressed for each significant risk category as well as at general level, which OTP Bank Romania S.A. is willing to accept it, in accordance with the established risk strategy and policies. Risk appetite is defined in terms of five risk categories: low; medium-low; medium; medium-high; high. Thus, the risk appetite of the bank is to have a general risk profile at a medium level as defined within the Risk Appetite Statement (Annex 3 to the present report)

The following graphs represent the evolution of the main indicators in 2020:

Figure 1 : EBA - defined NPE ratio

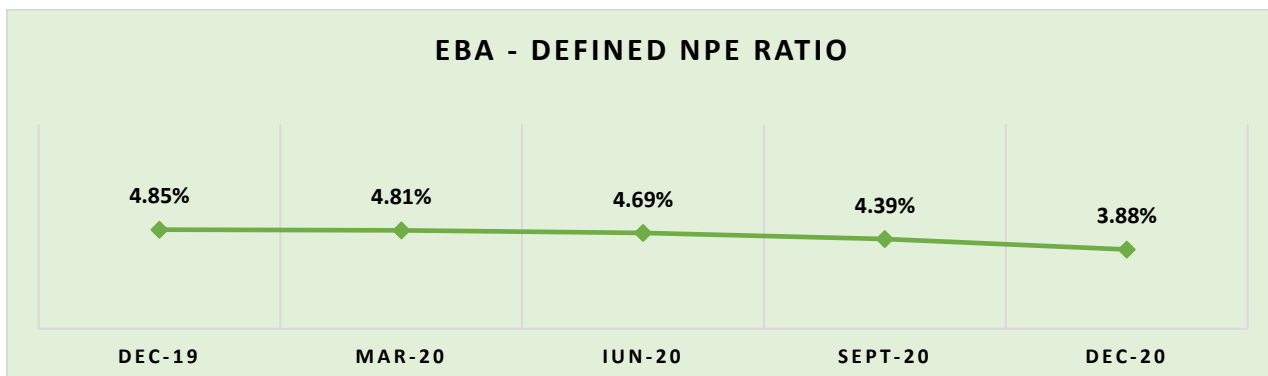


Figure 2 : EBA - defined NPE coverage ratio

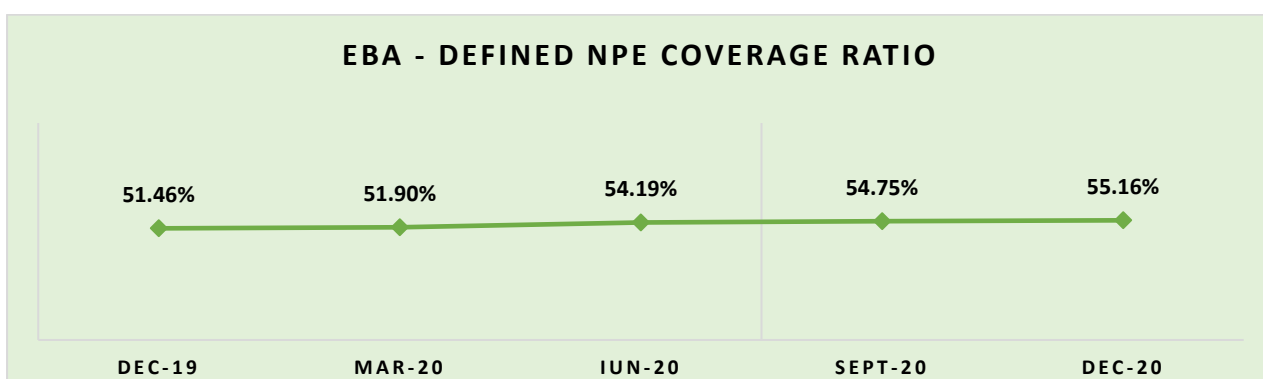


Figure 3 : Return on equity

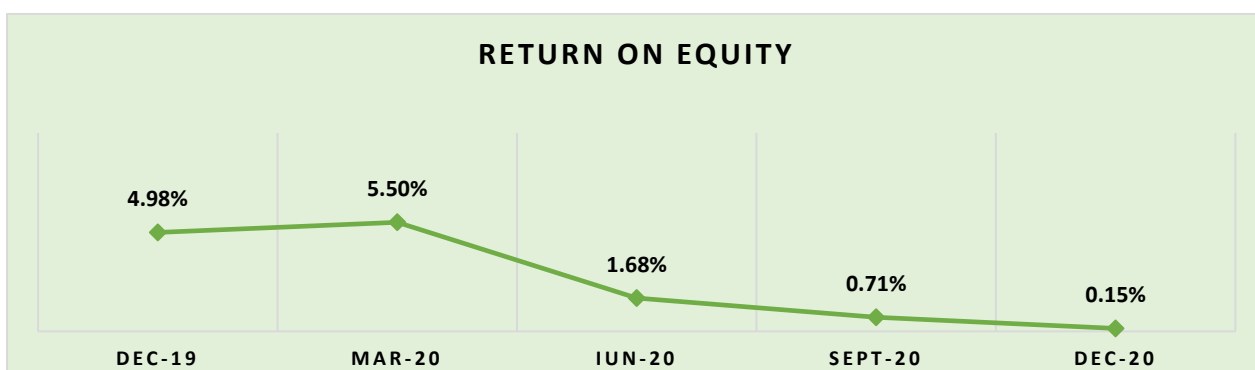
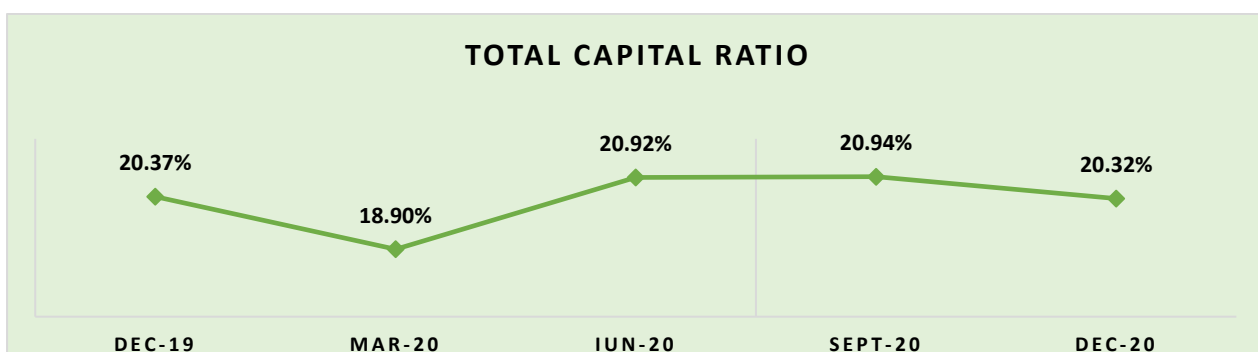


Figure 4 : Total capital ratio



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

Further detailed information referring to banks financial results for the financial year 2020 can be found in the Annual Report published on OTP website.

- **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 an 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, 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 31.12.2020 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	nefinanțată	
<b>Non-institutions</b>						
54	97,976,302	4,640,677	-	6,957	-	5.49
<b>Institutions</b>						
3	129,021,160	-	-	-	-	7.60

- On consolidated level (OTP Bank Romania S.A., OTP Leasing and OTP Factoring SRL):

Number of clients	Gross exposure (LEI)	Related provisions	Excluded amounts (LEI)			Own funds %
			without protection	with protection		
				funded	nefinanțată	
<b>Non-institutions</b>						
52	33,785,527	4,506,463	-	6,957	-	1.73
<b>Institutions</b>						
3	129,021,160	-	-	-	-	7.64

### 3.3 Strategies and processes for each category of risk management

The general frame for the management of significant risks within OTP BANK ROMANIA S.A. is regulated by the Risk Strategy, in compliance with the stipulations of Government Emergency Ordinance no. 99/2006, with subsequent amendments and completions and Regulation no. 5/2013 on prudential requirements for the credit institutions with subsequent amendments and completions and EU Regulation no. 575/2013 of European Parliament and Board from June 26, 2013 regarding prudential requests for credit institution and investment firms and modification of Regulation EU no. 648/2012.

#### 3.3.1 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 so 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:
  - Non-performing exposures ratio – according to European Banking Authority definition is no more than 10%<sup>1</sup>;
  - The coverage ratio with non-performing loans - The European Banking Authority's definition does not fall below 50%<sup>2</sup>;
  - Forborne non-performing exposures to total forborne exposures is no more than 75%<sup>3</sup>;
  - Annual growth rate of total loans is no more than 15%<sup>4</sup>;
  - Forbearance ratio for loans and advances is no more than 7%<sup>5</sup>;
  - Total write off losses in total exposure written off is no more than 20%.

The Bank's strategy for 2020 related to the credit risk management include the following principles:

- I. The basic requirements regarding lending principles include:
  - the primary repayment sources of lending should be the cash flows generated from the enterprise's activity or, in the case of private individuals, long-term, regular income;
  - when developing the conditions of new products and upon the review of existing schemes, risk parameters should comply with OTP Group standards, reflecting country-specific differences.
- II. The Bank's desirable clientele are customers:
  - whose creditworthiness is appropriate and whose risk is deemed to be low or medium based on their debtor rating;
  - whose activity and business management are transparent, and they cooperate with the Bank;
  - whose income is regular, stable, verifiable and whose willingness to pay is also adequate;
  - in respect of their financial standing and reliability, solid data – preferably from independent sources – are available for the longest possible period;
  - whose payment ability and willingness to pay have been confirmed by positive experience or information / reference or, at least, any negative experience / information can be ruled out;

<sup>1</sup> Non-performing exposures/Total exposures - FINREP, F18, [Raw 005, 070, 191, 221; Column 060] / [Raw 005, 070, 191, 221; Column 10];

<sup>2</sup> Provisions related to non-performing exposures/Total non-performing exposures – FINREP, F18, [Raw 005, 070, 191, 221; Column 150] / [Raw 005, 070, 191, 221; Column 060];

<sup>3</sup> Nonperforming forborne exposures/ Total forborne exposures-FINREP, F19, [Raw 330; Column 060] / [Raw 330; Column 010];

<sup>4</sup> Total loans and advances (A)t / Total loans and advances (A)t-12] -1] \* 100- FINREP, F 01.01, [Raw 090, 095, 099, 130, 144, 174, 178, 183, 233, 237; Column 10];

<sup>5</sup> Forbearance ratio for loans and advances - FINREP, F19, [Raw 070, 191, 221, Column 010] / FINREP, F18, [Raw 070, 191, 221; Column 010]

- who operate in an sector where future prospects are expected to improve or at least to stabilize.

III. The Bank assumes credit risks where:

- the loan purpose is known in sufficient details and, based on this, repayment is scheduled according to the purpose of the loan as well as the currency and the expected availability of the repayment sources (cash flows and non collateral-based lending);
- no compliance sensitivity arises with respect to the financing of the loan purpose /customer (e.g. customers engaged in illegal trade in arms, manufacture of arms, gambling or other activities undesirable from the perspective of corporate social responsibility);
- the debtor has sufficient experience in and commitment to (own funds) the financed transaction;
- the risks are known and assessed also by the debtor to the sufficient degree, and those are proportionate with the debtor's debt service capacity (no excessive commitment);
- the tenor of the transaction falls in a period in respect of which the debtor's financial standing and the trends in its business environment can be assessed with satisfactory degree of certainty;
- the Bank earns profit, preferably at the level of the individual transactions, but at least at the level of the customer relationship as a whole;
- the environmental requirements are satisfied.

IV. The Bank's objective is to ensure that upon elaborating the products and processes, is to ensure that:

- the lending conditions are defined both at the level of the standard credit products and the individual transactions in a way where they provide the Bank with sufficient room for manoeuvre and substantive possibility to intervene in the event of stress situations (e.g. excessively long maturities should be avoided);
- the contractual conditions flexibly support potential crisis management;
- a modern, database-driven, centralized assessment process is available in all customer segments that can be served in large volume and where risks are reckoned with relying on a database rather on the personal knowledge of the customer, and the personal deliberation can be replaced by model-based risk filtering;
- the definition of the maximum loan amount ensures the granularity of the portfolio in segments served in large numbers;
- product conditions become attractive for customers desirable for the Bank, who performed well in the past and have a stable background. The goal is to prevent the attrition of customers and to facilitate the gradual removal of non-desirable customers from the portfolio;
- the acquisition of new customers, the expansion of the customer base is supported;
- the conditions available for the individual borrowers in the portfolio are established in a differentiated manner based on the risks, with special view to the maximum loan amount, the minimum collateral coverage and the price;
- adequate IT support, and thereby measurability, is ensured.

V. If upon risk assumption the requirements towards the desirable clientele are not satisfied, risks may be assumed subject to conditions under which the higher risk can be mitigated to a high probability (at least partially). These sub-portfolios of higher (but still assumable) risks may be financed up to the degree defined in the Credit Policy. The categories eligible for loan subject to conditions typically include the following transactions and portfolios: Policy and subject to individual limits.

VI. The categories eligible for loan subject to conditions typically include the following transactions and portfolios:

- Financing of corporate customers active in cyclical industries;
- Loans secured by real estate, granted to retail customers with no natural (foreign currency) hedge;
- Retail real estate financing transactions with high loan-to-value ratio;
- Financing granted to non-resident private individuals;
- Long-term consumer loans with high loan amount;
- Loans granted to high-risk (subprime) private individuals.

VII. Those segments that in the longer run may represent higher risk and upon the occurrence of a potential crisis are more likely to generate a loss, essentially should be avoided, but in exceptional cases – as regulated in the annual Credit Policy – they may be financed subject to stricter conditions and special deliberation/consideration. These include particularly:

- significant, larger, special exposures representing high concentration



- risk assumption vis-a-vis corporate clientele where the potential legal enforcement of the collateral carries reputation risk,
- consumer loans granted to retail customers with no natural (foreign currency) hedge;
- granting of high-amount, unsecured loan for long term to clientele in tight financial situation;
- financing the business needs of small entrepreneurs by loans granted to private individuals.

The Bank does not finance:

- **Customers:**
  - vis-a-vis whom risk assumption is excluded by international treaties, EU acts and international laws;
  - carrying high risk from a compliance perspective;
  - whose activity is likely to be against public morals or social ethics, or is connected to crime;
  - who can be connected, directly or indirectly, with criminal activities or the wilful violation or circumvention of legal regulations.
- **Transactions:**
  - the purpose of which is to violate legal regulations. Prohibited business areas include illegal arms trade, prohibited gambling, drug trade and any other illegal activity (e.g. money laundering, black economy);
  - that do not comply with environmental requirements;
  - that do not comply with the principles of responsible lending (e.g. the debt service capacity of the customer does not ensure the repayment of the loan);
  - that involve the purchase of equity instrument issued by the credit institution Group member or by a closely related legal entity, or the purchase of cooperative share.

## **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.

From the perspective of classifying the exposures that are subject to a moratorium in the 3 performance stages provided by the IFRS 9 model, the Bank adopted the following special rules:

1. Exposures classified in stage 3 at the time of accessing the moratorium must remain in stage 3 for the entire period of the moratorium.
2. Exposures classified in stage 2 at the time of accessing the moratorium cannot be improved during the moratorium.
3. The exposures will be classified during the moratorium period in the most unfavorable stage between the one from the evaluation date and the one from the date of accessing the moratorium.
4. The application of the moratorium does not lead to the classification of the exposure as restructured (forborne).
5. The time horizon of the moratorium should not be considered in the cure periods: nor for forborne, nor for default
6. The number of days of delay must reflect the state from the moment of accessing the moratorium
7. Deterioration to stage 2 or stage 3 must be investigated continuously and with all subjective or objective triggers.
8. If information is available that the client will have difficulty after the end of the moratorium (significant increase in credit risk throughout life), the related exposures should be transferred to stage 2 or stage 3. If such an assessment cannot be performed, it will be possible to use a collective assessment of the significant increase in credit risk based on economic sectors, rating categories, the reference portfolio or any other classification relevant from the perspective of credit risk in the context of Covid-19.

During 2020, the methodology for recognizing impairment adjustments according to IFRS 9 was successively revised in order to anticipate the negative economic effects of the COVID pandemic on the quality of the loan portfolio.

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 based on 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 the Bank regulations.

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 the Bank regulations.

If the situation in which 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 analysed, all of the Bank's exposures to that client will be individually analysed.

### 3.3.2 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 with 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 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.

### 3.3.3 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
		31/12/2020	31/12/2019	31/12/2020
<b>1</b>	<b>Credit risk (excluding CCR)</b>	<b>7,345,759</b>	<b>7,261,447</b>	<b>587,661</b>
2	Of which the standardized approach	7,345,759	7,261,447	587,661
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			
<b>6</b>	<b>CCR</b>	<b>5,090</b>	<b>3,902</b>	<b>407</b>
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)	5,090	3,902	407
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			
<b>19</b>	<b>Market risk</b>	<b>3,753</b>	<b>7,597</b>	<b>300</b>
20	Of which the standardized approach	3,753	7,597	300
21	Of which AMI			
22	Large exposures	-	-	-
<b>23</b>	<b>Operational risk</b>	<b>1,014,156</b>	<b>898,016</b>	<b>81,132</b>
24	Of which basic approach	1,014,156	898,016	81,132
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			
<b>29</b>	<b>Total</b>	<b>8,368,757</b>	<b>8,170,962</b>	<b>669,501</b>

The following table presents the total and average values in the period representing the net average exposure per exposures classes:

Table 2: Form 7: UE CRB-B – Net total and average exposure for the period

<i>(ths RON)</i>	<b>Net Exposure at the end of period</b>	<b>Net average exposure for the period</b>
Central governments or central banks	2,975,689	2,479,543.37
Regional governments or local authorities	47,497	35,398
Public sector entities	-	-
Multilateral Development Banks	-	-
International organizations	-	-
Institutions	651,208	793,930
Companies	5,152,838	4,953,950
Retail	3,658,593	3,528,634
Secured by mortgages on immovable property	3,749,111	3,482,363
Overdue elements	324,475	335,262
Items associated with particularly high risk	-	-
Guaranteed bonds	-	-
Short claims on institutions and corporate	-	-
Collective Investments Undertakings (CIU)	12,727	12,548
Equity exposures	66,024	64,891
Other elements	990,838	966,045
<b>Total</b>	<b>17,629,000</b>	<b>16,652,563</b>

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

<i>(ths.RON)</i>	Center	Bucharest-Ilfov	South Muntenia	Soth East	South West - Oltenia	West	Nord East	Nord West	Other countries	Other areas	Total
Central governments or central banks	-	2,975,689	-	-	-	-	-	-	-	-	2,975,689
Regional governments or local authorities	1,515	23,715	-	-	-	-	12,197	10,069	-	-	47,497
Institutions	-	559,032	-	-	-	-	-	-	37,469	54,707	651,208
Companies	547,194	2,787,321	405,112	452,360	19,615	126,798	308,321	502,288	-	3,830	5,152,838
Retail	463,426	1,255,951	344,471	310,477	143,956	274,337	380,381	485,576	-	19	3,658,593
Exposures secured by mortgages on immovable property	406,725	1,728,754	283,547	215,741	98,090	297,270	210,905	508,081	-	-	3,749,111
Exposures in default	51,782	133,899	14,364	17,143	6,308	6,103	34,957	59,920	-	-	324,475
Collective investment (OPC)	-	12,727	-	-	-	-	-	-	-	-	12,727
Equity exposures	-	66,024	-	-	-	-	-	-	-	-	66,024
Other items	24,109	903,234	12,349	7,710	5,687	7,556	14,244	15,950	-	-	990,838
<b>Total</b>	<b>1,494,751</b>	<b>10,446,346</b>	<b>1,059,841</b>	<b>1,003,430</b>	<b>273,655</b>	<b>712,063</b>	<b>961,005</b>	<b>1,581,883</b>	<b>37,469</b>	<b>58,556</b>	<b>17,629,000</b>

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 exposure classes according to the main sectors of activity at the end of 2020:

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

<i>(ths.RON)</i>	<b>Accommodation and food service activities</b>	<b>Administrative and support service activities</b>	<b>Agriculture, forestry and fishing</b>	<b>Arts, entertainment and recreation</b>
Central governments or central banks	-	-	-	-
Regional governments or local authorities	-	-	-	-
Public sector entities	-	-	-	-
Companies	215,482	105,464	725,510	9
Retail	77,354	27,565	282,340	9,911
Exposures secured by mortgages on immovable property	7,541	6,930	15,947	249
Exposures in default	2,714	4,640	6,143	108
Collective investment (OPC)	-	-	-	-
Equity exposures	-	-	-	-
Other items	31	117	122	7
<b>Total</b>	<b>303,122</b>	<b>144,716</b>	<b>1,030,062</b>	<b>10,284</b>

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

<i>(ths.RON)</i>	<b>Construction</b>	<b>Education</b>	<b>Electricity, gas, steam and air conditioning supply</b>	<b>Financial and insurance activities</b>
Central governments or central banks	-	-	-	1,698,185
Regional governments or local authorities	-	-	-	-
Public sector entities	-	-	-	647,383
Companies	538,317	9,884	351,838	293,897
Retail	259,198	1,515	24,254	20,562
Exposures secured by mortgages on immovable property	32,018	286	21,736	13,296
Exposures in default	15,211	0	44,612	143
Collective investment (OPC)	-	-	-	12,727
Equity exposures	-	-	-	65,944
Other items	1,353	1	79	981,159
<b>Total</b>	<b>846,097</b>	<b>11,686</b>	<b>442,519</b>	<b>3,733,297</b>

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

<i>(ths.RON)</i>	<b>Human health and social work activities</b>	<b>Information and communication</b>	<b>Manufacturing</b>	<b>Mining and quarrying</b>
Central governments or central banks	-	-	-	-
Regional governments or local authorities	-	-	-	-
Public sector entities	-	-	-	-
Companies	9,534	3,072	675,993	10,002
Retail	10,347	35,067	232,484	10,626
Exposures secured by mortgages on immovable property	1,652	3,164	22,552	1,678
Exposures in default	-	4,293	76,245	-
Collective investment (OPC)	-	-	-	-
Equity exposures	-	-	-	-
Other items	2	14	4,368	1
<b>Total</b>	<b>21,535</b>	<b>45,610</b>	<b>1,011,643</b>	<b>22,307</b>

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

<i>(ths.RON)</i>	<b>Other service activities</b>	<b>Professional, scientific and technical activities</b>	<b>Public administration and defense; compulsory social security</b>	<b>Real estate activities</b>
Central governments or central banks	-	-	1,277,504	-
Regional governments or local authorities	-	-	47,497	-
Public sector entities	-	-	-	-
Companies	9,566	91,274	-	907,665
Retail	1,695	38,316	-	40,380
Exposures secured by mortgages on immovable property	2,277	8,757	-	4,559
Exposures in default	12	42,788	-	2,997
Collective investment (OPC)	-	-	-	-
Equity exposures	80	-	-	0
Other items	9	147	1	331
<b>Total</b>	<b>13,639</b>	<b>181,281</b>	<b>1,325,001</b>	<b>955,932</b>

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

(ths. RON)	Transportation 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	-	-	-	-	2,975,689
Regional governments or local authorities	-	-	-	-	47,497
Public sector entities	-	-	-	3,825	651,208
Companies	148,574	34,595	1,017,079	5,085	5,152,838
Retail	82,157	37,605	480,529	1,986,687	3,658,593
Exposures secured by mortgages on immovable property	8,620	2,371	77,423	3,518,053	3,749,111
Exposures in default	7,418	79	31,870	85,203	324,475
Collective investment (OPC)	-	-	-	-	12,727
Equity exposures	-	-	-	-	66,024
Other items	285	4	913	1,896	990,838
<b>Total</b>	<b>247,055</b>	<b>74,654</b>	<b>1,607,812</b>	<b>5,600,748</b>	<b>17,629,000</b>

Tabel 5: Formularul 10- UE CRB-E: Scadența expunerilor

(ths. RON)	On demand	<= 1 year	> 1 year <= 5 years	> 5 years	No maturity declared	Total
Central governments or central banks	-	82,861	1,020,641	166,221	1,705,967	2,975,689
Regional governments or local authorities	-	-	8,626	38,870	-	47,497
Public sector entities	-	564,863	50	-	86,295	651,208
Companies	-	2,186,091	1,288,365	1,674,552	3,830	5,152,838
Retail	89	882,502	1,582,034	1,193,915	54	3,658,593
Exposures secured by mortgages on immovable property	-	140,145	102,174	3,506,792	-	3,749,111
Exposures in default	-	109,129	54,917	107,460	52,969	324,475
Collective investment (OPC)	-	-	-	-	12,727	12,727
Equity exposures	-	-	-	-	66,024	66,024
Other items	-	1,228	200	2	989,408	990,838
<b>Total</b>	<b>89</b>	<b>3,966,818</b>	<b>4,057,007</b>	<b>6,687,812</b>	<b>2,917,274</b>	<b>17,629,000</b>



Table 6: Form 11: EU CR1-A - Exposure credit grade by exposure class and instrument

	Gross carrying values of		Specific credit risk adjustment	General credit risk adjustment	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: Specialized 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	-	3,294,091	5,074	-	-	3,289,017
Regional governments or local authorities	-	48,101	605	-	-	47,497
Public sector entities	-	-	-	-	-	-
Multilateral development banks	-	-	-	-	-	-
International organizations	-	-	-	-	-	-
Institutions	-	748,716	-	-	-	748,716
Corporates	-	5,157,582	101,754	-	-	5,055,828
Of which: SMEs	-	3,415,098	70,199	-	-	3,344,899
Retail	-	3,433,762	88,993	-	-	3,344,768
Of which: SMEs	-	1,713,635	42,245	-	-	1,671,390
Secured by mortgages on immovable property	-	3,749,111	-	-	-	3,749,111
Of which: SMEs	-	197,996	-	-	-	197,996
Exposures in default	533,379	-	208,903	-	281,288	324,475
Items associated with particularly high risk	-	-	-	-	-	-
Covered bonds	-	-	-	-	-	-
Claims on institutions and corporates with a short-term credit assessment	-	-	-	-	-	-
Collective investments undertakings	-	12,727	-	-	-	12,727
Equity exposures	-	70,400	4,376	-	-	66,024
Other exposures	-	1,294,919	304,082	-	-	990,838
<b>Total standardized approach</b>	<b>533,379</b>	<b>17,809,410</b>	<b>713,788</b>	-	<b>281,288</b>	<b>17,629,000</b>
<b>Total</b>	<b>533,379</b>	<b>17,809,410</b>	<b>713,788</b>	-	<b>281,288</b>	<b>17,629,000</b>
Of which: Loans	508,243	13,854,540	671,519	-	281,288	13,691,265
Of which: Debt securities	-	1,307,194	5,074	-	-	1,302,120
Of which: Off - balance- sheet exposures	25,135	2,647,677	37,195	-	-	2,635,617

Table 6.1: Form 12: EU CR1-B - Quality of exposure credit by industry or counterparty type

	Gross carrying values of		Specific credit risk adjustment	General credit risk adjustment	Credit risk adjustment charges of the period	Net values (a+b-c-d)
	Defaulted exposures	Non-defaulted exposures				
Agriculture, forestry and fishing	7,385	1,043,180	20,503	-	1,382	1,030,062
Mining and quarrying	-	22,612	305	-	-	22,307
Manufacturing	147,126	958,674	94,158	-	31,692	1,011,642
Electricity, gas, steam and air conditioning supply	51,801	407,410	16,692	-	159	442,519
Water supply	94	75,796	1,236	-	-	74,654
Construction	31,445	847,454	32,802	-	74,400	846,097
Wholesale and retail trade	60,100	1,603,560	55,848	-	133,752	1,607,812
Transport and storage	9,343	242,896	5,183	-	14,045	247,055
Accommodation and food service activities	4,069	316,674	17,620	-	754	303,123
Information and communication	4,944	41,705	1,039	-	10,764	45,609
<i>Financial and insurance activities</i>	4,904	4,046,462	318,069	-	65	3,733,296
Real estate activities	3,156	967,162	14,386	-	66	955,932
Professional, scientific and technical activities	58,682	140,591	17,992	-	3,575	181,281
Administrative and support service activities	12,281	142,655	10,220	-	9,876	144,716
Public administration and defense, compulsory social security	-	1,330,680	5,679	-	-	1,325,001
Education	-	12,322	636	-	27	11,686
Human health services and social work activities	-	21,988	454	-	-	21,534
Arts, entertainment and recreation	272	11,174	1,162	-	15	10,283
Other services	30	14,052	442	-	25	13,641
Households	137,747	5,562,362	99,360	-	691	5,600,749
<b>Total</b>	<b>533,379</b>	<b>17,809,410</b>	<b>713,788</b>	<b>-</b>	<b>281,288</b>	<b>17,629,000</b>

Table 7: Template 1: Credit quality of forborne exposures

	Gross carrying amount/nominal amount of exposures with forbearance measures				Accumulated impairment, accumulated negative changes in fair value due to credit risk and provisions		Collateral received and financial guarantees received on forborne exposures	
	Performing forborne	Non-performing forborne			On performing forborne exposures	On non-performing forborne exposures		Of which collateral and financial guarantees received on non-performing exposures with forbearance measures
			Of which defaulted	Of which impaired				
Loans and advances	85,854	224,329	224,329	224,329	-15,840	-127,845	135,985	68,986
<i>Central banks</i>	-	-	-	-	-	-	-	-
<i>General governments</i>	-	-	-	-	-	-	-	-
<i>Credit institutions</i>	-	-	-	-	-	-	-	-
<i>Other financial corporations</i>	-	-	-	-	-	-	-	-
<i>Non-financial corporations</i>	68,124	177,792	177,792	177,792	-13,786	-101,508	109,186	55,328
<i>Of which SMEs</i>	56,557	104,154	104,154	104,154	-12,207	-43,022	90,628	46,759
<i>Households</i>	17,730	46,537	46,537	46,537	-2,054	-26,337	26,799	13,658
Debt securities	-	-	-	-	-	-	-	-
Loan commitments given	-	-	-	-	-	-	-	-
<b>Total</b>	<b>85,854</b>	<b>224,329</b>	<b>224,329</b>	<b>224,329</b>	<b>-15,840</b>	<b>-127,845</b>	<b>135,985</b>	<b>68,986</b>

Table 8: Template 2: Quality of forbearance

	Gross carrying amount of forborne exposures
Loans and advances that have been forborne more than twice	130,127
Non-performing forborne loans and advances that failed to meet the non-performing exit criteria	227,390

Table 9: Template 3: Credit quality of performing and non-performing exposures by past due days

	Gross carrying amount/nominal amount											
	Performing exposures			Non-performing exposures								
	Not past due or past due ≤ 30 days	Past due > 30 days ≤ 90 days		Unlikely to pay that are not past due or are past due ≤ 90 days	Past due > 90 days ≤ 180 days	Past due > 180 days ≤ 1 year	Past due > 1 year ≤ 2 years	Past due > 2 years ≤ 5 years	Past due > 5 years ≤ 7 years	Past due > 7 years	Of which defaulted	
<b>Loans and advances</b>	<b>10,374,379</b>	<b>10,314,692</b>	<b>59,687</b>	<b>508,243</b>	<b>217,567</b>	<b>27,708</b>	<b>65,087</b>	<b>87,329</b>	<b>50,305</b>	<b>31,208</b>	<b>29,039</b>	<b>508,243</b>
Central banks	-	-	-	-	-	-	-	-	-	-	-	-
General governments	18,509	18,508	1	-	-	-	-	-	-	-	-	-
Credit institutions	130,032	130,032	-	-	-	-	-	-	-	-	-	-
Other financial corporations	242,879	242,878	1	152	-	-	-	152	-	-	-	152
Non-financial corporations	4,468,235	4,462,708	5,527	365,817	137,827	3,488	61,845	82,924	33,636	19,015	27,082	365,817
Of which SMEs	3,596,271	3,590,747	5,524	217,801	77,025	3,488	4,882	62,857	33,636	19,015	16,898	217,801
Households	5,514,724	5,460,566	54,158	142,274	79,740	24,220	3,242	4,253	16,669	12,193	1,957	142,274
<b>Debt securities</b>	<b>574,711</b>	<b>574,711</b>	-	-	-	-	-	-	-	-	-	-
Central banks	-	-	-	-	-	-	-	-	-	-	-	-
General governments	574,711	574,711	-	-	-	-	-	-	-	-	-	-
Credit institutions	-	-	-	-	-	-	-	-	-	-	-	-
Other financial corporations	-	-	-	-	-	-	-	-	-	-	-	-
Non-financial corporations	-	-	-	-	-	-	-	-	-	-	-	-
<b>Off-balance-sheet exposures</b>	<b>2,655,839</b>			<b>25,136</b>								<b>25,136</b>
Central banks	-			-								-
General governments	28,338			-								-
Credit institutions	43,270			-								-
Other financial corporations	117,313			-								-
Non-financial corporations	2,378,170			24,911								24,911
Households	88,748			225								225
<b>Total</b>	<b>13,604,929</b>	<b>10,889,403</b>	<b>59,687</b>	<b>533,379</b>	<b>217,567</b>	<b>27,708</b>	<b>65,087</b>	<b>87,329</b>	<b>50,305</b>	<b>31,208</b>	<b>29,039</b>	<b>533,379</b>

Table 10: Template 4: Performing and non-performing exposures and related provisions

	Gross carrying amount/nominal amount						Accumulated impairment, accumulated negative changes in fair value due to credit risk and provisions						Accumulated partial write-off	Collateral and financial guarantees received	
	Performing exposures			Non-performing exposures			Performing exposures – accumulated impairment and provisions			Non-performing exposures – accumulated impairment, accumulated negative changes in fair value due to credit risk and provisions				On performing exposures	On non-performing exposures
		Of which stage 1	Of which stage 2		Of which stage 2	Of which stage 3		Of which stage 1	Of which stage 2		Of which stage 2	Of which stage 3			
<b>Loans and advances</b>	<b>10,374,379</b>	<b>9,009,881</b>	<b>1,364,498</b>	<b>508,243</b>	<b>-</b>	<b>508,243</b>	<b>-219,115</b>	<b>-89,995</b>	<b>-129,120</b>	<b>-280,325</b>	<b>-</b>	<b>-280,325</b>	<b>-</b>	<b>8,147,777</b>	<b>142,085</b>
Central banks	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
General governments	18,509	18,509	-	-	-	-	-376	-376	-	-	-	-	-	9,972	-
Credit institutions	130,032	130,032	-	-	-	-	-	-	-	-	-	-	-	-	-
Other financial corporations	242,879	242,868	11	152	-	152	-5,047	-5,046	-1	-9	-	-9	-	106,567	143
Non-financial corporations	4,468,235	3,753,817	714,418	365,817	-	365,817	-148,924	-61,388	-87,536	-204,448	-	-204,448	-	3,623,546	101,961
Of which SMEs	3,596,271	2,957,268	639,003	217,801	-	217,801	-123,793	-46,071	-77,722	-109,034	-	-109,034	-	2,965,446	78,572
Households	5,514,724	4,864,655	650,069	142,274	-	142,274	-64,768	-23,185	-41,583	-75,868	-	-75,868	-	4,407,692	39,981
<b>Debt securities</b>	<b>574,711</b>	<b>574,711</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-3,764</b>	<b>-3,764</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
Central banks	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
General governments	574,711	574,711	-	-	-	-	-3,764	-3,764	-	-	-	-	-	-	-
Credit institutions	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Other financial corporations	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Non-financial corporations	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
<b>Off-balance-sheet exposures</b>	<b>2,655,839</b>	<b>2,556,579</b>	<b>99,260</b>	<b>25,136</b>	<b>-</b>	<b>25,136</b>	<b>-47,127</b>	<b>-38,710</b>	<b>-8,417</b>	<b>-7,059</b>	<b>-</b>	<b>-7,059</b>	<b>-</b>	<b>-</b>	<b>-</b>
Central banks	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
General governments	28,338	28,338	-	-	-	-	-565	-565	-	-	-	-	-	-	-
Credit institutions	43,270	43,270	-	-	-	-	-	-	-	-	-	-	-	-	-
Other financial corporations	117,313	117,313	-	-	-	-	-1,702	-1,702	-	-	-	-	-	-	-
Non-financial corporations	2,378,170	2,279,712	98,458	24,911	-	24,911	-44,212	-35,874	-8,338	-6,965	-	-6,965	-	-	-
Households	88,748	87,946	802	225	-	225	-648	-569	-79	-94	-	-94	-	-	-
<b>Total</b>	<b>13,604,929</b>	<b>12,141,171</b>	<b>1,463,758</b>	<b>533,379</b>	<b>-</b>	<b>533,379</b>	<b>-270,006</b>	<b>-132,469</b>	<b>-137,537</b>	<b>-287,384</b>	<b>-</b>	<b>-287,384</b>	<b>-</b>	<b>8,147,777</b>	<b>142,085</b>

Table 11: Template 5: Quality of non-performing exposures by geography

	Gross carrying/nominal amount			Accumulated impairment	Provisions on off-balance-sheet commitments and financial guarantees given	Accumulated negative changes in fair value due to credit risk on non-performing exposures
		Of which non-performing	Of which defaulted			
<b>On-balance-sheet exposures</b>	<b>10,882,622</b>	<b>508,243</b>	<b>508,243</b>	<b>10,882,622</b>	<b>-499,440</b>	<b>-</b>
Romania	10,794,831	506,491	506,491	10,794,831	-497,323	
Netherlands	61,344	2	2	61,344	-1,607	
Slovakia	9,515	2	2	9,515	-212	
Slovenia	7,480	-	-	7,480	-172	
France	2,561	1,684	1,684	2,561	-7	
Germany	1,948	3	3	1,948	-6	
Switzerland	1,802	-	-	1,802	-5	
United Kingdom	992	2	2	992	-12	
United States	398	2	2	398	-5	
Canada	326	-	-	326	-4	
Spain	294	1	1	294	-9	
Sweden	204	-	-	204	-1	
Poland	198	1	1	198	-1	
Hungary	194	32	32	194	-33	
Ireland	192	-	-	192	-12	
Belgium	112	-	-	112	-3	
Denmark	95	-	-	95	-4	
Austria	62	-	-	62	-	
Italy	35	6	6	35	-7	
Macedonia	10	1	1	10	-1	
Portugal	8	4	4	8	-4	
Turkey	5	-	-	5	-	
Moldavia	3	3	3	3	-3	
Greece	2	2	2	2	-2	
Bulgaria	2	1	1	2	-1	
Réunion	1	-	-	1	-	
Lithuania	1	1	1	1	-1	
Belize	1	1	1	1	-1	
Serbia	1	-	-	1	-	
<b>Off-balance-sheet exposures</b>	<b>2,680,975</b>	<b>25,136</b>	<b>25,136</b>	<b>2,680,975</b>	<b>-54,186</b>	<b>-</b>
Romania	2,647,561	25,136	25,136	2,647,561	-54,186	
Hungary	33,187			33,187	-	
Poland	115			115	-	
Portugal	31			31	-	
Germany	25			25	-	
Netherlands	20			20	-	
Austria	16			16	-	
Bulgaria	10			10	-	
United Kingdom	4			4	-	
Italy	3			3	-	
Turkey	2			2	-	
Réunion	1			1	-	
Macedonia	1			1	-	
France	0			0	-	
<b>Total</b>	<b>13,563,597</b>	<b>533,380</b>	<b>533,380</b>	<b>13,563,597</b>	<b>-553,626</b>	<b>-</b>

Table 12: Template 6: Credit quality of loans and advances by industry

	Gross carrying amount			Accumulated impairment	Accumulated negative changes in fair value due to credit risk on non-performing exposures
		Of which non-performing	Of which defaulted		
Agriculture, forestry and fishing	787,625	7,385	7,385	787,625	-22,920
Mining and quarrying	21,551	-	-	21,551	-413
Manufacturing	761,202	141,621	141,621	761,202	-122,269
Electricity, gas, steam and air conditioning supply	252,938	51,801	51,801	252,938	-19,852
Water supply	36,874	94	94	36,874	-1,005
Construction	556,566	31,391	31,391	556,566	-39,999
Wholesale and retail trade	912,995	60,062	60,062	912,995	-62,466
Transport and storage	189,490	9,340	9,340	189,490	-6,232
Accommodation and food service activities	230,748	4,069	4,069	230,748	-21,712
Information and communication	25,812	1,373	1,373	25,812	-716
Financial and insurance activities	-	-	-	-	-
Real estate activities	789,543	79	79	789,543	-17,043
Professional, scientific and technical activities	116,893	46,020	46,020	116,893	-22,766
Administrative and support service activities	105,027	12,281	12,281	105,027	-12,472
Public administration and defense, compulsory social security	-	-	-	-	-
Education	9,238	-	-	9,238	-835
Human health services and social work activities	19,507	-	-	19,507	-607
Arts, entertainment and recreation	9,321	272	272	9,321	-1,574
Other services	8,722	29	29	8,722	-491
<b>Total</b>	<b>4,834,052</b>	<b>365,817</b>	<b>365,817</b>	<b>4,834,052</b>	<b>-353,372</b>

Table 13: Template 7: Collateral valuation – loans and advances

	Loans and advances											
	Performing					Non-performing						
			Of which past due > 30 days ≤ 90 days		Unlikely to pay that are not past due or are past due ≤ 90 days	Past due > 90 days						
						Of which past due > 90 days ≤ 180 days	Of which: past due > 180 days ≤ 1 year	Of which: past due > 1 years ≤ 2 years	Of which: past due > 2 years ≤ 5 years	Of which: past due > 5 years ≤ 7 years	Of which: past due > 7 years	
Gross carrying amount	10,882,622	10,374,379	59,687	508,243	217,567	290,676	27,708	65,087	87,329	50,305	31,208	29,039
Of which secured	9,140,907	8,695,926	39,739	444,981	202,454	242,527	13,940	62,039	68,155	49,671	22,228	26,494
Of which secured with immovable property	7,832,315	7,416,685	37,327	415,630	194,783	220,847	13,158	61,415	58,555	47,748	22,222	17,749
Of which instruments with LTV higher than 60% and lower or equal to 80%	1,875,015	1,799,498		75,517	46,229	-						
Of which instruments with LTV higher than 80% and lower or equal to 100%	1,680,944	1,628,655		52,289	14,815	-						
Of which instruments with LTV higher than 100%	1,342,378	1,158,242		184,136	53,086	-						
Accumulated impairment for secured assets	-389,375	-164,762	-4,524	-224,613	-61,682	-162,931	-5,700	-53,474	-28,213	-34,376	-17,178	-23,990
Collateral												
Of which value capped at the value of exposure	8,715,532	8,320,296	38,023	395,236	183,092	212,144	13,701	61,954	63,803	40,431	15,045	17,210
Of which immovable property	7,050,798	6,697,698	210,728	353,100	171,132	181,968	12,596	52,352	51,459	38,328	14,357	12,876
Of which value above the cap	9,680,620	9,349,044	246,924	331,576	215,514	116,062	13,538	13,263	63,658	20,743	3,988	872
Of which immovable property	6,895,062	6,659,879	188,358	235,183	181,321	53,862	9,567	5,787	20,288	14,353	3,000	867
Financial guarantees received	369,087	351,002	27,542	18,085	13,032	5,053	2,167	-	387	2,499	-	-
Accumulated partial write-off	-	-	-	-	-	-	-	-	-	-	-	-



Table 14: Template 10: Collateral obtained by taking possession and execution processes – vintage breakdown

	Debt balance reduction		Total collateral obtained by taking possession									
	Gross carrying amount	Accumulated negative changes			Foreclosed ≤ 2 years		Foreclosed > 2 years ≤ 5 years		Foreclosed > 5 years		Of which non-current assets held-for-sale	
			Value at initial recognition	Accumulated negative changes	Value at initial recognition	Accumulated negative changes	Value at initial recognition	Accumulated negative changes	Value at initial recognition	Accumulated negative changes	Value at initial recognition	Accumulated negative changes
Collateral obtained by taking possession classified as PP&E	-	-	-	-								
Collateral obtained by taking possession other than classified as PP&E	7,625	-	2,688	-	-	-	2,688	-	-	-	-	-
Residential immovable property	7,368	-	2,642	-	-	-	2,642	-	-	-	-	-
Commercial immovable property	-	-		-		-		-	-	-	-	-
Movable property (auto, shipping, etc.)	-	-		-		-		-	-	-	-	-
Equity and debt instruments	-	-		-		-		-	-	-	-	-
Other	257	-	46	-		-	46	-	-	-	-	-
<b>Total</b>	<b>7,625</b>	<b>-</b>	<b>2,688</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>2,688</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>

Table 15: Template 9: Collateral obtained by taking possession and execution processes

	Collateral obtained by taking possession	
	Value at initial recognition	Accumulated negative changes
Property, plant and equipment (PP&E)	2,688	-
Other than PP&E	-	-
Residential immovable property	2,642	-
Commercial Immovable property	-	-
Movable property (auto, shipping, etc.)	-	-
Equity and debt instruments	-	-
Other	46	-
<b>Total</b>	<b>2,688</b>	<b>-</b>

Table 16: Template 8: Changes in the stock of non-performing loans and advances

	Gross carrying amount	Related net accumulated recoveries
Initial stock of non-performing loans and advances	<b>563,772</b>	
Inflows to non-performing portfolios	129,754	
Outflows from non-performing portfolios	185,283	
Outflow to performing portfolio	22,015	
Outflow due to loan repayment, partial or total	69,026	
Outflow due to collateral liquidation	7,763	-
Outflow due to taking possession of collateral	4,501	-
Outflow due to sale of instruments	38,547	-
Outflow due to risk transfer	-	-
Outflow due to write-off	43,431	
Outflow due to other situations	5,742	
Outflow due to reclassification as held for sale	-	
<b>Final stock of non-performing loans and advances</b>	<b>508,243</b>	

Table 17: Form 16: UE CR2-A – Modification of specific adjustments for cumulative credit risk

	<b>Specific adjustments for cumulative credit risk</b>
<b>Opening balance</b>	<b>-450,943</b>
Increases due to initiation and purchase	-65,964
Decreases due to derecognition	1,302
Changes due to changes in credit risk (net)	-
Variations due to changes without derecognition (net)	-8,725
Variations due to updating the institution's estimation methodology (net)	-
Decrease in the depreciation adjustment account due to off-balance sheet removals	27,611
Other adjustments	-9,781
<b>Closing balance</b>	<b>-506,500</b>
Recoveries of amounts previously removed from the balance sheet directly recognized in profit or loss	1,660
Sums deducted directly from the profit or loss statement	3

Table 18: Form 16: EU CR2-B - Changes in the stock of loans and debt securities in default and impaired

	<b>Cumulated specific adjustments for credit risk</b>
<b>Opening balance</b>	<b>-295,132</b>
Increases due to initiation and purchase	-10,108
Decreases due to derecognition	1,462
Changes due to changes in credit risk (net)	4,050
Variations due to changes without derecognition (net)	-7,459
Variations due to updating the institution's estimation methodology (net)	-
Decrease in the depreciation adjustment account due to off-balance sheet removals	27,407
Other adjustments	-545
<b>Closing balance</b>	<b>-280,325</b>
Recoveries of amounts previously removed from the balance sheet directly recognized in profit or loss	1,660
Sums deducted directly from the profit or loss statement	3

Table 18: COVID 19 - Template 3: Information on newly originated loans and advances provided under newly applicable public guarantee schemes introduced in response to COVID-19 crisis

	<b>Gross carrying amount</b>		<b>Maximum amount of the guarantee that can be considered</b>	<b>Gross carrying amount</b>
		'of which: forborne	Public guarantees received	Inflows to non-performing exposures
<b>Newly originated loans and advances subject to public guarantee schemes</b>	<b>349,981</b>	-	<b>145,737</b>	-
of which: Households	-			-
of which: Collateralised by residential immovable property	-			-
of which: Non-financial corporations	340,024	-	141,510	-
of which: Small and Medium-sized Enterprises	335,148			-
of which: Collateralised by commercial immovable property	-			-

Table 18.1: COVID 19 - Template 1: Information on loans and advances subject to legislative and non-legislative moratoria

	Gross carrying amount							Accumulated impairment, accumulated negative changes in fair value due to credit risk						Gross carrying amount	
	Performing				Non performing			Performing			Non performing				
	Of which: exposures with forbearance measures	Of which: significant increase in credit risk since initial recognition but not credit-impaired (Stage 2)			Of which: exposures with forbearance measures	Of which: Unlikely to pay that are not past-due or past-due <= 90 days		Of which: exposures with forbearance measures	Of which: significant increase in credit risk since initial recognition but not credit-impaired (Stage 2)		Of which: exposures with forbearance measures	Of which: Unlikely to pay that are not past-due or past-due <= 90 days	Inflows to non-performing exposures		
Loans and advances subject to moratorium	473,101	450,489	12,625	183,916	22,612	143	22,612	-36,224	-23,294	-23,294	-18,867	-12,930	-	-12,930	22,469
of which: Households	2,350	2,207	-	702	143	-	143	-204	-74	-74	-18	-130	-	-130	-
of which: Collateralised by residential immovable property	2,183	2,040	-	702	143	-	143	-197	-67	-67	-18	-130	-	-130	-
of which: Non-financial corporations	429,773	407,304	-	-	22,469	-	22,469	-34,947	-22,148	-22,148	-	-12,799	-	-12,799	22,469
of which: Small and Medium-sized Enterprises	376,962	376,317	-	-	645	-	645	-21,181	-20,536	-20,536	-	-645	-	-645	645
of which: Collateralised by commercial immovable property	413,607	391,960	-	-	21,647	-	21,647	-33,168	-21,120	-21,120	-	-12,048	-	-12,048	21,647

Table 18.2: COVID 19 - Template 2: Breakdown of loans and advances subject to legislative and non-legislative moratoria by residual maturity of moratoria

	Number of obligors	Gross carrying amount							
		Of which: legislative moratoria	Of which: expired	Scadența reziduală a moratoriilor					
				<= 3 months	> 3 months <= 6 months	> 6 months <= 9 months	> 9 months <= 12 months	> 1 year	
Loans and advances for which moratorium was offered	33,050	4,023,700							
Loans and advances subject to moratorium (granted)	22,799	2,747,071	1,580,276	2,273,970	473,101	-	-	-	-
of which: Households		1,798,586	817,806	1,796,236	2,350	-	-	-	-
of which: Collateralised by residential immovable property		1,459,553	638,640	1,457,370	2,183	-	-	-	-
of which: Non-financial corporations		907,131	721,117	477,358	429,773	-	-	-	-
of which: Small and Medium-sized Enterprises		820,821	642,092	443,859	376,962	-	-	-	-
of which: Collateralised by commercial immovable property		775,462	635,711	361,855	413,607	-	-	-	-

### 3.3.4 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 that 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 19: Form 18: EU CR3 - Credit risk mitigation techniques - Overview

	<b>Unsecured exposures - Book value</b>	<b>Guaranteed Exposures - Book Value</b>	<b>Exposures secured by collateral</b>	<b>Exposures secured by financial guarantees</b>	<b>Exposures secured by credit derivatives</b>
Total loans	11,937,073	4,431,304	4,330,276	101,028	-
Total debt securities	1,302,120	-	-	-	-
<b>Total exposures</b>	<b>13,239,192</b>	<b>4,431,304</b>	<b>4,330,276</b>	<b>101,028</b>	<b>-</b>
Of which in default	154,146	170,329	170,329	-	-

The Bank calculates risk-weighted amounts based on the standardized approach described in EU Regulation 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. In this respect, the Bank uses ratings information provided by three external credit assessment institutions: Standard and Poor's, Moody's and Fitch.

This information is used for the following asset classes:

- central governments or central banks,
- regional government or local authorities,
- public sector entities,
- multilateral development banks, international organisations,
- institutions, corporates, retail,
- secured by mortgages on immovable property,
- exposures in default,
- exposures associated with particularly high risk,
- covered bonds,
- institutions and corporates with a short-term credit assessment,
- collective investment undertakings, equity,
- other items.

Table 20: Form 19: EU CR4 - Standardized Approach - Exposure to Credit Risk and CRM Effects

Exposure classes	Exposures before CCF and CRM		Exposures after CCF and CRM		RWA and RWA density	
	Balance sheet value	Off-balance sheet value	Balance sheet value	Off-balance sheet value	RWA	RWA density
Central governments or central banks	2,975,689	-	3,289,017	-	22,076	0.14%
Regional government or local authorities	19,645	27,852	19,645	13,926	6,714	0.04%
Public sector entities	-	-	-	-	-	-
Multilateral development banks	-	-	-	-	-	-
International organizations	-	-	-	-	-	-
Institutions	615,935	35,273	673,390	66,523	194,082	1.24%
Corporates	3,384,261	1,768,576	3,307,970	508,319	3,298,609	21.04%
Retail	2,947,905	710,688	2,607,669	72,660	1,822,965	11.63%
Secured by mortgages on immovable property	3,677,695	71,416	3,677,695	23,320	1,282,489	8.18%
Exposures in default	302,663	21,812	302,663	6,319	335,126	2.14%
Exposures associated with particularly high risk	-	-	-	-	-	-
Covered bonds	-	-	-	-	-	-
Institutions and corporates with a short-term credit assessment	-	-	-	-	-	-
Collective investment undertakings	12,727	-	12,727	-	12,727	0.08%
Equity	66,024	-	66,024	-	66,024	0.42%
Other items	1,032,334	-	1,032,334	-	346,445	2.21%
<b>Total</b>	<b>15,034,879</b>	<b>2,635,617</b>	<b>14,989,133</b>	<b>691,068</b>	<b>7,387,256</b>	<b>47.11%</b>

Table 21: Form 20: EU CR5 - Standardized Approach

Exposure classes	Risk weight														Others	Deducted	Total	Of which unrated
	0%	10%	20%	25%	35%	50%	70%	75%	100%	150%	250%	370%	1250%					
Central governments or central banks	3,178,639	-	110,378	-	-	-	-	-	-	-	-	-	-	-	-	-	3,289,017	3,289,017
Regional government or local authorities	-	-	47,497	-	-	-	-	-	-	-	-	-	-	-	-	-	47,497	47,497
Public sector entities	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Multilateral development banks	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
International organizations	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Institutions	-	-	587,606	-	-	160,297	-	-	814	-	-	-	-	-	-	-	748,716	730,328
Corporates	54,121	-	-	-	-	-	-	-	5,001,706	-	-	-	-	-	-	-	5,055,828	5,055,828
Retail	46,906	-	-	-	-	-	-	3,297,861	-	-	-	-	-	-	-	-	3,344,767	3,344,767
Secured by mortgages on immovable property	-	-	-	-	3,749,112	-	-	-	-	-	-	-	-	-	-	-	3,749,112	3,749,112
Exposures in default	-	-	-	-	-	-	-	-	264,023	60,452	-	-	-	-	-	-	324,475	324,475
Exposures associated with particularly high risk	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Covered bonds	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Institutions and corporates with a short-term credit assessment	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Collective investment undertakings	-	-	-	-	-	-	-	-	12,727	-	-	-	-	-	-	-	12,727	12,727
Equity	-	-	-	-	-	-	-	-	66,024	-	-	-	-	-	-	-	66,024	64,636
Other items	589,584	-	120,382	-	-	-	-	-	280,872	-	-	-	-	-	-	-	990,838	888,324
<b>Total</b>	<b>3,869,250</b>	<b>-</b>	<b>865,862</b>	<b>-</b>	<b>3,749,112</b>	<b>160,297</b>	<b>-</b>	<b>3,297,861</b>	<b>5,626,166</b>	<b>60,452</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>17,629,000</b>	<b>17,506,710</b>

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

Table 22: Type of collaterals

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.

### 3.3.5 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.

### 3.3.6 Country Risk Management

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. In addition, country risk will be considered by Treasury Directorate in all risk assumptions towards counterparties, particularly towards the Banks that are making deals with.

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

### 3.3.7 Counterparty Risk Management

The purpose of counterparty risk management is to minimize the potential loss as a consequence of the non-fulfillment of contractual obligations by the counterparty.

The Bank maintains a detailed list of approved counterparty limits, both at individual and at group level. The Operational and Market Risk Department maintains and updates a list containing the limits approved for each counterparty, specific products which can be traded and maximum tenors for which transactions can be performed.

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.



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.

In order to minimize counterparty risk the banks aims to perform transactions on a collateralized basis, whenever possible. Thus, in order to comply with regulations in force, the Bank has signed a number of ISDA and GMRA agreements with various eligible counterparties for performing transactions with derivative financial instruments or Repo transactions. The agreements are provide for the exchange of collateral between the parties in the agreement in order to mitigate counterparty credit risk. Additionally, in order to provide its non-bank clients with the ability to hedge their financial risks, the Bank signs a Derivatives Master Agreement with them based on which transactions with derivative financial instruments can be performed based on collateral.

The bank does not currently hold a rating provided by a credit assessment agency. The signed ISDA and GMRA agreements do not provide for an increase in collateral the Bank has to provide in case of a lower credit assessment.

The counterparty limits are approved by the Bank's Operative Risk Committee and OTP Bank Nyrt. Hungary following proposals from the Operational and Market Risk Department. This department has the responsibility to perform the financial analysis in order to calculate the maximum risk exposure, to manage the counterparty limits, to monitor the exposures and to present them to the Operative Risk 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 the Fusion Risk system (implemented at OTP Group level), in order to determine at any time the available limits. The Operational and Market Risk Department presents a quarterly report to the Operative Risk Committee containing the Bank's counterparty exposure.

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), Lit.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 23: Form 25: EU CCR1 - Analysis of CCR exposure by approach

	Notional	Replacement cost/ current market value	Potential future credit exposure	EEPE	Multiplier	EAD CRM	post	RWA
Mark to market		13,945	44,611			58,556		17,834
Original exposure								
Standardized 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)								
VaR for SFTs								
<b>Total</b>		<b>13,945</b>	<b>44,611</b>			<b>58,556</b>		<b>17,834</b>

Table 24: Form 26: EU CCR2 - Capital Requirement for CVA

31/12/2020	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	33,012	5,090
Based on the original exposure method		
<b>Total subject to the CVA capital charge</b>	<b>33,012</b>	<b>5,090</b>

Table 25: Form 31: EU CCR5-A – Impact of netting and collateral held on exposure values

	Gross positive fair value or net carrying amount	Netting benefits	Netted current credit exposure	Collateral held	Net credit exposure
Derivatives	13,945	-	13,945	-	13,945
SFTs	-	-	-	-	-
Cross-product netting	-	-	-	-	-
<b>Total</b>	<b>13,945</b>	<b>-</b>	<b>13,945</b>	<b>-</b>	<b>13,945</b>

Table 26: Form 32: EU CCR5-A – Composition of collateral for exposures to CCR

	Collateral used in derivatives transactions				Collateral used in SFTs	
	Fair Value of Collateral Received		Fair Value of Collateral Posted		Fair Value of Collateral Received	Fair Value of Collateral Posted
	Segregated	Unsegregated	Segregated	Unsegregated		
	-	-	-	-	-	-
<b>Total</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>

### 3.3.8 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. OTP Bank Romania S.A. aims a medium-low level of exposure to residual risk.

### 3.3.9 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-low level of market risk. For this purpose, the market risk level will be permanently measured and monitored in view of its mitigation.

In order to achieve its strategic business objectives, the Bank engages in trading activities with the scope of increasing its revenues and in order to offer its clients a broad range of products and services related to managing financial risks.

The purpose of market risk management 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.

In order to appropriately manage the risks generated by Trading Book activities, the Bank manages the market risk exposure of the Trading Book portfolio separately from that of the Banking Book activities.

Market risk exposure is managed through a set of limits, which shall be set annually and updated periodically according to market conditions, in compliance with a prudent policy. Market risk limits are set up and managed within the Market Risk Portal system.

The organizational units of the Bank involved management and monitoring are the following:

- Operational & Market Risk Department within the Risk Management Directorate – applies the regulations in force regarding market risk measurement and monitoring
- Treasury Directorate – undertakes and manages market risk in compliance with the principles and limits approved
- Middle Office Department within the Strategy, Controlling and Asset and Liability Management Directorate is responsible for the daily calculation of the profitability of the trading activity.

Communication between the above-mentioned units is performed periodically (within the regular meetings of the Bank's committees or when reviewing internal regulations, limits and business strategies) or an ad-hoc basis in order to discuss and address market evolutions, business requirements or market risk management issues.

In order to comply with regulatory requirements, the Bank has developed specific regulations and systems.

The internal regulations related to market risk management, measurement and monitoring are:

- internal norm regarding Market Risk Management, which describes:
  - the basic principles, as well as the methods used by OTP Bank Romania SA for the measurement and management of market risk and its components
  - the responsibilities of each unit involved in market risk management, monitoring and profitability calculation
- internal norm regarding Rules for establishing and evaluating the Trading Book, which describes:
  - the definition of the trading book
  - the criteria used to separate the trading book from the banking book
  - trading book management
  - trading book positions' valuation: these are marked-to-market daily with the help of the Kondor+ system through an automatic process
  - provisions regarding the reclassification of positions between Trading Book and Banking Book: reclassification is not allowed.
- the Trading Strategy establishes the general framework in which the positions/portfolios owned for trading are managed
- procedure regarding the Treasury Middle Office Department Activity, which describes the process of calculating the profitability of the trading activity.

The systems used for market risk management, measurement and monitoring are:

- Kondor+: the electronic system used for the registration, monitoring and reporting of the deals performed by the Treasury Directorate
- Market Risk Portal: is the market risk management software implemented at OTP Group level
- Fusion Risk: risk management software used for calculating certain risk indicators and performing stress tests for Trading Book positions
- Ab-solut: the Bank's core banking system.

Table 27: Form 34: EU MR1 - Market risk according to the standardized approach

	RWAs	Capital requirements
<b>Outright products</b>		
Interest rate risk (general and specific)	3,753	300
Equity risk (general and specific)	-	-
Foreign exchange risk	-	-
Commodity risk	-	-
<b>Options</b>		
Simplified approach	-	-
Delta-plus method	-	-
Scenario approach	-	-
<b>Securitization (specific risk)</b>	-	-
<b>Total</b>	<b>3,753</b>	<b>300</b>

### 3.3.10 Foreign currency risk

The Bank is engaged in proprietary trading on the 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 bank established the following limits: FX Position limits (per currency and for Total), Value at Risk (VaR) limit and stop-loss limits (daily, quarterly, and annual). The limits are monitored at OTP Bank Romania level and throughout OTP Bank Group using the Kondor+ and Market Risk Portal systems.

The VaR measure estimates the potential loss over a given holding period for a specified confidence level. The Bank uses a historical VaR approach, which allows to easily aggregate risk factors and trading desk VaR figures.

### 3.3.11 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, stop-loss limits (monthly, quarterly, annual) and liquidity 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. Most of fixed rate loans are RON consumer loans and a lower amount of RON mortgage loans with fixed interest rate for the first 5 years.

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 has remained similar to the previous year level and the bank has stayed the entire year within the medium-low assumed risk profile level.

RONEQ mio	EVE	NII
Year	Q4 2020	
Parallel up	(9.9)	0.3
Parallel down	(45.9)	-0.3
Steeper	(73.4)	
Flattener	22.4	
Short rate up	19.7	
Short rate down	(51.7)	
Maximum	73.4	0.3
Year	Q4 2020	
Tier 1 Capital	1,701	

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.

At December 31, 2020, Bank performed stress tests applying different shocks for the modification of the market interest rates by 250 bp, 300 bp and according to the 6 EBA mandated scenarios. The decline of the economic value in all scenarios mentioned above registered comfortable levels within the monitored limits established through internal and NBR regulations.

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.

Loans on OTP Factoring book are only non-performing loans and the funding received are of floating rate type with 3 months repricing period.

### 3.3.12 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 fulfilling 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 mitigates

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 about 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 course 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 (25% 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 LCR 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 year 2020, 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.

		Q4 2020		Q3 2020		Q2 2020		Q1 2020	
Scope of consolidation : solo		Total unweighted value	Total weighted value	Total unweighted value	Total weighted value	Total unweighted value	Total weighted value	Total unweighted value	Total weighted value
Currency and units (RON million)									
Quarter ending on (DD Month YYYY)		31-12-20	31-12-20	30-09-20	30-09-20	30-06-20	30-06-20	31-03-20	31-03-20
Number of data points used in the calculation of averages		12	12	12	12	12	12	12	12
<b>HIGH-QUALITY LIQUID ASSETS</b>									
1	Total high-quality liquid assets (HQLA)		2,162		2,033		1,973		1,964
<b>CASH-OUTFLOWS</b>									
2	Retail deposits and deposits from small business customers, of which:	2,546	193	2,445	185	2,344	178	2,262	170
3	Stable deposits	1,773	89	1,708	85	1,643	82	1,596	80
4	Less stable deposits	772	104	736	100	701	95	666	90
5	Unsecured wholesale funding	3,886	2,032	3,856	1,993	3,679	1,895	3,546	1,842
6	Operational deposits (all counterparties) and deposits in networks of cooperative banks	-	-	-	-	-	-	-	-
7	Non-operational deposits (all counterparties)	3,886	2,032	3,856	1,993	3,679	1,895	3,546	1,842
8	Unsecured debt	-	-	-	-	-	-	-	-
9	Secured wholesale funding								
10	Additional requirements	367	45	318	41	277	40	222	36
11	Outflows related to derivative exposures and other collateral requirements	10	10	11	11	11	11	11	11
12	Outflows related to loss of funding on debt products	-	-	-	-	-	-	-	-
13	Credit and liquidity facilities	357	35	307	30	266	29	211	25
14	Other contractual funding obligations	101	79	107	85	136	113	143	123
15	Other contingent funding obligations	1,603	80	1,599	80	1,552	78	1,498	75
16	<b>TOTAL CASH OUTFLOWS</b>		2,429		2,384		2,303		2,246
<b>CASH-INFLOWS</b>									
17	Secured lending (eg reverse repos)	342	342	397	397	373	373	326	326
18	Inflows from fully performing exposures	651	598	622	570	622	571	621	556
19	Other cash inflows	16	6	16	6	16	6	16	6
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	<b>TOTAL CASH INFLOWS</b>	1,009	947	1,035	973	1,012	951	962	888
EU-20a	Fully exempt inflows	-	-	-	-	-	-	-	-
EU-20b	Inflows Subject to 90% Cap	-	-	-	-	-	-	-	-
EU-20c	Inflows Subject to 75% Cap	1,009	947	1,035	973	1,012	951	962	888
			TOTAL ADJUSTED VALUE		TOTAL ADJUSTED VALUE		TOTAL ADJUSTED VALUE		TOTAL ADJUSTED VALUE
21	LIQUIDITY BUFFER		2,162		2,033		1,973		1,964
22	<b>TOTAL NET CASH OUTFLOWS</b>		1,478		1,370		1,310		1,322
23	<b>LIQUIDITY COVERAGE RATIO (%)</b>		149%		151%		152%		150%

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.

All of OTP Factoring funding is from Group entities on medium/long term. In case of new funding needs for new non-performing loans acquisitions, those are provided by new medium/long term funding.

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



	Q4 2020		Q3 2020		Q2 2020		Q1 2020		
Scope of consolidation : consolidated	Total unweighted value	Total weighted value	Total unweighted value	Total weighted value	Total unweighted value	Total weighted value	Total unweighted value	Total weighted value	
Currency and units (RON million)									
Quarter ending on (DD Month YYYY)	31-12-20	31-12-20	30-09-20	30-09-20	30-06-20	30-06-20	30-03-20	30-03-20	
Number of data points used in the calculation of averages	12	12	12	12	12	12	12	12	
<b>HIGH-QUALITY LIQUID ASSETS</b>									
1	Total high-quality liquid assets (HQLA)	2,095	2,033	1,973	1,964				
<b>CASH-OUTFLOWS</b>									
2	Retail deposits and deposits from small business customers, of which:	2,612	199	2,445	185	2,344	178	2,262	170
3	Stable deposits	1,805	90	1,708	85	1,643	82	1,596	80
4	Less stable deposits	807	108	736	100	701	95	666	90
5	Unsecured wholesale funding	3,939	2,039	3,829	1,972	3,653	1,872	3,528	1,823
6	Operational deposits (all counterparties) and deposits in networks of cooperative banks	-	-	-	-	-	-	-	-
7	Non-operational deposits (all counterparties)	3,939	2,039	3,829	1,972	3,653	1,872	3,528	1,823
8	Unsecured debt	-	-	-	-	-	-	-	-
9	Secured wholesale funding	-	-	-	-	-	-	-	-
10	Additional requirements	402	50	330	42	289	41	235	38
11	Outflows related to derivative exposures and other collateral requirements	10	10	11	11	11	11	11	11
12	Outflows related to loss of funding on debt products	-	-	-	-	-	-	-	-
13	Credit and liquidity facilities	391	40	319	31	278	30	224	26
14	Other contractual funding obligations	87	54	118	85	146	114	152	123
15	Other contingent funding obligations	1,560	78	1,589	79	1,542	77	1,489	74
16	<b>TOTAL CASH OUTFLOWS</b>		2,420		2,363		2,282		2,228
<b>CASH-INFLOWS</b>									
17	Secured lending (eg reverse repos)	413	413	397	397	373	373	326	326
18	Inflows from fully performing exposures	658	599	637	578	640	581	641	568
19	Other cash inflows	16	6	16	6	16	6	16	6
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	<b>TOTAL CASH INFLOWS</b>	1,087	1,018	1,050	981	1,030	961	983	900
EU-20a	Fully exempt inflows	-	-	-	-	-	-	-	-
EU-20b	Inflows Subject to 90% Cap	-	-	-	-	-	-	-	-
EU-20c	Inflows Subject to 75% Cap	1,087	1,018	1,050	981	1,030	961	983	900
			TOTAL ADJUSTED VALUE		TOTAL ADJUSTED VALUE		TOTAL ADJUSTED VALUE		TOTAL ADJUSTED VALUE
21	<b>LIQUIDITY BUFFER</b>		2,095		2,033		1,973		1,964
22	<b>TOTAL NET CASH OUTFLOWS</b>		1,372		1,341		1,279		1,296
23	<b>LIQUIDITY COVERAGE RATIO (%)</b>		155%		154%		156%		153%

### • 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.

### 3.3.13 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 these 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 2020, 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 and OTP Factoring, 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 Indicator

At 31.12.2020, the leverage transition indicator was 10.71% compared to 31.12.2019 when its value was 11.8%. The decrease in the leverage ratio is the result of a faster increase in total exposure compared with own funds increase.

<b>Exposures to financial derivatives</b>	<b>Applicable amounts</b>
Effective notional effective value of underwriting credit derivatives	4,649,645
Total exposures to financial derivatives	58,556
<b>Other off –balance exposures</b>	
<b>Sume aplicabile</b>	
Off-balance sheet exposures denominated in gross notional value (Adjustments for conversion into equivalent credit amounts)	888,746
	-
<b>Financing operations for securities that are not subject to a clearing agreement between different products</b>	
	-
Other off-balance exposures	-
<b>Exposures for calculating the leverage indicator according to the CRR Regulation</b>	
<b>Sume aplicabile</b>	
Total balance sheet exposures (excluding financial derivatives, SFT and exempted exposures), of which:	14,976,323
Exposures related to the trading book	-
Exposures related to the banking portfolio, out of which:	-
Guaranteed bonds	-
Exposures considered as sovereign	3,289,017
Exposures to regional governments, multilateral development banks, international organizations and public sector entities that are not treated as sovereign entities	19,645
Institutions	618,682
Exposures secured by mortgages on immovable property	3,677,695
Retail exposures	2,634,558
Companies	3,322,977
Exposures in default	302,663
Other exposures (e.g. equity securities, securitisations and other assets that do not meet credit obligations)	1,069,588
<b>Own funds and total exposure measurement indicator</b>	
<b>Sume aplicabile</b>	
Tier 1 capital - transitional definition	1,700,882
Total Leverage Ratio exposure - using a transitional definition of Tier 1 capital	15,882,128
Leverage Ratio - using a transitional definition of Tier 1 capital	<b>10.71%</b>

### 3.3.14 Operational Risk Management

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 and Strategy

The operational risk management within the Bank is based on the responsibility of all HQ Organizational Units, Territorial Units, as well as the companies in the consolidation perimeter (OTP Leasing Romania IFN S.A. and OTP Factoring SRL) to identify, monitor and report any occurrence of operational risk event.

The main objective of the operational risk strategy is to develop an appropriate operational risk control environment and to create operational risk awareness in order to minimize the risks occurred due to systems and processes malfunction, human errors, as well as due to external factors.

The mid-term strategy regarding operational risk management proposed in 2020 includes:

- increased focus on defining risk mitigating measures and execution monitoring of such, on the improvement of the control environment by way of closer cooperation with partner areas engaged in risk management and control but also by assessing the exposure to operational risk based on losses history record and permanently updating the database on operational risk loss generating events, reported by all Organizational Units;

- assessing activities and processes, products and systems by preparing the annual self-assessment for the activities and processes carried out within all Organizational Units, in order to report the risks already identified during the performance of the activity or the potential risks and to identify the control measures/action plans to mitigate or eliminate risk occurrence;
- enhancing the key risk indicators set for specific banking processes or for the organization as a whole, inclusively by using group-level indicators and monitoring their values and evolution, in order to have an insight into operational risk developments and allow for intervention into the processes if necessary;
- establishing an improved business continuity methodology and running periodical testing for such;
- developing/enhancing the conduct risk / model risk / ITC risk management framework.

On short term, the Bank has set the following objectives regarding operational risk management:

- maintaining a high-quality (complete, correct and accurate) operational risk losses database by permanently monitoring the operational risk events and updating accordingly within the dedicated IT system;
- reducing the potential impact of future operational risk exposures by calculating and recording provisions for operational risk, taking into consideration the losses history;
- monitoring the evolution of abusive clauses litigations and calculating and recording litigations provisions based on the losses history and the probability of loss associated to the ongoing litigations;
- operational risk monitoring through specific activities and techniques.

In order to cover the wide range of exposures to operational risk, OTP BANK ROMANIA S.A. has the following approaches:

- continuous collection of operational risk loss events and their recording and periodic update within a dedicated IT system in order to have an accurate and complete operational risk loss database;
- monitoring key operational risk indicators in order to assess the level of exposure to operational risk, to forecast the risks and to provide assistance in order to avoid certain losses generated by operational risk;
- risks self-assessment in order to identify and evaluate the potential risks that may affect the Bank's activities and processes and to establish control measures to mitigate or eliminate risks occurrence;
- analysis of crisis scenarios for operational risk, in order to examine the impact and frequency of serious events, to identify vulnerable areas and to estimate the maximum expected risk, respectively to develop appropriate and efficient action plans.

The Bank determines the regulatory capital requirement for operational risk using the Basic Indicator Approach (BIA) according to 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 framework regarding operational risk appetite is defined within the Risk Strategy of the Bank. OTP Bank Romania established limits for the operational risk appetite both at aggregate level and at the level of the operational risk categories (ORC) defined within the Risk Strategy based on the types of events and business lines

OTP Bank Romania S.A. targets a medium level for the operational risk profile.

### **Business continuity framework**

The activity regarding business continuity management and crisis management within OTP Bank Romania is defined at the level of Risk Administration Directorate – Operational and Market Risk Department. This activity consists of a solid process of business continuity management, by developing internal regulations, their implementation and conducting periodic tests on the implementation of the Business Continuity Plan.

BIA (Business Impact Analysis) exercise is performed at least annually within OTP Bank Romania S.A., by analyzing all the Bank's processes in order to identify both the impact in case of the interruption of one or several processes and the alternative working procedures in order to maintain the operational process at a minimum accepted level. Also, within the BIA exercise, there are identified the maximum time allowed for a process not to be operational, the interdependencies between processes and the dependence on certain critical services providers for the Bank and the time for performing the back-up for the databases of the applications used in the activity of Bank's critical processes.

Following BIA exercise, the Business Continuity Plan is updated, by including the new business requirements and the IT solutions that are transposed in the Disaster Recovery Plan (DRP), document which is managed by IT Service Delivery Directorate and which is part of the Business Continuity Plan of OTP Bank Romania.

The scenarios included within the Policy regarding business continuity management and crisis management that takes into consideration different potential situations that may generate the interruption of one or several operational processes of the Bank are tested annually. By performing BCP tests, the Bank aims to consolidate the way of reacting and managing exceptional events at the level of the emergency teams' members, activity which leads to a maturity in terms of managing such situations. Also, the implementation of activities/systems to reduce the probability of occurrence of these extraordinary events is taken into consideration.

During 2020, in the special context generated by the Covid-19 pandemic, the Bank paid special attention to the framework regarding business continuity management and crisis communication. Thus, from the beginning of the epidemic, daily/bi-weekly/weekly meetings of the Crisis Management Group were organized, during which measures for carrying out the activity and managing the risks in the existing epidemic context were discussed, proposed and approved. The most important objectives of the proposed measures were the business continuity management and the protection of the Bank's employees.

### **3.3.15 Conduct Risk Management**

The Bank manages conduct risk by building an effective culture that supports behaviours and practices centred on fair treatment of consumers and by adopting a comprehensive system of norms, policies and procedures with the aim to avoid/handle improper providing of financial services to customers.

An important role in conduct risk management is played by the Organizational Units responsible for the elaboration and the sale of the Bank's products as well as for handling the clients' complaints.

Compliance function of the Bank has a support role within the conduct risk management, by providing consultancy for internal regulations issuance in this area.

Within operational risk management, conduct risk is addressed by:

- continuously marking the risk events with associated conduct risk within the operational risk events database;
- assessment of the losses with high impact and low frequency generated by conduct risk within the analysis of crisis scenarios for operational risk;
- identification of operational risks related to conduct risk within the annual risk self-assessment exercise.
- establishing specific key risk indicators;
- development of a product inventory containing relevant retail banking products and the associated risks, according to the requirements of OTP Group.

OTP Bank Romania S.A. targets a medium-low level for the conduct risk profile.

### **3.3.16 Model Risk Management**

Model risk derives from the wide range of model types that Bank uses for regulatory and managerial purposes. Model risk is managed by establishing an adequate control framework and it is coordinated and reported within the operational risk management, according to the Policy regarding model risk management within OTP Bank Romania S.A.

The Policy regarding model risk management within OTP Bank Romania S.A. establishes roles and responsibilities, principles and requirements within the control framework for model risk.

Transactional credit risk models (application and behaviour scorecards) are developed, documented and validated according to the OTPH guidelines.

The Bank carries out a model inventory that contains a comprehensive set of information related to the implemented models. The review of the inventory is performed annually. Identified models are classified based on their complexity, business impact and materiality into three categories, for each category being established a different set of control requirements.

The Bank uses the following tools for model risk management, in line with OTP Group requirements:

- GAP analysis - in order to assess the model's level of compliance with the control requirements, each model is evaluated using a 3-points scale: appropriate, slightly inappropriate and inappropriate. Identified gaps result in assumed actions and deadlines for compliance by model owners.
- Risks analysis - is similarly to the risk and control self-assessment process (RCSA), in order to evaluate the frequency and severity of losses potentially arising from model risks.

OTP Bank Romania S.A. targets a medium-low level for the model risk profile.

### **3.3.17 Information and communication technology (ICT) and security risk management**

The process of ICT and security risks identification is performed based on the following activities:

- assessment of the functions related to the support activities and processes, as well as their mapping to the situation of information assets in order to identify the importance of each and their interdependencies related to ICT and security risks;
- the self-assessment of risk controls performed according to operational risk identification techniques;
- the scenario-based risk analysis exercise;
- IT security risk analysis performed according to internal regulations.

The application of risk identification techniques focuses on the assessment of the specific controls in force for ICT and security risks: ICT availability and continuity risk, ICT security risk, ICT change risk, ICT data integrity risk and ICT outsourcing risk.

The ICT availability and continuity risk management framework developed within the Bank covers:

- providing and managing IT services in order to ensure the business objectives of the Bank;
- monitoring the quality of IT services in accordance with the SLAs defined in certain business areas;
- management of the changes applied to the ITC systems during their lifetime, starting from the beginning of operation and until their removal;
- planning the capacity of ITC systems regarding their ability to cope with the present conditions and future business demands;
- management and prevention of operational risk in IT processes;
- IT Services Continuity Management.

As part of the Business Continuity Plan, a disaster recovery plan for IT systems was developed (DR Plan), focusing on reducing the disruptions caused by various major incidents (technical failures, disasters, operating and/or security errors) and recovering data for those systems considered critical for the Bank's activity. The DR Plan is tested yearly and updated based on the test results.

ICT security risk refers to the risk of unauthorized access to ICT systems and data from within or outside the institution. Banking Security Directorate ensures at the Bank level, physical security, data and information security, product and banking security, human security and the application of IT security standards in order to identify and mitigate the risks that may arise in the Bank's activity.

ICT project and change risks may arise from the inability of the Bank to manage ICT system changes in a timely and controlled manner, in particular for large and complex changes. Changes within the Bank's IT environment are classified in three categories (normal, standard and emergency), and the workflow for each type of change as well as the measurement of the quality of the change management process and reporting is described in the Internal Norm regarding Management of IT changes within OTP Bank Romania S.A.

ICT data integrity risk is the risk that data stored and processed by ICT systems is incomplete, inaccurate or inconsistent across different ICT systems, impairing the ability of the Bank to provide services and produce (risk) management and financial information in a correct and timely manner. Data governance within the Bank is handled by the Bank's Business Information Center (CIB), which is functionally coordinated by the Data Governance Manager and represents a model of collaboration between the departments and functions within the Bank, with responsibilities and clearly defined functions in terms of organization and management centralized information and data.

ICT outsourcing risk is the risk the Bank's performance and risk management to be adversely impacted following engaging a third party, or another Group entity (intra-group outsourcing), to provide ICT systems or related services. ICT outsourced services are subject to the provisions of the Policy regarding the outsourcing of the Bank's activities and the procedures for management of the risks related to outsourcing, which besides stating the general principles to be applied encompasses a clear methodology for establishing the level of significance of each outsourced activity and a monitoring framework of the risks arisen.

OTP Bank Romania S.A. targets a medium-low level for the ICT and security risk profile.

### **3.3.18 Reputational Risk Management**

In order to avoid losses or the failure to achieve 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 and Strategy**

The objectives of reputational risk management are:

- to avoid the direct or indirect impact on the Bank's reputation or potential financial losses generated by reputational risks events (including the failure to achieve the estimated income objectives);
- To improve the Bank's image by providing high-quality products and services;
- To avoid the reveal of secret/confidential information or the use of such information by the Bank's employees in order to obtain personal benefits or for any other purpose with potential consequences to the detriment of the Bank or its clients.

The Bank's strategy regarding reputational risk management includes:

- continuous improvement of the Bank's reputation by focusing on consistently supplying high-quality products and customer services and on a positive image and communication (at both internal and external level);
- ensuring the implementation of appropriate internal regulations and processes in order to allow the identification, management and monitoring of the reputational risk, taking into consideration the dimension and complexity of the Bank's activities;
- effective management of customers' requests and complaints and establishing appropriate and effective corrective actions in order to improve the quality of the products and services provided by the Bank;
- focus on improving the customers' loyalty process by providing correct and complete information in a timely manner regarding new products and services, the changes of the existing products and services, or any other aspects that may influence the customers' banking activity;
- focus on recruitment and retention of the best specialists and continuous training of sales personnel in all aspects regarding the Bank's products and services, in order to be able to provide to the customers all the information needed for taking informed and correct decisions, according to their needs;
- applying appropriate "Know Your Customer" measures according to internal regulations in order to ensure the quality of the Bank's customers portfolio;
- ensuring a prudent approach regarding reputational risk management by preparing and implementing appropriate business continuity plans and communication plans in case of crisis or emergency situations;
- implementing the appropriate measures in order to ensure data protection and IT systems security against any threats of unauthorized access;
- using scenarios for monitoring the reputational risk in crisis conditions also in association with other related types of risk (eg. liquidity risk, operational risk), in order to identify the potential impact on the Bank's reputation and the applicable measures in such situations;
- calculating capital reserves for reputational risk in order to protect the Bank in case of future crisis.

Reputational risk management is performed by the Operational and Market Risk Department with the cooperation of the responsible Organizational Units within the Bank, according to the Policy and procedures regarding reputational risk management within OTP Bank Romania S.A., as follows:

- using a quarterly monitoring system based on specific indicators and limits established taking into consideration the main sources of reputational risk;

- in relation with fraud risk and suspicious transactions by monitoring on a quarterly basis their level of significance;
- in relation with operational risk by marking on a continuous basis the operational risk events that have also reputational risk associated within the dedicated application regarding operational risk losses;
- in crisis circumstances by using a scenario analysis performed on a yearly basis, taking into consideration the financial and economic impact on the bank, including the results of the operational risk scenario analysis or the crisis simulation for liquidity risk.

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

### 3.3.19 Outsourced activities related Risk

The outsourcing of activities is performed according to the bank's internal regulations and following an analysis with the objective to identify and assess the related risk level, the main risks monitored being the reputational risk, operational risk, including legal risk, compliance risk, the risk related to information technology, strategic risk, exit risk, respectively the concentration risk and subcontracting risk.

#### **Objectives and Strategy**

The Bank's objectives related to the management of outsourced activities related risk include:

- preventing the direct or indirect harm of Bank's reputation as a result of transferring certain activities to external suppliers of goods and services which lack the necessary qualification to perform the outsourced activities;
- following the outsourcing, it should be ensured at least the same quality level for the performed activity as previously, when the activity was performed by the Bank;
- ensuring the protection of confidential information, processing this information and keeping banking secrecy by the external provider;
- eliminating / transferring certain outsourced activity related risks to the supplier.

The Bank's strategy regarding the management of outsourced activities related risk involves issuing specific internal regulations for the monitoring of these risks, keeping track of the following aspects:

- making decisions regarding the outsourcing of new activities or modifying the existing ones;
- selecting and assessing the external supplier of goods and services related to aspects such as: solvency, reputation, working experience with credit institutions' sector, the quality of the services performed, the organization of the activity and internal control, the existence of competent personnel, the existence of an alternative plan for activity recovery, ensuring the confidentiality of the information, especially in case of the information related to electronic payment instruments;
- monitoring how the external supplier of goods and services develop the outsourced activities;
- issuing alternative plans and estimating the necessary costs and resources for changing the external supplier of goods and services;
- the Bank does not target the outsourcing of activities which involve a high degree of risk.

OTP Bank Romania targets a medium-low level of the outsourcing risk exposure.

### 3.3.20 Compliance Risk Management, GDPR included

The compliance risk represents the current or future risk of affecting the Bank's profits and capital, which may result in fines, damages and/or termination of contracts or which may affect the reputation of a credit institution because of breaches or noncompliance with the legal and regulation framework, with the agreements, recommended practices or ethical standards.

The compliance risk includes risks related to the general compliance aspects and associated activities (including investment services and data protection areas), as well as risks related to know-your-customer process, money laundering prevention and terrorism financing prevention activities.

The objective of the general compliance risk strategy is to maintain this type of risk at the level established and agreed by the Bank and it refers to the following general/main activities / processes that may generate such risk:

- process of alignment of internal regulations to legal and regulatory framework and monitoring the implementation status for the new legal provisions applicable to the financial-banking sector;

- Monitoring the national and European legal regulation framework in order to identify the trends and those banking sector regulations having an impact on the compliance risk;
- Identification and assessment of the non-compliance risks associated to the Bank's business processes, including those related to the development of new products, services and practices;
- achieving and timely implementing corrective measures following the deficiencies identified during the control missions of the supervisory authority and/or the internal/external auditors or from the Group related to general compliance aspects, GDPR included;
- transmission of reports to authorities by all the organizational units within the Bank, according to the legal and regulation requirements;
- complaints management process (complaints submitted directly by the customers or through authorities) in order to manage the risk generated by the non-compliance with the consumer protection regulation/data protection regulation;
- identifying, evaluating, managing and reducing or preventing current and potential conflicts of interest at the Bank level.

For 2020, OTP Bank Romania targeted a medium-low level of the general compliance risk exposure.

To prevent **conflicts of interests**, the Bank has implemented mechanisms for early identification, monitoring and management of situations that may trigger potential conflicts of interests. The Bank analyse the areas with such risk potential - personal recruitment, family relationships, participation in companies, involvement in associations/federations/foundations, involvement as suppliers or intermediaries, additional legal employment relationships, political positions etc. - including through procedures providing information flow barriers and responsibility segregation.

In addition, considering the investment services provided by the Bank, in 2020 the Policy on conflict in the activity of investment services was developed. This includes special provisions regarding the identification and management of situations that may lead to conflicts of interest regarding the investment services provided by the Bank, having in particular the role of ensuring that the client's interests in providing these services are not affected by employee's interests, or of the Bank as well as of third parties. The policy also considers conflicts of interest that may constitute market abuse, prohibitions on insider dealing, insider dealing, unauthorized disclosure of insider trading and market manipulation.

#### **KYC & AML/CFT Risk**

The objective of the KYC & AML/CFT compliance risk strategy is to maintain this type of risk at the level established and agreed by the Bank and it includes the following general/main actions:

- Periodic revision of the provisions regarding know-your-customer activity and of other policies and procedures in order to avoid business relationships with clients with fraudulent history or who were involved in terrorism acts, money laundering, major payment incidents, bad debtors and/or customers involved in producing or selling of prohibited substances and/or illegal activities (illegal production/marketing of drugs, weapons and ammunition);
- Periodical revision of the procedures and methodology for assessing the ML/FT risk associated to customers, services and products offered, as well as at the level of the entire activity carried out;
- Complete and correct transmission of the KYC & AML/CFT related reports to ONPCSB (AML National Authority) and other authorities, according to the legal provisions in force;
- Submission of the information requested by AML/CFT competent authorities;
- Monitoring the update of the internal databases according to the lists issued by international organizations and the resolutions regarding international interdictions and sanctions in order to comply with the legal requirements and to prevent potential risks (sanctions);
- Monitoring the implementation of the KYC & AML/CFT related corrective measures included within the action plans issued by KYC & Regulations Department;
- Verification of the Bank's customers transactions for which information were requested by authorities, in order to prepare the suspicious transactions reports;
- developing the compliance culture within the Bank as an integrated part of risk culture and their management, by providing training sessions on KYC & AML/CFT issues.

For 2020, OTP Bank Romania targeted a medium-low level of the KYC & AML/CFT risk exposure.

#### **3.3.21 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 S.A. 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 S.A. 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 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 S.A. (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 (OBR Group, including the leasing and the factoring subsidiaries).

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 3 years.

For each quarter between Q1 2018 and Q4 2020 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.

On individual level, the gaps for the analyzed period, (2018-2020) are added up to **+242 million RON (including the factoring subsidiary)**.

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 3 years were analyzed. The calculation method is used to calculate the Bank's capital requirement. The gap calculated for the analyzed period (2018-2029) is **+5.3 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 of the gaps for the analyzed period, (2018-2020) are added up to **+247 million RON**, on a country consolidated level (OBR Group, including the leasing and the factoring subsidiaries), **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 2020 for OTP Bank România**

**Since the capital requirement for strategic risk in 2020 at the consolidated level is null, the strategic risk is low.**

#### **3.3.22 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).

Thus, in 2020, macroeconomic crisis simulations were conducted over a three-year horizon (2020-2022), **and available capital is sufficient to cover the capital requirement**, taking into account the minimum solvency ratio (SREP) at individual level.

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.

### 3.3.23 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			<b>14,843,154</b>	<b>1,296,751</b>
Equity instruments			12,757	12,757
Debt securities			1,303,430	1,283,994
Other assets			13,526,967	-

At 31.12.2020 the Bank did not have any encumbered assets.

## 4. OWN FUNDS AND CAPITAL REQUIREMENTS

### Own Funds

#### Common Equity Tier 1 (CET1): Instruments and Reserves

	Individual
<b>Capital instruments eligible as CET1 Capital</b>	<b>1,872,004</b>
Of which: Capital instruments subscribed by public authorities in emergency situations	1,872,004
Retained earnings	-331,238
Other reserves	60,037
Funds for general banking risk	4,763
<b>Common Equity Tier 1 (CET1) before regulatory adjustments</b>	<b>1,605,566</b>
Common Equity Tier 1 (CET1): Regulatory Adjustments	-
Additional Value Adjustments (Negative Value)	-802
Intangible assets (excluding related tax liabilities) (negative)	-56,790
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)	-3,077
Other transitional adjustments for core Tier 1 own funds	150,084
Basic own-fund items or deductions from them - others	5,901
<b>Basic level 1 core funds (CET1)</b>	<b>1,700,882</b>
<b>Additional level 1 own funds (AT1)</b>	<b>-</b>
<b>Level 1 own funds (T1 = CET1 + AT1)</b>	<b>1,700,882</b>
<b>Level 2 own funds (T2)</b>	<b>-</b>
<b>Total own funds (TC = T1 + T2)</b>	<b>1,700,882</b>
<b>Total risk weighted assets</b>	<b>8,368,757</b>
Rate and amortization of own funds	-
Additional Tier 1 own funds (as a percentage of the total exposure amount)	<b>20.32%</b>
Tier 1 own funds (as a percentage of the total exposure value)	<b>20.32%</b>
Total own funds (as a percentage of the total exposure amount)	<b>20.32%</b>
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)	209,219
of which: the capital buffer	209,219
Basic Tier 1 own funds available to meet the damping requirements (as a percentage of the exposure value)	<b>11.23%</b>

At 31.12.2020 the level 1 own funds value was 1.700.882 thousand RON.

The bank included in the prudential perimeter OTP Leasing, in which it owns a shareholding of 59.99% for the social capital, as well as OTP Factoring, in which it holds a share of 100% 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.

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 and OTP Factoring 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.

On December 31, 2020, OTP BANK ROMANIA S.A. has calculated its own funds in accordance with Regulation 5/2013 of the National Bank of Romania 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.

- **Internal capital adequacy**

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 at 31 December 2020 is 147 % 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.

- **Information of 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.

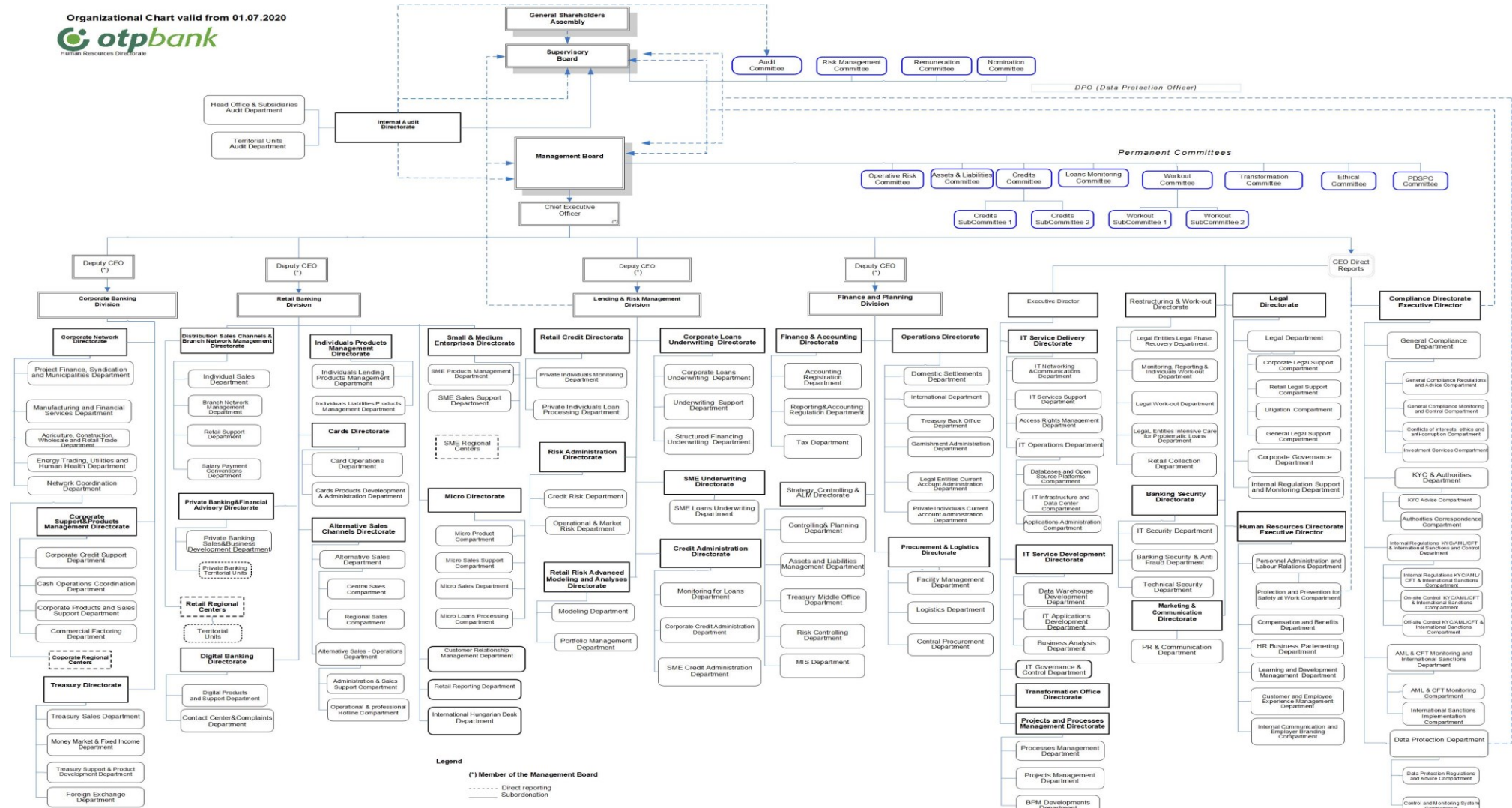
**Annex 1**

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	
	31-12-2020	30-09-2020	30-06-2020	31-03-2020	31-12-2019	
<b>Available capital (amounts)</b>						
<b>1</b>	Common Equity Tier 1 (CET1) capital	1,700,882	1,697,570	1,662,479	1,622,999	1,664,590
<b>2</b>	Common Equity Tier 1 (CET1) capital as if IFRS 9 or analogous ECLs transitional arrangements had not been applied	1,550,798	1,548,975	1,538,053	1,537,913	1,566,537
<b>3</b>	Tier 1 capital	1,700,882	1,697,570	1,662,479	1,622,999	1,664,590
<b>4</b>	Tier 1 capital as if IFRS 9 or analogous ECLs transitional arrangements had not been applied	1,550,798	1,548,975	1,538,053	1,537,913	1,566,537
<b>5</b>	5 Total capital	1,700,882	1,697,570	1,662,479	1,622,999	1,664,590
<b>6</b>	Total capital as if IFRS 9 or analogous ECLs transitional arrangements had not been applied	1,550,798	1,548,975	1,538,053	1,537,913	1,566,537
<b>Risk-weighted assets (amounts)</b>						
<b>7</b>	Total risk-weighted assets	8,368,757	8,108,257	7,948,061	8,589,289	8,170,962
<b>8</b>	Total risk-weighted assets as if IFRS 9 or analogous ECLs transitional arrangements had not been applied	8,235,558	7,976,379	7,849,262	8,513,775	8,083,941
<b>Capital ratios</b>						
<b>9</b>	Common Equity Tier 1 (as a percentage of risk exposure amount)	20.32%	20.94%	20.92%	18.90%	20.37%
<b>10</b>	Common Equity Tier 1 (as a percentage of risk exposure amount) as if IFRS 9 or analogous ECLs transitional arrangements had not been applied	18.83%	19.42%	19.59%	18.06%	19.38%
<b>11</b>	Tier 1 (as a percentage of risk exposure amount)	20.32%	20.94%	20.92%	18.90%	20.37%
<b>12</b>	Tier 1 (as a percentage of risk exposure amount) as if IFRS 9 or analogous ECLs transitional arrangements had not been applied	18.83%	19.42%	19.59%	18.06%	19.38%
<b>13</b>	Total capital (as a percentage of risk exposure amount)	20.32%	20.94%	20.92%	18.90%	20.37%
<b>14</b>	Total capital (as a percentage of risk exposure amount) as if IFRS 9 or analogous ECLs transitional arrangements had not been applied	18.83%	19.42%	19.59%	18.06%	19.38%
<b>Leverage ratio</b>						
<b>15</b>	Leverage ratio total exposure measure	15,825,338	15,074,938	14,493,608	14,040,334	14,056,351
<b>16</b>	Leverage ratio	10.75%	11.26%	11.47%	11.56%	11.84%
<b>17</b>	Leverage ratio as if IFRS 9 or analogous ECLs transitional arrangements had not been applied	9.80%	10.28%	10.61%	10.95%	11.14%

## Annex 2

### The Organisational Structure of OTP Bank România S.A.\_Head-office



### Annex 3

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

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

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

### I. General principles:

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

### II. Overall risk appetite

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

### III. Appetite for significant risks

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

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

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



legislation, regulations, codes and standards, as well as compliance with internal policies and corporate governance principles.

- (k) The risk posed by the impact and likelihood of the Bank's involvement in money laundering and terrorist financing activities. The Bank will implement procedures to ensure the allocation of resources to ensure compliance with regulatory requirements, including the implementation of best practice guidelines in line with European regulations, depending on the size and complexity of the Bank's operations.
- (l) Risks arising from the Bank's inability to properly implement business plans, strategies, decisions, resource allocation and inability to adapt to changes in the business environment. The monitoring and reporting mechanisms developed at the Bank's level provide the premises for mitigating these risks. The fulfillment of the actions and objectives set by the business strategy of OTP Bank Romania S.A. will be pursued.

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

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

#### **IV. Communication**

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

#### **V. Monitoring and reporting**

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

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

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

**VI. Revision**

17. The risk appetite statement will be revised:

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

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