# OTP Bank
## Annual Report

2019

# Summary

# MESSAGE FROM THE CHAIRMAIN OF THE SUPERVISORY BOARD

**OTP Group, with over 70 years of experience in the European banking sector, consistently pursues the business strategy focused on efficiency, generating value and solutions for shareholders, customers, and employees in the 12 countries in which it operates. Having direct contact with the market and the specific customers` needs from the CEE region, OTP Group's mission is innovation and supporting companies and individual customers with personalized banking services and solutions, while consolidating its operations in the region.**

During 2019, in a favorable macroeconomic context, generated by the continued growth of both Hungary and at the european level, the Group's activity developed in a dynamic and organic way, also through its acquisitions. Last year, OTP Group recorded the largest consolidated net profit to date, of EUR 1.27 billion in 2019, compared to the result of 2018, EUR 998 million.

In Romania, the specific European level evolution conditions have exceeded the standard, OTP Bank Romania marking a new year of growth. Thus, OTP Bank Romania reported for 2019 a net profit adjusted after tax of 6.31 billion HUF (RON 92 million), which represents an increase of 65% compared to 2018.

Last year, OTP Bank Romania recorded a dynamic progress, with a solid evolution of the bank`s activity parameters, starting from the lending operations, the volume level of performing loans and the capital adequacy rate. The bank ranks 9th on assets in the top banking players in Romania.

Local business activity gradually intensified, pursuing the strategy of the bank`s organic growth, with a rapid advance in the volume of new mortgages, financing granted to companies and a solid increase in the balance of personal loans. At the same time, the immediate liquidity rate increased by 5.87% compared to December 2018, reaching 32.8% (calculated internally) and the liquidity coverage ratio (LCR) reached a level of 148% at the end of last year.

The last year`s positive result is the outcome of a balanced lending activity that is oriented towards supporting the local economy, through the financial support provided to a mixed portfolio of companies and SMEs. At the same time, the bank endorsed the Romanians` savings activities, by offering products lined up to their current needs. The net loans/deposits indicator was 122% at the end of last year.

OTP Bank Romania's involvement in the evolution and development of the local banking sector continued in 2019. The bank constantly contributed to providing financial education for the population through programs created and implemented by the Right to Education Foundation and the first non-formal financial education center in Romania, OK Center. The Right to Education Foundation continued and developed new public or private partnerships, and through the courses held at the national level, the foundation's trainers reached 298 training sessions during the year, meaning 4071 students from 36 settlements and 89 partnerships with schools and NGOs. In its second year of activity, the OK Center arranged 96 financial education courses, counseling, and training in partnership with NGOs, private organizations, entrepreneurs, or public institutions. In addition to all these, other 175 internal events of OTP Bank Romania and other 859 events organized in the OK Center space by external entities.

Following its recent acquisitions, OTP Group aims to strengthen capital and integrate the new entities into the OTP ecosystem for 2020. At the beginning of the year, even if at the macroeconomic level the indicators showed stability, we sensed a downward trend of the economic conditions for the next period. Though not on the scale of this historic global event, with major risks for the entire world economy.

As soon as the situation required it, we activated the Business Continuity Plan and set priorities both for our own employees and for our clients. We acted quickly, we implemented sanitary and business measures, we followed the NBR's guidance to alleviate the fiscal burden of Romanians, we are operating at full capacity and we are ready to take part in the economic reconstruction that will follow.

**Antal György Kovács,**
**Chairman of the Supervisory Board**

OTP Bank România S.A. Annual Report

# Financial Highlights

2019

# Financial Highlights

## MAIN FINANCIAL INDICATORS OF OTP GROUP

| Main components of the Statement of recognised income in RON million | 2018 | 2019 | Y-o-Y |
|---|---|---|---|
| Consolidated after tax profit | 4,646 | 6,017 | 30% |
| Adjustments (total) | -102 | -94 | -8% |
| "Consolidated adjusted after tax profit without the effect of adjustments | 4,749 | 6,112 | 29% |
| Pre-tax profit | 5,294 | 6,796 | 28% |
| Operating profit | 5,618 | 7,439 | 32% |
| Total income | 12,870 | 15,718 | 22% |
| Net interest income | 8,755 | 10,301 | 18% |
| Net fees and commissions | 3,222 | 4,120 | 28% |
| Other net non-interest income | 893 | 1,297 | 45% |
| Operating expenses | -7,252 | -8,280 | 14% |
| Total risk costs | -382 | -687 | 80% |
| One off items | 58 | 44 | -24% |
| Corporate taxes | -546 | -684 | 25% |
| **Main components of balance sheet closing balances in RON million** | **2018** | **2019** | **YTD** |
| Total assets | 211,423 | 291,282 | 38% |
| Total customer loans (net, FX adjusted) | 120,370 | 177,295 | 47% |
| Total customer loans (gross, FX adjusted) | 130,439 | 187,348 | 44% |
| Allowances for possible loan losses (FX adjusted) | -10,069 | -10,053 | 0% |
| **Total customer deposits (FX adjusted)** | **167,330** | **224,705** | **34%** |
| Issued securities | 6,057 | 5,691 | -6% |
| Subordinated loans | 1,180 | 3,618 | 207% |
| Total shareholders' equity | 26,469 | 33,169 | 25% |
| **Indicators based on adjusted earnings % based on HUF numbers** | **2018** | **2019** | **Y-o-Y** |
| ROE (from accounting net earnings) based on HUF numbers | 18.7% | 20.3% | 1.6%p |
| ROE (from adjusted net earnings) | 19.1% | 20.6% | 1.5%p |
| ROA (from adjusted net earnings) | 2.3% | 2.4% | 0.1%p |
| Operating profit margin | 2.76% | 2.97% | 0.21%p |
| Total income margin | 6.33% | 6.28% | -0.04%p |
| Net interest margin | 4.30% | 4.12% | -0.19%p |
| Cost-to-asset ratio | 3.57% | 3.31% | -0.26%p |
| Cost/income ratio | 56.3% | 52.7% | -3.7%p |
| Provision for impairment on loan and placement losses-to-average gross loans ratio | 0.23% | 0.28% | 0.05%p |
| Total risk cost-to-asset ratio | 0.19% | 0.27% | 0.09%p |
| Effective tax rate | 10.3% | 10.1% | -0.2%p |
| Net loan/ (deposit+retail bond) ratio (FX adjusted) | 72% | 79% | 7%p |
| Capital adequacy ratio (consolidated, IFRS) - Basel3 | 18.3% | 16.3% | -2.0%p |
| Tier1 ratio - Basel3 | 16.5% | 13.9% | -2.6%p |
| Common Equity Tier 1 ('CET1') ratio - Basel3 | 16.5% | 13.9% | -2.6%p |
| **Share Data** | **2018** | **2019** | **Y-o-Y** |
| EPS diluted (HUF) (from unadjusted net earnings) | 1,215 | 1,575 | 30% |
| EPS diluted (HUF) (from adjusted net earnings) | 1,242 | 1,602 | 29% |
| Closing price (HUF) | 11,290 | 15,430 | 37% |
| Highest closing price (HUF) | 11,850 | 15,600 | 32% |
| Lowest closing price (HUF) | 9,600 | 11,270 | 17% |
| Market Capitalization (EUR billion) | 9.8 | 13.1 | 33% |
| Book Value Per Share (HUF) | 6,524 | 8,183 | 25% |
| Tangible Book Value Per Share (HUF) | 5,921 | 7,362 | 24% |
| Price/ Book Value | 1.7 | 1.9 | 9% |
| Price/ Tangible Book Value | 1.9 | 2.1 | 10% |
| P/E (trailing, from accounting net earnings) | 9.9 | 10.5 | 5% |
| P/E (trailing, from adjusted net earnings) | 9.7 | 10.3 | 6% |
| Average daily turnover (EUR million) | 18 | 16 | -7% |
| Average daily turnover (million share) | 0.5 | 0.4 | -20% |
| **FX rates (in HUF)** | **2018** | **2019** | **Y-o-Y** |
| HUF/RON (closing) | 69.0 | 69.1 | 0.10% |
| HUF/RON (average) | 68.5 | 68.6 | 0.08% |





# Financial Highlights

## MAIN FINANCIAL INDICATORS OF OTP BANK ROMANIA SA

| Main components of the Statement of recognised income in RON million | 2018 | 2019 | Y-o-Y |
|---|---|---|---|
| Profit after tax | 26.2 | 70.5 | 269% |
| Pre-tax profit | 43.6 | 70.5 | 162% |
| Operating profit | 164.4 | 175.0 | 106% |
| Total income | 470.7 | 549.3 | 117% |
| Net interest income | 345.0 | 403.2 | 117% |
| Net fees and commissions | 48.8 | 42.0 | 86% |
| Other net non-interest income | 76.9 | 104.0 | 135% |
| Operating expenses | -306.2 | -374.3 | 122% |
| Total risk cost | -120.9 | -104.4 | 86% |
| Corporate taxes | -17.4 | 0.0 | 0% |
| **Main components of balance sheet closing balance in RON million** | **2018** | **2019** | **Y-o-Y** |
| Total assets | 11,053 | 13,242 | 120% |
| Total customer loans (net) | 7,704 | 9,139 | 119% |
| Total customer loans (gross) | 8,120 | 9,589 | 118% |
| Allowances for possible loan losses | -416 | -450 | 108% |
| **Total customer deposits** | **7,033** | **7,975** | **113%** |
| Issued securities | - | - | |
| Subordinated loans | - | - | |
| Total shareholders' equity | 1,215 | 1,618 | 133% |
| **Indicators based on actual earnings %** | **2018** | **2019** | **Y-o-Y** |
| ROE (from net earnings) | 2.2% | 5.0% | 2.8% |
| ROA (from net earnings) | 0.3% | 0.6% | 0.3% |
| Operating profit margin | 1.5% | 1.3% | -0.2% |
| Total income margin | 4.7% | 4.5% | -0.1% |
| Net interest margin | 3.4% | 3.3% | -0.1% |
| Cost-to-asset ratio | 3.0% | 3.1% | 0.0% |
| Cost/income ratio | 65.1% | 68.1% | 3.1% |
| Risk cost to average gross loans | 1.6% | 1.2% | -0.4% |
| Total risk cost-to-asset ratio | 1.2% | 0.9% | -0.3% |
| Effective tax rate | 39.8% | 0.0% | -39.8% |
| Net loan/deposit ratio | 110% | 115% | 5.0% |
| Capital adequacy ratio (IFRS)-Basel3 | 18.2% | 20.4% | 2.2% |
| Tier ratio - Basel3 | 18.2% | 20.4% | 2.2% |
| Common Equity Tier 1 (CET1) ratio - Basel3 | 18.2% | 20.4% | 2.2% |

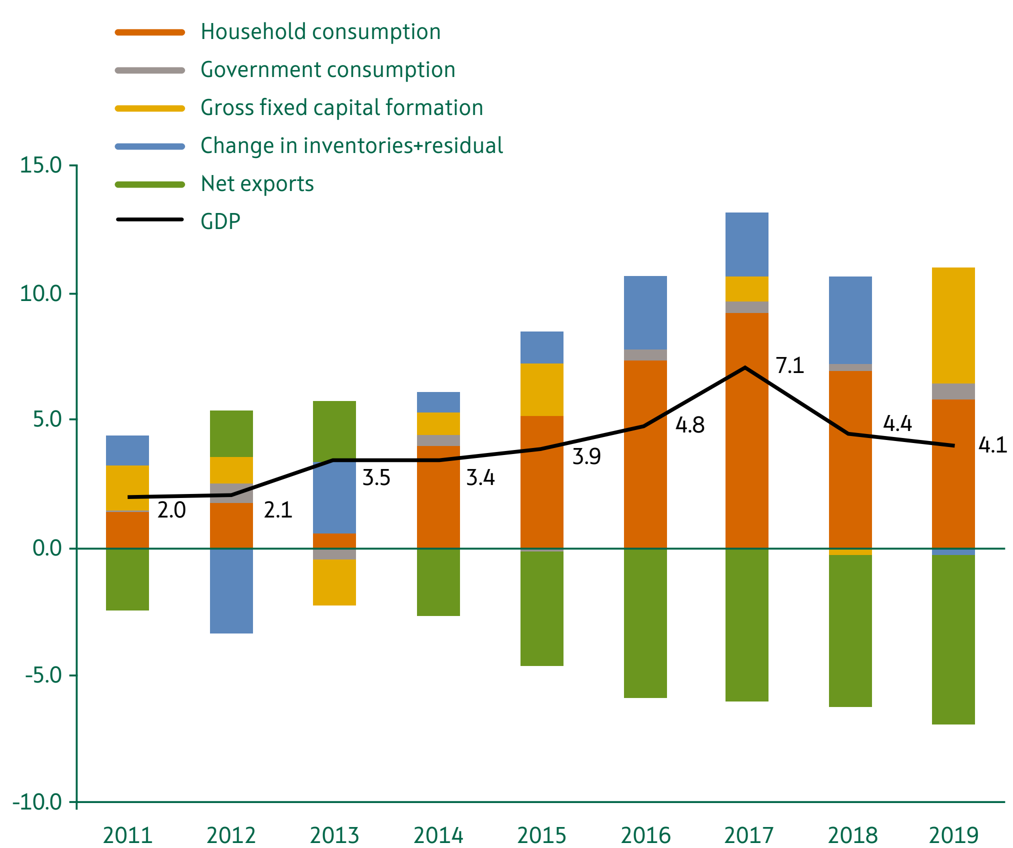
# MACROECONOMIC AND FINANCIAL ENVIRONMENT

**Despite a weakening external environment, GDP growth slowed only moderately compared to 2018, as the fiscal stimulus turned out to be stronger than initially foreseen and monetary policy remained accommodative. However, the 4.5% budget deficit expected for 2019 turned out to be the major fragility factor behind the Romanian growth model, contributing to increasing bond yields and a moderate weakening of the currency.**

The dichotomy of the growth model remained similar to the previous year, to the extent that **domestic demand** was the key driver of growth, while net export contributed still significantly negatively. One important change was that **household consumption expenditure** slowed despite persistent double-digit wage growth, while **gross fixed capital formation** has picked up mostly on account of higher absorption of EU funds.

**Exports** registerd a decline considering the euro area growth slowdown context, which also led to a moderate decline in imports, despite strong domestic demand - given that exported products are manufactured with a high intake of **imported** materials.

## DECOMPOSITION OF GDP GROWTH BY EXPENDITURE-SIDE ITEMS (%)



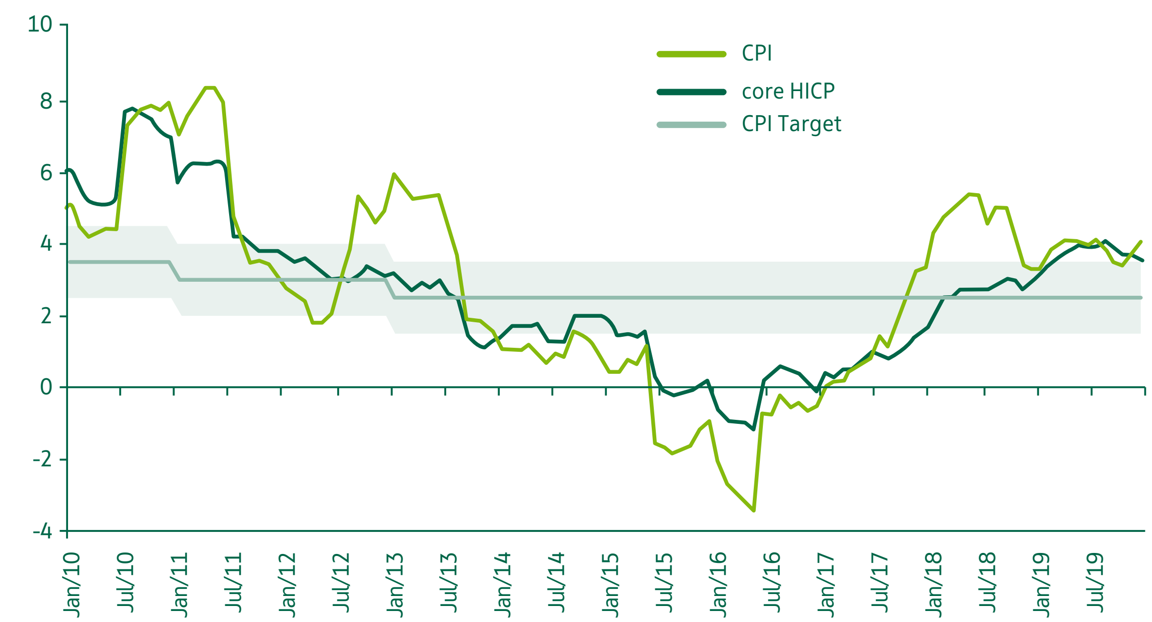

Sources: NIS, OTP Research



OTP BANK ROMANIA S.A.
Notes to the Separate Financial Statements for the period ended December 31, 2019

On the production side, the key sectors of the economy which lost some steam in 2019 were **agriculture** (on account of lower output that the record harvest of the previous year) as well as **industry,** which was pulled down by a deteriorating external environment. At the same time, **market services** pointed to a healthy increase and **construction** output pick up visibly.

## NBR POLICY RATE AND INFLATION (%)




Sources: NIS, OTP Research

After two 25 bps interest rate hikes in late 2017 and early 2018, the National Bank of Romania (NBR) has kept the policy rate at 2.5% since April 2018. Nonetheless CPI has stayed above the target band of the NBR most of the time throughout 2019. Average **consumer price inflation** in 2019 was 3.8% (in contrast with the target band of 2.5%+/-1 ppts.), however constant tax inflation stood at 3.5%, at the upper edge of the central bank band. The NBR justified its relaxed stance on monetary policy with the assumption that large foreign central banks will maintain lose policy stance and the fact that inflation will revert to around 3% by 2020. In addition to indirect tax hikes, inflation last year was fuelled by a large spike in meat prices due to the swine fever as well as higher vegetable prices.

Fiscal policy has become a major risk factor of the Romanian economy. Romania's government balance marked a turning point in 2015, as policymakers started to utilize the fiscal room to implement a series of significant stimulus actions, including several tax cuts and important wage increases. In the past few years, the widening deficit was mainly offset by scaling back public investment. However starting from 2019, the 4 quarter average budget deficit widened to 3.9% by Q2, while on an annualized basis, the seasonally adjusted deficit to GDP ratio reached 4.9% by Q3 on account of the new pension law, further public wage measures and a starting pick-up in public investment. The deficit could most likely breach the 3% deficit EU threshold, which triggered an Excessive Deficit Procedure (EDP) from the European Commission. Importantly, as Romania is in a mature phase of the business cycle, the underlying or structural budgetary position is even much worse than shown by headline figures.

Driven by loosening ECB policy, Romanian long term **government securities yields** declining slightly until the summer, however as the fiscal slippage became evident, markets have started to price in fiscal risks, and the 10Y government bond yield has increased by around 50 bps until December. Worries around the procyclical fiscal policy as well as global factors played also an important role in the rise of yields. The **EUR/RON** had two waves of depreciation, at the beginning of the year, and in the autumn, both related to market concerns related to fiscal policy developments.

In parallel, with fiscal loosening the **external balance** has been on a constantly deteriorating trajectory since 2014. The CA deficit reached 4.5% of GDP in 2018, and it is expected around 5% of GDP until 2020, despite the foreseen fiscal tightening, given deteriorating exports. Since 2018 the deficit has not been fully covered by FDI inflows, external debt has started to increase. Nevertheless, both the level of gross external debt and government debt are still low (both around 35% of GDP), which mitigate vulnerabilities. Last year's deficit was barely covered by foreign direct investment flows as well as transfers from the EU.

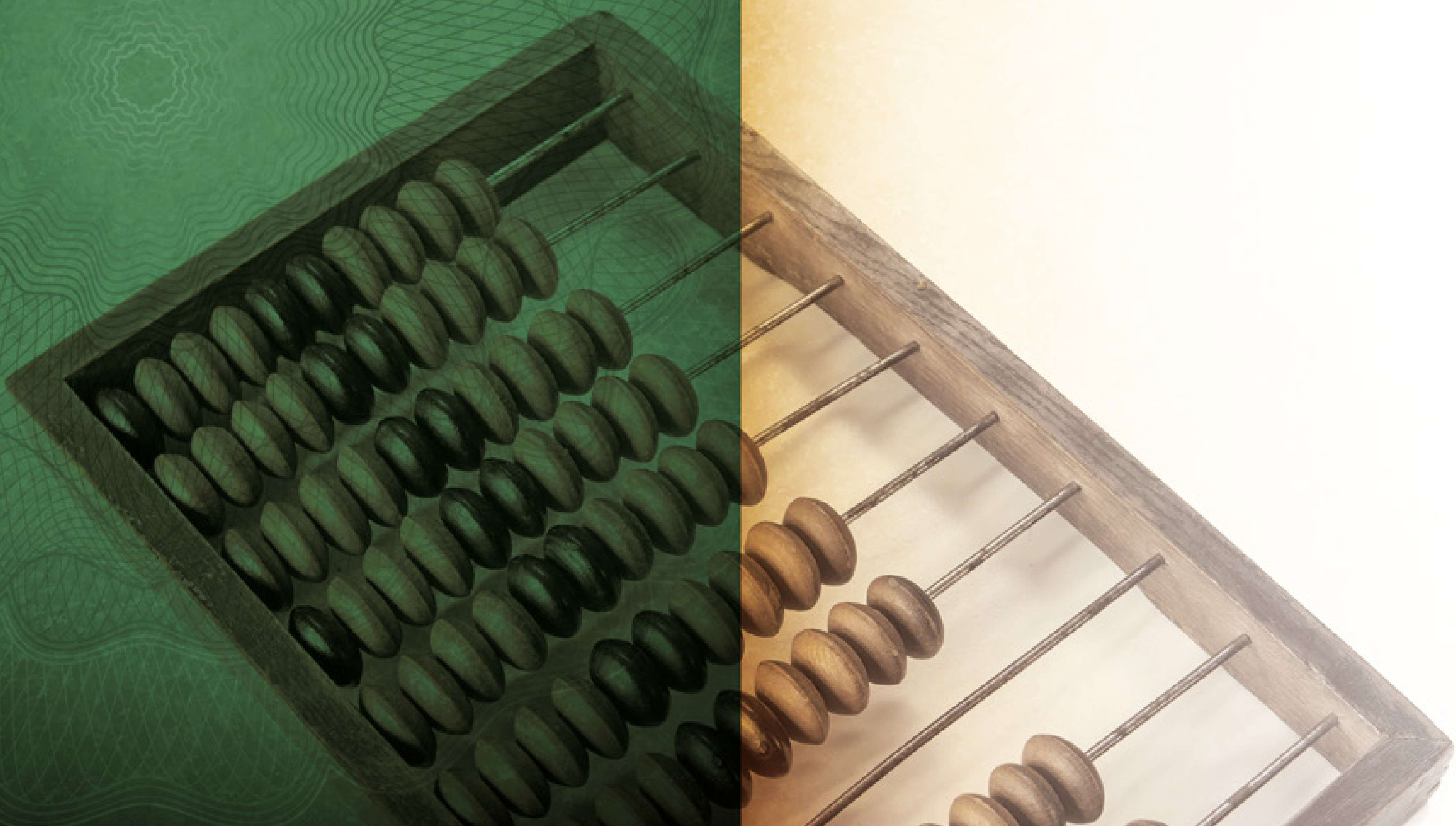
In 2019, the stock of **non-government loans** increased by 6.6%, compared with a 8.0% increase in 2018. Loans to households slowed somewhat (7.6% vs. 9.2%), while loans to non-financial corporations remained constant (at 6.3%). Housing loans grew double digit (10.5% vs. 11.1%), while consumer credit slowed substantially (4.0% vs. 6.9%). The share of credits in RON reached a new multi-year record level close to 90% for the household sector and hovered around 67% in the corporate sector. At the same time, the rate of non-performing loans decreased to 4.58% from 5.56% (2019Q3 vs. 2018Q3).

NBR data showed that the **profitability** of the sector slightly deteriorated up to Q3 on an annual basis, with the ROE index declining to 13.39% compared to 15.53% in the previous year. At the same time, the capital adequacy ratio remained high, reaching 20.0% by Q3 2019, on an annual basis. The loan/deposit ratio stood at 78.8% at the end of 2019.

OTP Bank România S.A. Annual Report

# Business Results

2019



## HISTORY OF OTP BANK ROMANIA

**OTP Bank Romania, a subsidiary of OTP Group, is an integrated and self-financed provider of financial services, present for 16 years on the Romanian banking market. The company entered the financial-banking market by buying 99.99% of RoBank, which later became OTP Bank Romania.**

We believe in people and their dreams, that is why we developed a universal bank that offers complete financial solutions for individuals and companies.

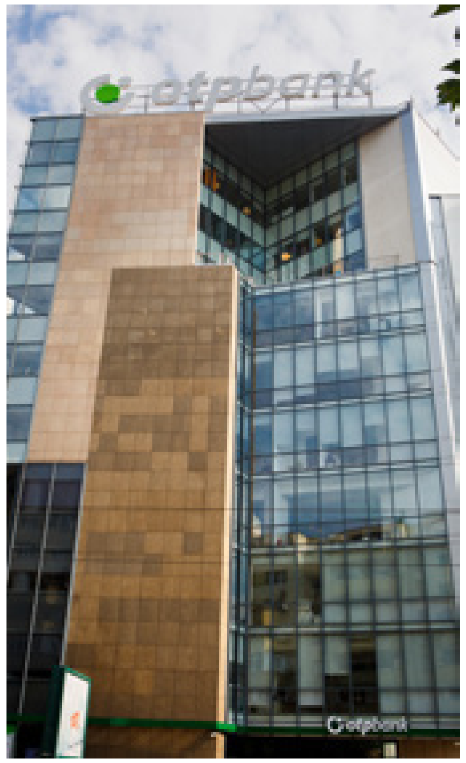
2005 was the year in which OTP Bank Romania entered the retail market and launched its first products for individuals: personal loans, personal loans with mortgage, overdraft, bank deposits and current account.

2006 was the year we launched seven card types, dedicated to both individuals and companies. Two of them represented absolute premieres on the local market: the first co-branded card issued together with MOL Romania and the first transparent credit card.

2007 was the year with the increase of total share capital of OTP Bank Romania by 15.9%. In a single month, December 2007, 20 new units were opened, OTP Bank Romania reaching a significant number of 104 branches.

2008 was the first profitable year in OTP Bank Romania history. The bank recorded an increase in operating income of 65.5%. Also, this year marked significant increases in assets, loans and the volume of deposits. Total assets increased by 24% compared to the previous year, the volume of loans by almost 50%, while the volume of deposits increased by 20%.

2009 and 2010 were difficult years for players in the banking sector. OTP Group (hence OTP Bank Romania) aimed at stability, liquidity, and profitability.




2011 was the year in which the Romanian subsidiary of OTP Group registered positive financial performances, according to the initial report submitted to the Budapest Stock Exchange. The bank registered a profit of RON 13 million after tax, while the operating result remained stable throughout the year.

2012 is the year in which OTP Bank Romania continued the process of consolidating its position on the local market, turning challenges into development opportunities.

2013 - The bank approached a prudent strategy, but at the same time took advantage of the large number of loans and the fact that OTP Bank Romania is a self-financed bank.

2014 - July 30th marks the moment when OTP Bank Romania signed the acquisition contract for Millennium Bank, a subsidiary of Banco Comercial Portugues. The value of the transaction was 39 million Euros. Millennium Bank had almost 80 thousand customers and a network of 56 units and 58 ATMs, with a large share in Bucharest.

2015 was the year when the acquisition was completed, the integration process was completed in November. After the integration, OTP Bank Romania's market share increased to approximately 2% on assets. The total number of branches in Romania increased by 24 during 2015, and the new customer portfolio reached over 426,000 customers, increasing by 13% compared to the portfolio prior to the acquisition.

Also, in December 2015, OTP Bank Romania launched a conversion program for mortgage loans in CHF. The program underlined the bank's desire to restore strong and healthy long-term relationships with its customers, constantly looking for those pragmatic solutions, adapted to the economic reality of the market. The program was continued in 2016, and over 70% of the bank's customers with loans in Swiss francs paid a lower rate from the moment they accepted the offer proposed by the bank. The offer initiated by the bank meant a financial effort of RON 425 million.

2016 - OTP Bank Romania continued to prosper and achieved a net profit of 1.65 billion HUF (RON 24 million), an increase of 12% compared to 2015. The Bank continued to develop its banking products portfolio, through creating solutions dedicated to individuals, legal entities, and SMEs, as well as digital applications and developing the internet banking service.

2017 was also a productive year for the OTP Bank branch in Romania, which recorded the highest net profit in history: 3 billion HUF (RON 45 million), an improvement of 80.8% compared to 2016. The bank dedicated 2017 to innovate and improve digital services, both for customers and for internal operations.

2018 marked the moment when OTP Bank managed to consolidate its position on the Romanian market, climbing to 9th place on the banking market, with a market share of 2.37% in September 2018, all through an organic growth. At the end of the year, OTP Bank Romania had a team of specialists of 1,364 employees, registering an increase of 7% compared to the number of employees in 2017. In the same year, the team serves an extensive portfolio of over 358,000 customers. OTP Bank Romania territorial network includes 95 branches, while the number of ATMs reached 140. Also, in 2018, the volume of loans increased by 14%, supported by the dynamic evolution of mortgages and SME loans, and the rate non-performing loans decreased to 5.1%, 8.4 percentage points compared to 2017.

2019 was the year in which OTP Bank Romania achieved an important goal, becoming the largest integrated and self-financed provider of financial services and a major player in the Central and Eastern European region. OTP Group celebrated 70 years of activity in 2019, with a community of 36,000 employees, serving over 18.5 million customers in 12 countries. In this context, the operations in Romania are significant, the local branch has a consolidated position and a good growth prospect.

At the local level, OTP Bank Romania introduced in 2019 the mobile payments services ApplePay and OTPay, services that contribute to the improvement of the general experience of customers through faster and more secure payments, using mobile devices.

Also for following the requirements generated by the digitalization trends, supported by the organic growth strategy of OTP Bank Romania, starting with October 23, we launched, for the first time on the Romanian banking market, the Racket Credit - the first platform dedicated to SMEs, with 100% online credit services.

OTP Bank Romania launched in 2019 an organic growth program - Apollo, the most revolutionary change made within OTP Bank Romania. The aims of the program are to double the market share and consolidate the market position within 5 years, and change the way the Bank interacts with customers, through a customer-focused perspective.


## OTP BANK ROMANIA APPROACH

**OTP Bank Romania has been present on the Romanian banking market for over 16 years, as a universal bank that offers complete financial solutions for individuals and companies.**

OTP Bank Romania has organically grown since entering the domestic market, while consolidating its position in 2016, after the completion of the integration process of Millennium Bank Romania in November 2015 and proving to be a strong, stable and reliable partner for customers, collaborators and employees.

During 2019, OTP Bank Romania consolidated its systemic position and remained in the top 10 banks on the local market, ranking 9th on assets.

Among the major changes in 2019 are the cards digitization, replacing traditional payments with plastic cards, in a more environmentally responsible way. We launched this product in November, being one of the first banks in the country that adopted the **Apple Pay** services. Only one month after, we launched our own phone pay app – **OTPay** – for Android users.

During 2019, OTP Bank Romania continued to offer SME customers a wide range of products and launched for the first time in the Romanian market the "Rocket Credit" project, the first platform dedicated to SMEs that allows entrepreneurs to apply 100% online for loans.

Supporting the development of the **agribusiness** segment continued to take a strategic position in the OTP Bank Romania portfolio, especially through the Credit for double pre-financing of special subsidies, still a unique product on the Romanian banking market. The Bank was also involved in projects such as the Rural Development Plan, EAFRD and has actively participated in various agro-trade events, conferences and forums throughout 2019.

For individuals, we continued to focus on personal loans, mortgage loans and cards, and among the most important achievements is the launch of **"LeZero Package"**, that brings together several products and services - current accounts, debit card and OTPdirekt, including SMS Alerts - for whose usage are offered a number of benefits.

In 2019, the organic growth program **"Apollo"** was launched, the most revolutionary transformation within OTP Bank Romania. The ambitions of the program are: doubling the bank's market share and consolidating its position within five years, transforming the way it works by promoting employee performance and digitizing specific business processes.

The "Right for Education Foundation" continued the implementation of OTP Financial Fitness – the financial education classes for adults. At the same time, OK Center reached 25,000 visitors in 2019.

We continuously aim to offer a full range of financial services of the highest quality, by operating in a prudent and transparent manner and through constant innovation. We are following the digitalization trends and aim to ensure that our actions reduce the impact on the environment. We base our success on customer trust, built by understanding local and regional needs, but also on the professionalism of our employees, who's development we constantly support.

Romania represents one of the most attractive markets in the region, so our decisions are meant to support the development of the bank at the local level and follow the strategic objectives of the group.

### Plans

**During 2019, OTP Bank Romania has planned to grow organically and become a reliable partner for customers, through personalized services for each of them. We continued to look for innovative solutions for each type of customer, to facilitate easy, fast, and direct access to the information requested by them. Thus, we have implemented a wide range of financial services and developed products for both individuals and companies or private banking.**

We focused on developing digital services and innovations due to the speed, safety, and comfort that these solutions offer. We are committed to improving our business performance so that our customers have the most enjoyable experience possible, using the best services tailored to the specific needs of the industry.

OTP Bank Romania has maintained its role as a mentor in the field of financial education offered to young people, adults, and entrepreneurs. We have started projects with a significant impact in building a financial culture, but also meant to support the responsibility towards society and the environment.

In 2020, we aim to increase the quality of customer service and to continue providing them with responsible services. For all those who are determined to start a partnership with our bank, we will make the entire customer journey as simple and satisfying as possible.


## OBJECTIVES

**In 2019 we managed to strengthen our systemic position as we remained in the top 10 banks on the local market, occupying the 9th place by assets.**

We kept our promise made in 2018, to pay more attention to financial education by supporting the projects organized by the Right to Education Foundation, and the results of 2019 support our mission.

Thus, in 2019, OK Center hosted a total of 1.130 events, of which 42% were events dedicated to education with a number of 10,321 participants.

For 2020, along with the Right to Education Foundation, we plan to proceed with this initiative that contributes to raise the level of financial education in local communities.

Aside from business objectives, the most ambitious program launched in 2019 is an organic growth program - Apollo is the most revolutionary transformation made within OTP Bank Romania.

The ambitions of this program are first of all to double the market share and to consolidate the market position in a period of five years and to improve the way in which the bank interacts with the clients, through a perspective focused on the client. The program also involves transforming the way of working (Agile) and streamlining the business processes.

At the same time, we implement an ambitious plan to improve our customer experience on the operational efficiency through digitization programs along with other several distinct projects.

We aim to keep offering our customers, both companies and individuals, not only financial products, but personalized banking services that fully meet their needs.

## STRATEGIC PROJECTS OF OTP BANK ROMANIA

**In 2019, the Bank continued the actions started in the previous year in order to digitize and modernize the bank's business platforms and at the same time initiated new major projects designed to support the bank's activity and contribute to developing and improving the bank's customer relationship.**

OTP Bank Romania has launched in 2019 an organic Growth program called Apollo, the most revolutionary change made within OTP Bank Romania.

### The Apollo program consists of 10 streams (projects):

**1. Process optimization in agencies:** Optimizing workflows and customer experience in units. The main focus of the stream is the reduction / elimination of non-sales activities in the agencies;
**2. Implementing a new customer service model in agencies:** Defining a customer service model in units and improving sales productivity, this stream will focus for example on training, coaching and tools for performance management;
**3. Implementation of new agency design model:** Optimizing and increasing the capacity of the network of units and expanding the capacity of Headquarters;
**4. Alternative customer service channels:** Increase sales of mortgage-backed loans and retail products through the network of partners. At the same time, through this stream, bank@work model will be developed, aiming at offering banking services right in the place where our clients carry out their activity;
**5. Implementation of CRM solutions:** Implementation of lead management campaigns through CRM modules;
**6. Implementation of online personal loans:** Sale of online loans, through which we aim for 25% of personal loans to be generated through the online sales channel;
**7. Improving mortgage processes and products:** Improving the supply of real estate loans and introducing new products in this category;
**8. Launch of Micro customers credit:** Launch of an offer for micro customers, including an updated scoring, risk profile and a credit product inventory approach;
**9. Improving products and processes for the SME customer segment:** Updating the portfolio, the new sales approach and the sales force training program (SME Academy), are just some of the actions included in this stream;
**10. Improving products and processes for the Corporate customer segment:** Improving the offer of Corporate products.

The ambitions of the program are first of all to double the market share and to consolidate the market position in a period of 5 years and to change the way in which the Bank interacts with the clients, through a perspective focused on the client. The program also involves changing the way of working (Agile) and streamlining business processes.

**At the same time, the bank has continued the implementation of the portfolio projects aiming at addressing business development and process optimization and compliance of the activity and services with the legislation in force.**

In this sense, the projects carried out in 2019 covered most of the business and operational areas of the bank, being aligned with the bank's strategy.

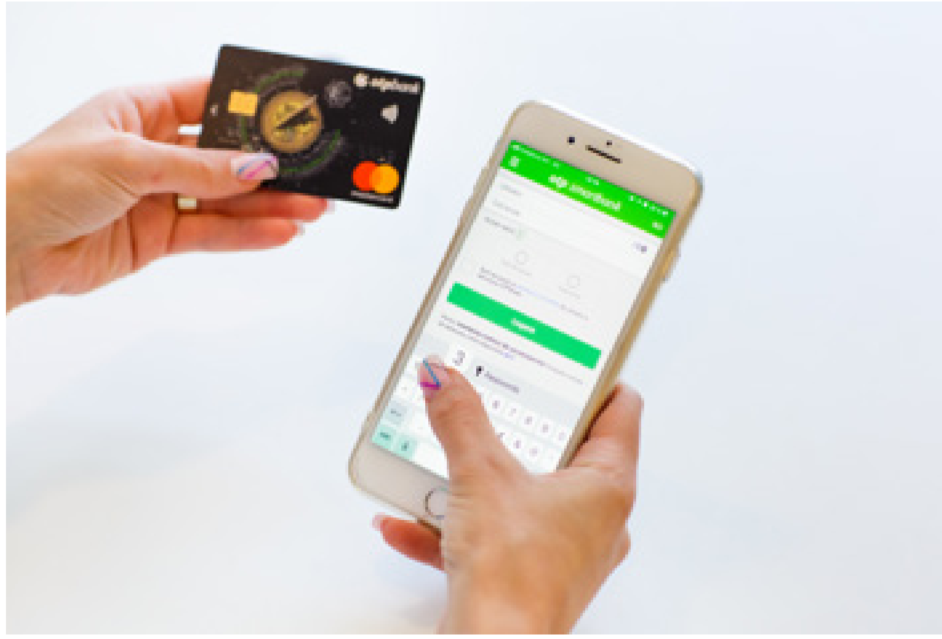
### The main projects for business development and optimization of processes carried out during 2019 were:

• **Digitization program with the following projects:**
  o **Implementation** of a **Business Process Management** (BPM) platform having as main objective the fluidization of business processes;
  o Implementing for several business processes the **Digital Archive Management** (ECM) solution, a solution that works with other applications to support the digitization of processes in the organization.

• The implementation project of the **Data Warehouse** in order to ensure the data and information requirements necessary to carry out the daily operational activity and to facilitate the business decision making.

### Among the most important projects ensuring compliance with the regulatory requirements we mention:

• **The PSD2 project,** with the purpose of implementing the European Directive 2015/2366, also called the Payment Services Directive 2 (PSD2);
• **OTP Factoring Integration Project,** in order to integrate OTP Factoring Romania into the OBR Group following the acquisition of the shares of OTP Factoring Hungary by OTP Factoring Romania.



## OTPdirekt

### Internet Banking, SmartBank, Contact Center, SMS Alerts and Push Notification

OTPdirekt is a high-quality service package, which perfectly fits the modern lifestyle. It is a comfortable, omnichannel fast and secure alternative that allows customers to carry out transactions and receive information about their accounts, without having to come to the bank's territorial units, in conditions of utmost security. OTPdirekt is the service through which OTP Bank Romania offers it's clients the possibility to access their banking accounts 24 hours a day, through four channels.

**1. OTPdirekt – Internet Banking (transactions and information)**

Available 24 hours out of 24, 7 days a week, the Internet Banking service brings all the information about the customer's accounts to a distance of a "click". The commissions for payments can be up to 50% smaller than those in the OTP Bank Romania territorial units, while the account balance interrogation and the account statement are free of charge. The following functions are available through the Internet Banking service:

- check the account's balance;
- check transaction history;
- RON or foreign currency transfers to any bank in Romania or abroad;
- standing orders;
- foreign exchanges;
- transfers between customer's accounts;
- opening/viewing/ closing deposits;
- account balance generated in files that can be printed or saved on the user's computer;
- special payments model for utility bills;
- detailed information about loans, insurance policies information, incoming and outgoing debit instruments) and collateral deposits (through Electronic RM menu);
- importing domestic or foreign payments from a file (e.g. inter-banking payments, payments representing treasury rates and taxes, transfers to beneficiaries who have accounts opened at OTP Bank Romania etc.);
- creating models of domestic payments;
- models of foreign currency payments;
- sending and receiving messages to/from the bank;
- modifying card limits, online payment activation, report lost/ stolen card;
- personal financial tool - MyMentor; settings budgets and new goals classifying transactions;
- account opening;
- unblock and reset user's access code on the website;
- SMS Alerts and Push Notification configuration;
- Money Magnet: transferring money from other banks to OTP Bank Romania accounts, using debit cards issued by other banks in Romania;
- Subscription and redemption of investment funds;
- Nearest ATMs or branches by client location.

**2. OTPdirekt – SmartBank (transactions and information)**

A secured application to download from Google Play, Apple Store that allows clients to access information about their financial situation and to make transactions from a smartphone. The following functions are available:

- check the account 's balance;
- check transaction history;
- transfers in RON, transfers between own accounts;
- foreign payments to OTP Bank Romania clients;
- foreign exchanges;
- create deposits;
- closing deposits;
- cards information menu;
- changing card limits, enabling virtual payments, card lock;
- loans information menu;
- Money Magnet: online transfer of money from other banks to OTP Bank Romania accounts, using debit cards issued in Romania;
- My Mentor: list of transaction;
- ATM and branch locator of OTP Bank Romania;
- foreign exchange rates;
- bank contact;
- received messages;
- quick access with fingerprint/face ID;
- languages: Romanian/English/Hungarian.

**3. OTPdirekt – Contact Center (transactions and information)**

With OTPdirekt - Contact Center, one phone call is enough to find out any information regarding OTP Bank Romania or to order transactions and operations on your accounts. The bank representatives can be reached free of charge in all networks, by calling 0800.88.22.88. Contact Center can be contacted also from international networks and through local networks at operator's costs, by dialing +4021.308.57.10. The Contact Center can be reached from Monday to Friday, starting from 08:30 until 21:00 (local Romanian time).

Besides general information regarding OTP Bank Romania, through OTPdirekt – Contact Center, customers can find out anything they want to know about the bank's financial products and services, about the exchange rates, standard commissions, and many others. If a customer already has an OTP Bank Romania account, then he can choose:

- to obtain specific information (private) regarding his financial status (accounts, deposits, credits, taxes, commissions, special offers etc.);
- to perform transactions/operations: opening current accounts, transfers and payments in RON or foreign currencies, exchange, card blocking, opening/closing deposits, closing/ ending/modifying/ suspending an intra-banking direct debit payment.

**4. OTPdirekt – SMS/PUSH Alerts (information only)**

OTPdirekt – SMS/PUSH Alerts refers to sending text messages to the mobile telephone numbers indicated by the client, according to the contract signed with OTP Bank Romania, or in the form of a PUSH notification to the smartphone if the SmartBank application is installed.

The alerts received through a SMS/PUSH notification can be of several types, depending on the client needs:

• account balance: the client is informed about the account balance selected in the contract, at the requested date;
• account control: the client is informed about the activities on the current account (credit/debit, regardless of the type of transaction), having full control on his account, in real time;
• card control: sends an alert immediately after the card was used in a transaction (POS/online payments/cash withdrawals) or security inquiry (incorrect PIN/CVC);
• NBR Exchange Rate: this alert will send, daily, the NBR quotations (from Monday to Friday), after 13:00 o'clock (after the official exchange rates are supplied by NBR);
• debit instruments for payment (only for legal entities): the alert will be sent in real time immediately after the information for the instrument is verified in the system. It is useful for the clients to better manage their payment instruments;
• electronic RM: is sent only for legal entities, to be notified concerning: maturity of credit facilities, commissions, loan installments, loans interests, deposits that reach their maturity. Together with the alert sent on the mobile phone, the customers will also be notified through the alerts received on the Internet Banking interface;
• deposits maturity: alerts the clients in three working days before the deposit maturity. The alert contains information regarding the amount of the deposit, the account alias, interest rate, maturity option and maturity date;
• garnishment alert: this alert is available for both individuals, legal entities and private entrepreneur clients and will be sent to client in the same day when the garnishment will be constituted, starting with 08:00 PM. The alert is detailed and offers information about: the amount of garnishment, type of garnishment, number of file for the garnishment and exchange rate.

The number of OTPdirekt – Internet Banking and Contact Center users, on December 31, 2019, was 120,104, divided as follows:

- private individuals: 102,343
- legal entities: 17,761.

The number of OTPdirekt – SMS Alerts contracts, on December 31, 2019, was 106,158 divided as follows:

- private individuals: 97,832
- legal entities: 8,335

The number of SMS messages sent to the clients during 2019 was 13,060,449.

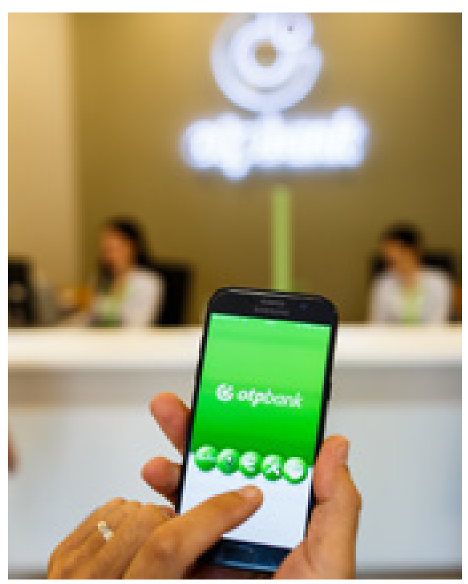
The number of calls received by Contact Center in 2019 was 144,365.

The number of transactions through OTPdirekt: – Contact Center was 12, and through OTPdirekt - Internet Banking 2.76.830 by the end of 2019.

During 2019 the SmartBank application was used by 36,320 clients.

The transaction volume through OTPdirekt:

- Contact Center:EUR 70,808;
- Internet Banking: EUR 9,444,862,037.




## BANK CARD BUSINESS

**In 2019, OTP Bank Romania managed to further increase its bank card portfolio through steady organic growth.**

OTP Bank expanded the card acquiring business on the Merchant POS segment and succeeded to continuously improve the quality of the card-related products and services offered to its customers. At the end of 2019, the merchant POS network reached over **4,914 POSs,** with a focus on the expansion of the new contactless POS terminals, replacing the older non-contactless models.

As of December 2019, the active bankcard portfolio of OTP Bank Romania increased by **8%** compared to the previous year. The debit card segment represents 96%, while the credit cards stand for around 4% of the total bankcard portfolio. The cards new sales in 2019 mainly consisted of salary cards, pension cards, and SME business cards, as the strategic focus of the bank was on attracting new income transfer clients, as well as micro and small companies, through a wide range of competitive packages, addressed both to individuals and legal entities.

The total volume of bank card transactions performed by the OTP Bank cardholders in 2019 reached **RON 3.191 million,** which marked a stable increase of **16%** compared to the previous year. On the card acquiring side, the Merchant POS transactions volume registered an increase of 9% in 2019, reaching **RON 2.186 million.**

Among the most important OTP Bank Romania card related projects in 2019, we mention the implementation of Mobile Payments services with Apple Pay for all Mastercard cards in our portfolio, in November 2019. The project represented a milestone on our way to digitalization and fast market response, OTP Bank being among the first 5 banks to adopt the service in Romania. Also, for the Android users, the **owned app** for Mobile Payments – **OTPay** - was launched for Friends & Family in December 2019 and therefore, we covered the whole Mastercard card portfolio users, irrespective of the smart mobile device used.

Introduction of Mobile Payments triggered the increase of card usage via mobile devices due to faster, more secure and convenient payments.

Considering the debit card portfolio, the educational project initiated in 2018 with the aim of switching the card usage from ATM withdrawals to POS purchases and to increase the loyalty towards OTP Bank debit card, making it the top of wallet, continued in 2019. Therefore, we initiated a project of Portfolio Optimization, with the aim to improve customer loyalty and behaviour towards payment cards. The debit card portfolio of OTP Bank Romania was analyzed, segmented and profiled and concluded into clusters of clients to be targeted with card usage offers. The number of clients to be targeted in the 1st phase was ~35000.

Currently, OTP Bank Romania offers one of the most comprehensive card product portfolios on the Romanian market, consisting of the following main products:

- MasterCard Flat and Standard (RON & EUR) - debit cards for individuals;
- Visa Business and Visa Business Silver (RON & EUR) - debit cards for companies;
- MasterCard Standard and Visa Transparent - credit cards for individuals;
- Visa Junior Plus and Junior Max (RON & EUR) - debit cards for individuals;
- VISA Sapientia - co-branded debit card;
- VISA Gold - credit card for individuals (premium);
- MasterCard OTP-MOL - co-branded credit card;
- MasterCard Platinum - credit card (Private Banking);
- Visa Business Silver - credit card for SMEs.

## INDIVIDUALS (LOANS AND LIABILITIES)

**In 2019, the main activities were associated with increasing the portfolio of clients and the number of products owned, both for liabilities and lending side. In the same time, it was essential to maintain the quality of the existing portfolio of loans, while increasing the portfolio of new consumer and mortgage loans of the bank.**

### Loans

During 2019, OTP Bank Romania continuously offered lending solutions through dedicated campaigns or by adjusting the existing products to the market practice and to the clients need and also through periodically updates of the pricing conditions for its lending offer for the customers.

On the lending segment, according to the bank's strategy, OTP Bank Romania focused on increasing the number and volume of credits to customers with good payment behaviour as well as maintaining a good quality of the actual portfolio, and also improving Time to Yes indicator.

Though the 2019 legislative year had a powerful influence on the individuals lending conditions, by limiting the maximum indebtedness to a maximum of 40% for facilities in RON, with some exceptions, according to NBR Regulation 6/2018 published on 31 October 2018, with starting date from 1st of January 2019, OTP Bank Romania continued its business plans to achieve better economic results. Another impactful modification was the implementation of the new Reference index for loans disbursed in RON with variable interest that replaced ROBOR index as per OUG 19/2019 provisions that entered into force on 2nd of May 2019.

Depending on the loan purpose and the specific collateral required, individuals lending products of OTP Bank Romania are divided in two main categories:

- loans for real estate investments, including First Home;
- consumer loans.

### 1. Loans for real estate investments

**Mortgage loan for acquisition (ML).** The purpose of this loan is the full or partial acquisition of houses or flats and also refinancing mortgage loans previously contracted from other banks. In 2019, the lending activity was carried exclusively in RON, in line with market development which practically moved decisively to LCY lending and also considering the legal provisions. The minimum loan amount is EUR 1,000 (RON equivalent) and the maximum is EUR 200,000 (RON equivalent). The minimum granting period is of 6 months and the maximum 360 months. The collateral accepted is 1st rank mortgage on the purchased property and property insurance assigned in favour of OTP Bank Romania.

In order to expand the credit portfolio and provide to its customers lending products that suit best their needs, in September 2019 OTP Bank Romania launched the mortgage loan with fixed interest rate in the first 5 years, then variable. The introduction of the new lending product started from the necessity to offer to its customers` products with a simplified and easy-to-access price mechanism, as part of the company's organic growth project.

With a diversified offer for the Mortgage loan in RON and a periodic adjustment of the price conditions, tightly correlated to direct competitors movements, the new sales of mortgage loans offered by OTP Bank Romania considerably exceeded the number and volumes of "First home" facilities. This trend was also similar in the market, the big banks promoting extremely competitive prices for mortgage loans in RON, which inevitably diminished the consumption preferences for "First home" loan.

In this respect, OTP Bank Romania continued to promote the Mortgage loan in RON with variable interest rate launched in Q4 2014 having competitive features and smart pricing scheme, the best price being accessible only with full cross-sell, OTP Bank Romania's strategic objective being to maintain the competitiveness on the ML market.

### 2. Consumer loans

**Personal loan without Mortgage (PL).** This product is addressed to individual clients, Romanians or foreign citizens with Romanian residence and the purpose of this loan without collateral is to cover the general customers' needs. OTP Bank Romania accepts a wide variety of eligible incomes and it offers the loan only in RON. The offer of personal loan includes different subtype of products (special pricing for personal loans for refinancing, personal loan with income transfer, etc.), with different pricing scheme in order to be in line with the market and to better cover the clients' needs. The maximum loan amount is:

- RON 44,000 or
- RON 66,000/ RON 100,000 for the applications that meet some predefined conditions.

OTP Bank Romania's strategic objective remained to attract higher quality clientele, with income transfer, increased cross-sell potential and low-risk profile. Also, considering the clients` expectations and the general orientation of the market toward digitalization OTP Bank Romania continued to offer in 2019 also a product with online pre-approval for individuals, suitable for the online channel that supports immediate reply from the bank for the clients applying for a loan.

During 2019, OTP Bank Romania efforts regarding the Personal loan without Mortgage concentrated on loans with fixed interest rate, considering the competitive price mechanism based on customer profile and a constant promotion through mass-communication channels.

OTP Bank Romania offers for consumer loans having competitive features and favourable price conditions was promoted through campaigns launched in the spring (04.02.2019 – 17.03.2019) and autumn of 2019 (11.11.2019 – 08.12.2019, respectively 30-31st of December 2019.

**Personal Loan with Mortgage.** This product is addressed to individual persons, Romanians or foreign citizens with Romanian residence, with the purpose to cover the general needs of the clients. The product is also available for refinancing any type of loans previously granted by other banks or by OTP Bank Romania.

The personal loan with a mortgage can be granted in RON, with a minimum loan amount of EUR 1,000 (RON equivalent) and a maximum of EUR 200,000 (RON equivalent).

The accepted collaterals are 1st rank mortgage on a property, an inferior mortgage rank is acceptable only if the superior ranks are in favour of OTP Bank Romania.

**Overdraft.** This product meets the universal expenses on short term – the clients benefit of all the advantages of a consumer loan into a revolving credit line with maximum flexibility. Clients must monthly reimburse only the calculated interest of the used funds. The maximum limit for the overdraft facility is RON 20,000 and this product is addressed mainly to customers receiving their monthly salary in accounts opened at OTP Bank Romania.

## Liabilities

Taking into consideration the market evolution, the strategy of the bank and the fact that customers' demands are continuously changing, OTP Bank Romania is periodically updating the pricing conditions and the characteristics of the liabilities products, in a constant effort to decrease the cost of funds and to improve the LCR ratios.

In 2019, in addition to the bank's strategy to increase the volumes generated by the savings products and to maintain the volumes already attracted, OTP Bank Romania continued the project of re-addressing to retail customers in a specific manner, which started in 2018.

Thus, through the customer-centric approach, which takes into account factors such as the level of usage of banking products, lifestyle, customer profile, OTP Bank Romania launched in the fourth quarter of 2019, in November, the LeZero product and service package.

The LeZero product and service package brings together several products and services - current accounts, debit card and OTPdirekt, including SMS Alerts - for whose usage are offered a number of benefits, such as: the ZERO cash withdrawal fee in RON for any withdrawals from any ATM from Romania, ZERO fee for processing payments in RON on the Romanian territory, if ordered through OTPdirekt service. The package includes many other ZERO commissions and discounts compared to using the same product or service, but purchased separately.

In case the client cashes in at least RON 1,200 per month in one of the accounts held at OTP Bank Romania and makes at least one payment by debit card through a POS or through the OTPdirekt service, the package tax for that month is ZERO.

For the same purpose, starting with December 13, 2019, the bank reduced the fees charged for interbank payments in Euro in the European Economic Area, bringing them to the level applicable to payments in RON, according to the requirements of Regulation 518/2019.

**The liabilities products for individuals** offered by OTP Bank Romania are divided into the following categories:

- term deposits;
- savings account;
- Junior account;
- current account;
- payment account with basic payment features
- OTP Express service;
- automatic saving tool service;
- modular structures of products and services;
- LeZero banking products and services package.

**Term deposits.** The term deposits are saving products with fixed interest rates until maturity. The standard maturities offered by OTP Bank Romania for term deposits are of 1, 2, 3, 6, 9, 12, 18 and 24 months, but the bank also offers to its clients the possibility to have flexible maturities calculated in days, in the range of 30 to 730 days. The currencies used for deposit openings are: RON, EUR, USD, HUF, GBP and CHF. There are no commissions for opening, closing or withdrawing, in case withdrawals are made at the deposit maturity date (except the deposits with maturity of one month, for which the commission is levied for withdrawing from the current account, including at the deposit maturity).

The minimum amount for opening a deposit is RON/ USD/ EUR/ GBP 100 and HUF 25,000. For standard term deposits, clients have the possibility of automatic administration of deposits, by choosing at the deposit opening moment one of the three options available for maturity:

• automatic deposit renewal with interest capitalization - the deposit will be automatically extended by the bank for an equal number of months with the initial option, using the interest rates valid on the renewal date of the deposit, while the accumulated interest for the previous period will be added to the initial deposit;

• automatic deposit renewal without capitalization - the deposit will be automatically extended by the bank for an equal number of months, with the initial option, using the interest rate valid on the renewal date of the deposit, while the accumulated interest for the previous period will be transferred into the current account;

• automatic deposit liquidation – the bank transfers the deposit amount and the appropriate interest in the client's current account.

OTP Bank Romania also offers different types of term deposits with special characteristics, such as higher interest rates than standard using the bonuses concept, or the flexible maturities chosen by clients:

• **Anniversary Term Deposit** – clients benefit of a bonus over the interest rate if they open a term deposit during their birthday month;

• **Term Deposit for Retirees** – based on the latest pension coupon or the bank account statement in original (not older than 2 months), a retiree can benefit of a bonus over the interest rate when opening a term deposit. This facility is available for clients just within Retirees Package;

• **OTPdirekt Term Deposits** – clients benefit of a bonus over the interest rate if they open a term deposit through the Internet Banking platform;

• **Term Deposit with Flexible Maturity** – this deposit offers the possibility for each client to choose his own maturity date, depending on the established personal objectives;

• **Term Deposit with Progressive Interest Rate** – the interest rate progressively increases each month (for 6 or 12 months);

• **OTP Sincron Hybrid Term Deposit** – term deposit opened for 6, 9, 12, 18 or 24 months, in RON, EUR and USD, after a prior investment in the following investment funds distributed by the Bank: OTP AvantisRO, OTP Obligatiuni, OTP Euro Bond, OTP ComodisRO, OTP Global Mix, OTP Dollar Bond, OTP Euro Premium Return, OTP Premium Return and OTP Real Estate and Construction. The OTP Sincron product allows deposits only according to the fund currency.

In 2019, OTP Bank Romania continued the promotional campaigns for term deposits in RON on non-standard terms, similar to 2018. Thus, besides the deposits on 4 and 7 months, new terms were launched: 13 and 15 months. To these was added the standard term of 9 months.

The promotional offer for the 4 months term deposit in RON took place between 19.11.2018 - 28.02.2019 and continued during the following periods: 08.05.2019 - 31.08.2019, 05.09.2019 - 30.10.2019 and 05.11.2019 - 31.12.2019.

The promotional offer for the 9 months term deposit in RON took place between 08.05.2019 - 31.08.2019, 05.09.2019 - 30.10.2019 and 05.11.2019 - 31.12.2019

The promotional offer for the 13 months term deposit in RON took place between 07.01.2019 - 28.02.2019 and 08.05.2019 - 31.08.2019.

In order to celebrate 15 years of OTP Bank presence in Romania, between 05.09.2019 - 30.10.2019 and 05.11.2019 - 31.12.2019 the promotional offer included a special term dedicated to this event, respectively 15 months, for RON deposits.

The promotional offers were accompanied by marketing campaigns (online and radio).

**Savings Account** is a hybrid product that combines the advantages of the high interest rate of a term deposit product with the flexibility of the current account. The interest rate is fixed, calculated on a daily basis and registered in the saving account in the last working day of each month. There are four available currencies: RON, EUR, USD and HUF. Customers are allowed to cash a deposit and withdraw without restrictions, to make inter/intra-banking transfers, to transfer funds only to the owned current accounts opened at OTP Bank Romania and to automatically reimburse credit instalments from the savings accounts. The savings account can be also accessed through a debit card issued in the name of the account's holder or his/ her empowered.

**Junior Account** is a savings account opened on the child's name with additional attached facilities. It is available in RON, EUR, USD and HUF. The interest rate is fixed and paid in tranches. With a larger amount, the client receives a higher interest, thus having the advantage of obtaining a higher interest rate compared to the current account.

Types of Junior accounts:

• **Junior Start**, designed for children under 14 years;
• **Junior Plus**, created for teenagers between 14 and 18 years. The client has the possibility to also use a Junior Plus debit card;
• **Junior Max**, created for youth aged between 18 and 25 years. Clients also have the possibility to use a Junior Max debit card.

**Current Account.** On amounts placed on the current account, the clients receive the sight deposits interest rate. A current account can be opened in RON, EUR, USD, HUF, GBP or CHF. The customer can attach the following services to the current accounts: Overdraft, Debit Card, Direct Debit, OTPdirekt – Internet Banking, SmartBank, Contact Center and SMS Alerts.

**Payment account with basic payment features** – an account which is used for the execution of payment transactions.
For the payment account with basic payment features, the target market is formed by individual clients that do not own a payment account (including a payment account with basic features) at any banking institution from Romania (including OTP Bank Romania SA) or the clients which make the proof that they were notified by a financial institution regarding the current accounts closure. The clients whom can open a payment account with basic payment features are, as per the legislation in force, split into:

• **Financially vulnerable consumers** - a consumer having a monthly income (or, during the last 6 months) lower than the equivalent of 60% of the national average gross wage as forecasted each year by the National Institute of Prognosis for the following year.
• **Non-vulnerable consumer** - consumers that do not fall in the above-mentioned category.

**OTP Express service** allows individuals and legal entities to make remittances (EUR, USD and HUF) from the accounts opened at OTP Bank Romania to OTP Bank Nyrt clients or to any bank from OTP Group, in a very short time and at advantageous costs. There is no minimum amount for a transfer through OTP Express. Cut-off time for accept remittances in territorial units through OTP Express service is: for normal payment, 16:00 (the beneficiary account is credited next day); for urgent payment, 11:00 (the beneficiary account is credited same day).

**Automatic Saving Tool service** is a flexible service, which allows customers by means of a contract, to set a periodical transfer of a certain amount of money into the saving account, term deposits or open-end funds managed by OTP Asset Management Romania SAI S.A., without the need of coming to the bank each time for performing such transactions. In this way, clients can start developing a portfolio of savings and/ or investment products, with minimum effort, in just a few simple steps. The service is available for RON, USD and EUR. The periodicity of the automatic transfers is very flexible, so the clients may choose a certain frequency (expressed in days or months) for each product selected in the automatic savings tool (junior accounts, saving accounts, term deposits or open-end funds managed by OTP Asset Management Romania SAI S.A.).

**Modular structures of products and services** represent a flexible package consisting in a base of products and services (a predefined number of products/services, eg: debit card, OTPdirekt, current account) and at least one option (usually represented by benefits for certain products /services) chosen by the customer. Customers are allowed to activate which options suits them best from the ones dedicated to the segment in which they were included and use them for the amount of time they chose. This way, clients are encouraged to pay for usage rather than buy a number of products which they do not fully use.

**The LeZero product and service package** brings together several products and services - current accounts, debit card and OTPdirekt, including SMS Alerts - for whose usage are offered a number of benefits, such as: the ZERO cash withdrawal fee in RON for any withdrawals from any ATM from Romania, ZERO fee for processing payments in RON on the Romanian territory, if ordered through OTPdirekt service. The package includes many other ZERO commissions and discounts compared to using the same product or service, but purchased separately.

In case the client cashes in at least RON 1,200 per month in one of the accounts held at OTP Bank and makes at least one payment by debit card through a POS or through the OTPdirekt service, the package tax for that month is ZERO.


## Small and Medium Enterprises Directorate

**The SME business line maintained the segmentation approach of the clients consolidated in the previous years, by targeting and managing mainly legal entities clients with an annual business turnover of maximum 5 million EUR, including assimilated categories and private entrepreneurs.**

In order to support this clients' segment, we continued to align the products and services of OTP Bank Romania dedicated to SME clients and private entrepreneurs to the general digitalization trends. We focused on recalibrating the existing products and business flows in order to achieve our clients' expectations and consolidate the partnerships, built on a high level of professionalism, trust and respect.

In 2019, **the SME business line recorded an increase of 26% in volumes of new loans sold**, maintaining at the same time the complex approach of the cross-sell/ up-sell methods. **40% out of the total revenues generated by the transactional activity of the Bank's clients, was generated by the SMEs**, confirming the strategic importance of this segment. Our continuous efforts throughout 2019 were aimed at implementing effective solutions in order to ensure our clients have a positive experience, from onboarding to accessing our financial solutions dedicated to the SMEs and private entrepreneurs. We focused on the standardization and digitalization of the enrollment process for legal entities and assimilated categories, as well as on providing online solutions for simple and fast online credit applications, by developing a unique platform on the Romanian market "The Rocket Loan" ("Creditul Racheta"), therefore:

• In March 2019, we have taken an important step in our strategic approach to digitalization and improving the legal entities customers' experience by launching **a new platform (BPM online) comprising two modules: 360 view module and Opportunity Management;**

• Starting with 1st of August 2019, we have taken another important step: implementing two new processes for SME clients and assimilated categories:

• **The onboarding process for legal entities and assimilated categories** and implicitly opening current accounts and associated products (a package of banking products and services, debit card, internet banking etc.). These processes have an integrated archiving application that allows loading clients` documents, storing them in a standardized and unified structure and easy access to all stored documents by all parties involved in the banking process.
• **The process of updating data clients of legal entities and assimilated categories** and implicitly the implementation of the risk grade approval process/flow – the electronic archive solution is integrated in this process, as well.

The other benefits of the two processes implemented in 2019 are:

• **Improving and standardizing the customer experience,** with impact in the cross-sell and loyalty rates;
• **Simplification of the back-office activities** performed by the territorial units and Regional Centers: the current account opening process and the data actualization process for legal entities and assimilated categories are 90% managed by the colleagues within the Legal Entities Current Account Administration Department;
• **Rapidity in selling and accessing products and services** dedicated to legal entities clients: generating the contracts for current accounts, packages, Internet Banking are done automatically; the application offers also a method for calculating the service, with a brief description of each product;
• **Easy access to all clients' data and reducing the time for accessing and viewing documents:** the documents are uploaded in this application and automatically transmitted in the archiving application of the Bank and are accessible at any given time;
• **Prompt information regarding the necessity of client data actualization** by push notifications within the application;
• **Fast, efficient, and integrated communication** within the platform, between the departments and units involved in the process. Also, the status of the application can be checked at any given time.
• **Easy and quick access to information and surfing through various processes through tabs, menus, and intuitive buttons.**

• Starting October 23rd 2019, the **dedicated platform** for SMEs was launched – **CREDITUL RACHETA ("Rocket loan")** available at https://www.otpdirekt.ro/credit-racheta. The platform ensures 100% on-line application for unsecured or secured loans, for both existing customers as well as non-clients, by uploading a minimum set of required documents and filling in few short and concise information in a simplified, user – friendly manner.
The preliminary scoring and estimate eligible loan amount is calculated within a few seconds, therefore we are providing clients with a quick response, the final answer being subsequently transmitted to the client after finalizing the internal analysis; the client signs the contractual documents in the territorial unit selected during the flow. For non-customers of OTP Bank Romania, the possibility to start the onboarding process for opening a current account and a package of banking products and services is also available. The entire lending flow is based on a quick, efficient approach, ensuring a reduced time-to-yes within 24 hours and therefore representing the strong foundation to the development of a business partnership with the SME customers.

• Furthermore, also in 2019, **OTP Bank Romania has started an innovative project, for**

**implementing the provisions of the collaboration protocol concluded between ANAF and the banks members** of the Romanian Banks Association, in respect of importing the financial statements of the legal entities clients from ANAF and mapping them into the internal processes, leading to the quick rating calculation and determining the client eligibility, with significant impact in a reduced time-to-yes for SMEs.
Therefore, based on a signed agreement by the representatives of the legal entities clients, we are obtaining the data afferent to the last concluded financial exercise from ANAF, we are mapping that data into the process and calculate the clients eligibility, without having the client to present financial statements. Therefore, all the clients requesting one of the 11 lending products, secured or unsecured, for which standard flows are implemented, will benefit from a fast response to their requests, based on signing a Data processing agreement and providing qualitative information, necessary for determining the eligibility.
Considering the simplified and standardized flow, the response time has significantly decreased, without bureaucracy and with a positive impact in the client - bank partnership.

• Also, in order to comply with provisions of the EU Regulation no. 518/2019 for the modification of Regulation no. 924/2009 regarding the certain commissions for cross-border payments within the EU and the monetary conversion fees, we have **updated the packages dedicated to SMEs and private entrepreneurs** (Smart Business package with additional options, POS package, Practic and Dinamic packages for private entrepreneurs, the Start-up Hero package and the packages for housing associations and religious entities).
To maintain the attractiveness of the packages, we have included extended benefits in the packages by eliminating the REGIS/Sent fees for all free of charge transactions included in the packages and granted unlimited free of charge payments in EUR within the Economic European Space for the clients with Smart Business packages with Complete/Exclusive additional options.

At the same time, in 2019, besides the specific projects of the SME client category, **the agriculture sector continued to hold a strategic position in the OTP Bank Romania portfolio. In this respect we recalibrated the Loan for double pre-financing of the APIA SAPS subsidies and the Loan for pre-financing the APIA subsidies,** in order to accommodate the latest legal and conventional provisions.
**The loan for double pre-financing of the APIA SAPS subsidies** is still unique on the banking market and very attractive for the target customer segment, an important feature for supporting the development strategy of the agribusiness segment within OTP Bank Romania.

By continuing to offer a complete range of solution through simple and efficient financing products, as well as by specialty consultancy, OTP Bank Romania registered an increase with **16% of the volume of Agri new loans**, granted in 2019 compared to the previous year.

## Private Banking

**OTP Group has a tradition of over 20 years in the Private Banking field. The service was first launched in Hungary, back in 1995. Since that moment, this business segment has been permanently improving and the success of this approach is confirmed by continuous and sustained growth in both number of clients and assets under management.**

The international recognition highlights our performance: OTP Private Banking was designated, once more, the best private bank in Hungary, at the Global Private Banking Awards, event organized by the prestigious publications The Banker and Professional Wealth Management, members of the Financial Times Group.

Our local business benefits from the OTP Group expertise in the Private Banking field. The Private Banking activity in OTP Bank Romania was officially launched in February 2008, as a personalized service offered to high net-worth clients. The main objective of its activity is to increase the added value and exclusivity of the offered products and services, by creating a complete package, carefully tailored, and adapted to the characteristics of each client.

In 2015, OTP Bank Romania received the "Bank of the Year on Private Banking segment" award, during a Gala organized by Piața Financiară publication. We received the recognition due to our local business successful receipt: combining the most appropriate investment and saving solutions, in accordance to clients' financial profiles. The award is a proof that our Private Banking strategy was successful in implementing innovative solutions and tackling new challenges.

Currently, Private Banking service is addressed to customers who invest more than EUR 50,000 in products offered by OTP Bank Romania or cash-in a minimum monthly income of EUR 2,000 in a current account opened at OTP Bank Romania.

An important aspect for the clients included in the Private Banking category is represented by the personalized relationship between them and the dedicated counsellor. In addition, clients are members of a group that benefits of products and services offered in accordance to their profiles, objectives, needs and risk tolerance. All these advantages give them a special statute.

The Private Banking services of OTP Bank Romania were initially offered through a singular banking unit. However, in order to offer the Private Banking package to the elite clients countrywide, regardless of their location, we extended these services to all territorial units.

Starting 2013, the Private Banking strategy was based on financial advisory, in accordance to each client's individual profile. Thus, depending on the client's financial needs and objectives, we were able to offer adapted solutions, from extra safe savings to riskier instruments.

During the last year, the number of Private Banking clients increased by 28%, while the total assets under management registered an increase of approximately 26%. Consequently, there are good premises for further development and sustainable growth in the Private Banking segment.

## Corporate Banking

**Corporate Banking is an important contributor to the bank's performance, by providing the upper mid and large corporate customers with transactional and cross-selling potential, also offering a wide-range of financial services and tailor made solutions, through the expertise and support of different departments, all with the specific aim to increase product usage.**

2019 helped us reach new heights. Although we faced several challenges, we overcame them with both keen determination and a strong sense of purpose that define us.

The outcome clearly shows that we managed to achieve our goals:

- **Starting a new project that improves the way we do things: Apollo Growth Program** aiming to focus on multiple subjects: putting our customers in the center of everything we do, exploring new business opportunities, being all about the people we dedicate our work to, learning to become agile, while questioning the way we do things and how we can become better.

Within the Apollo program, **Corporate Stream key initiatives are:**

- **Optimize End-to-End Lending Flow**
- **Improve Relationship Managers productivity** by:
  - implementing dedicated activity management support through BMP & CRM (opportunity, lead and campaign management flows);
  - redesigning the industry`s segmentation;
  - implementing qualitative measures like specialized training, incentive and performance management, Corporate career center;
  - increasing FTE capacity through network development.

- **Improve Corporate products offering** by introducing new products in line with the industry`s specific needs and improve our current product offer.

- **Digitalization** of the customers workflow, by implementing new technologies:
  - CRM / OTPlus, Improved customer experience;
  - Integration of all new current accounts openings;
  - 360 customer view and opportunity;
- **MoRe,** electronic archive application for centralized storage and digital retrieval of client related documents:
- Implementation of other **legal requirements:**
  - PSD 2 - comply with the obligations enforced by the PSD II European Directive;
  - GDPR;
  - EU REG 518 to amend the EU REG 924 / 2009, that lays down rules on cross-border payments and on transparency of currency conversion charges within the Union.

- **Sales excellence for our corporate sales staff** by public recognition and rewards for the Top Performers Program.
- Direct involvement within **agribusiness** projects.
- Increasing the quality and fasten the services addressed to the corporate clients by continuing to develop **the Corporate Officers concept,** a client`s dedicated operational desk found in the branches network.
- **Redesigning the website.** The main characteristics of the products are now presented in a more friendly manner, supporting the client to choose the proper product in order to cover specific needs.

- Direct involvement in the Branch Sponsorship Concept with the aim of:
  - Offer visibility for outstanding initiatives;
  - Identify issues and propose effective solutions;
  - Assuring improved collaboration between employees;
  - Promote excellence in their activities;
  - Optimise the communication in all professional areas.

- **Corporate Insider Newsletter** was launched for keeping all bank team members connected, even for them to share online those ideas, projects or colleagues, that have a potential to influence the offline.

- **The factoring business activity** continued to grow, registering a very good performance, with overachievement on all related financial indicators.

- **Lending:** the transformation of our strategy in order to become one of the 3 top banks for target prospects.

- **Cash management:**
  - Focus on local mid-companies with transactional and cross-selling potential;
  - Aim to increase the number of transactions by attracting more customers and increase the number of cash management products;
  - Optimization of cash activities in branches.

We can conclude that 2019 proved us again the need of maintaining a client-centred orientation and creating business relationships based on trust, as the core of our partnership.

## TREASURY

**The year 2019 started with a significant fluctuation of the exchange rate, the EUR/RON rate went up from 4.6500 - 4.6600, during the first days of the year, to 4.7650 towards the end of January. During the year, the rate reached a depreciation level for the domestic currency, registering even RON 4.7800 in exchange for EUR.**

2019 has been for Romania yet another growth year with a GDP increase of 4.10%. Inflation reached 3.80%, a decrease from 4.60% in 2018. Although declining, the inflation remained at a rather high level compared to other EU countries as a result of wage increase, which resulted in sustained demand and increased production costs.

In addition to the inflationary pressure, the increase in revenues also contributed to the expansion of current account deficit. Thus, if during 2018 the current account deficit was EUR 8.96 Bln, in 2019 it exceeded

EUR 10.4 billion and the Romania's total external debt increased by over EUR 6 billion, reaching EUR 72.7 billion at the end of 2019 (of which 31% is short term debt).

In this macroeconomic context, the Bank's Treasury experienced the best year ever in terms of results. The budget revenues target was far exceeded (over 140% achievement) due to the resultd well beyond the expectations of the Treasury Sales Department – which similarly to previous years, was the main engine of Treasury's Department revenue growth.

Major contributors to this performance were: a proactive sales approach, a more pronounced sales activity of the regional treasury dealers and a better collaboration with the business lines of the bank.

The volume of currency exchange transactions of the Sales Department increased in 2019 by 63% compared to the previous year, allowing an increase in FX revenues despite a decrease of average FX margins.

If 2018 was the first year of MiFID II in OTP Bank Romania, 2019 came as a coronation of the efforts made during the last years and allowed, for the first time in recent years, to obtain remarkable results in the activity of selling the products to cover the risk of exchange rate risk or interest rate. This was only possible through a good collaboration with all colleagues from the business lines within the bank.

Trading activity continued both on the currency exchange side, as well as on Money Markets and on the Fixed Income securities market. In 2019, the Currency Exchange Trading Department has achieved outstanding results ending far exceeding the objectives originally planned. However, The Department of Monetary Markets and Fixed Income Securities, failed to reach the quantitative targets, despite the continuous efforts made, in the context of a highly volatile debt market in 2019. The yields reached maximum quotas in the first half of the year, as a result of the OUG 114 (Government Emergency Ordinance no 114) – implemented by the governement in power at that time. In its original form, the ordinance placed great pressure on banks, bringing hurdles to the monetary policy mechanism. The minimums of the year were reached in summer, when the yields of the Romanian tilt decreased due to the monetary relaxation practiced by the largest central banks in the world. The internal political struggles culminated with the installation of a minority government that led to new yields increases at the end of the year, strongly supported by the increase of a large budget deficit to over 4% of GDP, as well as by the International Rating Agency S&P's decision to change the outlook on Romania, rating it from stable to negative.

## OTP Leasing Romania

**OTP Leasing offers financial leasing solutions for legal entities to purchase cars, commercial vehicles and equipment.**

The business objectives for 2019 were built around the strategy of increasing the market share, with special focus on product portfolio diversification and increase of the financed volumes, including a stronger support of the agricultural sector and SMEs.

In 2019, the company focused mainly on optimizing the solutions available to legal entities, increasing the customer portfolio and maintaining the growing financial trend. In the last three years, the company has steadily increased its value in all targeted segments.

Most of the funding requests were for second-hand cars and light commercial vehicles. There was also an increase in the equipment segment, especially agricultural and industrial machinery.

The OTP Leasing Romania portfolio includes companies operating in industries such as telecom, services, agricultural production, medical, IT. Most companies are in the segment of small and medium enterprises.

In addition to the financial leasing offers, the strategy aimed to simplify the process of accessing financial leasing products, especially through digitization projects. Along with the online application for client eligibility checking - 24/7 approval app-, the company launched the online application for agricultural equipment - AgriLeasing. We also launched the OTP Leasing chat and Answerbot, through which both customers and all those interested in answers about our services can receive the necessary details.

The company organized the 2nd edition of the program dedicated to managerial education for young people, together with the **Right to Education Foundation and OK Center.** The program is called **CEO for 1 day** and is designed for young people aged between 18 and 22 years. CEO for 1 day is meant to offer those at the beginning of their career a unique learning experience. The 2nd edition meant a learning bootcamp of 3 days and, for the winner of the program, 1 day in the role of CEO within the company, Toni Tătaru. The program is structured in such a way as to complement the curious and active spirit of young people and to offer them practical tools for their future career. The bootcamp workshops addressed topics related to design thinking, business strategy, futurism, leadership, personal branding, assertive communication.
The clients from OTP Leasing Romania portfolio come from all major areas of the country, Bucharest, Iasi, Cluj, Brasov, Timisoara, being the regions where the company also has local representations.

## OTP Consulting

**OTP Consulting Romania SRL was established in 2007 by OTP Bank Romania and the Hungarian consultancy company OTP Hungaro Project. Since then, the company went through an important and continuous development and due to its flexible approach and extensive set of skills it provides clients with the high-quality business value they need.**

The wide range of services provided by the company cover financial advisory services, local development consultancy and business and treasury consulting, offering complex development solutions for companies and local authorities, including trainings and technical assistance, support in identifying new projects and financing sources for these, consultancy services in drawing up different projects, as well as project management services.

In collaboration with local authorities, OTP Consulting Romania implemented more than 20 projects with the theme of environmental protection, especially in the area of water and wastewater and other wastes.

The quality of its consultants is the cornerstone of the company`s ability to serve its clients, leading the company also in 2019 to a large number of successful projects.

**Also, in partnership with NGOs (LAM Foundation and AGROSIC) OTP Consulting Romania developed a truly innovative concept for small manufacturers in order to develop their food industry marketing, brand share, to sell products online and through a special weekly market.**

In addition, the small manufacturers receive consulting services and training to acquire the necessary knowledge to hit the market.

**OTP Consulting Romania is a partner of EBRD through BAS Business Advisory Service program.**

**The Project, prepared by OTP Consulting Romania for an agriculture company, was promoted as BEST PRACTICE by EBRD.**

In present, OTP Consulting is involved in 3 projects with European funding in a partnership with the Chamber of Commerce of Romania, with a total value over EUR 10 milion.

• "FIA" Project "Become Entrepreneur at Home! Invest in your future!" - In partnership with the Chamber of Commerce of Romania and the League of Romanian Students Abroad (LSRS), with a total budget of EUR 1.7 million, aims to: inform more than 10,000 Romanians in the Diaspora about opportunities in the field of entrepreneurship, to develop an entrepreneurial training program for at least 220 Romanian trainees in the diaspora; to select for funding of max. EUR 40,000 and monitor a number of 22 best business plans. The aim of the project is to facilitate/support the return of Romanian people from the diaspora at home.

• The Sustainable Entrepreneurship Project in the Center Region, launched in partnership with the Chamber of Commerce of Romania, aims to support entrepreneurial initiatives to develop the economic environment and increase employment in the Center region of Romania. The project is aimed at Romanian citizens aged over 18, who live in rural or urban areas in Harghita, Mures, Covasna, Brasov, Sibiu and Alba, who want to set up a non-agricultural business in the urban area.
With a total budget of EUR 5 million, the 36 months project is divided as follows: entrepreneurial training programs for 740 young people (12 months) that will conclude with the selection of 89 business plans. In the second stage (18 months), the 89 entrepreneurs will receive business development support and grants of up to EUR 34,200 for each new business.

Realized objectives: 879 people were registered, they all received entrepreneurial training concluded with 91 business plans selected for funding.

• SMART START UP project. Innovative and Sustainable Entrepreneurship in the South Muntenia Region is launched in partnership with the Chamber of Commerce of Romania, aims to support entrepreneurial initiatives to develop the economic environment and increase employment in the South Muntenia region. The project is dedicated to young people aged over 18 from Arges, Dâmboviţa, Prahova, Teleorman, Călăraşi, Ialomiţa and Giurgiu who want to set up a non-agricultural business in the urban area.

The main objective: 590 people formed - ANC accredited entrepreneurship training; selecting, funding and monitoring a number of 72 businesses.

With a total budget of EUR 4 million, the 36 months' project is divided as follows: entrepreneurial training programs for 570 young people (12 months) that will conclude with the selection of 72 business plans. In the second stage (18 months), the 72 entrepreneurs will receive advice and support for business development and grants of up to EUR 34,000 for each new business.

During 2019, the project attained accomplished all proposed objectives regarding the registration and trainee of 590 people. 72 business plans were selected for funding.

OTP Consulting is the Lead Partner in the "FIA" Project "Become Entrepreneur at Home! Invest in your future!" and it is involved with its partners at all stages of the project implementation.

**In 2019 the company signed new consulting contracts for project elaboration and management under various financing programs:**

- Investments in agricultural holdings
- Agriculture and rural development
- Investments related to cultural heritage protection
- Urban development
- Development strategies and economic analysis

**For us it is very important to support innovative start-up and entrepreneurship.**

## OTP Advisors SRL

**OTP Advisors S.R.L. started its activity in July 2007, under the name of OTP Broker Pensii Private S.R.L. At that moment, OTP Broker Pensii Private S.R.L. was managing the contracts to the private pension fund that OTP Bank Romania S.A. used to own. Starting July 2008, the activity was extended to promoting and distributing banking products and services offered by OTP Bank Romania S.A. The name of the company was changed to OTP Broker de Intermedieri Financiare S.R.L.**

In 2012, the company went through a rebranding process and become OTP Advisors S.R.L., a team of financial advisors focused on providing first class tailor made financial services for Romania private individuals.

In 2019, OTP Advisors changed shareholders structure and now it has 2 Associates: OTP Bank Romania SA and Inga Ketto Kft.

OTP Advisors S.R.L. has continued its development strategy and diversifying of all kind of selling products of OTP Bank Romania S.A. (mortgage loans and personal loans with the mortgage, credit packages and IMM).

OTP Advisors S.R.L. developed a national network covering all the main cities of the country: București, Ploiești, Pitești, Cluj, Târgu Mureș, Brașov, Timișoara, Oradea, Sibiu, Iași, Bacău, Constanța, Arad, Craiova.

By December 31, 2019, OTP Advisors S.R.L. sales force generated sales volume of the total sales of OTP Bank Romania S.A., on average, as follows: 30% of personal unsecured loans, 20% of mortgages and personal loans with the mortgage and 59% of credit cards.

otp Asset Management

### OTP Asset Management Romania SAI SA

**OTP Asset Management Romania is operational since April 2008, being positioned on the local market as an innovative, dynamic, performance oriented and customer centered player.**

The company's mission is to create long-term value and to continuously implement new investment opportunities for its customers. The company is dedicated in providing a high level of performance and excellent services compared to the competition. Ranked the 6th player on the local market, the company has assets under management of RON 614 million, 12% higher than in 2018. In 2019, the numebr of investors grew by 11%, reaching 8,350 individual and institutional clients.Through the products offered, clients can diversify their investment portfolio in a broad range of asset classes, such as: equities, bonds, T-bills, deposits, capturing the opportunities from the financial markets.

Currently, OTP Asset Management Romania manages ten mutual investment funds, as follows:

- OTP AvantisRO (equity, RON);
- OTP Expert (equity, RON);
- OTP Obligațiuni (bond, RON);
- OTP Dollar Bond (bond, USD);
- OTP Euro Bond (bond, EUR);
- OTP Comodis RO (short bond fund RON);
- OTP Global Mix (balanced, flexible, RON);
- OTP Real Estate & Constructiuon (balanced, RON);
- OTP Premium Return (Absolute-Return, RON);
- OTP Euro Premium Return (Absolute-Return, EUR).

OTP Asset Management Romania continued in 2019 to excell and transform professionalism into performance and social responsibility. Due to its dynamic and innovative approach, customer centric actions, as well as its constant perseverance of its highly skilled professionals team, the company continued its development path.

In 2019, OTP Obligațiuni obtained a return of 6.52% for its investors, the highest return amomng all fixed income funds denominated in RON. In this respect, the company received, from the financial market, the **Prize for the best performing fund of the year 2019 (Gala of the Financial Market Awards, XXIV edition).**

An important pillar of the company's strategy is the active involvement in projects dedicated towards raising the level of financial literacy. Thus, we developed partnerships with multiple parties, such as: Bucharest Stock Exchange, OK Center - Right to Education Foundation, Financial Supervison Authority etc., to raise the awareness towards long term investments through mutual funds.

OTP Asset Management Romania was awarded a **special prize for financial education, granted by the Financial Supervison Authority** for the involvement in most financial education initiatives and partnerships (within the 3rd Gala of the EduFin Awards 2019).

The company grew constantly, as at the centre of its preoccupation stands the ideas generation on how to better serve the customers.

Looking further, the company intends to bring its clients investment opportunities reality-based and adapted to the rapid changes that the global economy is going through.

otp Factoring

### OTP Factoring SRL

**OTP Factoring was founded in 2009, as a member of OTP Bank Group, and has as its main activity the debt management of the receivables portfolios acquired from different Banking and Non-Banking Financial Institutions.**

Starting with 2012, the company became one of the best performing on the Romanian market in the field of Debt Management. The registered office of OTP Factoring Romania is located on Nicolae Caramfil Street no 71-73, Bucharest, District 1.

OTP Factoring's mission is to be helpful toward their clients and offer them support in solving their financial issues. This is why they treat each case individually, and thus are to provide the best solutions, even in the case of a forced foreclosure.

OTP Factoring is also a member of the Association for Management of Trade Receivables (AMCC), whose purpose is to promote a healthy business environment and to protect the management activities of the receivables' trade in specific ways.

With help from OTP Factoring, OTP Group's financial market is growing.

Using positive, reasonable and realistic collection techniques, through commitment solutions unique in Romania, the Romanian clients are helped to financially rehabilitate.

Also, professional legal solutions are offered, which ensures the settlement of debts by clients.

# IFRS reports of the main foreign subsidiaries of OTP Group

**According to the English version summary of the 2019 Business Report of the Board of Directors**

## MAIN FINANCIAL INDICATORS OF OTP BANK ROMANIA SA

| Main components of P&L account in HUF mn | 2018 | 2019 | Y-o-Y |
|---|---|---|---|
| After tax profit without the effect of adjustments | 3,850 | 6,309 | 64% |
| Income tax | -1,051 | -598 | -43% |
| Profit before income tax | 4,902 | 6,906 | 41% |
| Operating profit | 10,585 | 12,314 | 16% |
| Total income | 30,759 | 37,530 | 22% |
| Net interest income | 23,410 | 28,254 | 21% |
| Net fees and commissions | 3,563 | 3,180 | -11% |
| Other net non-interest income | 3,786 | 6,097 | 61% |
| Operating expenses | -20,174 | -25,216 | 25% |
| Total provisions | -5,683 | -5,408 | -5% |
| Provision for impairment on loan and placement losses | -4,794 | -3,018 | -37% |
| Other provision | -890 | -2,390 | 169% |
| **Main components of balance sheet closing balances in HUF mn** | **2018** | **2019** | **YTD** |
| Total assets | 771,968 | 953,345 | 23% |
| Gross customer loans | 577,565 | 708,299 | 23% |
| Gross customer loans (FX-adjusted) | 585,678 | 708,299 | 21% |
| Retail loans | 403,463 | 479,401 | 19% |
| Corporate loans | 182,214 | 216,843 | 19% |
| Allowances for possible loan losses | -35,444 | -39,327 | 11% |
| Allowances for possible loan losses (FX-adjusted) | -36,141 | -39,327 | 9% |
| Deposits from customers | 434,937 | 546,350 | 26% |
| Deposits from customers (FX-adjusted) | 439,305 | 546,350 | 24% |
| Retail deposits | 335,514 | 409,728 | 22% |
| Corporate deposits | 103,791 | 136,623 | 32% |
| Liabilities to credit institutions | 232,391 | 257,404 | 11% |
| Total shareholders' equity | 60,047 | 116,432 | 94% |
| **Loan Quality** | **2018** | **2019** | **Y-o-Y** |
| Stage 1 loan volume under IFRS 9 (in HUF million) | | 593,922 | |
| Stage 1 loans under IFRS 9/gross customer loans (%) | | 83.9% | |
| Own coverage of Stage 1 loans under IFRS 9 (%) | | 1.3% | |
| Stage 2 loan volume under IFRS 9 (in HUF million) | | 61,556 | |
| Stage 2 loans under IFRS 9/gross customer loans (%) | | 8.7% | |
| Own coverage of Stage 2 loans under IFRS 9 (%) | | 5.7% | |
| Stage 3 loan volume under IFRS 9 (in HUF million) | 51,771 | 52,821 | 2% |
| Stage 3 loans under IFRS 9/gross customer loans (%) | 9.0% | 7.5% | -1.5%p |
| Own coverage of Stage 3 loans under IFRS 9 (%) | | 53.7% | |
| Provision for impairment on loan and placement losses/average gross loans (%) | 0.85% | 0.47% | -0.39% |
| 90+ days past due loan volume (in HUF million) | 29,583 | 35,416 | 19.7% |
| 90+ days past due loans/gross customer loans (%) | 5.1% | 5.0% | -0.1%p |
| **Performance Indicators (%)** | **2018** | **2019** | **Y-o-Y** |
| ROA | 0.6% | 0.7% | 0.2%p |
| ROE | 7.5% | 6.6% | -0.9%p |
| Total income margin | 4.46% | 4.37% | -0.09%p |
| Net interest margin | 3.39% | 3.29% | -0.11%p |
| Cost/income ratio | 65.6% | 67.2% | 1.6%p |
| Net loans to deposits (FX-adjusted) | 125% | 122% | -3%p |
| **FX rates (in HUF)** | **2018** | **2019** | **Y-o-Y** |
| HUF/RON (closing) | 69.0 | 69.1 | 0% |
| HUF/RON (average) | 68.5 | 68.6 | 0% |





## MAIN FINANCIAL INDICATORS OF DSK GROUP (BULGARIA)

| Main components of P&L account in HUF mn | 2018 | 2019 | Y-o-Y |
|---|---|---|---|
| After tax profit without the effect of adjustments | 47,293 | 67,879 | 44% |
| Income tax | -4,308 | -7,199 | 67% |
| Profit before income tax | 51,601 | 75,078 | 45% |
| Operating profit | 57,096 | 83,495 | 46% |
| Total income | 107,817 | 155,567 | 44% |
| Net interest income | 69,979 | 109,030 | 56% |
| Net fees and commissions | 30,435 | 42,019 | 38% |
| Other net non-interest income | 7,403 | 4,517 | -39% |
| Operating expenses | -50,720 | -72,071 | 42% |
| Total provisions | -5,495 | -8,418 | 53% |
| Provision for impairment on loan and placement losses | -9,532 | -5,216 | -45% |
| Other provision | 4,038 | -3,201 | -179% |
| **Main components of balance sheet closing balances in HUF mn** | **2018** | **2019** | **YTD** |
| Total assets | 2,381,275 | 3,669,766 | 54% |
| Gross customer loans | 1,343,729 | 2,350,694 | 75% |
| Gross customer loans (FX-adjusted) | 1,381,368 | 2,350,694 | 70% |
| Retail loans | 958,860 | 1,446,035 | 51% |
| Corporate loans | 422,508 | 863,331 | 104% |
| Car financing loans | | 41,327 | |
| Allowances for possible loan losses | -111,369 | -135,640 | 22% |
| Allowances for possible loan losses (FX-adjusted) | -114,487 | -135,640 | 18% |
| Deposits from customers | 1,890,897 | 3,015,805 | 59% |
| Deposits from customers (FX-adjusted) | 1,946,301 | 3,015,805 | 55% |
| Retail deposits | 1,702,923 | 2,528,233 | 48% |
| Corporate deposits | 243,378 | 487,572 | 100% |
| Liabilities to credit institutions | 3,144 | 59,867 | |
| Total shareholders' equity | 453,891 | 528,759 | 16% |
| **Loan Quality** | **2018** | **2019** | **Y-o-Y** |
| Stage 1 loan volume under IFRS 9 (in HUF million) | | 2,081,790 | |
| Stage 1 loans under IFRS 9/ gross customer loans (%) | | 88.6% | |
| Own coverage of Stage 1 loans under IFRS 9 (%) | | 1.1% | |
| Stage 2 loan volume under IFRS 9 (in HUF million) | | 99,917 | |
| Stage 2 loans under IFRS 9/ gross customer loans (%) | | 4.3% | |
| Own coverage of Stage 2 loans under IFRS 9 (%) | | 8.5% | |
| Stage 3 loan volume under IFRS 9 (in HUF million) | 141,513 | 168,986 | 19% |
| Stage 3 loans under IFRS 9/ gross customer loans (%) | 10.5% | 7.2% | -3.3%p |
| Own coverage of Stage 3 loans under IFRS 9 (%) | | 62.0% | |
| Provision for impairment on loan and placement losses/average gross loans (%) | 0.74% | 0.24% | -0.51%p |
| 90+ days past due loan volume (in HUF million) | 89,986 | 108,600 | 21% |
| 90+ days past due loans/gross customer loans (%) | 6.7% | 4.6% | -2.1%p |
| **Performance Indicators (%)** | **2018** | **2019** | **Y-o-Y** |
| ROA | 2.3% | 1.9% | -0.4%p |
| ROE | 18.4% | 13.7% | -4.7%p |
| Total income margin | 5.20% | 4.28% | -0.92%p |
| Net interest margin | 3.37% | 3.00% | -0.37%p |
| Cost/income ratio | 47.0% | 46.3% | -0.7%p |
| Net loans to deposits (FX-adjusted) | 65% | 73% | 8%p |
| **FX rates (in HUF)** | **2018** | **2019** | **Y-o-Y** |
| HUF/BGN (closing) | 164.4 | 169.0 | 3% |
| HUF/BGN (average) | 163.0 | 166.3 | 2% |

# MAIN FINANCIAL INDICATORS OF OTP BANKA HRVATSKA (CROATIA)

| Main components of P&L account in HUF mn | 2018 | 2019 | Y-o-Y |
|---|---|---|---|
| After tax profit without the effect of adjustments | 24,961 | 30,719 | 23% |
| Income tax | -5,638 | -6,681 | 19% |
| Profit before income tax | 30,599 | 37,400 | 22% |
| Operating profit | 35,456 | 42,925 | 21% |
| Total income | 78,295 | 85,069 | 9% |
| Net interest income | 54,059 | 56,812 | 5% |
| Net fees and commissions | 16,042 | 17,032 | 6% |
| Other net non-interest income | 8,194 | 11,225 | 37% |
| Operating expenses | -42,840 | -42,144 | -2% |
| Total provisions | -4,857 | -5,525 | 14% |
| Provision for impairment on loan and placement losses | -3,046 | -2,835 | -7% |
| Other provision | -1,811 | -2,691 | 49% |
| **Main components of balance sheet closing balances in HUF mn** | **2018** | **2019** | **YTD** |
| Total assets | 1,837,158 | 2,098,951 | 14% |
| Gross customer loans | 1,178,848 | 1,370,057 | 16% |
| Gross customer loans (FX-adjusted) | 1,210,053 | 1,370,057 | 13% |
| Retail loans | 680,186 | 741,016 | 9% |
| Corporate loans | 511,651 | 562,612 | 10% |
| Car financing loans | 18,217 | 66,428 | 265% |
| Allowances for possible loan losses | -71,186 | -68,701 | -3% |
| Allowances for possible loan losses (FX-adjusted) | -73,019 | -68,701 | -6% |
| Deposits from customers | 1,424,746 | 1,478,223 | 4% |
| Deposits from customers (FX-adjusted) | 1,465,168 | 1,478,223 | 1% |
| Retail deposits | 1,080,602 | 1,111,988 | 3% |
| Corporate deposits | 384,566 | 366,235 | -5% |
| Liabilities to credit institutions | 85,702 | 253,176 | 195% |
| Total shareholders' equity | 269,126 | 292,649 | 9% |
| **Loan Quality** | **2018** | **2019** | **Y-o-Y** |
| Stage 1 loan volume under IFRS 9 (in HUF million) | | 1,140,495 | |
| Stage 1 loans under IFRS 9/ gross customer loans (%) | | 83.2% | |
| Own coverage of Stage 1 loans under IFRS 9 (%) | | 0.8% | |
| Stage 2 loan volume under IFRS 9 (in HUF million) | | 143,843 | |
| Stage 2 loans under IFRS 9/ gross customer loans (%) | | 10.5% | |
| Own coverage of Stage 2 loans under IFRS 9 (%) | | 3.5% | |
| Stage 3 loan volume under IFRS 9 (in HUF million) | 89,059 | 85,719 | -4% |
| Stage 3 loans under IFRS 9/ gross customer loans (%) | 7.6% | 6.3% | -1.3%p |
| Own coverage of Stage 3 loans under IFRS 9 (%) | | 63.6% | |
| Provision for impairment on loan and placement losses/average gross loans (%) | 0.26% | 0.22% | -0.04%p |
| 90+ days past due loan volume (in HUF million) | 65,011 | 51,012 | -22% |
| 90+ days past due loans/ gross customer loans (%) | 5.5% | 3.7% | -1.8%p |
| **Performance Indicators (%)** | **2018** | **2019** | **Y-o-Y** |
| ROA | 1.4% | 1.6% | 0.2%p |
| ROE | 9.6% | 10.9% | 1.3%p |
| Total income margin | 4.27% | 4.35% | 0.08%p |
| Net interest margin | 2.95% | 2.91% | -0.04%p |
| Cost/income ratio | 54.7% | 49.5% | -5.2%p |
| Net loans to deposits (FX-adjusted) | 78% | 88% | 10%p |
| **FX rates (in HUF)** | **2018** | **2019** | **Y-o-Y** |
| HUF/HRK (closing) | 43.4 | 44.4 | 2% |
| HUF/HRK (average) | 43.0 | 43.9 | 2% |



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# MAIN FINANCIAL INDICATORS OF OTP BANK SERBIA

| Main components of P&L account in HUF mn | 2018 | 2019 | Y-o-Y |
|---|---|---|---|
| After tax profit without the effect of adjustments | 2,999 | 10,430 | 248% |
| Income tax | -138 | 459 | -433% |
| Profit before income tax | 3,137 | 9,970 | 218% |
| Operating profit | 6,227 | 13,143 | 111% |
| Total income | 30,306 | 43,276 | 43% |
| Net interest income | 20,514 | 30,809 | 50% |
| Net fees and commissions | 7,286 | 9,506 | 30% |
| Other net non-interest income | 2,507 | 2,962 | 18% |
| Operating expenses | -24,079 | -30,133 | 25% |
| Total provisions | -3,090 | -3,173 | 3% |
| Provision for impairment on loan and placement losses | -3,146 | -1,634 | -48% |
| Other provision | 56 | -1,539 | |
| **Main components of balance sheet closing balances in HUF mn** | **2018** | **2019** | **Y-o-Y** |
| Total assets | 590,166 | 1,659,490 | 181% |
| Gross customer loans | 395,217 | 1,199,580 | 204% |
| Gross customer loans (FX-adjusted) | 407,642 | 1,199,580 | 194% |
| Retail loans | 191,970 | 573,101 | 199% |
| Corporate loans | 215,671 | 581,658 | 170% |
| Allowances for possible loan losses | -14,774 | -18,897 | 28% |
| Allowances for possible loan losses (FX-adjusted) | -15,278 | -18,904 | 24% |
| Deposits from customers | 372,961 | 910,623 | 144% |
| Deposits from customer (FX-adjusted) | 384,772 | 910,623 | 137% |
| Retail deposits | 268,791 | 548,472 | 104% |
| Corporate deposits | 115,981 | 362,150 | 212% |
| Liabilities to credit institutions | 117,169 | 436,449 | 272% |
| Subordinated debt | 0 | 24,460 | |
| Total shareholders' equity | 84,848 | 249,468 | 194% |
| **Loan Quality** | **2018** | **2019** | **Y-o-Y** |
| Stage 1 loan volume under IFRS 9 (in HUF million) | 0 | 1,151,763 | 0.00% |
| Stage 1 loans under IFRS 9/ gross customer loans (%) | 0.00% | 96.0% | 0.00%p |
| Own coverage of Stage 1 loans under IFRS 9 (%) | | 0.4% | |
| Stage 2 loan volume under IFRS 9 (in HUF million) | | 21,447 | |
| Stage 2 loans under IFRS 9/ gross customer loans (%) | | 1.8% | |
| Own coverage of Stage 2 loans under IFRS 9 (%) | | 5.8% | |
| Stage 3 loan volume under IFRS 9 (in HUF million) | 18,819 | 26,370 | 40% |
| Stage 3 loans under IFRS 9/ gross customer loans (%) | 4.8% | 2.2% | -2.6%p |
| Own coverage of Stage 3 loans under IFRS 9 (%) | 61.7% | 50.0% | 0.00%p |
| Provision for impairment on loan and placement losses/average gross loans (%) | 0.90% | 0.25% | -0.65%p |
| 90+ days past due loan volume (in HUF million) | 15,322 | 20,702 | 35% |
| 90+ days past due loans/gross customer loans (%) | 3.9% | 1.7% | -2.2%p |
| **Performance Indicators (%)** | **2018** | **2019** | **Y-o-Y** |
| ROA | 0.6% | 1.1% | 0.6%p |
| ROE | 3.7% | 7.6% | 3.9%p |
| Total income margin | 5.84% | 4.70% | -1.14%p |
| Net interest margin | 3.95% | 3.35% | -0.61%p |
| Cost/income ratio | 79.5% | 69.6% | -9.8%p |
| Net loans to deposits (FX-adjusted) | 102% | 130% | 28%p |
| **FX rates (in HUF)** | **2018** | **2019** | **Y-o-Y** |
| HUF/RSD (closing) | 2.7 | 2.8 | 3% |
| HUF/RSD (average) | 2.6 | 2.7 | 2% |

# MAIN FINANCIAL INDICATORS OF SKB BANKA (SLOVENIA)

| Main components of P&L account in HUF mn | 4Q 2019 |
|---|---|
| After tax profit w/o dividends and net cash transfer | - |
| Income tax | - |
| Profit before income tax | - |
| Operating profit | - |
| Total income | - |
| Net interest income | - |
| Net fees and commissions | - |
| Other net non-interest income | - |
| Operating expenses | - |
| Total provisions | - |
| Provision for impairment on loan and placement losses | - |
| Other provision | - |
| **Main components of balance sheet closing balances in HUF mn** | **4Q 2019** |
| Total assets | 1,130,871 |
| Gross customer loans | 831,139 |
| Gross customer loans (FX-adjusted) | 831,139 |
| Retail loans | 489,134 |
| Corporate loans | 225,942 |
| Car financing loans | 116,062 |
| Allowances for possible loan losses | -4,051 |
| Allowances for possible loan losses (FX-adjusted) | -4,051 |
| Deposits from customers | 880,839 |
| Deposits from customers (FX-adjusted) | 880,839 |
| Retail deposits | 773,337 |
| Corporate deposits | 107,225 |
| Liabilities to credit institutions | 94,909 |
| Total shareholders' equity | 132,667 |
| **Loan Quality** | **4Q 2019** |
| Stage 1 loan volume under IFRS 9 (in HUF million) | 822,118 |
| Stage 1 loans under IFRS 9/ gross customer loans (%) | 98.9% |
| Own coverage of Stage 1 loans under IFRS 9 (%) | 0.4% |
| Stage 2 loan volume under IFRS 9 (in HUF million) | 0 |
| Stage 2 loans under IFRS 9/ gross customer loans (%) | 0.0% |
| Own coverage of Stage 2 loans under IFRS 9 (%) | 0.0% |
| Stage 3 loan volume under IFRS 9 (in HUF million) | 9,020 |
| Stage 3 loans under IFRS 9/ gross customer loans (%) | 1.1% |
| Own coverage of Stage 3 loans under IFRS 9 (%) | 8.7% |
| Provision for impairment on loan and placement losses/ average gross loans (%) | - |
| 90+ days past due loan volume (in HUF million) | 2,967 |
| 90+ days past due loans/gross customer loans (%) | 0.36% |
| **Performance Indicators (%)** | **4Q 2019** |
| ROA | - |
| ROE | - |
| Total income margin | - |
| Net interest margin | - |
| Cost/income ratio | - |
| Net loans to deposits (FX-adjusted) | 94% |
| **FX rates (in HUF)** | **4Q 2019** |
| HUF/EUR (closing) | 330.5 |
| HUF/EUR (average) | 331.9 |





# MAIN FINANCIAL INDICATORS OF OTP BANK UKRAINE

| Main components of P&L account in HUF mn | 2018 | 2019 | Y-o-Y |
|---|---|---|---|
| After tax profit without the effect of adjustments | 24,415 | 35,223 | 44% |
| Income tax | -4,760 | -6,937 | 46% |
| Profit before income tax | 29,175 | 42,160 | 45% |
| Operating profit | 30,095 | 44,353 | 47% |
| Total income | 47,145 | 67,451 | 43% |
| Net interest income | 33,040 | 48,128 | 46% |
| Net fees and commissions | 11,444 | 14,877 | 30% |
| Other net non-interest income | 2,661 | 4,446 | 67% |
| Operating expenses | -17,050 | -23,098 | 35% |
| Total provisions | -920 | -2,194 | 138% |
| Provision for impairment on loan and placement losses | -1,680 | -1,433 | -15% |
| Other provision | 760 | -761 | |
| **Main components of balance sheet closing balances in HUF mn** | **2018** | **2019** | **YTD** |
| Total assets | 391,240 | 646,295 | 65% |
| Gross customer loans | 354,258 | 468,715 | 32% |
| Gross customer loans (FX-adjusted) | 407,119 | 468,715 | 15% |
| Retail loans | 149,345 | 155,012 | 4% |
| Corporate loans | 226,925 | 268,800 | 18% |
| Car financing loans | 30,849 | 44,903 | 46% |
| Allowances for possible loan losses | -72,753 | -69,785 | -4% |
| Allowances for possible loan losses (FX-adjusted) | -82,627 | -69,785 | -16% |
| Deposits from customers | 269,832 | 431,944 | 60% |
| Deposits from customers (FX-adjusted) | 312,645 | 431,944 | 38% |
| Retail deposits | 140,346 | 189,125 | 35% |
| Corporate deposits | 172,299 | 242,819 | 41% |
| Liabilities to credit institutions | 48,197 | 79,331 | 65% |
| Subordinated debt | 4,903 | 5,397 | 10% |
| Total shareholders' equity | 57,821 | 109,128 | 89% |
| **Loan Quality** | **2018** | **2019** | **Y-o-Y** |
| Stage 1 loan volume under IFRS 9 (in HUF million) | | 345,955 | |
| Stage 1 loans under IFRS 9/ gross customer loans (%) | | 73.8% | |
| Own coverage of Stage 1 loans under IFRS 9 (%) | | 0.9% | |
| Stage 2 loan volume under IFRS 9 (in HUF million) | | 41,847 | |
| Stage 2 loans under IFRS 9/ gross customer loans (%) | | 8.9% | |
| Own coverage of Stage 2 loans under IFRS 9 (%) | | 8.3% | |
| Stage 3 loan volume under IFRS 9 (in HUF million) | 88,604 | 80,913 | -9% |
| Stage 3 loans under IFRS 9/ gross customer loans (%) | 25.0% | 17.3% | -7.7%p |
| Own coverage of Stage 3 loans under IFRS 9 (%) | | 77.9% | |
| Provision for impairment on loan and placement losses/average gross loans (%) | 0.51% | 0.34% | -0.16%p |
| 90+ days past due loan volume (in HUF million) | 53,534 | 51,913 | -3% |
| 90+ days past due loans/gross customer loans (%) | 15.1% | 11.1% | -4.0%p |
| **Performance Indicators (%)** | **2018** | **2019** | **Y-o-Y** |
| ROA | 6.8% | 7.0% | 0.2%p |
| ROE | 55.6% | 42.5% | -13.1%p |
| Total income margin | 13.15% | 13.38% | 0.23%p |
| Net interest margin | 9.21% | 9.55% | 0.33%p |
| Cost/income ratio | 36.2% | 34.2% | -1.9%p |
| Net loans to deposits (FX-adjusted) | 104% | 92% | -11%p |
| **FX rates (in HUF)** | **2018** | **2019** | **Y-o-Y** |
| HUF/UAH (closing) | 10.1 | 12.4 | 23% |
| HUF/UAH (average) | 9.9 | 11.3 | 14% |

# MAIN FINANCIAL INDICATORS OF OTP BANK RUSSIA

| Main components of P&L account in HUF mn | 2018 | 2019 | Y-o-Y |
|---|---|---|---|
| After tax profit w/o dividends and net cash transfer | 16,420 | 28,127 | 71% |
| Income tax | -4,614 | -8,272 | 79% |
| Profit before income tax | 21,034 | 36,399 | 73% |
| Operating profit | 68,878 | 84,946 | 23% |
| Total income | 129,899 | 146,582 | 13% |
| Net interest income | 102,489 | 113,572 | 11% |
| Net fees and commissions | 26,766 | 31,012 | 16% |
| Other net non-interest income | 644 | 1,998 | 210% |
| Operating expenses | -61,021 | -61,636 | 1% |
| Total provisions | -47,844 | -48,547 | 1% |
| Provision for impairment on loan and placement losses | -42,204 | -46,123 | 9% |
| Other provision | -5,640 | -2,424 | -57% |
| **"Main components of balance sheet closing balances in HUF mn** | **2018** | **2019** | **YTD** |
| Total assets | 707,593 | 908,388 | 28% |
| Gross customer loans | 610,355 | 786,241 | 29% |
| Gross customer loans (FX-adjusted) | 710,935 | 786,241 | 11% |
| Retail loans | 636,354 | 685,398 | 8% |
| Corporate loans | 74,471 | 91,497 | 23% |
| Car financing loans | 111 | 9,345 | |
| Allowances for possible loan losses | -126,655 | -152,741 | 21% |
| Allowances for possible loan losses (FX-adjusted) | -147,436 | -152,741 | 4% |
| Deposits from customers | 379,911 | 471,735 | 24% |
| Deposits from customers (FX-adjusted) | 440,409 | 471,735 | 7% |
| Retail deposits | 350,344 | 354,076 | 1% |
| Corporate deposits | 90,064 | 117,659 | 31% |
| Liabilities to credit institutions | 120,156 | 155,306 | 29% |
| Subordinated debt | 22,522 | 25,031 | 11% |
| Total shareholders' equity | 147,999 | 202,761 | 37% |
| **Loan Quality** | **2018** | **2019** | **Y-o-Y** |
| Stage 1 loan volume under IFRS 9 (in HUF million) | | 589,553 | |
| Stage 1 loans under IFRS 9/ gross customer loans (%) | | 75.0% | |
| Own coverage of Stage 1 loans under IFRS 9 (%) | | 5.3% | |
| Stage 2 loan volume under IFRS 9 (in HUF million) | | 94,413 | |
| Stage 2 loans under IFRS 9/ gross customer loans (%) | | 12.0% | |
| Own coverage of Stage 2 loans under IFRS 9 (%) | | 27.4% | |
| Stage 3 loan volume under IFRS 9 (in HUF million) | 84,469 | 102,274 | 21% |
| Stage 3 loans under IFRS 9/ gross customer loans (%) | 13.8% | 13.0% | -0.8%p |
| Own coverage of Stage 3 loans under IFRS 9 (%) | | 93.4% | |
| Provision for impairment on loan and placement losses/average gross loans (%) | 7.39% | 6.61% | -0.78%p |
| 90+ days past due loan volume (in HUF million) | 81,995 | 96,484 | 18% |
| 90+ days past due loans/gross customer loans (%) | 13.4% | 12.3% | -1.2%p |
| **Performance Indicators (%)** | **2018** | **2019** | **Y-o-Y** |
| ROA | 2.4% | 3.4% | 0.9%p |
| ROE | 10.9% | 15.7% | 4.8%p |
| Total income margin | 19.28% | 17.53% | -1.75%p |
| Net interest margin | 15.21% | 13.58% | -1.63%p |
| Net loans to deposits (FX-adjusted) | 128% | 134% | 6%p |
| **FX rates (in HUF)** | **2018** | **2019** | **Y-o-Y** |
| HUF/RUB (closing) | 4.1 | 4.7 | 17% |
| HUF/RUB (average) | 4.3 | 4.5 | 4% |



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The activity of other foreign subsidiaries of OTP Group

# MAIN FINANCIAL INDICATORS OF CKB GROUP (MONTENEGRO)

| Main components of P&L account in HUF mn | 2018 | 2019 | Y-o-Y |
|---|---|---|---|
| After tax profit w/o dividends and net cash transfer | 2,214 | 6,377 | 188% |
| Income tax | -326 | -679 | 108% |
| Profit before income tax | 2,540 | 7,056 | 178% |
| Operating profit | 2,605 | 5,692 | 119% |
| Total income | 10,729 | 16,120 | 50% |
| Net interest income | 7,529 | 11,464 | 52% |
| Net fees and commissions | 3,227 | 4,215 | 31% |
| Other net non-interest income | -27 | 441 | |
| Operating expenses | -8,125 | -10,428 | 28% |
| Total provisions | -65 | 1,364 | |
| Provision for impairment on loan and placement losses | -46 | 1,293 | |
| Other provision | -19 | 71 | |
| **Main components of balance sheet closing balances in HUF mn** | **2018** | **2019** | **YTD** |
| Total assets | 224,892 | 439,836 | 96% |
| Gross customer loans | 157,043 | 319,836 | 104% |
| Gross customer loans (FX-adjusted) | 161,444 | 319,836 | 98% |
| Retail loans | 75,073 | 161,601 | 115% |
| Corporate loans | 86,337 | 158,147 | 83% |
| Car financing loans | 34 | 88 | 156% |
| Allowances for possible loan losses | -28,265 | -19,518 | -31% |
| Allowances for possible loan losses (FX-adjusted) | -29,057 | -19,518 | -33% |
| Deposits from customers | 175,740 | 318,216 | 81% |
| Deposits from customers (FX-adjusted) | 180,877 | 318,216 | 76% |
| Retail deposits | 135,092 | 207,441 | 54% |
| Corporate deposits | 45,785 | 110,775 | 142% |
| Liabilities to credit institutions | 2,364 | 36,733 | |
| Total shareholders' equity | 38,637 | 66,188 | 71% |
| **Loan Quality** | **2018** | **2019** | **Y-o-Y** |
| Stage 1 loan volume under IFRS 9 (in HUF million) | | 283,959 | |
| Stage 1 loans under IFRS 9/ gross customer loans (%) | | 88.8% | |
| Own coverage of Stage 1 loans under IFRS 9 (%) | | 1.1% | |
| Stage 2 loan volume under IFRS 9 (in HUF million) | | 12,509 | |
| Stage 2 loans under IFRS 9/ gross customer loans (%) | | 3.9% | |
| Own coverage of Stage 2 loans under IFRS 9 (%) | | 4.8% | |
| Stage 3 loan volume under IFRS 9 (in HUF million) | 33,096 | 23,369 | -29% |
| Stage 3 loans under IFRS 9/ gross customer loans (%) | 21.1% | 7.3% | -13.8%p |
| Own coverage of Stage 3 loans under IFRS 9 (%) | | 68.2% | |
| Provision for impairment on loan and placement losses/average gross loans (%) | 0.03% | -0.56% | -0.59% |
| 90+ days past due loan volume (in HUF million) | 27,993 | 17,058 | -39% |
| 90+ days past due loans/gross customer loans (%) | 17.82% | 5.33% | -12.5%p |
| **Performance Indicators (%)** | **2018** | **2019** | **Y-o-Y** |
| ROA | 1.1% | 1.9% | 0.9%p |
| ROE | 7.3% | 11.9% | 4.6%p |
| Total income margin | 5.09% | 4.86% | -0.23%p |
| Net interest margin | 3.57% | 3.45% | -0.12%p |
| Cost/income ratio | 75.7% | 64.7% | -11.0%p |
| Net loans to deposits (FX-adjusted) | 73% | 94% | 21%p |
| **FX rates (in HUF)** | **2018** | **2019** | **Y-o-Y** |
| HUF/EUR (closing) | 321.5 | 330.5 | 3% |
| HUF/EUR (average) | 318.9 | 325.3 | 2% |

# MAIN FINANCIAL INDICATORS OF OTP BANK ALBANIA

| Main components of P&L account in HUF mn | 2019 |
|---|---|
| After tax profit without the effect of adjustments | 2,616 |
| Income tax | -459 |
| Profit before income tax | 3,075 |
| Operating profit | 3,702 |
| Total income | 7,953 |
| Net interest income | 6,697 |
| Net fees and commissions | 1,007 |
| Other net non-interest income | 248 |
| Operating expenses | -4,250 |
| Total provisions | -627 |
| Provision for impairment on loan and placement losses | -249 |
| Other provision | -379 |
| **Main components of balance sheet closing balances in HUF mn** | **2019** |
| Total assets | 247,997 |
| Gross customer loans | 147,777 |
| Gross customer loans (FX-adjusted) | 147,777 |
| Retail loans | 66,593 |
| Corporate loans | 79,096 |
| Car financing loans | 2,088 |
| Allowances for possible loan losses | -3,657 |
| Allowances for possible loan losses (FX-adjusted) | -3,657 |
| Deposits from customers | 179,755 |
| Deposits from customer (FX-adjusted) | 179,755 |
| Retail deposits | 152,883 |
| Corporate deposits | 26,872 |
| Liabilities to credit institutions | 36,901 |
| Total shareholders' equity | 25,605 |
| **Loan Quality** | **2019** |
| Stage 1 loan volume under IFRS 9 (in HUF million) | 138,579 |
| Stage 1 loans under IFRS 9/ gross customer loans (%) | 93.8% |
| Own coverage of Stage 1 loans under IFRS 9 (%) | 1.2% |
| Stage 2 loan volume under IFRS 9 (in HUF million) | 4,593 |
| Stage 2 loans under IFRS 9/ gross customer loans (%) | 3.1% |
| Own coverage of Stage 2 loans under IFRS 9 (%) | 10.1% |
| Stage 3 loan volume under IFRS 9 (in HUF million) | 4,604 |
| Stage 3 loans under IFRS 9/ gross customer loans (%) | 3.1% |
| Own coverage of Stage 3 loans under IFRS 9 (%) | 33.1% |
| Provision for impairment on loan and placement losses/average gross loans (%) | 0.23% |
| 90+ days past due loan volume (in HUF million) | 2,270 |
| 90+ days past due loans/gross customer loans (%) | 1.5% |
| **Performance Indicators (%)** | **2019** |
| ROA | 1.4% |
| ROE | 14.1% |
| Total income margin | 4.27% |
| Net interest margin | 3.59% |
| Cost/income ratio | 53.4% |
| Net loans to deposits (FX-adjusted) | 80% |
| **FX rates (in HUF)** | **2019** |
| HUF/ALL (closing) | 2.7 |
| HUF/ALL (average) | 2.6 |





# MAIN FINANCIAL INDICATORS OF MOBIASBANCA (MOLDOVA)

| Main components of P&L account in HUF mn | 2019 |
|---|---|
| After tax profit without the effect of adjustments | 1,936 |
| Income tax | -174 |
| Profit before income tax | 2,110 |
| Operating profit | 2,929 |
| Total income | 5,902 |
| Net interest income | 3,959 |
| Net fees and commissions | 891 |
| Other net non-interest income | 1,052 |
| Operating expenses | -2,974 |
| Total provisions | -819 |
| Provision for impairment on loan and placement losses | -737 |
| Other provision | -82 |
| **Main components of balance sheet closing balances in HUF mn** | **2019** |
| Total assets | 211,043 |
| Gross customer loans | 104,763 |
| Gross customer loans (FX-adjusted) | 104,763 |
| Retail loans | 57,000 |
| Corporate loans | 46,339 |
| Car financing loans | 1,424 |
| Allowances for possible loan losses | -1,790 |
| Allowances for possible loan losses (FX-adjusted) | -1,790 |
| Deposits from customers | 161,071 |
| Deposits from customer (FX-adjusted) | 161,071 |
| Retail deposits | 110,838 |
| Corporate deposits | 50,233 |
| Liabilities to credit institutions | 12,342 |
| Total shareholders' equity | 34,518 |
| **Loan Quality** | **2019** |
| Stage 1 loan volume under IFRS 9 (in HUF million) | 102,460 |
| Stage 1 loans under IFRS 9/ gross customer loans (%) | 97.8% |
| Own coverage of Stage 1 loans under IFRS 9 (%) | 1.0% |
| Stage 2 loan volume under IFRS 9 (in HUF million) | 880 |
| Stage 2 loans under IFRS 9/ gross customer loans (%) | 0.8% |
| Own coverage of Stage 2 loans under IFRS 9 (%) | 23.6% |
| Stage 3 loan volume under IFRS 9 (in HUF million) | 1,424 |
| Stage 3 loans under IFRS 9/ gross customer loans (%) | 1.4% |
| Own coverage of Stage 3 loans under IFRS 9 (%) | 39.7% |
| Provision for impairment on loan and placement losses/average gross loans (%) | 1.58% |
| 90+ days past due loan volume (in HUF million) | 383 |
| 90+ days past due loans/gross customer loans (%) | 0.4% |
| **Performance Indicators (%)** | **2019** |
| ROA | 2.1% |
| ROE | 12.6% |
| Total income margin | 6.31% |
| Net interest margin | 4.23% |
| Cost/income ratio | 50.4% |
| Net loans to deposits (FX-adjusted) | 64% |
| **FX rates (in HUF)** | **2019** |
| HUF/MDL (closing) | 17.1 |
| HUF/MDL (average) | 16.6 |

# MAIN FINANCIAL INDICATORS OF OTP BANKA SLOVENSKO (SLOVAKIA)

| Main components of P&L account in HUF mn | 2018 | 2019 | Y-o-Y |
|---|---|---|---|
| After tax profit without the effect of adjustments | 44 | 1,575 | |
| Income tax | -56 | -240 | 328% |
| Profit before income tax | 100 | 1,815 | |
| Operating profit | 2,598 | 1,625 | -37% |
| Total income | 15,014 | 14,714 | -2% |
| Net interest income | 11,148 | 10,505 | -6% |
| Net fees and commissions | 3,536 | 3,884 | 10% |
| Other net non-interest income | 330 | 325 | -1% |
| Operating expenses | -12,416 | -13,089 | 5% |
| Total provisions | -2,498 | 190 | -108% |
| Provision for impairment on loan and placement losses | -2,579 | 604 | -123% |
| Other provision | 81 | -414 | -609% |
| **Main components of balance sheet closing balances in HUF mn** | **2018** | **2019** | **YTD** |
| Total assets | 454,498 | 473,660 | 4% |
| Gross customer loans | 393,111 | 392,793 | 0% |
| Gross customer loans (FX-adjusted) | 404,127 | 392,793 | -3% |
| Retail loans | 350,325 | 336,342 | -4% |
| Corporate loans | 53,786 | 56,444 | 5% |
| Allowances for possible loan losses | -31,582 | -24,338 | -23% |
| Allowances for possible loan losses (FX-adjusted) | -32,467 | -24,338 | -25% |
| Deposits from customers | 360,069 | 351,722 | -2% |
| Deposits from customers (FX-adjusted) | 370,195 | 351,722 | -5% |
| Retail deposits | 341,065 | 320,907 | -6% |
| Corporate deposits | 29,130 | 30,815 | 6% |
| Liabilities to credit institutions | 22,725 | 50,669 | 123% |
| Subordinated debt | 8,691 | 8,933 | 3% |
| Total shareholders' equity | 29,382 | 38,078 | 30% |
| **Loan Quality** | **2018** | **2019** | **Y-o-Y** |
| Stage 1 loan volume under IFRS 9 (in HUF million) | | 336,650 | |
| Stage 1 loans under IFRS 9/ gross customer loans (%) | | 85.7% | |
| Own coverage of Stage 1 loans under IFRS 9 (%) | | 0.7% | |
| Stage 2 loan volume under IFRS 9 (in HUF million) | | 29,307 | |
| Stage 2 loans under IFRS 9/ gross customer loans (%) | | 7.5% | |
| Own coverage of Stage 2 loans under IFRS 9 (%) | | 11.7% | |
| Stage 3 loan volume under IFRS 9 (in HUF million) | 35,916 | 26,836 | -25% |
| Stage 3 loans under IFRS 9/ gross customer loans (%) | 9.1% | 6.8% | -2.3%p |
| Own coverage of Stage 3 loans under IFRS 9 (%) | | 68.8% | |
| Provision for impairment on loan and placement losses/average gross loans (%) | 0.65% | -0.15% | -0.81%p |
| 90+ days past due loan volume (in HUF million) | 29,160 | 21,890 | -25% |
| 90+ days past due loans/gross customer loans (%) | 7.4% | 5.6% | -1.8%p |
| **Performance Indicators (%)** | **2018** | **2019** | **Y-o-Y** |
| ROA | 0.0% | 0.3% | 0.3%p |
| ROE | 0.2% | 5.2% | 5.1%p |
| Total income margin | 3.32% | 3.20% | -0.12%p |
| Net interest margin | 2.47% | 2.29% | -0.18%p |
| Cost/income ratio | 82.7% | 89.0% | 6.3%p |
| Net loans to deposits (FX-adjusted) | 100% | 105% | 4%p |
| **FX rates (in HUF)** | **2018** | **2019** | **Y-o-Y** |
| HUF/EUR (closing) | 321.5 | 330.5 | 3% |
| HUF/EUR (average) | 318.9 | 325.3 | 2% |



OTP Bank Romania S.A. Annual Report

# Financial Statement

2019

| | Note | Year ended December 31, 2019 | Year ended December 31, 2018 |
|---|---|---|---|
| Interest Income | | 548,740 | 450,042 |
| Interest Expense | | (145,495) | (105,028) |
| **Net interest income** | **6** | **403,245** | **345,014** |
| Fee and commission income | | 82,437 | 78,161 |
| Fee and commission expense | | (40,408) | (29,352) |
| **Net fee and commission income** | **7** | **42,029** | **48,809** |
| **Impairment losses** | **8** | **(104,428)** | **(120,862)** |
| **Net interest, fee and commission income after impairment losses** | | **340,846** | **272,961** |
| Trading income, net | 9 | 89,200 | 63,710 |
| Gains or (losses) on financial instruments at fair value through profit or loss | | (195) | (2,326) |
| Gains or (losses) on financial instruments at fair value through other comprehensive income | | 56 | (191) |
| Other operating income | 12 | 14,938 | 15,678 |
| **Total income from financial operations** | | **103,999** | **76,871** |
| **Total operating revenues** | | **444,845** | **349,832** |
| Salaries and related expenses | 10 | (183,720) | (151,553) |
| Other administrative expenses | 11 | (132,380) | (116,103) |
| Depreciation of tangible and Intangible assets | 19 | (45,521) | (18,373) |
| Other operating expenses | 12 | (12,684) | (20,217) |
| **Total non-interest expense** | | **(374,305)** | **(306,246)** |
| **Profit before income taxes** | | **70,540** | **43,586** |
| Income tax expense | 29 | - | (17,369) |
| **Net Profit for the period for owners of the parent** | | **70,540** | **26,217** |
| **Items that will not be reclassified to profit or loss** | | | |
| Revaluation of property, plant and equipment (net of deferred tax) | | (997) | 13,911 |
| Net change in fair value of financial assets through other comprehensive income (net of deferred tax) - equity | | 5,987 | 1,938 |
| **Total items that will not be reclassified to profit or loss** | | **4,990** | **15,849** |
| **Items that may be reclassified to profit or loss** | | | |
| Net change in fair value of financial assets through other comprehensive income (net of deferred tax) -debt instruments | | 5,981 | (6,079) |
| **Total items that may be reclassified to profit or loss** | | **5,981** | **(6.079)** |
| **Other comprehensive income, net of tax** | | **10,971** | **9,770** |
| **Total comprehensive income for the reporting period for owners of the parent** | | **81,511** | **35,987** |
| **Basic and diluted earnings per ordinary share** | **31** | **9.25** | **4.17** |

These separate financial statements have been authorized for issue by the management in 18th of March, 2020.

Mara Cristea,
Member of the Management
Board and Deputy CEO

Ana-Maria Enache
Director, Finance &
Accounting Directorate





| | Note | December 31, 2019 | December 31, 2018 |
|---|---|---|---|
| **ASSETS** | | | |
| Cash | 13 | 635,212 | 469,476 |
| Current accounts and deposits at banks | 14 | 417,025 | 598,086 |
| Accounts with the National Bank of Romania | 15 | 1,002,064 | 966,354 |
| Securities at amortized cost | 16 | 544,455 | 288,678 |
| Loans and advances to customers | 18 | 9,138,500 | 7,703,992 |
| Loans and advances to banks | 17 | 296,436 | 2,069 |
| Investment securities at fair value through profit and loss | 20 | 12,538 | 11,426 |
| Investment securities at fair value through other comprehensive income | 20 | 760,537 | 698,201 |
| Investment in Associates and Subsidiaries | 21 | 46,553 | 11,923 |
| Property and equipment | 19 | 172,977 | 152,316 |
| Intangible assets | 19 | 48,393 | 38,471 |
| Right-of-use assets | 19 | 42,951 | - |
| Investment property | | 1,500 | 461 |
| Derivatives | 26 | 14,469 | 6,991 |
| Derivatives hedge accounting | 27 | 175 | 3,142 |
| Deffered tax asset | 29 | 23,413 | 25,510 |
| Other assets | 22,4.3.3 | 84,852 | 75,731 |
| **Total assets** | | **13,242,050** | **11,052,827** |
| **LIABILITIES** | | | |
| Due to Banks | | 515,154 | 438,950 |
| Demand deposits from banks | 23 | 248,294 | 38,301 |
| Term deposits from banks | 23 | 266,860 | 400,649 |
| Due to customers | | 7,974,869 | 7,032,663 |
| Demand deposits from customers | 24 | 3,630,553 | 2,602,190 |
| Term deposits from customers | 24 | 4,344,316 | 4,430,473 |
| Borrowings | 25 | 2,751,593 | 2,090,171 |
| Derivatives | 26 | 14,354 | 8,270 |
| Derivatives hedge accounting | 27 | 42,858 | 25,938 |
| Lease liabilities | 19 | 44,189 | - |
| Provisions | 28 | 139,021 | 123,727 |
| Other financial liabilities | 30 | 142,079 | 117,874 |
| **Total liabilities** | | **11,624,117** | **9,837,593** |
| **SHAREHOLDERS' EQUITY** | | | |
| Share capital, nominal | 31 | 1,829,253 | 1,509,253 |
| Share capital inflation effect | | 42,751 | 42,751 |
| Total share capital | | 1,872,004 | 1,552,004 |
| Accumulated deficit and reserves | | (254,071) | (336,770) |
| **Total shareholders' equity** | | **1,617,933** | **1,215,234** |
| **Total liabilities and shareholders' equity** | **13,242,050** | **13,242,050** | **11.052.827** |

These separate financial statements have been authorized for issue by the management in 18th of March, 2020.

Mara Cristea,
Member of the Management
Board and Deputy CEO

Ana-Maria Enache
Director, Finance &
Accounting Directorate

| | Note | Year ended December 31, 2019 | Year ended December 31, 2018 |
|---|---|---|---|
| **Cash flows from operating activities:** | | | |
| **Profit before taxes** | | **70,540** | **26,217** |
| **Adjustments for non-cash items:** | | | |
| Depreciation expense | | 45,425 | 18,336 |
| Impairment losses on loans and advances to customers | | 93,581 | 79,504 |
| Impairment losses on sundry transactions | | 1,001 | (1,368) |
| Other adjustments | | 17,430 | 67,476 |
| Valuation of derivative transactions | | 18,493 | (3,038) |
| **Total adjustments for non-cash items** | | **175,930** | **160,910** |
| **Net profit adjusted for non-cash items** | | **246,470** | **187,127** |
| **Changes in operating assets and liabilities:** | | | |
| Increase of cash at National Bank of Romania | | (139,874) | (86,672) |
| Increase of loans and advances to customers | | (1,528,176) | (951,124) |
| Increase of loans and advances to banks | | (294,367) | (1,948) |
| Increase of other assets | | (11,947) | (15,983) |
| Increase of demand deposits | | 1,238,356 | 525,317 |
| Increase of term deposits | | (219,946) | 454,887 |
| Increase of other liabilities | | 27,380 | 13,800 |
| **Total changes in operating assets and liabilities** | | **(928,574)** | **(61,772)** |
| **Net cash provided by operating activities** | | **(682,104)** | **125,405** |
| **Cash flows from investing activities:** | | | |
| Purchase of investments at fair value through other comprehensive income | | (50,368) | (297,048) |
| Purchase of sale of investments at amortized cost | | (255,777) | (100,692) |
| Purchase of investments at fair value through profit and loss | | (1,112) | (7,137) |
| Purchase of tangible and intangible assets, net | | (54,698) | (35,187) |
| Payments for increase in share capital of subsidiaries | 21 | (34,630) | (3,312) |
| **Net cash used in investing activities** | | **(396,585)** | **(443,377)** |
| **Cash flows from financing activities:** | | | |
| Increase of borrowings | | 661,422 | 771,167 |
| Payment of lease liabilities | | (22,222) | - |
| Proceeds from issue of shares | | 320,000 | 130,000 |
| **Net cash provided by financing activities** | | **959,200** | **901,167** |
| **Net increase in cash and cash equivalents** | | **(119,489)** | **583,195** |
| **Cash and cash equivalents at beginning of period** | 13 | **1,484,025** | **900,830** |
| **Cash and cash equivalents at end of period** | 13 | **1,364,536** | **1,484,025** |

| | |
|---|---|
| **Cash-flow from operating activities includes:** | |
| Interest received | 543,564 |
| Interest paid | 135,758 |

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Mara Cristea,
Member of the Management
Board and Deputy CEO

Ana-Maria Enache
Director, Finance &
Accounting Directorate



| | Share Capital | Share capital reserves | Reevaluation reserves | Retained earnings | Total |
|---|---|---|---|---|---|
| **Balance as of December 31, 2018** | **1,509,253** | **42,751** | **42,259** | **(379,029)** | **1,215,234** |
| Effect of changes in accounting policies - IFRS 9 addoption | | | | - | - |
| Net income, recognized directly in equity | - | - | - | 13,156 | 13,156 |
| Net profit for the period ended December 31, 2019 | - | - | - | 70,540 | 70,540 |
| Net change in Tangible Assets Revaluation reserve | - | - | (997) | - | (997) |
| Increase in share capital | 320,000 | - | - | - | 320,000 |
| **Balance as of December 31, 2019** | **1,829,253** | **42,751** | **41,262** | **(295,333)** | **1,617,933** |

| | Share Capital | Share capital reserves | Reevaluation reserves | Retained earnings | Total |
|---|---|---|---|---|---|
| **Balance as of December 31, 2017** | **1,379,253** | **42,751** | **28,348** | **(298,390)** | **1,151,962** |
| Effect of changes in accounting policies - IFRS 9 addoption | - | - | - | (104,996) | (104,996) |
| Net income, recognized directly in equity | - | - | - | (1,860) | (1,862) |
| Net profit for the period ended December 31, 2018 | - | - | - | 26,217 | 26,219 |
| Net change in Tangible Assets Revaluation reserve | - | - | 13,911 | - | 13,911 |
| Increase in share capital | 130,000 | - | - | - | 130,000 |
| **Balance as of December 31, 2018** | **1,509,253** | **42,751** | **42,259** | **(379,029)** | **1,215,234** |

These separate financial statements have been authorized for issue by the management in 18th of March, 2020.

Mara Cristea,
Member of the Management
Board and Deputy CEO

Ana-Maria Enache
Director, Finance &
Accounting Directorate

# 1. GENERAL OVERVIEW ON THE BANK AND ITS OPERATIONS


**OTP BANK ROMANIA SA (hereinafter the "Bank" or "OTP Romania") was established as a private bank in 1995, under the official name "Banca Comercială RoBank S.A. and Trade Register number J40/10296/1995.**

In July 2004, OTP Bank Ltd (Hungary) became the main shareholder of the Bank and in July 2005 the Bank was officially registered with the Romanian Trade Register under the name "OTP Bank Romania S.A.". OTP Bank Ltd (Hungary) represents the ultimate paretnt of OTP Bank Romania S.A.

The Head Office of the Bank is seated in Romania, Bucharest, 66-68 Buzeşti Street, District 1.

The Bank's tax identification number is RO 7926069.



Notes to the Separate Financial Statements for the period ended December 31st, 2019

## Members of Statutory and Supervisory Boards as at 31 December 2019:

### Management Board

| | |
|---|---|
| **Gyula Fatér** | CEO and Chairman of the Management Board |
| **György Gáldi** | Deputy CEO and Member of Management Board, Head of Lending and Risk Management Division |
| **Roxana Maria Hidan** | Deputy CEO and Member of Management Board, Head of Retail Banking Division |
| **Mara Cristea** | Deputy CEO and Member of Management Board, Head of Finance and Planning Division |
| **Dragoș Ioan Mirică** | Deputy CEO and Member of Management Board, Head of Corporate Banking Division |

### Supervisory Board:

| | |
|---|---|
| **Antal György Kovács** | Chairman of the Supervisory Board |
| **Judit Hanusovszky** | Vice-Chairman of the Supervisory Board |
| **Enikő Zsakó** | Member |
| **Tibor László Csonka** | Member |
| **Ildikó Pál-Antal** | Independent Member |
| **Attila Végh** | Member |
| **Gábor Sudár** | Member |

## Members of Statutory and Supervisory Boards as at 31 December 2018:

### Management Board

| | |
|---|---|
| **László Diósi** | CEO and Chairman of the Management Board |
| **Gábor István Ljubičić** | Deputy CEO and Vice-Chairman of the Management Board, Head of Retail Banking Division |
| **György Gáldi** | Deputy CEO and Member of Management Board, Head of Lending and Risk Management Division |
| **Mara Cristea** | Deputy CEO and Member of Management Board, Head of Finance and Planning Division |
| **Dragoș Ioan Mirică** | Deputy CEO and Member of Management Board, Head of Corporate Banking Division |

### Supervisory Board:

| | |
|---|---|
| **Antal György Kovács** | Chairman of the Supervisory Board |
| **Judit Hanusovszky** | Vice-Chairman of the Supervisory Board |
| **Enikő Zsakó** | Member |
| **Tibor László Csonka** | Member |
| **Ildikó Pál-Antal** | Independent Member |
| **Dr. Ibolya Veres Rajmonne** | Member |

**The Bank is managed by the Chief Executive Officer (CEO), who also acts as Chairman of Board of Directors. In his absence, the CEO is fully represented by his representatives (other members of the Bank's Board of Directors).**

### Scope of the Business

OTP Bank Romania has been present on the Romanian banking market for over 14 years as a universal bank offering complete financial solutions for individuals and companies.
OTP Bank Romania has grown organically since its entry into the domestic market, while at the same time strengthening its position in 2016, following the completion of Millennium Bank Romania's integration process in November 2015, proving a strong, stable and trustworthy partner for customers, collaborators, and employees.

OTP Bank Romania has continued to offer its clients a wide range of products tailored to their expectations, as well as superior experience. The bank developed fast and easy financing solutions such as the SME Loan project or the Start-Up Hero package. For the corporate clients' segment, the personalized concept "Corporate Officer" is in place, an office dedicated to this type of client in branches. The Bank has also contributed to agribusiness projects, such as the Rural Development Plan, the EAFRD (European Agricultural Fund for Rural Development).

For individuals, the bank focused on cash, mortgage and car loans, and among the most important achievements is the launch of differenciated term deposits campaigns with competitive prices, both when the OTC transaction ends, but also within OTPdirekt.

### Shareholders' Structure:

The majority shareholder of the Bank, OTP Bank Plc. (Hungary) is listed on the Budapest Stock Exchange and fully consolidates the Financial Statements of OTP Bank Romania S.A. The registered Head Office of the parent company is: 16 Nador Street, Budapest, 1051, Hungary.

As at December 31, 2019, the shareholders' structure of the Bank was modified compared with the end of year 2018, as follows:

**December 31, 2019**

| | Percentage of ownership | Number of shares | Amount (RON) |
|---|---|---|---|
| 1. OTP Bank Plc | 99.9999475195647% | 7,621,884 | 1,829,252,160 |
| 2. Merkantil Bank zrt | 0.0000524804353% | 4 | 960 |
| **Total** | **100%** | **7,621,888** | **1,829,253,120** |

**December 31, 2018**

| | Percentage of ownership | Number of shares | Amount (RON) |
|---|---|---|---|
| 1. OTP Bank Plc | 99.9999363923725% | 6,288,550 | 1,509,252,000 |
| 2. Merkantil Bank zrt | 0.0000636076275% | 4 | 960 |
| **Total** | **100%** | **6,288,554** | **1,509,252,960** |

### The organizational structure and number of employees

As at 31 December 2019, the Bank operates through its 95 territorial units (including 62 branches and 33 agencies), distributed in all counties of Romania as well as the Bucharest headquarters.

The total number of employees of the Bank as at 31 December 2019 was 1,520 (31 December 2018: 1,364). The average number of employees during 2019 was 1,308 (1,178 in 2018).



Notes to the Separate Financial Statements for the period ended December 31st, 2019

## 2. CAPITAL ADEQUACY AND REGULATORY REQUIREMENTS

**The Bank calculates capital adequacy based upon the regulations issued by the National Bank of Romania ("NBR").**

In administration of its regulatory capital, the Bank aims to ensure an adequate level of business prudence and assets and liabilities monitoring, as well as to continuously maintain the Bank's regulatory capital above the minimum level required by the NBR. To accomplish this, when preparing the yearly business plan the Bank also prepares a plan of adequacy of regulatory capital considering its business objectives and applying the knowledge gained from previous experience.

In 2019, the Bank monitored the development of requirements for regulatory capital and prepared reports on the required levels of the Bank's regulatory capital on a monthly basis. These reports have been submitted periodically to the National Bank of Romania and to the Board of Directors' meetings for periodical analysis.

The Bank complied with the minimum capital adequacy ratio set by the common decision of the supervisory authorities (National Bank of Romania and the Hungarian National Bank) as at 31 December 2019 as well as at 31 December 2018.

The Council of the European Union has approved the regulation regards transitional arrangement for mitigating the impact of the introduction of IFRS 9 on own funds. (Regulation EU 2017/2395) The regulation contains the detailed description, how banks may take into account the IFRS 9 provision impact in their regulatory capital, and in RWA calculation, in that case when the application of IFRS 9 caused significant decrease in the Common Equity Tier 1 capital. OTP Bank Romania, like all banks in OTP Group, decided to apply this transitional mitigation effect in their own funds calculation after 1st January, 2018.

| Tier 1 | December 31, 2019 | December 31, 2018 |
|---|---|---|
| **CET** | | |
| Share capital | 1,872,004 | 1,552,004 |
| Retained earnings | (265,245) | (337,650) |
| Other CET1 elements | (3,077) | (5,853) |
| Other intangible assets | (48,393) | (38,471) |
| Deductions | 11,248 | 2,146 |
| Other transitional adjustments (IFRS 9) | 98,052 | 109,537 |
| **Tier 2** | | |
| Deductions | - | - |
| **Own Funds** | **1,664,590** | **1,281,713** |
| **Own funds requirements for:** | | |
| Credit Risk | 580,916 | 491,464 |
| Market Risk | 608 | 3,689 |
| CVA | 312 | 223 |
| Operational Risk | 71,593 | 67,896 |
| **OWN FUNDS REQUIREMENTS** | **653,429** | **563,895** |
| CET1 Capital ratio | 20.38% | 18.19% |
| T1 Capital ratio | 20.38% | 18.19% |
| **Total capital ratio** | **20.38%** | **18.19%** |

# 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

**The significant accounting policies adopted in the preparation of these financial statements are set out below:**

## 3.1 Basis of preparation

The separate financial statements have been prepared using the historical cost model for measuring the elements presented in the statement of financial position except for the following significant items:

- Tangible and intangible assets measured using the revaluation model;
- Assets held for sale measured at the lower of carrying amount and fair value less cost to sell;
- Financial assets classified as measured at fair value through profit or loss and through Other Comprehensive Income;
- Share capital measured using IAS 29.

The Bank keeps accounting records and prepares statutory financial statements in accordance with Romanian accounting regulations.

## Statement of compliance

These separate financial statements include the separate statement of financial position, the separate income statement and other comprehensive income, the separate statement of changes in equity, the separate statement of cash flows and notes to the separate financial statements. The separate financial statements for the period ended as at December 31, 2019 and comparative data for the period ended as at December 31, 2018 have been prepared in accordance with Order 27/2010 approving the Accounting Regulations compliant with International Financial Reporting Standards applicable to credit institutions, issued by the National Bank of Romania and in accordance with International Financial Reporting standards ("IFRS") as adopted by the European Union (EU). The principal accounting policies applied in preparing these financial statements are set out below and have been applied consistently throughout all periods presented financial.

**The Separate Financial Statements for the period ended as at December 31, 2019 and the comparative data for the period ended as at December 31, 2018 are prepared in Romanian new leu ("RON") and are presented in thousand Romanian new lei ("RON") unless otherwise stated, rounded to the nearest thousand.**

The Bank's management assessed the functional currency of the Bank to be RON, which is also the presentation currency of these financial statements.

In 2019 the Bank has applied all the new or revised Standards Interpretations issued by the International Accounting Standards Board (IASB) and International Financial Reporting Interpretations Committee (IFRIC) of the IASB that have been adopted by the EU and that are relevant to the work done by the Bank.

The Bank decided not to adopt any of the standards or interpretations before the date of their effectiveness, which were prepared for issue as at the date of the authorization of these financial statements, but not yet effective.





### a) Changes in accounting policies and adoption of new/revised/amended IFRS

• **IFRS 16 "Leases"** – adopted by the EU on 31 October 2017 (effective for annual periods beginning on or after 1 January 2019).
Under IFRS 16 a lessee recognises a right-of-use asset and a lease liability. The right-of-use asset is treated similarly to other non-financial assets and depreciated accordingly. The lease liability is initially measured at the present value of the lease payments payable over the lease term, discounted at the rate implicit in the lease if that can be readily determined. If that rate cannot be readily determined, the lessee shall use their incremental borrowing rate. As with IFRS 16's predecessor, IAS 17, lessors classify leases as operating or finance in nature. A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership of an underlying asset. Otherwise a lease is classified as an operating lease. For finance leases a lessor recognises finance income over the lease term, based on a pattern reflecting a constant periodic rate of return on the net investment. A lessor recognises operating lease payments as income on a straight-line basis or, if more representative of the pattern in which benefit from use of the underlying asset is diminished, another systematic basis.

• **Amendments to IFRS 9 "Financial Instruments"** - Prepayment Features with Negative Compensation – adopted by the EU on 22 March 2018 (effective for annual periods beginning on or after 1 January 2019).
The amendments modifies the existing requirements in IFRS 9 regarding termination rights in order to allow measurement at amortised cost (or, depending on the business model, at fair value through other comprehensive income) even in the case of negative compensation payments. Under the amendments, the sign of the prepayment amount is not relevant, i.e. depending on the interest rate prevailing at the time of termination, a payment may also be made in favour of the contracting party effecting the early repayment. The calculation of this compensation payment must be the same for both the case of an early repayment penalty and the case of a early repayment gain. Moreover, amendments contain clarification regarding the accounting for a modification of a financial liability that does not result in derecognition. In this case, carrying amount is adjusted with the corresponding result recognized in comprehensive income. The effective interest rate is not recalculated.

• **Amendments to IAS 19 "Employee Benefits"** - Plan Amendment, Curtailment or Settlement – adopted by the EU on 13 March 2019 (effective for annual periods beginning on or after 1 January 2019)
The amendments require to use the updated assumptions from this remeasurement to determine current service cost and net interest for the remainder of the reporting period after the change to the plan.

• **Amendments to IAS 28 "Investments in Associates and Joint Ventures" - Long-term Interests in Associates and Joint Ventures** – adopted by the EU on 8 February 2019 (effective for annual periods beginning on or after 1st January 2019).
Amendments were introduced to clarify that an entity applies IFRS 9 including its impairment requirements, to long-term interests in an associate or joint venture that form part of the net investment in the associate or joint venture but to which the equity method is not applied. Amendments also delete paragraph 41 because the Board felt that it merely reiterated requirements in IFRS 9 and had created confusion about the accounting for long-term interests.

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• **IFRIC 23 "Uncertainty over Income Tax Treatments"** – adopted by the EU on 23 October 2018 (effective for annual periods beginning on or after 1 January 2019).
It may be unclear how tax law applies to a particular transaction or circumstance, or whether a taxation authority will accept a company's tax treatment. IAS 12 Income Taxes specifies how to account for current and deferred tax, but not how to reflect the effects of uncertainty. IFRIC 23 provides requirements that add to the requirements in IAS 12 by specifying how to reflect the effects of uncertainty in accounting for income taxes.

• **Amendments to various standards due to "Improvements to IFRSs (cycle 2015 - 2017)"** issued by IASB on 12 December 2017. Amendments to various standards resulting from the annual improvement project of IFRS (IFRS 3, IFRS 11, IAS 12 and IAS 23) primarily with a view to removing inconsistencies and clarifying wording. The amendments clarify that: a company remeasures its previously held interest in a joint operation when it obtains control of the business (IFRS 3); a company does not remeasure its previously held interest in a joint operation when it obtains joint control of the business (IFRS 11); a company accounts for all income tax consequences of dividend payments in the same way (IAS 12); and a company treats as part of general borrowings any borrowing originally made to develop an asset when the asset is ready for its intended use or sale (IAS 23).

With the exemption of IFRS 16 Leasing, presented in chapter 3.1. letter d), the Bank considers that adopting these standards, amendments and interpretation will not have significant impact for financial statements in first adoption period.

## b) Standards and Interpretations issued by IASB and adopted by the EU but not yet effective

At the date of authorization of these financial statements, the following new standards issued by IASB and adopted by the EU are not yet effective:

• **Amendments to IAS 1 "Presentation of Financial Statements" and IAS 8 "Accounting Policies, Changes in Accounting Estimates and Errors"** - Definition of Material - adopted by the EU on 29 November 2019 (effective for annual periods beginning on or after 1 January 2020).
The amendments provide a more general approach to the classification of liabilities under IAS 1 based on the contractual arrangements in place at the reporting date.

• **Amendments to IFRS 9 "Financial Instruments", IAS 39 "Financial Instruments: Recognition and Measurement" and IFRS 7 "Financial Instruments: Disclosures"** - Interest Rate Benchmark Reform - adopted by the EU on 15 January 2020 (effective for annual periods beginning on or after 1 January 2020).
Interest Rate Benchmark Reform issued by IASB on 26 September 2019.

The changes in Interest Rate Benchmark Reform:

a) modify specific hedge accounting requirements so that entities would apply those hedge accounting requirements assuming that the interest rate benchmark on which the hedged cash flows and cash flows from the hedging instrument are based will not be altered as a result of interest rate benchmark reform;
b) are mandatory for all hedging relationships that are directly affected by the interest rate benchmark reform;
c) are not intended to provide relief from any other consequences arising from interest rate benchmark reform (if a hedging relationship no longer meets the requirements for hedge accounting for reasons other than those specified by the amendments, discontinuation of hedge accounting is required);
d) require specific disclosures about the extent to which the entities' hedging relationships are affected by the amendments.

• **Amendments to References to the Conceptual Framework in IFRS Standards** adopted by the EU on 29 November 2019 (effective for annual periods beginning on or after 1 January 2020).
Due to the fact that Conceptual Framework was revised, the IASB updated references to the Conceptual Framework in IFRS Standards. The document contains amendments to IFRS 2, IFRS 3, IFRS 6, IFRS 14, IAS 1, IAS 8, IAS 34, IAS 37, IAS 38, IFRIC 12, IFRIC 19, IFRIC 20, IFRIC 22, and SIC-32. This was done to support transition to the revised Conceptual Framework for companies that develop accounting policies using the Conceptual Framework when no IFRS Standard applies to a particular transaction.

## c) Standards and Interpretations issued by IASB and not yet adopted by the EU

• **IFRS 17 "Insurance Contracts"** (effective for annual periods beginning on or after 1 January 2021).
The new standard requires insurance liabilities to be measured at a current fulfillment value and provides a more uniform measurement and presentation approach for all insurance contracts. These requirements are designed to achieve the goal of a consistent, principle-based accounting for insurance contracts. IFRS 17 supersedes IFRS 4 "Insurance Contracts" and related interpretations while applied.

• **Amendments to IFRS 3 "Business Combinations"** - Definition of a Business (effective for business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 January 2020 and to asset acquisitions that occur on or after the beginning of that period).
Amendments were introduced to improve the definition of a business. The amended definition emphasises that the output of a business is to provide goods and services to customers, whereas the previous definition focused on returns in the form of dividends, lower costs or other economic benefits to investors and others. In addition to amending the wording of the definition, the Board has provided supplementary guidance.

• **Amendments to IAS 1 "Presentation of Financial Statements"** - Classification of Liabilities as Current or Non-Current (effective for annual periods beginning on or after 1 January 2022).
The amendments provide a more general approach to the classification of liabilities under IAS 1 based on the contractual arrangements in place at the reporting date.

• **IFRS 14 "Regulatory Deferral Accounts" (effective for annual periods beginning on or after 1 January 2016)** - the European Commission has decided not to launch the endorsement process of this interim standard and to wait for the final standard.
This standard is intended to allow entities that are first-time adopters of IFRS, and that currently recognise regulatory deferral accounts in accordance with their previous GAAP, to continue to do so upon transition to IFRS.

• **Amendments to IFRS 10 "Consolidated Financial Statements" and IAS 28 "Investments in Associates and Joint Ventures"** - Sale or Contribution of Assets between an Investor and its Associate or Joint Venture and further amendments (effective date deferred indefinitely until the research project on the equity method has been concluded).
The amendments address a conflict between the requirements of IAS 28 and IFRS 10 and clarify that in a transaction involving an associate or joint venture the extent of gain

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or loss recognition depends on whether the assets sold or contributed constitute a business.

The Bank anticipates that the adoption of these new standards and amendments to the existing standards will have no material impact on the financial statements of OTP Bank Romania in the period of initial application.

## d) IFRS 16 "Leases"

**Implementation**

The published standard, IFRS 16 Leases, which is not in force as at 31 December 2018 and was not applied earlier by the Bank. IFRS 16 was effective for annual periods beginning on 1st of January 2019 and has been adopted by the European Union. It supersedes the current standard IAS 17 Leases, interpretation IFRIC 4 Determining whether an Arrangement contains a Lease, SIC-15 Operating Leases – Incentives and SIC-27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease.

The purpose of the new standard is to ease the comparability of the financial statements, presenting both finance and operating leases in the statement of financial position of the lessee, and providing corresponding information to the users of the financial statements about the risks associated with the agreements.

The new standard discontinues the differentiation between operating and finance leases in the lessee's books, and requires recognition of right-of-use asset and lease liability regarding all of the lessee's lease agreements.

Pursuant to IFRS 16, an agreement is a lease or contains a lease if it transfers the rights to control the use of an identified asset for a given period in exchange for compensation.

The essential element differentiating the definition of a lease from IAS 17 and from IFRS 16 is the requirement to have control over the used, specific asset, indicated directly or indirectly in the agreement.

Expenses related to the use of lease assets, the majority of which were previously recognised in external services costs, will be currently classified as depreciation/amortisation and interest costs. Usufruct rights are depreciated using a straight-line method, while lease liabilities are settled using an effective discount rate.

In the cash flow statement, cash flows from the principal of the lease liability are classified as cash flows from financing activities, while lease payments for short-term leases, lease payments for leases of low-value assets and variable lease payments not included in the measurement of the lease liability are classified as cash flows from operating activities. The interest payments regarding the lease liability are classified according to IAS 7 Statement of Cash Flows.

The lessee applies IAS 36 Impairment of Assets to determine whether the right-of-use asset is impaired, and to recognise impairment, if it is necessary.

For the lessors the recognition and measurement requirements of IFRS 16 are similar, as they were stated in IAS 17. The leases shall be classified as finance and operating leases according to IFRS 16 as well. Compared to IAS 17, IFRS 16 requires the lessors to disclose more information than earlier, however the main characteristics of the accounting treatment are unchanged.

## Transition

The Bank has adopted the modified retrospective approach. Applying the modified retrospective approach required the lessee to present the cumulative impact of IFRS 16 as an adjustment to equity at the start of the current accounting period in which it is first applied so that comparative figures were not restated.

The Bank applied the following practical expedients available:

- Apply a single discount rate to a portfolio of leases with reasonably similar characteristics;
- Adjust the right-of-use asset at the date of initial application by the amount of any provision for onerous leases in the statement of financial position;
- Apply a simplified method for contracts mature within 12 months for the date of initial application;
- Exclude initial direct costs from the measurement of the right-of-use asset at the date of initial application;
- Use hindsight such as in determining the lease term if the contract contains options to extend or terminate the lease.

**Impact of IFRS 16 on the financial statements**

The Bank will present as at 1st of January 2019 the following types of right-of-use assets in the statement of financial position:

- Office building
- Branch office
- Company car
- ATM space
- IT equipment

The average life of the lease (useful life of the presented right-of-use assets):

- Office building ~6 years
- Branch office ~5 years
- Company car ~3 years
- ATM space ~3 years
- IT equipment ~7 years

## Description of adjustments due to implementation of IFRS 16

**a) Recognition of lease liabilities**

Following the adoption of IFRS 16, the Bank recognised lease liabilities related to leases, which were previously classified as "operating leases" in accordance with IAS 17 Leases. These liabilities were measured at the present value of lease payments as at the date of commencement of the application of IFRS 16. Lease payments shall be discounted using the interest rate implicit in the lease or, if that rate can't be readily determined, the incremental borrowing rate. Interest rate applied by the Bank: weighted average lessee's incremental borrowing rate: ~RON 3.94%, ~0.58% EUR, ~2.62% USD. Interest rate for the first time adoption where the folowings: ~4.40% RON, ~1.49% EUR.

At their date of initial recognition, lease payments contained in the measurement of lease liabilities comprise the following types of payments for the right to use the underlying asset for the life of the lease:

- fixed lease payments less any lease incentives,
- variable lease payments that depend on an index or a rate,
- amounts expected to be payable by the lessee under residual value guarantees,
- the exercise price of a purchase option, if it is reasonably certain that the option will be exercised, and
- payment of contractual penalties for terminating the lease, if the lease term reflects the lessee exercising an option to terminate the lease.

The Bank makes use of expedients with respect to short-term leases (less than 12 months) as well as in the case of leases for which the underlying asset is of low value (less than USD 5,000) and for which agreements it will not recognise financial liabilities nor any respective right-of-use assets.

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These types of lease payments will be recognised as costs using the straight-line method during the life of the lease.

**b) Recognition of right-of-use assets**

Right-of-use assets are initially measured at cost.
The cost of a right-of-use asset comprises:
- the amount of the initial measurement of the lease liability,
- any lease payments made at or before the commencement date, less any lease incentives received,
- any initial direct costs incurred by the lessee,
- estimates of costs to be incurred by the lessee as a result of an obligation to disassemble and remove an underlying asset or to carry out renovation/restoration.

**c) Application of estimates**

The implementation of IFRS 16 requires the making of certain estimates and calculations which effect the measurement of financial lease liabilities and of right-of-use assets.

These include among others:

- determining which agreements are subject to IFRS 16,
- determining the lease term of such agreements (including for agreements with unspecified lives or which may be prolonged),
- determining the interest rates to be applied for the purpose of discounting future cash flows,
- determining depreciation rates.

**Impact on the statement of financial position**

The impact of implementing IFRS 16 on the recognition of additional financial liabilities and respective right-of-use assets was calculated on the basis of agreements in force at the Bank as at 31 December 2018.
The Bank presents the following right-of-use assets in the statement of financial position as at 1st of January 2019:

| Financial impact | January 1ST 2019 |
|---|---|
| Right-of-use of real estate | 50,153 |
| Right-of-use of machinery and equipments | 209 |
| Right-of-use of investment properties | - |
| Leasing liabilities | 48,912 |

## 3.2 Offsetting

The Bank does not offset assets and liabilities or income and expenses unless there is a legal right to perform or if the offsetting better reflects the economic substance of the transaction. Net settlement of receivables and payables or presentation of assets after deducting the related impairment losses is not considered offsetting.

## 3.3 Consolidated and Separate Financial Statements

These financial statements present the separate financial position and results of operations of the Bank. Consolidated financial statements are currently being prepared by the ultimate parent, OTP Bank Plc.
The bank is part of the consolidation perimeter of OTP Group. Consolidated financial statements for all Group entities are prepared by OTP Bank Plc, the parent company with its headquarters set at 16 Nádor Street, 1051 Budapest, Hungary. OTP Bank Plc is also the immediate consolidating entity of the Bank.

**Investments in subsidiaries, associated companies and other investments:**

Investments in subsidiaries comprise those investments where OTP Bank Romania, through direct and indirect ownership interest, controls the investee. Control is achieved when the Bank has power over the investee, is exposed or has rights, to variable returns from its involvement with the investee and has the ability to use its power to affect its returns. Investments in subsidiaries are recorded at the cost of acquisition, less impairment for permanent diminution in value, when appropriate. After initial measurement investments in subsidiaries are measured at cost, in the case of foreign currency denominated investments for the measurement the Bank uses the exchange rate at the date of transaction.

An associate is an entity over which the Bank has significant influence and which is neither a subsidiary nor an interest in a joint venture. Significant influence implies the power to participate in decisions regarding financial and operating policies of the associate but not control or joint control over those policies.

The associates are presented in the financial statements at cost less impairment. Further information on the Bank subsidiaries and affiliates are included in Note 21.

OTP Bank Romania analyzed the provisions of IFRS 10 – Consolidated financial statements (paragraph 4 – exception of consolidation) and concluded that all conditions are met and the ultimate parent company OTP Bank Plc is in the process of finalizing the consolidated financial statements as at December 31, 2019, which is expected to be made available to the public on www.otpbank.hu., as of April 2020.

## 3.4 Foreign currency translation

Transactions denominated in foreign currency are recognized at the exchange rate valid at the transaction date. Exchange differences arising from the settlement of foreign currency transactions are included in the income statement at the date of the settlement using the exchange rate valid on that date.

Monetary assets and liabilities denominated in foreign currencies are translated into the functional currency at the official rate. For reference purposes please find below the exchange rates at the end of the reporting periods, for the major currencies:

| | RON/ CHF | RON/ USD | RON/ EUR | RON / 100 HUF |
|---|---|---|---|---|
| The exchange rate at December 31, 2019 | 4.4033 | 4.2608 | 4.7793 | 1.4459 |
| The exchange rate at December 31, 2018 | 4.1404 | 4.0736 | 4.6639 | 1.4527 |

Unrealized foreign currency gains and losses arising from the translation of monetary assets and liabilities are reflected in the income statement (please refer to Note 9).

Notes to the Separate Financial Statements for the period ended December 31st, 2019

## 3.5 Recognition of income and expenses

Revenue is recognized to the extent that it is probable that future economic benefits will be transferred to the Bank and this can be measured reliably.

## 3.6 Interest income and expenses

For all financial instruments measured at amortized cost, financial instruments classified as fair value through other comprehensive income, interest income and expenses are recorded using the effective interest rate. Interest income and expenses are recognized based on either on gross caring caring amount or amortizes cost, using the effective interest rate applicable until to maturity of the asset/liability. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the whole life cycle of the financial instrument to the net book value of the asset or financial liability. When calculating the effective interest rate, the Bank estimates future cash flows considering all contractual terms of the financial instrument but does not account for future losses.

According to IFRS 9, the effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial asset to the gross carrying amount of a financial asset. The calculation includes all fees and points paid or received between parties from the contract that are an integral part of the effective interest rate, transaction costs, and all other premiums or discounts.

CAIR (Credit adjusted effective interest rate) is the rate that exactly discounts the estimated future cash payments or receipts through the expected life of the financial asset to the amortised cost of a financial asset that is a purchased or originated credit-impaired financial asset. The effective interest rate method is a method of calculating a financial asset or a financial liability and of allocating and recognizing interest income or interest expense in profit or loss over the relevant period. In calculating the effective interest rate, the Bank has to estimate the expected cash flows taking into account all contractual terms of the financial instrument (prepay, extension, call and similar options), but does not need to consider expected credit losses.

The method is used to calculate the amortized cost of a financial asset or financial liability and to allocate and recognize interest income or interest expense in profit or loss during the relevant period.

## 3.7 Fees and commission income and expenses

Fees and commissions are generally recognized as income or expense in the profit or loss account on accrual basis, as they are earned.

Commissions received with regards to banking and similar services provided (except for those that are integral part of the effective interest rate), revenues from property development and revenues from services provided in connection with lease contracts fall within the scope of IFRS 15 'Revenue from Contracts with Customers.'

This standard defines a single model for recognising revenue based on five-step principles. These five steps enable to identify the distinct performance obligations included in the contracts and allocate the transaction price among them. The income related to those performance obligations is recognised as revenue when the latter are satisfied, namely when the control of the promised goods or services has been transferred.

Fees and commission income consist mainly of fees received for foreign currency transactions, issuance of guarantees and letters of credit and other banking services (eg.: SMS notifications, account statements, verifications with the Payment Incidents Bureau, issuing bills of exchange etc.)

Fees and commission expenses consist mainly of fees resulting from card transactions and interbank transactions, regulatory fees or insurance premiums

The Bank recognise revenue when (or as) the bank satisfies a performance obligation by transferring a promised good or service (ie an asset) to a customer. An asset is transferred when (or as) the customer obtains control of that asset.

For each performance obligation identified, the Bank determines at contract inception whether it satisfies the performance obligation over time or satisfies the performance obligation at a point in time. If an entity does not satisfy a performance obligation over time, the performance obligation is satisfied at a point in time.

The Bank transfers control of a good or service over time and, therefore, satisfies a performance obligation and recognises revenue over time, if one of the following criteria is met:
- the customer simultaneously receives and consumes the benefits provided by the bank's performance as the entity performs;
- the bank's performance creates or enhances an asset that the customer controls as the asset is created or enhanced or
- the bank's performance does not create an asset with an alternative use to the bank and the bank has an enforceable right to payment for performance completed to date.

The recognition of revenue for financial service fees depends on the purposes for which the fees are assessed and the basis of accounting for any associated financial instrument. The recognition is performed taking in consideration the contract and the performance obligation.
More details on revenues from contracts are presented in Note 7.

## 3.8 Financial assets

Starting with 1st of January 2018, in accordance with IFRS 9 classification, the Bank classifies financial assets, in the following measurement categories:
- finacial assets measured at amortized cost;
- fair value through other comprehensive income (FVOCI);
- fair value profit and loss (FVPL).

Classification and subsequent measurement of financial assets is generally based on the Bank's business model to manage the assets and the cash flow characteristics of the assets.

A financial asset is any asset that is:
(a) cash;
(b) an equity instrument of another entity;
(c) a contractual right:
(i) to receive cash or another financial asset from another entity; or
(ii) to exchange financial assets or financial liabilities with another entity under conditions that are potentially favourable to the Bank; or
(d) a contract that will or may be settled in the Bank's own equity instruments and is a non-derivative for which the Bank is or may be obliged to receive a variable number of the Bank's own equity instruments; or
(e) a derivative that will or may be settled other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of the Bank's own equity instruments.

### 3.8.1 Categories of financial instruments

**a) Financial assets at fair value through other comprehensive income (FVOCI)**

On initial recognition, financial assets are recognised at their fair value, including transaction costs directly attributable to the transaction. They are subsequently measured at fair value and

Notes to the Separate Financial Statements for the period ended December 31st, 2019

changes in fair value are recognised, under a specific line of shareholders' equity. These financial assets are also subject to the measurement of a loss allowance for expected credit losses on the same approach as for debt instruments at amortised cost. The counterparty of the related impact in cost of risk is recognised in the same specific line of shareholders' equity. On disposal, changes in fair value previously recognised in shareholders' equity are reclassified to profit or loss.

In addition, interest is recognised in the income statement using the effective interest method determined at the inception of the contract.

**Debt instruments**

These financial assets are held within a business model whose objective is achieved by collecting contractual cash flows and sale of financial assets and the contractual terms of the financial asset give rise to cash flows that are solely payments of principal and interest due, they meet the "SPPI" test.

Under the business model "Held to collect contractual cash flows and selling financial assets", the Bank's key management personnel has made a decision that both collecting contractual cash flows and selling are fundamental to achieving the objective of the business model.

Compared to the business model with an objective to hold financial assets to collect contractual cash flows, this business model will typically involve greater frequency and value of sales. This is because selling financial assets is integral to achieving the business model's objective rather than only incidental to it.

**Equity instruments**

In accordance with IFRS 9.5.7.1 (b), 5.7.5 at initial recognition, the Bank may make an irrevocable choice, at instrument level, to present in other comprehensive income subsequent changes in fair value of an investment in an equity instrument which is not held for trading and is not contingent consideration recognized by a buyer in a business combination to which it applies IFRS 3 "Business combinations". In this case, gains and losses remain valued at fair value through other comprehensive income without recycling to profit or loss.

**b) Financial assets at amortized cost (AC )**

**Debt instruments**

A debt instrument is to be measured at amortized cost if the following conditions are met: the financial asset is held within a business model whose objective is to hold financial assets for the purpose of collecting contractual cash flows and the contractual terms of the financial asset give rise, at certain dates, to cash flows that are exclusively principal payments and interest, i.e. they meet the SPPI condition.

In order to determine whether cash flows will be obtained by collecting the contractual cash flows of financial assets, the Bank analyzes the frequency, values and timing of sales from previous periods, the reasons for those sales and expectations of future sales activity.
In accordance with IFRS 9, paragraph B4.1.3, a business model can be to hold financial assets to collect contractual cash flows even when some sales of financial assets occur or are expected to occur in the future.

The following scenarios are considered by the Bank, in accordance with IFRS 9, consistent with a hold to collect business model:
a) the Bank sells financial assets when there is an increase in the assets' credit risk. To determine whether there has been an increase in the assets' credit risk, the entity considers reasonable and supportable information, including forward looking information. Irrespective of their frequency and value, sales due to an increase in the assets' credit risk are not inconsistent with a business model whose objective is to hold financial assets to collect contractual cash flows because the credit quality of financial assets is relevant to the entity's ability to collect contractual cash flows. [IFRS 9.B4.1.3A].
b) sales are infrequent (even if significant in value) or insignificant in value both individually and in aggregate (even if frequent). [IFRS 9.B4.1.3B].

c) sales made close to the maturity of the financial assets and the proceeds from the sales approximate the collection of the remaining contractual cash flows. [IFRS 9.B4.1.3B].

**c) Financial assets at fair value through profit or loss (FVTPL)**

**Derivatives**
In accordance with IFRS 9, derivative financial instruments are measured at fair value through profit or loss.

**Equity instruments**
In accordance with IFRS 9, the Bank will measure equity instruments in the category held for trading at fair value through profit or loss.

**Debt instruments**
A debt instrument must be measured at fair value through profit or loss if dose not meet the conditions for amortised cost measurement or fair value through other comprehensive income measurement or they are irrevocably designated at fair value through profit or loss on initial recognition (based on "accounting mismatch" concept).

## 3.8.2 Initial Recognision

Financial assets are measured at initial recognition at fair value plus or minus directly attributable transaction costs in the case of financial assets other than fair value through profit or loss.

Transaction costs:
- a) incremental costs that are directly attributable to the acquisition, issue or disposal of a financial instrument;
- b) an incremental cost is one that would not have been incurred if the Bank had not acquired, issued or disposed of the financial instrument.;
- c) trading costs include fees and commissions paid to agents (including agents acting as sales agents), advisers, brokers and dealers, regulatory agency fees and stock exchanges, as well as transfer and attribution fees;
- d) do not include bonuses or discounts, internal financing or administrative costs, or costs of ownership.

For financial assets that are not measured at fair value through profit or loss, transaction costs are amortized in profit or loss using the effective interest method.
The Bank initially recognizes the financial assets, except for derivative financial instruments, at the settlement date. The Bank's derivative instruments are recognized at the date of the transaction at which the Bank becomes a party to the instruments.

## 3.8.3 Subsequent recognition

Depending on the classification, financial assets will be measured at amortized cost or fair value. Instruments classified as "AC" are recorded at amortized cost using the effective interest rate (EIR) or credit-adjusted effective interest rate (CAIR) for purchased or originated financial asset(s) that are credit-impaired on initial recognition.

## 3.8.4 Derecognition

The Bank shall derecognise a financial asset when, and only when:

(a) the contractual rights to the cash flows from the financial asset expire, or
(b) it transfers the financial asset and the transfer meets the following two conditions:
i. transfers the contractual rights to receive the cash flows of the financial asset, or
ii. retains the contractual rights to receive

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the cash flows of the financial asset, but assumes a contractual obligation to pay the cash flows to one or more recipients in an arrangement that meets the conditions:

- The Bank has no obligation to pay amounts to the eventual recipients unless it collects equivalent amounts from the original asset. Short-term advances by the entity with the right of full recovery of the amount lent plus accrued interest at market rates do not violate this condition;
- The Bank is prohibited by the terms of the transfer contract from selling or pledging the original asset other than as security to the eventual recipients for the obligation to pay them cash flows;
- The Bank has an obligation to remit any cash flows it collects on behalf of the eventual recipients without material delay.

iii. all the risks and rewards of ownership were transferred.

Also, according to IFRS 9, paragraph B5.5.25, in some circumstances renegotiation or modification of the contractual cash flows of a financial asset may lead to the derecognition of the existing financial asset. Thus, when a change in a financial asset results in a derecognition of the existing financial asset and the subsequent recognition of the modified financial asset, the modified asset is considered a "new" financial asset in accordance with IFRS 9.

In order to determine derecognition, changes to the contractual clauses must be significant in terms of quantity and/or quality.

### 3.8.5 Reclassification

If the Bank changes its business model for the management of its financial assets, then it shall reclassify those financial assets according to the classification rules, except for those financial assets that were assessed and classified under an irrevocable choice.

According to IFRS 9, if the Bank reclassifies financial assets, it shall apply the reclassification prospectively from the reclassification date. The entity shall not restate any previously recognised gains, losses (including impairment gains or losses) or interest.

If the Bank reclassifies a financial asset out of the amortised cost measurement category and into the fair value through profit or loss measurement category, its fair value is measured at the reclassification date.

Any gain or loss arising from a difference between the previous amortised cost of the financial asset and fair value is recognised in profit or loss.

If the Bank reclassifies a financial asset out of the fair value through profit or loss measurement category and into the amortised cost measurement category, its fair value at the reclassification date becomes its new gross carrying amount.

If the Bank reclassifies a financial asset out of the amortised cost measurement category and into the fair value through other comprehensive income measurement category, its fair value is measured at the reclassification date. Any gain or loss arising from a difference between the previous amortised cost of the financial asset and fair value is recognised in other comprehensive income.

If the Bank reclassifies a financial asset out of the fair value through other comprehensive income measurement category and into the amortised cost measurement category, the financial asset is reclassified at its fair value at the reclassification date. However, the cumulative gain or loss previously recognised in other comprehensive income is removed from equity and adjusted against the fair value of the financial asset at the reclassification date. As a result, the financial asset is measured at the reclassification date as if it had always been measured at amortised cost. This adjustment affects other comprehensive income but does not affect profit or loss and therefore is not a reclassification adjustment.

If the Bank reclassifies a financial asset out of the fair value through profit or loss measurement category and into the fair value through other comprehensive income measurement category, the financial asset continues to be measured at fair value.

If the Bank reclassifies a financial asset out of the fair value through other comprehensive income measurement category and into the fair value through profit or loss measurement category, the financial asset continues to be measured at fair value. The cumulative gain or loss previously recognised in other comprehensive income is reclassified from equity to profit or loss as a reclassification adjustment at the reclassification date.

The Bank uses settlement date accounting for the recognition and derecognition of financial assets.

According to IFRS 9, the settlement date is the date on which an asset is delivered to or by the Bank. Settlement date accounting refers to

(a) recognition of an asset on the day it is received by the Bank; and
(b) derecognition an asset and recognition of any gain or loss on disposal on the day it is delivered by the Bank.

When settlement date accounting is applied, the Bank accounts for any change in the fair value of the asset to be received during the period between the trade date and the settlement date in the same way as it accounts for the purchased asset. Thus, the change in value is not recognized for assets measured at amortized cost; is recognized in profit or loss for assets classified as financial assets at fair value through profit or loss; and is recognized in other comprehensive income for financial assets at fair value through other comprehensive income and for investments in equity instruments designated at fair value through other comprehensive income.

### 3.8.6 Impairment

IFRS 9 sets out a new impairment model based on a forward-looking approach to the "expected loss" that applies to:

a. Financial assets measured at amortized cost;
b. Debt instruments measured at fair value recognized in other comprehensive income, and;
c. Loan commitments and financial guarantee contracts.

According to the expected loss pattern set by IFRS 9, expected credit losses are recognised from the initial recognition of the financial instrument, using 12 months expected credit losses. 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.

The significant increase in credit risk compared to the time of initial recognition of a financial asset is an indicator can be based on items such as the currency of the loan, the collateral coverage, the borrower's creditworthiness or other forward-looking items however there is a rebuttable presumption that the credit risk on a financial asset has increased significantly since initial recognition when contractual payments are more than 30 days past due. A significant exchange-rate shock at the level of the denomination of credit that causes a significant group of borrowers to request conversion will be considered a relevant indication of the significant increase in credit risk.

The transition from recognizing 12-month expected credit losses (Stage 1) to lifetime expected credit losses (Stage 2) is based on the notion of a significant increase in credit risk over the remaining life of the instrument in comparison with the credit risk on initial recognition and includes the following triggers at reporting date:

a/ Days past Due ("DPD") 31-90
b/ Performing forborne
c/ Default on other loans of a private individual debtor (if not all exposures of the client are regarded as defaulted due to the 20% pulling effect when all on-balance sheet and off-balance sheet exposures to a single client are regarded as non-performing, if the gross value of the exposures past due over 90 days, stated in the balance sheet, exceeds 20% of the gross value of all on-balance sheet exposures from the respective client)
d/ The transaction / private individual client behavioral rating for secured or cash loans exceeds a predefined value
e/ The transaction / client rating exceeds a predefined value or falls into a determined range, or compared to the historic value it deteriorates to a predefined degree . In case the rating-based staging is not possible (because the rating category is not available) the following rule must be used as stage 2 trigger: 10+ DPD in the last 6 months
f/ Loan to Value ("LTV") in case of private individuals secured loans exceeds a predefined rate of 125% or for such segment LTV cannot be derived due to zero value of collateral
g/ The transaction currency suffered a significant shock since loan origination and there is no hedge position in respect thereof
h/ Legal entities clients flagged Watchlist 2 in the loan monitoring process; clients with 'significantly increased risk shall be selected individually to stage 2 in the monitoring process, according to the decisions of the Loans Monitoring Committee, however provision calculation on this portfolio is done by using the collective approach (individually selected but collectively assessed)

Credit-impaired financial assets are those for which one or more events that have a detrimental effect on the estimated future cash flows have already occurred. These financial assets would be in Stage 3 and lifetime expected losses would be recognized.

Indicators that an asset is credit-impaired include observable data about the following events at reporting date:

a/ DPD 90+ (with a materiality threshold in line with the default definition),
b/ DPD 31-90 & default status
c/ Non-performing forborne
d/ Legal procedures over debtor (Insolvency/ Bankruptcy/Liquidation/ Winding up)
e/ Legal entities clients flagged Watchlist 3 during the loans monitoring process or clients managed by the Restructuring &Workout Directorate
f/ Clients selected by risk management (soft criteria)
g/ "Debt to asset law" active notification status marked at loan level
h/ Actively forborne loans with more than 3 restructuring operations implemented by the bank during loan lifetime
i/ Staged 2 exposures that following their individually monitoring assessment for legal entities are showing significant impairment indications, i.e. forbearance operations, payments delays, below cut-off risk class, significant decrease of turnover, dependence on a single customer, loss making, etc.

Financial assets are analyzed to determine the expected loss adjustment at each reporting date. The adjustment for the expected loss on a financial instrument is equal to the amount of expected lifetime loss if the credit risk associated with that financial instrument has increased significantly since initial recognition. If the credit risk for a financial instrument did not increase significantly after the initial recognition, the Bank shall measure the loss adjustment for that financial instrument at a value equal to the 12 month credit losses expected.

For purchased or originated credit-impaired financial assets (POCIs), the Bank recognizes as a loss adjustment only the cumulative changes in expected lifetime loss after initial recognition.

At each reporting date, the Bank shall recognize in profit or loss the amount of change in expected lifetime loss as a gain or loss on impairment.

For contractual assets and trade receivables, the Bank chose to apply the simplified approach to measuring expected loss of credit.
In case of purchased exposures (other than loans but including purchased financial assets from other OTP Group members, purchased financial assets from outside of the Group, financial assets acquired during an acquisition) impaired (stage 3) and non-impaired (stage 1, 2) receivables should be handled separately for provisioning purposes. As the origination date equals to the purchase date, the allocation of the financial assets to the stage 1 / 2 categories is different from the above described staging rules. The entity shall assess whether the credit risk on a financial asset has increased significantly since the purchase date, the rules of the categorization are the followings:

a/ In case transaction is classified into stage 1 at the date of purchase, then rules in subsection 3.1. should be applied.
b/ Transaction allocated to stage 2:
- in the first 12 months after the purchase date these transactions should be allocated to stage 1, unless Stage 3 trigger occurs as specified in subsection 3.1. In that case receivables should be allocated to Stage 3.
- After 12 months on book all receivables should be categorized according to subsection 3.1.

c/ Stage 3 (impaired) deals: the entity should consider these exposures as POCI (lifetime credit loss)

The treatment of Stage2 loans at purchase date should be back tested on a quarterly basis by analyzing the amount of loans that would potentially migrate to Stage2 after the 12 months period expires.

Financial assets at amortized cost: For this category, the loss amount is measured using the formula PL x LGL X Exposure. PLs (loss probability) and LGL (loss in case of loss) are calculated based on the residual maturity of the exposure. The cash flows from the collateral realization are taken into consideration when calculating the expected credit losses. The amount of the loss is recognized in profit or loss. Valuable recoveries are allowed.

Financial assets measured at fair value through other comprehensive income: For this category, the loss amount is measured as PL x LGL X Exposure. PLs (loss probability) and LGL (loss in case of loss) are calculated based on the residual maturity of the exposure. Recoveries are allowed: they must be recognized through profit or loss. Loss adjustment must be recognized in other comprehensive income and should not reduce the carrying amount of the financial asset in the statement of financial position.

When issuing a financial instrument, it is assumed that the Bank enters into market transactions and therefore the value of the instrument recorded in the accounting will be equal to the net cash flow paid or received by the bank.

The Bank records the adjustment for the expected loss of financial assets in a separate allowance account provision and does not directly reduce the carrying amount of the asset.

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Expenditures with third parties such as legal fees resulting from the conclusion of the loan are treated as part of the cost of the transaction. All loans and advances are recognized when cash is transferred to borrowers.
The provisioning policy used by OTP Bank Romania is based on the methodology for identifying and assessing expected losses and provisions in accordance with IFRS 9.

**General Aspects on the Principles of Recognizing Expected Loss on Financial Assets at Amortized Cost (Loans)**

IFRS 9 sets out a three-stage impairment 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: Credit risk has not increased significantly - Recognizing the expected losses for the next 12 months
Stage 2: Credit risk increased significantly from the time of initial recognition - Recognition of expected lifetime loss
Stage 3: Financial asset depreciated - recognizing expected lifetime loss.
Financial assets that are impaired on acquisition or approval date (POCI) will be classified for reporting purposes (eg FINREP) at the appropriate stages (Stage 2 or Stage 3).

The estimated expected loss for the next 12 months is the credit risk loss of the financial assets expected to occur according to the likelihood of the default event occurring within the 12 months following the initial recognition or from the reporting date for the instruments classified in Stage 1.

Estimated expected loss over the life of the financial instrument is the present value of the expected loss according to the likelihood of the default event occurring at any time until the final maturity of the financial asset.
According to IFRS 9, the loss on the expected credit can be determined on the basis of individual analysis or collective analysis. The Bank's model for calculating expected loss of credit involves:

- Individual or collective analysis for Stage 3 clients
- Collective analysis for Stage 2 or Stage 1 customers.

**Recognition of the expected loss on loans on a collective basis**

Recognition of the expected loss over the life of the collective financial assets takes 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 impairment adjustment on a collective basis, the Bank groups the financial instruments on the basis of the common credit risk characteristics in order to facilitate the early identification of the significant increase in credit risk. 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 of these values indicates the favorable relevance of including the subsegment in collective analysis.

The characteristic elements of the credit activity used for segmentation will be:

a / For legal entities
- Business line: Corporate, SME, Municipalities.

b / For individuals
- Instrument type:
  - o Loans secured by mortgages: Currency, Status on conversion;
  - o Consumer credit: the number of contract years shortened;
  - o Credit card: Originating entity;
  - o Overdraft.

The Bank will calculate the provision for each exposure analyzed collectively based on the parameters below:

- Probability of default (PD) - is estimated for the entire life of financial instruments with the possibility of dividing at incremental values for each remaining life year. PD estimates are point-in-time (PIT), reflecting relevant present and future information.
Estimating the probability of default for the next 12 months or over the remaining lifetime is based on migration matrices. Matrices are matched to reflect the migration of the number of exposures over a 12-month range, the range most relevant to OTP Bank Romania's profile. In situations where the 12-month migration does not generate relevant results, long-term migration matrices will be used. In order to calculate the expected loss over a one-year horizon and the remaining life, default probabilities should be broken down to incremental levels for each remaining life year. Poin-in-time values are obtained by successive iterations consisting in multiplying the annualized matrix by successive power ups according to the number of years left to maturity.

Estimation of anticipatory default probabilities is based on the Vasicek model for all incremental PD series obtained for each segment/category. The resulting PD (and PL) estimates are converted into modified PD estimates reflecting the expected state of the economy in line with 5 macroeconomic forecast scenarios. The input parameters required for the Vasicek model are determined from the OTP Group's macroeconomic model used in ICAAP to determine the correlations between GDP and other macro variables (eg exports, unemployment) and to determine the relationships between the maco variables and the default probabilities observed at the level of different segments.

During the modeling process, the Bank used the following macroeconomic variables (where appropriate data were available) based on the proposal of the OTP Research Center experts and the quarterly historical time series provided by them:

- annual GDP change (input parameters in scenario);
- annual consumption change (C),
- annual export variation (EX),
- annual change in investments (I),
- annual change in the number of unemployed (UEMP);
- annual change in the number of people employed (PMM),
- annual nominal property price change (REP),
- Annual wage variation (W).

Generally, two crisis scenarios and three noncrisis scenarios are created, and expectations about macroeconomic conditions are reflected in these scenarios.

The origin of macroeconomic scenarios is always the forecasting scenario (estimated in OTP Bank's Research Department and used in financial planning), which is one of the five scenarios considered, and the other four scenarios derive from it.
Using the long-term GDP distribution determined by the Bank's macroeconomic model, confidence levels for the GDP projection were estimated.
Based on the projected confidence level of the first year and the most recent value for it, the position of the forecasting scenario can be set in the hierarchy of the five possible scenarios.

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The other four scenarios are technical scenarios, defined by expert rules:
• Crisis scenarios: Crisis scenarios show different levels of economic contraction (moderate and severe declines in GDP), so the impact of a crisis on portfolio quality can be estimated with greater accuracy.
• Non-Crisis Scenarios: Compared with the forecasting scenario, one of the non-crisis scenarios is more optimistic and the other more pessimistic (without crisis conditions), but there are possibilities for exceptions depending on the economic cycle. These scenarios are defined by OTP Bank Romania experts and show different trajectories of GDP under normal circumstances.

Risk parameters and depreciation value are defined in each scenario. According to IFRS9, the final asset depreciation is calculated as a weighted arithmetic mean of the values in each scenario, where the weights are the likelihood of each scenario occurring.

In general, the share of scenarios depends on the position of the forecasting scenario. In the case of Romania, the forecasting scenario occupies the second position and the weights are as follows:

| Form of scenario | Weight |
|---|---|
| Positive | 0.0% |
| Base Line | 50.8% |
| Negative | 21.8% |
| Light Crisis | 21.6% |
| Severe Crisis | 5.9% |

- Loss in case of default (LGD) - for unsecured loans granted to individuals is estimated based on historical information on loan recovery

- Exposure in case of default (EAD) - Impairment will be calculated both at the balance sheet and off-balance sheet levels. Given that the expected loss is estimated on each residual maturity of the instrument, the exposure in case of default will be estimated in the same way.

In the calculation of impairment losses, future cash flows are updated to the effective interest rate on the original. As a result, only the effect of reducing cash flows is recognized as a loss - that amount is not affected by other factors (eg, changes in market interest rates or credit ratings of the borrower) that could affect the fair value of the asset.

**Recognition of expected loss on loans on an individual basis**

Exposures will be analyzed on an individual basis according to certain conditions (above a predefined materiality threshold, clients managed by the Restructuring and Recovery Department, clients with notifications according to the Debt Discharge Law no. 77/2016.

The Credit Monitoring Committee performs an analysis on a case-by-case basis regarding the opportunity of contamination of the members of the client groups in the scope of analysis on an individual basis.

The expected loss on loans is calculated on the basis of the amortized cost and the actual value based on the effective interest rate (EIR) of estimated future cash flows (voluntary and collateralised).

Future cash outflows will be estimated on the basis of the official financial statements of approved borrowers adjusted accordingly by the Bank. These estimates will be made in a forward-looking approach, based on macroeconomic trends, inflation, dividend payments, shareholders and other business inputs etc. The unique effects will be considered and adjusted according to the previous observed behavior.

Cash flows related to foreign currency loans will be estimated as follows:
a / Cash flows will be estimated in the currency of the credit;
b / Cash flows will be currently updated at the EIR rate, and;
c / Cash flows will be converted to RON at the official exchange rate at the reporting date.

Exchange rate fluctuations influence the ability of borrowers to repay the currency risk, thus influencing credit risk. The impact of potential exchange rate changes should be assessed in the individual review process.

The cash flow from collateral shall be calculated using the collateral amount allocated to the liquidation. The liquidation value is relevant if there is a risk that the client becomes non-cooperative and, consequently, the Bank will go to forced execution.

Liquidation value is collateral value which, in the event of default, can be capitalized immediately or within a relatively short time span and which includes all liquidation costs.Both estimates of future cash flows (operational and derived from collateralisation) should include the negative component of expected cost estimates (eg valuation of real estate collateral, legal representation, security etc.).

**Reversal**

The amount of expected credit losses reversal that is required to adjust the loss allowance, at the reporting date to the amount computed, will be recognised in profit or loss as an impairment gain.

**Renegotiated credits (forbearance):**

If the terms of a credit agreement are renegotiated due to the borrower's financial difficulties and the renegotiation does not lead to derecognition of the exposure, any impairment is measured by reference to the effective interest rate before the terms change.

Forbearance exposures are defined as exposures for which restructuring measures have been taken to minimize the default risk. The most used restructuring measures are to grant concessions in the form of refinancing/rescheduling of a debtor in financial difficulties and/or to modify loan terms initially agreed upon by a contractual change (eg postponement, waiver or moratorium).

**Write-off policy**

The bank may decide at least once a year to review the portfolio, which may result in the decision to remove from the balance sheet by writing off certain items:
• The write-off can be performed individually (certain files), based on the individual analysis, whenever the elements that allow the write-off intervene;
• All credits for which the write-off will be performed must be non-performing and must be fully provisioned in accordance with IFRS standards;
• Reaching the maximum level of provisioning of the elements for which the write-off will be carried out must be prior to the write-off operation itself;
• The write-off can affect a client, a group of clients, a list of clients, depending on the specific context in which the respective operation takes place.

The loans' write-off can be of two types:
• total - in case all the credits (the entire exposure) of a client are subject to the write-off procedure;
• partially - when only part of a non-performing loan of a client is the subject of the write-off, the rest of the credit remaining on the Bank's balance sheet; also, from the legal point of view and of the reports to the third entities, the Bank will consider as partial write-off the situation in which only some non-performing loans of a client are subject to this procedure, the other credits of the same client being recorded in the balance sheet of the Bank.

The bank analyzes whether the write-off can be performed and whether for certain elements the conditions are cumulatively fulfilled:
• there are no reasonable expectation of

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recovery that would justify keeping the debt in the Bank's balance (or the estimate of collection, from the existing guarantees, is small, compared to the total level of exposure);
- legal recovery procedures to be initiated by the Bank;
- the extinctive prescription of the Bank's right to recover its debt has not occurred;
- the client must register more than 365 days late;
- the claim/part of the debt that the Bank wishes to remove from the balance sheet is to be fully provided, according to IFRS standards.

The write-off procedure can be carried out, in all cases, based on the decision of the competent entity, which will decide after analyzing the proposal of the Directorate for Restructuring and Recovery of Loans and the documentation existing in the file indicating the fulfillment of the above mentioned conditions. The proposal of the Credit Restructuring and Recovery Directorate will also contain the legal opinion from the Legal Department for Credit Recovery, by signing the respective proposal by a representative of this department.

The registration of the items in off-balance sheet accounts will be done immediately after obtaining the approval for the write-off (preferably in the month in which the approval of the respective proposal took place, or at the beginning of the following month).

**The provisioning methodology for other financial assets (including debt instruments, like bonds)**

Provision calculation for purchased trade receivables is based on the recognition of expected credit losses on a collective basis and on recognition of expected credit losses on an individual basis. Provisions related to litigations against the Bank are computed according to OBR's Internal procedure regarding Procedure regarding provisions for litigations.

The provision rate for the accrued fees and commissions is the same as the provision rate of the underlying exposure.

The loans resulted from transactions which generate negative balance of bank account are evaluated according to the collective loan provision calculation methodology. In the situation that this type of receivables are fulfilling the conditions for stage 3 classification, will be integrally provisioned.which are classified into stage 3 category and measured collectively.

After the partial write-off, during the valuation of the receivable, the impairment must be assessed in respect of the gross AC (gross book value) reduced by the write-off outstanding against the client. The volume of the recovery that is likely to be realised from the total receivable (due on the basis of the contract) must be determined and the amount of the expected credit loss may be calculated on the basis of this. The amount of the expected credit loss must be recognised as impairment, as applicable, up to its gross AC reduced by the partial write-off (to its gross book value). The net value of the receivable affected by partial write-off before the write-off must always correspond to the net value after the partial write-off.

## 3.9 Tangible and intangible assets

Tangible assets consisting of buildings and equipment are initially recognized at cost. Subsequent to initial recognition as assets, the land, the buildings and other tangible assets are revalued.

The Bank carries out revaluation of fixed assets with sufficient regularity to ensure that the carrying amount of these elements is not significantly different from that which would be determined using fair value at the end of the reporting period. The last revaluation of land and buildings was carried out in the last quarter of 2018 by an independent valuator (ANEVAR member), the fair value being determined based on market values and where market values could not be determined, the independent valuator estimated fair value using an income or a depreciated replacement cost approach. The fair values of the buildings were booked as of end of December 2018. As at December 2019, the fair value was RON 102,848 thousand consider level 2 hierarchy.

The evaluation was recognized by modifying the gross value and the accumulated depreciation of each asset so that its carrying amount is also the revalued amount.

If the carrying amount of an asset is increased as a result of the revaluation, the Bank recognizes the increase in other comprehensive income and againstequity, by way of revaluation reserves. The increase is recognized in profit and loss to the extent that it reverses a revaluation decrease of the same asset, previously recognized in profit or loss.

If the carrying amount of an asset is impaired as a result of the revaluation, the Bank recognizes the decrease in the Profit and Loss. The decrease is recognized first by reducing the balance of revaluation reserves recorded in other comprehensive income and if the decrease is higher than existing revaluation reserves, than it is recognized in the profit and loss.
The revaluation reserves included in equity, in respect of a fixed asset which is derecognized, is transferred directly to retained earnings.

Intangible assets are revalued and their value is the revaluation value as at the date of the revaluation, less accumulated depreciation and impairment adjusments recognized over the estimated period of useful life of 1-5 years. They represent licenses and software applications acquired by the Bank.

The Bank includes in this category mainly development of computer software, which is depreciated with the straight-line method over a period of 3 years.

Impairment charges / depreciation of tangible and intangible assets are recognized in the Income statement under caption "Amortization of tangible and intangible assets". Land and works of art are not depreciated. Assets under construction are not amortized until put into use. Maintenance and repairs are recognized in the profit and loss account at the time of their realization and improvements are capitalized to the asset's carrying amount.

All tangible and intangible assets, except land, are depreciated using the straight-line method to allocate their cost over estimated useful lives as follows:

| Type of asset | Lifetime (years) | The rate of depreciation (in percentage %) |
|---|---|---|
| ATMs | 8 | 12.5% |
| Telecommunications equipment | Max 5 | 20% |
| Furniture | Max 10 | 10% |
| Stationery and Office Equipment | Max 4-5 | 20% - 25% |
| Computers | 4 | 25% |
| Safe deposit boxes | Max 20 | 5% |
| Means of conveyance | 6 | 16.7% |
| Facilities air conditioning | 6-8 | 12.5% - 16.7% |
| Buildings | Max 50 | 2% - 10% |

The carrying values of property, equipment and software are reviewed for impairment when events or changes in circumstances indicate the carrying value may not be recoverable. If any such indication exists and where the carrying values exceed the estimated recoverable amount, the assets are written down to their recoverable amount, being the greater of net selling price and value in use.

Gains and losses on the disposal / sale of fixed assets are calculated by comparing the sales price with their carrying amounts.

At the end of the financial year, the Bank reviews the carrying amounts of property, plant and the estimated useful lives and depreciation methods. The Bank asseses also the recoverable amount and the impairment loss (if any). When the carrying amount of premises and equipment is higher than the estimated recoverable amount, the carrying amount is written down to its recoverable amount by recognizing an expense in the income statement. If the estimated recoverable amount exceeds the carrying amount of an asset for which there was previously recognized an impairment adjustmen, the adjustment is reversed in the income account, partially or entirely, depending of the actual case.

An impairment loss of tangible assets other than land and buildings is recognized in profit or loss. An impairment loss of land and buildings is recognized in other comprehensive income until the revaluation surplus previously recognized in the Profit and Loss Account to the extent that the impairment loss exceeding revaluation surplus for that same asset.

At the end of the financial year, the Bank assesses whether there is any indication that an impairment loss recognized in prior periods for an asset no longer exists or has decreased. If any such indication exists, the entity estimates the recoverable amount of the asset. If the estimated recoverable amount exceeds the carrying amount of an asset, a reversal of an impairment loss is recognized.

## 3.10 Assets held for sale

The Bank clasifies as assets held for sale any assets obtained during the enforcement of collaterals from customers with overdue debts and for which the carrying amount will be recovered mainly through a sale transaction.

The Bank also may classify as assets held for sale fixed assets that it intends to sell and has used them previously for its own activity or that it has had in order to earn rent or for capital gain.
The conditions for an asset to be classified as held for sale are:

- Its carrying amount will be recovered mainly through a sale transaction;
- The asset is available for immediate sale;
- There is a plan to sell the asset and a schedule to locate a buyer and the sale is probable;

Assets classified as held for sale are measured at the lower of carrying amount and fair value less costs to sell.

Upon initial recognition of an asset designated as held for sale, in case when the asset has been acquired during foreclosure, the fair value is the value of the collateral used for provisioning of loans while the carrying amount of the asset is the value of the collateral. If the carrying amount is greater than the fair value, the value of the asset is written-down to the fair value, by recognizing an adjustment for impairment.

On subsequent measuring, the fair value is determined by further reducing the revalued value (revaluation of tangible assets is made by an authorized evaluator) by the percentage used to determine the recoverable amount for the property pledged as collateral. If the fair value increase compared to previous assessments, the impairment adjustment is release up to the carrying amount of the asset.
After being classified as held for sale, the assets are not amortized.

## 3.11 Investment property

Investment properties are recognized as assets if, and only if, it is probable that future economic benefits associated with Bank be gained and the investment cost can be measured reliably. An asset can be classified as investment property if it is held to earn rentals or for capital gain.

Initial and subsequent measurements of current assets classified as investment property are carried at cost. Real estate investments are stated at acquisition cost, less accumulated depreciation and impairment adjustments.

## 3.12 Leasing

An agreement is a lease or contains a lease if it transfers the rights to control the use of an identified asset for a given period in exchange for compensation.



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The accounting policies for leasing were modified starting with 01st of January 2019, based on the new IFRS 16- Leases. Please see chapter 3.1, point d). The Bank holds only the lessee role in the leasing contracts that are active during 2019.

## 3.13 Interest-bearing loans and borrowing costs

Borrowings are initially measured at fair value. Subsequent to initial recognition, borrowings are stated at amortized cost, with any difference between cost and redemption value being recognized in profit or loss.

## 3.14 Derivatives

In the ordinary course of business, the Bank is a party to contracts for derivative financial instruments, which represent a very low initial investment compared to the notional value of the contract. Generally, derivative financial instruments include currency forward and swap agreements. The Bank mainly uses these financial instruments for business purposes and to hedge its currency exposures associated with transactions in financial markets.

Derivative financial instruments are initially recognised at fair value and are subsequently re-measured at fair value. Any transaction shall be recognized in profit or loss when incurred.

Fair values are obtained from quoted market prices, discounted cash flow models and option pricing models as appropriate. The Bank adopts multi curve valuation approach for calculating the net present value of future cash flows – based on different curves used for determining forward rates and used for discounting purposes. It shows the best estimation of such derivative deals that are collateralised.

There is no other credit value (CVA), debit value (DVA) or funding value (FVA) adjustment applied.

**Credit valuation adjustment (CVA): the CVA** adjustment applies to valuations and market quotations whereby the credit worthiness of the counterparty is not reflected. It aims to account for the possibility that the counterparty may default and that Bank may not receive the full fair value of the transactions.

In determining the cost of exiting or transferring counterparty risk exposures, the relevant market is deemed to be an inter-dealer market. However, the determination of CVA remains judgemental due to i) the possible absence or lack of price discovery in the inter-dealer market, ii) the influence of the regulatory landscape relating to counterparty risk on the market participants' pricing behaviour and iii) the absence of a dominant business model for managing counterparty risk.

The CVA model is grounded on the same exposures as those used for regulatory purposes. The model attempts to estimate the cost of an optimal risk management strategy based on i) implicit incentives and constraints inherent in the regulations in force and their evolutions, ii) market perception of the probability of default and iii) default parameters used for regulatory purposes.

**Funding valuation adjustment (FVA):** when valuation techniques are used for the purpose of deriving fair value, funding assumptions related to the future expected cash flows are an integral part of the mid-market valuation, notably through the use of appropriate discount rates. These assumptions reflect what the Bank anticipates as being the effective funding conditions of the instrument that a market participant would consider. This notably takes into account the existence and terms of any collateral agreement. In particular, for non- or imperfectly collateralized derivative instruments, they include an explicit adjustment to the interbank interest rate .

**Own-credit valuation adjustment for debts (OCA) and for derivatives (debit valuation adjustment - DVA):** OCA and DVA are adjustments reflecting the effect of credit worthiness

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of Bank, on respectively the value of debt securities designated as at fair value through profit or loss and derivatives. Both adjustments are based on the expected future liability profiles of such instruments. The own credit worthiness is inferred from the market-based observation of the relevant bond issuance levels. The DVA adjustment is determined after taking into account the Funding Valuation Adjustment (FVA).

Changes in the fair value of derivative financial instruments that do not qualify for hedge accounting are recognized in profit or loss of the period. All derivatives are carried as assets when fair value is positive and as liabilities when fair value is negative.

Fair value hedge is a hedge of the exposure to changes in fair value of a recognized asset or liability or unrecognized firm commitment, or a component of any such item, that is attributable to a particular risk and could affect profit or loss. The Bank determines the fair value of both hedged item and hedging instrument at the reporting date, recognizes any change in fair value (gain or loss) on the hedging instrument in profit or loss and recognizes the hedging gain or loss on the hedged item in its carrying amount. The Bank makes an assessment, both at the inception of the hedge relationship as well as on an ongoing basis, as to whether the hedging instruments are expected to be highly effective in offsetting the changes in fair value of the respective hedged items during the period for which the hedge is designated.

The fair value hedge relationship is discontinued prospectively when the hedging instrument expires, is sold, terminated or exercised. If the hedge no longer meets the criteria for hedge accounting the Bank revokes the designation. When the hedge relationship is terminated and the hedging instrument is not closed out, it is removed from the fair value hedge specific portfolio and recorded as a standalone derivative in another portfolio. Any adjustment arising to the carrying amount of a hedged financial instrument for which the effective interest method is used shall be amortized to profit or loss.

## 3.15 Taxation

The current tax is the amount of income taxes payable in respect of the taxable profit, computed in accordance with Romanian tax rules and accrued for in the period to which it relates. Deferred tax is provided, using the balance sheet liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Deferred income tax is determined using tax rates and laws that have been enacted or substantially enacted by the reporting date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled. The tax rate for both current and deferred tax is 16% (2018: 16%).

Deferred tax assets and liabilities are not recognised if the temporary difference arise from initial recognition, other than in a business combination, of assets and liabilities in a transaction that affects neither the taxable profits nor the accounting profit. In addition, deferred tax liabilities are not recognised if the temporary difference arise from initial recognition of goodwill.

The temporary differences arise mainly from impairment of loans and advances to customers, tangible and intangible assets, revaluation of available for sale financial assets and tax losses carried forward (see Note 28).

Deferred tax is charged or credited to profit or loss, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

Deferred tax liability is generally recognized for all taxable temporary differences. Deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available within the next 5 years.

**Tax on assets**

Based on the GEO 19/29.03.2019 amending GEO 114/29.12.2018, the banks have been imposes to pay the Tax on Assets.

The legislation provisions:

- Depending on market share, the tax is 0.2% per year, if the market share of the bank is below 1%, or 0.4% per year, if the market share is greater than or equal with1%.
- The tax rate is maximum 0.4%, which can be decreased to 0% if the targets on loans growth, interest rate mitigation and the interest margin, determined annually by Government decision, are met.

For the year 2019, for each bank the rates are:

- the annual loans growth target is +8%
- the annual interest margin rate cut target is -8%
- and the benchmark interest margin is 4%.

The banks which is recording an accounting loss are not subject to asset tax. If tax on assets is above the accounting profit the bank will pay an amount equal to accounting profit
The tax will be halved if the increase in the balance of loans to households and non-financial institutions is equal to or higher than the loans growth target (8% annual target and 4% semi-annual target); otherwise, the tax reduction is calculated proportionally according to the formula: R1 = (actual increase of the balance of loans / loans growth target) x 50%.

The tax is also halved if the net interest margin calculated at the level of the semester/year for which the tax is due is below the net interest rate reference margin (4% annual and semi-annual target),
or if the decrease in the net interest margin is equal to or greater than the reduction target (-8% annual target and -4% semi-annual target); otherwise, the percentage reduction of the asset tax is calculated proportionally according to the formula: R2 = (actual decrease in the net interest margin/ the net interest margin decrease target) x 50%.

The semi-annual asset tax, if due, is declared and paid until August 25 inclusive of the year for which it is due. If 100% fulfillment of annual target of loans or 100% fulfilment of annual target of net interest margin or 100% fulfilment of annual target of both loans and net interest margin is met, than the tax for the 1ST semester is not declared and paid.
If semi-annual target for loan growth of 4% or for net interest margin decrease by 4% is fulfilled, the semi-annual due tax will be halved.
The annual asset tax is declared and paid until August 25 of the following year for which it is due. If the annual tax is lower than the semi-annual tax already paid, the bank may recover/compensate the debt towards the Fiscal Authorities.

The tax base is the net financial assets, excluding:

- cash;
- performing cash balances with central banks at net value;
- non-performing net exposures;
- performing debt securities issued by general government at net value;
- performing loans and advances to general government at net value;
- performing net loans granted to non-government sector guaranteed by central government;
- performing net loans granted to credit institutions;
- deposits with credit institutions at net value
- net NOSTRO accounts and related receivables;
- performing net reverse repos and securities lent

At the end of year, it was also accounted the tax on assets, provisioned by Governance Ordinance no. 19/2019. In case of OTP Bank Romania S.A., the rate of 0.4% per year is applicable. Considering the fact that the bank respected 2 of 3 reduction of the percentage (increase in loans volumes for households and non-financial companies, and reduction on net interest margin for the same categories), the final amount to be paid until 25th of August 2020 is RON 5.35 million.

Notes to the Separate Financial Statements for the period ended December 31st, 2019

## 3.16 Contingent assets/liabilities

A contingent liability is:
(a)a possible obligation arising from past events and whose existence will be confirmed only by the occurrence or not of one or more uncertain future events not wholly within the control of the Bank; or
(b) a present obligation that arises from past events but is not recognized because there is no safety exit cash flows to settle those debts or the amount of debt can not be assessed.

Contingent liabilities are not recognized in the financial statements, but are disclosed, unless the possibility of an outflow of resources embodying economic benefits is remote.

A contingent asset is a possible asset that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Bank.

A contingent asset is not recognized in the accompanying financial statements but is disclosed when an inflow of economic benefits is probable.

## 3.17 Provisions

A provision is recognized when the Bank has a present obligation (legal or constructive) as a result of a past event and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. Where the effect in financial statements of the time value of money is material, the amount of a provision is the present value of the expenditures expected to be required to settle the obligation.

**Restructuring**
A restructuring provision is recognized when the Bank has developed a detailed formal plan for the restructuring and has raised a valid expectation in those affected that it will carry out the restructuring by starting to implement the plan or announcing its main features to those affected by it. The measurement of a restructuring provision includes only the direct expenditures arising from the restructuring, which are those amounts that are both necessarily entailed by the restructuring and not associated with the ongoing activities of the entity.

## 3.18 Cash and cash equivalents

Cash and cash equivalents comprise balances readily convertible to a known amount of cash on hand, current accounts, deposits and placements with banks and the National Bank of Romania, treasury bills issued by the Government with an original maturity of less than 90 days (if any), including minimum reserves.

## 3.19 Related parties

A related party is a person or entity that is related to the entity that is preparing its financial statements (referred to as the 'reporting entity') [IAS 24.9].

- A person or a close member of that person's family is related to a reporting entity if that person: (i) has control or joint control over the reporting entity;
  - has significant influence over the reporting entity; or
  - is a member of the key management personnel of the reporting entity or of a parent of the reporting entity.

- An entity is related to a reporting entity if any of the following conditions applies: (i) The entity and the reporting entity are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).
  - One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).
  - Both entities are joint ventures of the same third party.
  - One entity is a joint venture of a third entity and the other entity is an associate of the third entity.
  - The entity is a post-employment defined benefit plan for the benefit of employees of either the reporting entity or an entity related to the reporting entity. If the reporting entity is itself such a plan, the sponsoring employers are also related to the reporting entity.
  - The entity is controlled or jointly controlled by a person identified in (a).
  - A person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).
  - The entity, or any member of a group of which it is a part, provides key management personnel services to the reporting entity or to the parent of the reporting entity

## 3.20 Employee benefits

**Short-term employee benefits:**

Short-term employee benefits include wages, salaries and social security contributions. Short-term employee benefits are recognized as expenses when the services are rendered.

**Post-employment benefits:**
The Bank pays the contribution to the Romanian State funds on behalf of its employees for health care, pension and unemployment benefits.

## 3.21 Subsequent events

Events after the date of the preparation of the financial statements, that provide additional information about the Bank's position at balance sheet date and requiring significant corrections of financial data (events that require adjustments) are properly reflected in the financial statements. Events after the date of preparation of financial statements that do not require adjustments are disclosed in the notes.

## 3.22 Going Concern

These financial statements have been prepared on a going concern basis. The Bank's ability to continue as a going concern is dependent on its ability to generate sufficient future cash flows and profit in order to meet capital requirements, finance normal operations and to comply with regulatory requirements.

Management is confident that financial support will be provided by the shareholders, if required, and that the Bank will be able to generate sufficient future cash flow to continue its operations in the foreseeable future.

## 3.23 Accounting for the effects of hyperinflation

Romania has previously experienced relatively high levels of inflation and was considered to be hyperinflationary as defined by IAS 29 "Financial Reporting in Hyperinflationary Economies" ("IAS 29"). IAS 29 requires that the financial statements prepared in the currency of a hyperinflationary economy be stated in terms of the measuring unit current at the balance sheet date.

As the characteristics of the economic environment of Romania indicate that hyperinflation has ceased, effective from 1st of January 2004 the Bank no longer applies the provisions of IAS 29. Accordingly, the amounts expressed in the measuring unit current at 31 December 2003 are treated as the basis for the carrying amounts in these individual financial statements.

## 3.24 Basic earnings per share

The Bank reports earnings per share attributable to the holders of ordinary shares. The Bank calculated earnings per share on ordinary shares by dividing profits attributable to holders of ordinary shares by the weighted average number of ordinary shares outstanding during the period. Details of Earnings per Share (EPS) are presented in Note 31.

Notes to the Separate Financial Statements for the period ended December 31st, 2019

# 4. RISK MANAGEMENT

The primary risks associated with financial instruments that the Bank faces are:

- interest rate risk in the banking book;
- market risk – which refers to exposures to market factors such as interest rates, foreign exchange rates, equity and commodity prices;
- credit risk;
- liquidity risk;
- operational risk.

Other risks managed by bank are reputational risk and risk due to outsourcing activities.

The "Risk Management" Note presents information's related to Bank's exposure to each type of risk mentioned above, its' objectives, policies as well as assessment and management processes.

Bank's risk related policies and management approach are assessed periodically and updated to the changes that occurred on each analyzed area of activity.

## 4.1 Interest Rate Risk (Banking Book)

Interest rate risk is the risk of recording losses or not to achieve expected profits as a result of fluctuations in the level of market interest rates. The management of this risk concerns balance sheet items, as well as off balance sheet items sensitive to changes in interest rates.

OTP Bank Romania S.A. assumes a conservative approach towards risks and has implemented in this regard a risk management system that identifies, evaluates, manages and controls the risks related to its activity in a prudent manner.

Regarding the interest rate risk on the Banking book, the Bank manages its exposure with the aim of limiting the potential losses due to unfavorable fluctuations of the interest rates, in such a way that these losses do not threat the profitability of the Bank, the own funds or the safety of operations.

The Bank grants loans with mainly variable interest rate indexed by reference (ex.: Euribor, Robor) and aims to harmonize the financing structure with the structure of assets and other liabilities so as to maintain a medium-low interest rate risk exposure.

In 2019, the Bank concentrated on local currency loans and the weight of fixed interest rate loans in total portfolio increased in case of consumer loans. At the end of the year RON mortgage loans with fixed interest rate in the first 5 years were introduced. On liabilities side, the bank maintained the maturity structure for client deposits.

The monitoring of the exposure to interest rate risk of banking book and the compliance with the internal limits is done at least monthly, within the Asset and Liability Management Committee.

For the assessment of the interest rate risk on the Banking book, the Bank uses re-pricing gap analysis, modified duration analysis and stress test scenarios estimating the possible effects of interest rate changes on bank profits and economic value. The methodology used for measuring the impact of an interest rate shock in the economic value of the Bank is the standardized one from the NBR Reg. No. 5/2013 with further amendments, adjusted for optionality risk.

At 31st December 2019, the Bank had a low exposure to the interest rate risk on banking book, 3.58% of own funds (2.57% as of December 2018). The decrease mainly resulted from the inclusion of non-maturity deposits (current accounts) in the computation.

During 2019, the exposure to the interest rate risk on banking book had a stable level not exceeding a medium-low level.

| | December 31, 2019 | | | | December 31, 2018 | | | |
|---|---|---|---|---|---|---|---|---|
| Interest rates on loans granted to customers | CHF | EUR | RON | USD | CHF | EUR | RON | USD |
| Consumer | 4.58 | 12.40 | 10.76 | 13.81 | 13.88 | 15.97 | 10.83 | 15.23 |
| Personal loans with mortgage | 5.19 | 4.95 | 6.75 | 7.26 | 4.57 | 4.90 | 5.85 | 6.77 |
| Housing | 4.70 | 4.12 | 5.82 | 6.39 | 4.15 | 4.09 | 5.39 | 3.82 |
| Corporate loans | 3.52 | 3.61 | 6.77 | 5.51 | 2.29 | 3.33 | 5.94 | 5.19 |

| Thousand RON | December 31, 2019 | December 31, 2018 |
|---|---|---|
| Impact in the economic value of the Bank of a 200 bp interest rate shock (thousand RON) | 57,089 | 39,215 |
| Own funds (thousand RON) IFRS | 1,594,183 | 960,773 |
| Exposure (% of Own funds) | 3.58% | 4.08% |
| Impact in earnings for one year of a 200 bp interest rate shock (thousand RON) | 2,471 | 20,570 |
| Exposure (% of Own funds) | 0.15% | 2.14% |

The following is a summary of the Bank's interest rate gap position as at December 31, 2019:

| December 31, 2019 | Up to 1 month | 1 to 3 months | 3 to 12 months | 1 to 5 years | over 5 years | Total |
|---|---|---|---|---|---|---|
| **ASSETS** | | | | | | |
| Accounts with the National Bank of Romania | 1,002,064 | - | - | - | - | 1,002,064 |
| Current accounts and deposits at banks | 417,025 | - | - | - | - | 417,025 |
| Investment securities | - | - | 9,859.00 | 1,132,358.00 | 162,775.00 | 1,304,992 |
| Gross loans | 1,472,497 | 3,173,709 | 4,497,764 | 402,050 | 38,411 | 9,584,431 |
| **Total assets** | **2,891,586** | **3,173,709** | **4,507,623** | **1,534,408** | **201,186** | **12,308,512** |
| **LIABILITIES** | | | | | | |
| Demand deposits from banks | (248,294) | - | - | - | - | (248,294) |
| Term deposits from banks | (266,860) | - | - | - | - | (266,860) |
| Demand deposits from customers | (2,826,035) | (804,518) | - | - | - | (3,630,553) |
| Term deposits from customers | (1,298,220) | (1,420,126) | (1,477,856) | (139,516) | (8,598) | (4,344,316) |
| Borrowings | (4,821) | (2,746,772) | - | - | - | (2,751,593) |
| **Total liabilities** | **(4,644,230)** | **(4,971,416)** | **(1,600,579)** | **(139,516)** | **(8,598)** | **(11,241,616)** |
| **Instrumente derivate și spot - NET** | **638,429** | **23,396** | **56,725** | **(555,892)** | **(162,775)** | **(117)** |
| **Assets-Liabilities GAP interest rate sensitivity** | **(1,114,215)** | **(1,774,311)** | **3,086,492** | **839,000** | **29,813** | **1,066,799** |
| **Assets-Liabilities cumulative GAP interest rate sensitivity** | **(1,114,215)** | **(2,888,526)** | **197,966** | **1,036,966** | **1,066,779** | |

The following is a summary of the Bank's interest rate gap position as at December 31, 2018:

| December 31, 2018 | Up to 1 month | 1 to 3 months | 3 to 12 months | 1 to 5 years | over 5 years | Total |
|---|---|---|---|---|---|---|
| **ASSETS** | | | | | | |
| Accounts with the National Bank of Romania | 966,354 | - | - | - | - | 966,354 |
| Current accounts and deposits at banks | 598,086 | - | - | - | - | 598,086 |
| Investment securities | 107,851 | - | - | 479,156 | 400,437 | 987,445 |
| Gross loans | 1,256,895 | 2,830,940 | 3,755,183 | 241,245 | 31,137 | 8,115,400 |
| **Total assets** | **2,929,186** | **2,830,940** | **3,755,183** | **720,401** | **431,574** | **10,667,284** |
| **LIABILITIES** | | | | | | |
| Demand deposits from banks | (38,301) | - | - | - | - | (38,301) |
| Term deposits from banks | (27,537) | - | (373,112) | - | - | (400,649) |
| Demand deposits from customers | (1,941,822) | (660,368) | - | - | - | (2,602,190) |
| Term deposits from customers | (1,506,078) | (1,757,640) | (1,127,800) | (30,040) | (8,915) | (4,430,473) |
| Borrowings | - | (2,083,429) | (6,742) | - | - | (2,090,171) |
| **Total liabilities** | **(3,513,738)** | **(4,501,437)** | **(1,507,654)** | **(30,040)** | **(8,915)** | **(9,561,784)** |
| **Instrumente derivate și spot - NET** | **511,969** | **21,060** | **52,177** | **(184,768)** | **(400,437)** | **1** |
| **Assets-Liabilities GAP interest rate sensitivity** | **(72,583)** | **(1,649,437)** | **2,299,706** | **505,593** | **22,222** | **1,105,501** |
| **Assets-Liabilities cumulative GAP interest rate sensitivity** | **(72,583)** | **(1,722,020)** | **577,686** | **1,083,279** | **1,105,501** | |

## 4.2 Market Risk Management

Market risk is the risk of loss related to balance-sheet and off-balance sheet items due to adverse changes in market prices, such as, for example, stock prices, interest rates, foreign exchange rates.

The Bank's objective in market risk management is to ensure appropriate management of the risks generated by trading activities, through the implementation of procedures, models and adequate application of monitoring and risk control related with trading activities.

In view of limiting potential losses due to market risk exposure, the bank manages market risk exposure by means of a set of limits which shall be set annually and updated periodically according to market conditions, in compliance with a prudent policy, based on the experience of OTP Bank Plc Hungary.

The limits are established according to the potential loss and the value of the Bank's equity capital. Market risk limits are set up by OTP Bank Plc Hungary and are managed in the Market Risk Portal system.

With respect to market risk management the Bank takes into consideration:

- to monitor the compliance with the existing limits and to report any limit excess to the Bank's management;
- to revise and submit for approval any application / request for new limits establishment;
- to prepare and to transmit consolidated reports regarding market risks to the Operative Risk Committee and Supervisory Board.





### 4.2.1 Interest Rate Risk (Trading book)

The interest rate risk refers to the fluctuation in the value of financial instruments included in the trading book due to the changes in the level of market interest rates.

Limits are approved for trading on interest rate sensitive instruments such as bonds issued by the Romanian Government, interest rate swaps, FX swaps, Money Market deposits and placements. The adequate assessment and monitoring of the resulting interest rate risk is ensured by the set-up of a limits system and the use of appropriate risk management systems.

The bank established the following types of limits: bond position limit, Value at Risk (VaR) limit, Basis Point Value limits (per currency and for Total) and stop-loss limits. These limits are monitored 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 (with an Exponentially Weighted Moving Average methodology used for setting weights to P&L observations) which allows to easily aggregate risk factors and trading desk VaR figures, therefore giving the opportunity to calculate Treasury level VaR.

The Bank uses a 1-day 99% VaR number which reflects that, with a probability of 99%, the daily loss will not exceed the reported VaR.

### 4.2.2 Currency risk

Currency risk is the risk of loss resulting from changes in the level of foreign exchange rates.

The Bank manages its exposure to movements in exchange rates by permanently adjusting its assets and liabilities mix, based on the market movements in exchange rates.
The Bank may trade and take positions in the followings currencies: EUR, USD, GBP, CHF, CAD, JPY, HUF, AUD, SEK, DKK, PLN, NOK and CZK.

The open foreign exchange currency position is managed continuously on an automatic basis within the Kondor+ system according to the internal rules and also considering the NBR regulations.

The bank sets net FX open position limits (per currency and for total), stop-loss limits and Value at Risk (VaR) limits which are monitored on a daily basis by the Operational and Market Risk Department using the Market Risk Portal system.

The VaR risk measure estimates the potential loss in pre-tax profit over a given holding period for a specified confidence level. The Bank uses a historical VaR approach (with an Exponentially Weighted Moving Average methodology used for setting weights to P&L observations) which allows to easily aggregate risk factors and trading desk VaR figures, therefore giving the opportunity to calculate Treasury level VaR.

The Bank uses a 1-day 99% VaR number which reflects, with a probability of 99%, that the daily loss will not exceed the reported VaR.

The following is a summary of the Bank's exposure towards currency risk as at December 31, 2019 and December 31, 2018 (amounts in thousand RON equivalent):

**December 31, 2019**

| Currency | Assets | Liabilities and equity | Net position of balance sheet | Net position of off-balance sheet | Total | Gains/(losses) incurred for a change of +1% in currency exchange rate | Gains/(losses) incurred for a change of -1% in currency exchange rate |
|---|---|---|---|---|---|---|---|
| EUR | 3,899,069 | 3,467,324 | 431,745 | (376,132) | 55,613 | 556 | -556 |
| USD | 347,747 | 351,631 | -3,884 | 5,767 | 1,883 | 19 | (19) |
| CHF | 349,959 | 172,816 | 177,143 | (191,494) | -14,351 | (144) | 144 |
| HUF | 394,003 | 538,637 | (144,634) | 148,074 | 3,440 | 34 | (34) |
| OTHER | 98,838 | 28,683 | 70,155 | (70,568) | -413 | (4) | 4 |
| **Total** | **5,089,616** | **4,559,091** | **530,525** | **-484,353** | **46,172** | **461** | **-461** |

**December 31, 2018**

| Currency | Assets | Liabilities and equity | Net position of balance sheet | Net position of off-balance sheet | Total | Gains/(losses) incurred for a change of +1% in currency exchange rate | Gains/(losses) incurred for a change of -1% in currency exchange rate |
|---|---|---|---|---|---|---|---|
| EUR | 3,808,085 | 3,383,275 | 424,810 | (384,413) | 40,397 | 404 | (404) |
| USD | 277,562 | 306,373 | (28,811) | 28,512 | (299) | (3) | 3 |
| CHF | 380,905 | 171,302 | 209,603 | (221,698) | (12,095) | (121) | 121 |
| HUF | 446,335 | 562,195 | (115,860) | 115,711 | (149) | (1) | 1 |
| OTHER | 84,744 | 27,937 | 56,807 | (56,424) | 383 | 4 | (4) |
| **Total** | **4,997,631** | **4,451,082** | **546,549** | **(518,312)** | **28,237** | **283** | **(283)** |

The assets and liabilities split by currencies in RON equivalent amounts, as of December 31, 2019, is presented below:

**December 31, 2019**

| | EUR | USD | CHF | HUF | Other CCY | Total other CCY | RON | Total |
|---|---|---|---|---|---|---|---|---|
| **ASSETS** | | | | | | | | |
| Cash | 155,593 | 14,161 | 21,842 | 84,349 | 87,145 | 363,090 | 272,122 | 635,212 |
| Current accounts and deposits at banks | 282,061 | 72,717 | 19,821 | 13,734 | 11,691 | 400,024 | 17,001 | 417,025 |
| Accounts with the National Bank of Romania | 260,768 | - | - | - | - | 260,768 | 741,296 | 1,002,064 |
| Securities at amortized cost | - | - | - | - | - | - | 544,455 | 544,455 |
| Loans and advances to customers, net | 2,614,555 | 84,031 | 307,894 | - | - | 3,006,480 | 6,132,020 | 9,138,500 |
| Loans and advances to banks | 459 | - | 13 | 295,874 | - | 296,346 | 90 | 296,436 |
| Investment securities at fair value through profit and loss | 2,614 | 4,949 | - | - | - | 7,563 | 4,975 | 12,538 |
| Investment securities at fair value through other comprehensive income | 571,362 | 171,626 | - | - | - | 742,988 | 17,549 | 760,537 |
| Investment in Associates and Subsidiaries | - | - | - | - | - | - | 46,553 | 46,553 |
| Derivatives | 2,383 | - | - | - | - | 2,383 | 12,086 | 14,469 |
| Derivatives hedge accounting | 175 | - | - | - | - | 175 | - | 175 |
| Deffered tax asset | - | - | - | - | - | - | 23,413 | 23,413 |
| Other assets, net | 9,099 | 263 | 389 | 46 | 2 | 9,799 | 75,053 | 84,852 |
| **Total assets** | **3,899,069** | **347,747** | **349,959** | **394,003** | **98,838** | **5,089,616** | **7,886,613** | **12,976,229** |
| **LIABILITIES** | | | | | | | | |
| Due to Banks | 143,379 | 43,464 | - | 277 | - | 187,120 | 328,034 | 515,154 |
| Demand deposits from banks | - | - | - | 277 | - | 277 | 248,017 | 248,294 |
| Term deposits from banks | 143,379 | 43,464 | - | - | - | 186,843 | 80,017 | 266,860 |
| Due to customers | 1,845,814 | 302,631 | 20,045 | 538,287 | 28,477 | 2,735,254 | 5,239,615 | 7,974,869 |
| Demand deposits from customers | 706,999 | 146,430 | 17,229 | 345,671 | 13,769 | 1,230,098 | 2,400,455 | 3,630,553 |
| Term deposits from customers | 1,138,815 | 156,201 | 2,816 | 192,616 | 14,708 | 1,505,156 | 2,839,160 | 4,344,316 |
| Borrowings | 1,414,720 | - | 132,123 | - | - | 1,546,843 | 1,204,750 | 2,751,593 |
| Derivatives | 2,383 | - | - | - | - | 2,383 | 11,971 | 14,354 |
| Derivatives hedge accounting | 39,069 | 3,789 | - | - | - | 42,858 | - | 42,858 |
| Provisions | 10,563 | 240 | 20,153 | 17 | - | 30,973 | 108,048 | 139,021 |
| Other financial liabilities | 11,396 | 1,507 | 495 | 56 | 206 | 13,660 | 128,419 | 142,079 |
| **Total liabilities** | **3,467,324** | **351,631** | **172,816** | **538,637** | **28,683** | **4,559,091** | **7,020,837** | **11,579,928** |
| **Net Assets / Liabilities** | **431,745** | **(3,884)** | **177,143** | **(144,634)** | **70,155** | **530,525** | **865,776** | **1,396,301** |

The assets and liabilities split by currencies in RON equivalent amounts, as of December 31, 2018, is presented below:

| December 31, 2018 | EUR | USD | CHF | HUF | Other CCY | Total other CCY | RON | Total |
|---|---|---|---|---|---|---|---|---|
| **ASSETS** | | | | | | | | |
| Cash | 111,394 | 21,592 | 20,526 | 72,682 | 73,469 | 299,663 | 169,813 | 469,476 |
| Current accounts and deposits at banks | 12,718 | 5,120 | 24,150 | 372,813 | 11,273 | 426,074 | 172,012 | 598,086 |
| Accounts with the National Bank of Romania | 692,366 | - | - | - | - | 692,366 | 273,988 | 966,354 |
| Securities at amortized cost | - | - | - | - | - | - | 288,678 | 288,678 |
| Loans and advances to customers, net | 2,453,526 | 85,726 | 335,567 | 753 | - | 2,875,572 | 4,828,420 | 7,703,992 |
| Loans and advances to banks | 2,028 | 3 | 4 | 1 | - | 2,036 | 33 | 2,069 |
| Investment securities at fair value through profit and loss | 2,457 | 4,505 | - | - | - | 6,962 | 4,464 | 11,426 |
| Investment securities at fair value through other comprehensive income | 528,216 | 156,640 | - | - | - | 684,856 | 13,345 | 698,201 |
| Investment in Associates and Subsidiaries | - | - | - | - | - | - | 11,923 | 11,923 |
| Derivatives | 1,280 | - | - | 80 | - | 1,360 | 5,631 | 6,991 |
| Derivatives hedge accounting | - | 3,142 | - | - | - | 3,142 | - | 3,142 |
| Current tax asset | - | - | - | - | - | - | - | 13,019 |
| Deffered tax asset | - | - | - | - | - | - | 25,510 | 25,510 |
| Other assets, net | 4,100 | 834 | 658 | 6 | 2 | 5,600 | 70,131 | 75,731 |
| **Total assets** | **3,808,085** | **277,562** | **380,905** | **446,335** | **84,744** | **4,997,631** | **5,863,948** | **10,861,579** |
| **LIABILITIES** | | | | | | | | |
| Due to Banks | 373,403 | 32,595 | - | 290 | 2,596 | 408,884 | 30,066 | 438,950 |
| Demand deposits from banks | - | 20,369 | - | 290 | 2,596 | 23,255 | 15,046 | 38,301 |
| Term deposits from banks | 373,403 | 12,226 | - | - | - | 385,629 | 15,020 | 400,649 |
| Due to customers | 1,574,133 | 270,742 | 151,430 | 561,671 | 25,169 | 2,583,145 | 4,449,518 | 7,032,663 |
| Demand deposits from customers | 593,312 | 131,294 | 23,840 | 218,267 | 8,752 | 975,465 | 1,626,725 | 2,602,190 |
| Term deposits from customers | 980,821 | 139,448 | 127,590 | 343,404 | 16,417 | 1,607,680 | 2,822,793 | 4,430,473 |
| Borrowings | 1,387,417 | - | - | - | - | 1,387,417 | 702,754 | 2,090,171 |
| Derivatives | 1,280 | - | - | 80 | - | 1,360 | 6,910 | 8,270 |
| Derivatives hedge accounting | 25,666 | 272 | - | - | - | 25,938 | - | 25,938 |
| Provisions | 10,173 | 501 | 19,540 | - | 1 | 30,215 | 93,512 | 123,727 |
| Other financial liabilities | 11,203 | 2,263 | 332 | 154 | 171 | 14,123 | 103,751 | 117,874 |
| **Total liabilities** | **3,383,275** | **306,373** | **171,302** | **562,195** | **27,937** | **4,451,082** | **5,386,511** | **9,837,593** |
| **Net Assets / Liabilities** | **424,810** | **(28,811)** | **209,603** | **(115,860)** | **56,807** | **546,549** | **477,437** | **1,023,986** |

### 4.2.3 Equity Risk

Equity risk is the risk of loss resulting from changes in the level of prices of equity instruments and other financial instruments.

OTP Bank Romania's policy regarding equity risk management is not to have open positions on equity instruments.
During 2019, the Bank did not hold trading positions on equity instruments.

## 4.3 Credit Risk Management

The credit risk is associated with the loans granted by the Bank, being the risk that the customer will be unable to fulfil its obligations thus causing financial losses to the Bank.

The Bank's main objective regarding credit risk management was to maintain the portfolio quality by monitoring the evolution of a set of indicators which are detailed in the Risk Strategy for 2019.





**The Bank's main objectives regarding credit risk management are:**

- Developing a diversified portfolio, the performance of which does not excessively depend on the changes in the position of any particular sector, geographical region or debtor group, that ensures stable profitability on the long run;
- Increasing the profitability of the credit products;
- Credit approval and keeping assumable risks within limits;
- Increasing the capacity to collect overdue receivables;
- Maintaining the solvency indicator within normal limits so that the capital requirement for credit risk is not increasing excessively;
- Maintaining the portfolio quality by monitoring the evolution of a set of indicators which is detailed in Risk Strategy 2019.

**The Bank's strategy regarding credit risk management includes:**

- Putting a strong emphasis on preventing problems faced by borrowers;
- Improving debt collection;
- Customer loyalty program for individuals by offering new products facilities in accessing credit;
- Private individual lending to be performed exclusively in RON and also encouraging the financing of legal entities in the local currency;
- Developing and implementing a new scoring model for personal loan in order to improve the quality of the unsecured loans portfolio;
- Developing and implementing two new behavioral scoring models, for personal loan and mortgage loan, to be used for evaluating SICR and establishing the stage of the loans as required by the provisioning methodology under IFRS 9;
- Developing and implementing a new scoring model for corporate clients in order to improve the quality of the corporate loans portfolio and to be used for evaluating SICR and establishing the stage of the loans as required by the provisioning methodology under IFRS 9;
- Involving the territorial network and the Retail Banking and Corporate Banking Divisions in managing the problems customers are faced with;
- Monitoring new loan portfolio, especially for new consumer loans to individuals, through reports at least monthly and information presented for the Management Board and Supervisory Board of the Bank;
- Monitoring continuoselly the legal entities portfolio, reporting and deciding upon their risk status at least monthly in the Loans Monitoring Comittees;
- Improve retail lending flow reactiveness and efficiency by creating the Retail Risk Advanced Modeling and Analyses Directorate.

The credit risk is managed in compliance with lending norms approved by the Board of Directors, based on the risk related type of products.

### 4.3.1 Individually impaired assets

As part of the overall credit risk management, the credit concentration risk is actively managed using standard tools (e.g. analysis, assessment, setting of internal limits, reporting and use of risk mitigation techniques as appropriate). The Bank aims not to take any excessive credit concentration risk. Credit concentration risk management procedures cover individual counterparties as well as economically connected groups, selected industry sectors and collateral providers. The system of internal limits is established such that the Bank complies with regulatory limits set in respect of concentration risk.

The Bank regularly re-assesses all credit exposures that have already been specifically provided for, as well as all credit exposures that appear on watchlist and which are classified as individually significant.

The breakdown of these individual provisions recorded for exposures on legal entities, structured by industry is as follows:

| Individual provisions | Exposure December 31, 2019 | Provision December 31, 2019 | Exposure December 31, 2018 | Provision December 31, 2018 |
|---|---|---|---|---|
| Construction | 49,719 | (37,348) | 61,590 | (41,815) |
| Hotels and restaurants | 2,152 | (1,393) | 1,185 | (297) |
| Other Industries (Furniture, Food and beverages, Fashion, Chemical, Forestry) | 179,817 | (72,061) | 68,817 | (29,116) |
| Other services | 252 | (16) | 13,655 | (12,270) |
| Services | 65,406 | (33,696) | 82,744 | (21,786) |
| Trade and finance | 99,329 | (62,298) | 106,518 | (59,636) |
| Transportation | 8,203 | (1,272) | 8,484 | (324) |
| Individuals* | 80,749 | (39,897) | 97,418 | (49,504) |
| **Total** | **485,627** | **(247,982)** | **440,412** | **(214,747)** |

### 4.3.2 Collaterals received from customers

In order to calculate the collateral coverage ratio of the loans granted to non-retail clientele (entities with or without legal personality) the Bank has established coefficients (acceptance limits) applicable to the collateral value (which can be: market value, face value, assessed value, guaranteed value, etc.) depending on the type of collateral. Acceptance limits, depending on the type of the collateral, are described below:

| Description of collateral | Acceptance limit value |
|---|---|
| Balance of account, deposit instrument | 100% |
| Government securities issued in Romania, government-guaranteed securities | 95% |
| Foreign-issued government securities rated in class I-II, government-guaranteed securities | 95% |
| **Foreign-issued and Romanian banking debt securities or deposit instruments similar to securities, issued by a bank** | |
| In case of banks rated as I., II. and III. | 75% |
| In case of banks rated as IV. and V. | 75% |
| Romanian and foreign shares listed and traded on the exchange or OTC | 50% |
| **Investment units issued by OTP Asset Management** | |
| Investment units with low or medium risk profile (e.g. OTP Obligatiuni, OTP ComodisRo, OTP Euro Bond, OTP Dollar Bond) | 80% |
| Investment units with low or medium risk profile (e.g. OTP Premium Protect) | 70% |
| Investment units with medium to high or high risk profile (e.g. OTP AvantisRo) | 60% |
| **Residential property** | |
| First-ranking mortgage | 85% |
| Second-ranking or any subsequent mortgage | 85% |
| **Commercial property First-ranking mortgage on constructions** | |
| Holiday homes, weekend houses | 70% |
| Offices | 70% |
| Catering establishments (hotel, restaurant, guest-house etc.) | 70% |
| Business sites (warehouses, etc.) | 70% |
| Business outlets | 70% |
| Commercial parts of buildings serving housing purposes (e.g. garages, storage room, business outlets) provided that they are separately marketable | 70% |
| Factory buildings (production facilities, etc.) | 60% |
| Business sites for agricultural purposes (farms, farmsteads, crop storage facilities, animal farming sites) | 60% |
| Flats, houses or other buildings under construction | 60% |





| Description of collateral | Acceptance limit value |
|---|---|
| **First-ranking mortgage on land** | |
| Urban land (intravilan) | 75% |
| Agricultural land | 80% |
| Other types of land | 50% |
| Mortgage on inventories and other unspecified movable property | 20% |
| Mortgage on vehicles (passenger car, motorcycle, commercial vehicle, aircraft, vessel) | 50% |
| Mortgage on technological machines and equipment | 40% |
| Claim against the state | 100% |
| Claim against Agency for Payments and Intervention in Agriculture (APIA) in accordance with the conventions signed between APIA and the Bank | 100% |
| Claims of class I-V against local governments and other budgetary agencies | 80% |
| Claims against other persons or companies or claims arising from contracts relating to commercial services or from contracts relating to transactions with a term no longer than one year | 50% |
| Guarantee or suretyship by the state | 100% |
| **The guarantee, suretyship or bill of a bank; letter of credit issued by a company and advised by a bank** | |
| Bank rated as class I., II. and III. | 100% |
| Bank rated as IV. and V. | 100% |
| **Joint and several suretyship** | |
| Guarantee funds, credit insurance companies | 100% |
| Municipalities rated as class I-II | 100% |
| Municipalities rated as class III-IV | 80% |

At the reference date, the Bank has accepted the types of collaterals specified below:

| Types of collaterals received for the loan portfolio (book value, capped to the covered exposure) | December 31, 2019 | December 31, 2018 |
|---|---|---|
| Cash collaterals | 32,988 | 32,447 |
| Bank guarantees and cash sureties | 76,004 | 68,334 |
| Guarantees from public administration | 2,043 | 2,189 |
| Revenue assignment | 244,121 | 276,070 |
| Assignment of other receivables | 164,374 | 112,640 |
| Registration of pledge for stock | 881,358 | 872,457 |
| Mortgages | 7,412,464 | 6,069,285 |
| Other | 505,026 | 547,866 |
| Securities - other securities | 153,735 | 109,056 |
| **Total** | **9,472,112** | **8,090,344** |

### 4.3.3 Foreclosed collaterals

Collaterals repossessed through foreclosure / legal proceedings are classified according to their intended use, either as assets held for sale or investment property.

The net value of assets held for sale decreased during the period, reaching 2,380 thousand as of December 31, 2019 (4,206 thousand as of December 31, 2018).

Investment properties are measured initially at cost, including transaction costs in the initial measurement. After initial recognition, the Bank quantifies the investment property using the cost method. The net value of investment property is 1,500 thousand at December 31, 2019 (461 thousand at December 31, 2018).

The movement related to these assets during 2019, is presented below:

a) Net book value of assets held for sale:

| Year | Opening balance | Additions | Disposals | Impairment | Closing balance |
|---|---|---|---|---|---|
| 2019 | 4,206 | 2,172 | (4,191) | 193 | 2,380 |
| 2018 | 5,989 | 2,656 | (8,164) | 3,725 | 4,206 |

b) The Bank recorded investment grade real estate property held to earn rentals. Investment properties are measured initially at cost. Transaction costs are included in the initial measurement. After initial recognition, the Bank measures investment property using the cost model.

Movements related to these assets during 2019 and 2018 respectively are presented below.
The carrying value of investment property:

| Year | Initial | Additions | Disposals | Adjust | Final |
|---|---|---|---|---|---|
| 2019 | 461 | 1,118 | (79) | - | 1,500 |
| 2018 | 1,440 | 338 | (2,073) | 756 | 461 |

## 4.3.4 The quality of loans receivable (within maturity as well as overdue loans receivable)

The structure of loan portfolio by days of delay is shown below highlighting a clear picture of the quality of financial assets. If there are outstanding amounts (principal, interest etc.) the entire loan is considered past due.

### 4.3.4.1. Quality of loan portolio (current and overdue)

| December 31, 2019 | Gross loans with identified provisions | Provision | TOTAL net loans |
|---|---|---|---|
| within maturity | 8,690,218 | (183,824) | 8,506,394 |
| 0 - 15 days | 378,704 | (13,573) | 365,130 |
| 16 - 30 days | 51,965 | (4,884) | 47,082 |
| 31 - 60 days | 89,118 | (23,211) | 65,907 |
| 61 - 90 days | 49,741 | (17,620) | 32,121 |
| 91 - 180 days | 60,746 | (31,148) | 29,598 |
| more than 180 days | 268,139 | (175,870) | 92,269 |
| **Total gross** | **9,588,630** | **(450,130)** | **9,138,500** |

| December 31, 2018 | Gross loans with identified provisions | Provision | TOTAL net loans |
|---|---|---|---|
| within maturity | 7,239,439 | (171,033) | 7,068,406 |
| 0 - 15 days | 398,871 | (33,971) | 364,900 |
| 16 - 30 days | 67,603 | (7,966) | 59,637 |
| 31 - 60 days | 96,632 | (22,062) | 74,570 |
| 61 - 90 days | 60,669 | (18,831) | 41,839 |
| 91 - 180 days | 59,858 | (26,334) | 33,524 |
| more than 180 days | 196,505 | (135,388) | 61,117 |
| **Total gross** | **8,119,577** | **(415,584)** | **7,703,992** |

For certain loans granted to customers, which were overdue for more than 90 days at the reporting dates, the Bank received collaterals of significant higher amounts than the related exposures. Therefore, the total provision recorded by the Bank for these loans is less than the total exposure as at each of the reporting dates.





### 4.3.4.2. Quality of loans overdue but not impaired

| December 31, 2019 | Overdue 1 to 30 Days | Overdue more than 30 Days | Gross loans | Provision | Carrying amount |
|---|---|---|---|---|---|
| Consumer | 88,099 | 22,670 | 110,769 | (16,029) | 94,740 |
| Mortgage | 267,225 | 65,104 | 332,329 | (9,568) | 322,761 |
| Corporate | 50,067 | 10,660 | 60,727 | (3,907) | 56,820 |
| **Total** | **405,392** | **98,433** | **503,825** | **(29,503)** | **474,322** |

| December 31, 2018 | Overdue 1 to 30 Days | Overdue more than 30 Days | Gross loans | Provision | Carrying amount |
|---|---|---|---|---|---|
| Consumer | 90,304 | 24,403 | 114,707 | (14,991) | 99,716 |
| Mortgage | 269,061 | 75,416 | 344,477 | (7,185) | 337,292 |
| Corporate | 46,950 | 2,168 | 49,118 | (2,550) | 46,568 |
| **Total** | **406,315** | **101,986** | **508,302** | **(24,725)** | **483,576** |

The table above shows the gross loans which are past due but not impaired acordingly to the Bank IFRS provision methodology and are presented based on the collective type of impairment.

### 4.3.4.3. Quality of loans individually impaired

| December 31, 2019 | Gross loans | Provision | Carrying amount |
|---|---|---|---|
| Corporate Work Out Handled clients | 404,743 | (207,986) | 196,757 |
| Individuals | 80,884 | (39,996) | 40,888 |
| **Total** | **485,627** | **(247,982)** | **237,645** |

| December 31, 2018 | Gross loans | Provision | Carrying amount |
|---|---|---|---|
| Corporate Normal Handled clients | 130,520 | (38,965) | 91,555 |
| Corporate Work Out Handled clients | 212,468 | (126,278) | 86,190 |
| Individuals | 97,424 | (49,504) | 47,920 |
| **Total** | **440,412** | **(214,747)** | **225,665** |

### 4.3.5 Analysis of restructured loans and receivables, gross

Restructured loans, in gross amount of 338,127 thousand as of December 2019 (340.929 thousand as of December 31, 2018), represent loans for which the repayment terms have been rescheduled based on an agreement between the Bank and its clients in order to avoid early overdue payments.

The following table shows the quantitative analysis of the receivable that were classified as restructured loans as at the year-end (on balance sheet amounts):

| | December 31, 2019 | | December 31, 2018 | |
|---|---|---|---|---|
| | **Gross loans** | **Provision** | **Gross loans** | **Provision** |
| Retail loans within maturity | 25,869 | (7,979) | 30,629 | (9,339) |
| Overdue up to 15 days | 6,067 | (939) | 3,983 | (1,018) |
| Overdue from 16 to 30 days | 2,067 | (1,032) | 2,730 | (670) |
| Overdue from 31 to 60 days | 4,746 | (2,732) | 5,597 | (2,916) |
| Overdue from 61 to 90 days | 3,953 | (2,563) | 5,929 | (3,597) |
| Overdue from 91 to 180 days | 4,673 | (3,018) | 8,881 | (3,449) |
| More than 180 days | 13,832 | (10,053) | 10,725 | (8,279) |
| **Retail loans - TOTAL** | **61,208** | **(28,317)** | **68,474** | **(29,266)** |
| SME loans within maturity | 22,690 | (4,829) | 33,191 | (11,607) |
| Overdue up to 15 days | 693 | (245) | 2,231 | (918) |
| Overdue from 16 to 30 days | 648 | (41) | 6,479 | (2,172) |
| Overdue from 31 to 60 days | 6,571 | (403) | 9,247 | (1,165) |
| Overdue from 61 to 90 days | 1,174 | (461) | 1,425 | (297) |
| Overdue from 91 to 180 days | 3,696 | (1,283) | 1,877 | (502) |
| More than 180 days | 35,237 | (19,748) | 45,903 | (28,722) |
| **SME loans - TOTAL** | **70,709** | **(27,010)** | **100,353** | **(45,383)** |
| Corporate loans within maturity | 139,993 | (37,113) | 101,813 | (32,165) |
| Overdue up to 15 days | 772 | (80) | 27,132 | (21,314) |
| Overdue from 16 to 30 days | - | - | 3,975 | (894) |
| Overdue from 31 to 60 days | - | - | 50 | (15) |
| Overdue from 61 to 90 days | 789 | (2) | - | - |
| Overdue from 91 to 180 days | 11,119 | (4,294) | - | - |
| More than 180 days | 53,538 | (45,036) | 39,133 | (30,138) |
| **Corporate loans - TOTAL** | **206,211** | **(86,525)** | **172,102** | **(84,527)** |
| **TOTAL** | **338,127** | **(141,852)** | **340,929** | **(159,177)** |



Notes to the Separate Financial Statements for the period ended December 31st, 2019

### 4.3.6 Concentration of credit risk to counterparties – other banks

The following table presents the counterparty risk related to the exposures towards other credit institutions, based on ratings published by Moody's:

| | December 31, 2019 | | December 31, 2018 | |
|---|---|---|---|---|
| | **Amounts in thousands RON equiv.** | **Moody's Rating for counterparty's country of origin** | **Amounts in thousands RON equiv.** | **Moody's Rating for counterparty's country of origin** |
| OTP Bank PLC | 334,667 | Baa3 | 382,466 | Baa3 |
| Unicredit Bank SA | 23,897 | Baa3 | - | Baa3 |
| Credit Europe Bank (Romania) S.A. | 17,001 | Baa3 | 17,002 | Baa3 |
| UBS AG (Head Office - Zurich) | 16,337 | Aaa | 22,013 | Aaa |
| Banca de Export-Import a României Eximbank SA | 5,006 | Baa3 | 2,070 | Baa3 |
| JP Morgan Chase Bank National Association | 4,805 | Aaa | 1,612 | Aaa |
| Banca Comercială Română S.A. | 4,787 | Baa3 | 2,936 | Baa3 |
| Deutsche Bank AG | 4,007 | Aaa | 1,117 | Aaa |
| Commerzbank AG | 3,321 | Aaa | 3,061 | Aaa |
| Lloyds Bank PLC | 1,984 | Aa2 | 18 | Aa2 |
| Danske Bank Aktieselskab | 649 | Aaa | 1,017 | Aaa |
| Mizuho Corporate Bank LTD | 431 | A1 | 48 | A1 |
| Skandinaviska Enskilda Banken AB (PUBL) Stockholm | 117 | Aaa | 951 | Aaa |
| Powszechna Kasa Oszczednosci Bank Polski Spolka Akcyjna | 16 | A2 | 31 | A2 |
| Royal Bank of Scotland PLC | - | Aa2 | 8,734 | Aa2 |
| CEC Bank S.A. | - | Baa3 | 150,010 | Baa3 |
| Banca Comercială Feroviară SA | - | Baa3 | 5,000 | Baa3 |
| **TOTAL** | **417,025** | | **598,086** | |

### 4.4 Liquidity Risk Management

The liquidity risk is associated either to the difficulty of an entity to raise necessary funds in order to meet all the commitments when they fall due or to the possibility of incurring losses if the entity has to sell assets in unfavorable conditions or has to attract more expensive supplementary funding.

The Bank's objective regarding liquidity risk is to maintain an adequate level of liquidity by ensuring the optimal mix of funding and lending transactions in order to achieve the budget.

As stated on the "Liquidity Management Strategy" and on the "Liquidity Risk Management policy" of the Bank, permanently improved and updated in compliance with the local requirements for a prudent regulation but also, in compliance with group requirements, OTP Bank Romania S.A. has implemented an internal system of identification, measurement, monitoring and control of the liquidity risk, structured on two levels: the current liquidity management – the continuity of the activity in normal conditions (the assurance of cash flows for normal business operations) and the management of liquidity on crisis situations – the continuity of the activity in different crisis conditions.

OTP Bank Romania S.A. manages the liquidity risk considering: the estimation of the cash flows needs and of the operative liquidity, the daily banking book structure, the liquidity GAP – on each currency and overall, the level and the structure of the liquid assets portfolio, the liquidity indicators having early warning limits internally established, the simulation regarding the liquidity indicators levels, the risk assessment on crisis situations by using stress tests.

If the indicators monitored in the reports enumerated above, register an attention or crisis level the Assets and Liabilities Committee evaluates the situation and disposes necessary measures needed for the indicators to revert to normal levels. If the measures taken did not lead to an improvement of the monitored liquidity indicator, the alternative plan for liquidity management in crisis situations will be activated.

Strict monitoring and prudent management of liquidity is supervised by the Assets and Liabilities Management Committee.

Liabilities to clients due within one month principally include current accounts from which the clients are authorized to make withdrawals at call. The Bank's historical experience shows, however, that these accounts represent a stable source of funding.

During 2019, the bank obtained and extended the maturity of RON 250 mln and EUR 25 mio financing from the OTP Group, in order to sustain the activity of granting loans and to improve the available liquidity and the level of LCR. Shorter term MM deposits were used to cover shorter term variations in loan-deposits gap.

At December 31, 2019 the aggregate value for stand-by credit facilities contracted with the parent bank with purposes of use in a liquidity crisis (and unused at December 31, 2019) represent RON 454,034 thousand equivalent (746,224 thousand as at December 31, 2018). Considering that the overall available liquidity increased compared to previous year, the value of the stand-by credit lines with the parent bank has beed reduced.

The following tables show an analysis of financial assets and liabilities according to their remaining maturities, reflecting the remaining period between the balance sheet date and the contractual maturity date (as of December 31, 2019 and December 31, 2018).

**Liquidity gap**

| December 31, 2019 | Up to 1 month | 1 to 3 months | 3 to 12 months | 1 to 5 years | over 5 years | No fixed maturity | Total |
|---|---|---|---|---|---|---|---|
| **ASSETS** | | | | | | | |
| Cash | 635,212 | - | - | - | - | - | 635,212 |
| Current accounts and deposits at banks | 417,025 | - | - | - | - | - | 417,025 |
| Accounts with the National Bank of Romania | 1,002,064 | - | - | - | - | - | 1,002,064 |
| Securities amortised cost | - | - | 20,970 | 523,485 | - | - | 544,455 |
| Loans and advances to customers, net | 279,345 | 553,724 | 1,703,066 | 1,434,003 | 5,168,362 | - | 9,138,500 |
| Loans and advances to banks | 267,209 | 29,227 | - | - | - | - | 296,436 |
| Investment securities at fair value through other comprehensive income | - | - | - | 560,971 | 162,775 | 36,791 | 760,537 |
| Investment securities at fair value through profit and loss | - | - | - | - | - | 12,538 | 12,538 |
| Investment in Associates and Subsidiaries | - | - | - | - | - | 46,553 | 46,553 |
| Derivatives | 14,469 | - | - | - | - | - | 14,469 |
| Derivatives hedge accounting | 175 | - | - | - | - | - | 175 |
| Other assets | - | - | - | - | - | 82,472 | 82,472 |
| **Total assets** | **2,615,499** | **582,951** | **1,724,036** | **2,518,459** | **5,331,137** | **178,354** | **12,950,436** |
| **LIABILITIES** | | | | | | | |
| Due to Banks | 515,154 | - | - | - | - | - | 515,154 |
| Demand deposits from banks | 248,294 | - | - | - | - | - | 248,294 |
| Term deposits from banks | 266,860 | - | - | - | - | - | 266,860 |
| Due to customers | 4,774,714 | 1,446,525 | 1,441,966 | 284,871 | 26,793 | - | 7,974,869 |
| Demand deposits from customers | 3,630,553 | - | - | - | - | - | 3,630,553 |
| Term deposits from customers | 1,144,161 | 1,446,525 | 1,441,966 | 284,871 | 26,793 | - | 4,344,316 |
| Borrowings | 52,614 | - | 132,099 | 2,447,397 | 119,483 | - | 2,751,593 |
| Derivatives | 14,354 | - | - | - | - | - | 14,354 |
| Derivatives hedge accounting | 42,858 | - | - | - | - | - | 42,858 |
| Provisions | - | - | - | - | - | 139,021 | 139,021 |
| Other financial liabilities | 142,079 | - | - | - | - | - | 142,079 |
| **Total liabilities** | **5,541,773** | **1,446,525** | **1,574,065** | **2,732,268** | **146,276** | **139,021** | **11,579,928** |
| **Net liquidity GAP** | **(2,926,274)** | **(863,574)** | **149,971** | **(213,809)** | **5,184,861** | **39,333** | |





| December 31, 2018 | Up to 1 month | 1 to 3 months | 3 to 12 months | 1 to 5 years | over 5 years | No fixed maturity | Total |
|---|---|---|---|---|---|---|---|
| **ASSETS** | | | | | | | |
| Cash | 469,476 | - | - | - | - | - | 469,476 |
| Current accounts and deposits at banks | 598,086 | - | - | - | - | - | 598,086 |
| Accounts with the National Bank of Romania | 966,354 | - | - | - | - | - | 966,354 |
| Securities amortised cost | - | - | - | 288,678 | - | - | 288,678 |
| Loans and advances to customers, net | 124,595 | 605,100 | 1,549,701 | 1,251,014 | 4,173,582 | - | 7,703,992 |
| Loans and advances to banks | 2,069 | - | - | - | - | - | 2,069 |
| Investment securities at fair value through other comprehensive income | 96,425 | - | - | 274,780 | 315,665 | 11,331 | 698,201 |
| Investment securities at fair value through profit and loss | - | - | - | - | - | 11,426 | 11,426 |
| Investment in Associates and Subsidiaries | - | - | - | - | - | 11,923 | 11,923 |
| Derivatives | 6,991 | - | - | - | - | - | 6,991 |
| Derivatives hedge accounting | 3,142 | - | - | - | - | - | 3,142 |
| Other assets | - | - | - | - | - | 71,526 | 71,526 |
| **Total assets** | **2,267,138** | **605,100** | **1,549,701** | **1,814,472** | **4,489,247** | **106,206** | **10,831,864** |
| **LIABILITIES** | | | | | | | |
| Due to Banks | 60,542 | 5,005 | 373,403 | - | - | - | 438,950 |
| Demand deposits from banks | 38,301 | - | - | - | - | - | 38,301 |
| Term deposits from banks | 22,241 | 5,005 | 373,403 | - | - | - | 400,649 |
| Due to customers | 4,022,801 | 1,160,341 | 1,171,782 | 658,105 | 19,634 | - | 7,032,663 |
| Demand deposits from customers | 2,602,190 | - | - | - | - | - | 2,602,190 |
| Term deposits from customers | 1,420,611 | 1,160,341 | 1,171,782 | 658,105 | 19,634 | - | 4,430,473 |
| Borrowings | 2,915 | - | - | 699,585 | 1,387,671 | - | 2,090,171 |
| Derivatives | 8,270 | - | - | - | - | - | 8,270 |
| Derivatives hedge accounting | 25,938 | - | - | - | - | - | 25,938 |
| Provisions | - | - | - | - | - | 123,727 | 123,727 |
| Other financial liabilities | 117,874 | - | - | - | - | - | 117,874 |
| **Total liabilities** | **4,238,340** | **1,165,346** | **1,545,185** | **1,357,690** | **1,407,305** | **123,727** | **9,837,593** |
| **Net liquidity GAP** | **(1,971,202)** | **(560,246)** | **4.516** | **456.782** | **3.081.942** | **(17,521)** | |

Taking into consideration the specificity of the banking activity, deposits taken from non-banking clients mainly have maturities less than 12 months, still, these deposits are renewed in a significant proportion at each maturity date. Client deposits are supplemented by long term Group Funding. Placements made by the Bank other than client loans have a maturity of less than 3 months or are liquid assets than can be sold/used as collateral to finance a potential liquidity shortfall.

**Hold-to-Collect Financial Investments**

The fair value of securities recorded in the portfolio is stated at the price determined by valuation techniques based on level 2 of the fair value estimate. For government and banking bonds, whose issuers have rating comparable with the country rating, fair value is calculated using the market yield curve without credit margin. For other types of bonds the credit margin reflecting the issuer's credit risk is applied in addition to the market yield curve.

**Amounts due to Banks and Deposits from the National Bank of Romania and Other Banks and Amounts due to Customers**

The fair value of term deposits payable on demand represents the carrying value of amounts payable on demand as at the statement of financial position date.

The fair value of term deposits will be determined using the interest rates in the standard offer of the bank. In this sense, deposits will be grouped into maturity bands depending on their residual maturity. For each maturity band it will be set the standard interest rate applicable for the middle of the interval by linear interpolation. Using the determined interest rate, the fair value of term deposits will be calculated as the present value of cash flows.

### 4.5 Operational Risk

Operational risk represents the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events, and includes legal risk.

The operational risk management comprises consistent identification and evaluation of operational risks, followed by the identification and execution of the measures for managing and diminishing the risks thus defined.

Operational risk event represents an event or incident, as a result of which a process/activity produces or may produce an outcome other than expected, with a negative financial impact/positive impact on the profit or the Bank's capital and it is caused by human error or intentional damage, non-compliant or erroneous, incorrect operation of processes/activities, systems or caused by factors other than external credit risk or market risk.

The Bank has a governance framework for operational risk that includes policies and procedures for the identification, evaluation, analysis, monitoring and control/decrease of operational risk. Policies and procedures are based on the size, nature and complexity of Bank's activities, being regularly adjusted according to the operational risk profile of the Bank, respectively according to the changes and external evolutions of the market. Policies and procedures include additional risks prevalent in certain operational activities and cover the periods when the operational risk might increase.

Operational risks are identified in two ways:

a) First, all loss events that actually occurred must be collected and registered (direct/real loss for the Bank and also collateral losses, derived from unrealized profit);
b) Second, there must be identified the potential risks that could lead to direct/real financial losses.

Each organizational unit is responsible with the periodical collection and management of data regarding the operational risk loss events.

The Bank prepares annually the risks self-assessment, as an integral part in the process of operational risk management. The self-assessment allows the identification and assessment of of risks potentially affecting banking processes, organised by process owners.

The Bank has established a system of Key Risk Indicators (KRI) that are used for monitoring the operational risk exposure's level. The KRI's highlight the generating factors or the risk factor impact over the Bank. The key risk indicators aim is to forecast risks and to provide assistance in order to avoid certain losses arising from operational risk. Also, KRI have the role to identify warning signals of potential losses.

The relevance and importance of the indicators is established considering the importance of the content of the particular indicator in supporting decisions, the importance of the risk assessment, the degree of risk correlation, objectivity and ease of its calculation.

The Bank's regulations on operational risk enforces:

- Periodical revision of the framework regarding operational risk management within the Bank;
- Provisioning for operational risk in order to minimize the impact generated by recorded losses from operational risk events at the Bank's level;
- Permanent support for organizational units in order to prepare reports for operational risk;
- Information of organizational units about decisions of Operative Risk Committee and Management Board;
- Evaluation of the exposure to operational risk based on the history of recorded losses and permanent update of the database regarding events that generate losses from operational risks, reported by the organizational units;
- Evaluation of the activities and processes, products and systems by performing annual self-assessment of activities and processes that take place within all organizational units, for reporting the risks already identified during the activity or the potential risks and the control measures to reduce their occurrence or for risk elimination;
- Preparation of scenarios for the continuity of Bank's activity in unpredictible situations. The business continuity plan is one of the instruments used by the Bank for the operational risk management.

The Bank has a historical database, also aligned to the Group's requirements, where operational risk events monthly reported by all organizational units are centralized.

## 5. FAIR VALUE OF FINANCIAL INSTRUMENTS

### Fair value of the Bank's Financial Assets and Liabilities

The fair value of the Bank's financial assets and liabilities is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

Where available, fair value estimates are made based on quoted market prices. In circumstances where the quoted market prices are not readily available, the fair value is estimated using discounted cash flow models or other pricing models as appropriate. Market inputs are used in valuation models to the maximum extent. Changes in underlying assumptions, including discount rates and estimated future cash flows, significantly impact on the estimates. Therefore, the estimated market fair values may not be realised in the current sale of the financial instrument.

**Management's assessment of fair values**

Where the fair value of financial instruments cannot be derived from active market, the Bank establishes fair value by using a valuation technique. The objective of using a valuation technique is to establish what the transaction price would have been on the measurement date in an arm's length exchange motivated by normal business considerations. Valuation techniques include using recent arm's length market transactions between knowledgeable, willing parties, if available, reference to the current fair value of another instrument that is substantially the same, discounted cash flow analysis models. Deciding on the model inputs requires judgment.

**Cash, amounts due from banks and balances with the National Bank of Romania and placements with other banks**

The carrying values of cash and balances with central banks are generally deemed to approximate their fair value.

The fair value of other amounts due from banks is estimated based upon discounted cash flow analyses using interest rates currently offered for investments with similar terms (market rates adjusted to reflect credit risk). The fair value of non-performing amounts due from banks is estimated using a discounted cash flow analysis or the appraised value of the underlying collateral level 2 of the fair value estimate. Provisions are not taken into consideration when calculating fair values.

**Loans**

Generally, the fair value of variable yield loans that are regularly re-valued approximates their carrying value with no significant changes in credit risks. The fair value of loans at fixed interest rates is estimated using discounted cash flow analyses, based upon interest rates currently offered for loans with similar terms to borrowers of similar credit risks.

The fair value of non-performing loans to customers is estimated using a discounted cash flow analysis or the appraised value of the underlying collateral, where available.

**Methods and assumptions in consideration to the fair value of financial instruments:**

- **Short term financial assets and liabilities,** defined as those with remaining maturities of 90 days or less - the fair value approximates their carrying amounts due to their short term maturity. The following instruments were considered predominantly short-term: on the asset side, cash, current account and deposits at banks, accounts with NBR and on the liability side demand deposits from banks and demand deposits from customers as well as certain term deposits from customers.
- **Investment securities at fair value through profit and loss** – this category includes unlisted securities and other investments. The fair value of these instruments is determined by a series of methods based on available data and their reliability, as well as by the factors specific to the actions to be assessed. Based on professional judgment, one of the methods will be selected: investment valuation using the DCF method, benchmarking based on market multiples, other indicators that can be taken into account during the assessment, other indicators specific to sectoral features. The bank owns fund units registered as equity instruments. The revaluation operation is executed on a monthly basis based on the NAVU communicated by the fund manager. The fair value is the number of units owned by the fund * the corresponding NAVU.
- **Investment securities at fair value through other comprehensive income** - The fair value of each transaction will be calculated as Nominal value * the Bid Clean price expressed in percent (relative to the revaluation date) plus the coupon accumulated up to the revaluation date.
- **Loans and advances to customers, net** - the fair value of loans is established using the current market prices for the loan products. The fair value is determined as the present value of future cash flows.
- **Borrowings and deposits from customers granted attracted at variable interest rates** - the fair value of long-term loan contracts is determined as the present value of future cash flows using the zero coupon yield curves and the intragroup financing margins valid at the valuation date.





The fair value of the client's term deposits is determined using the interest rates of the bank's standard offer; the fair value of term deposits will be calculated as the present value of future cash flows.

The following table summarizes the carrying amounts of financial assets and financial liabilities presented on the Bank's balance sheet, and their fair values:

| Lines of the balance sheet | Carrying Amount | | Fair Value | |
|---|---|---|---|---|
| | December 31, 2019 | December 31, 2018 | December 31, 2019 | December 31, 2018 |
| **FINANCIAL ASSETS** | | | | |
| Cash | 635,212 | 469,476 | 635,212 | 469,476 |
| Current accounts and deposits at Banks | 417,025 | 598,086 | 417,025 | 598,086 |
| Accounts with the National Bank of Romania | 1,002,064 | 966,354 | 1,002,064 | 966,354 |
| Securities held-to-maturity/ amortised cost | 544,455 | 288,678 | 598,182 | 288,678 |
| Loans and advances to customers, net | 9,138,500 | 7,703,992 | 9,266,792 | 7,692,179 |
| Loans and advances to banks | 296,436 | 2,069 | 296,436 | 2,069 |
| Investment securities at fair value through profit and loss | 12,538 | 11,426 | 12,538 | 11,426 |
| Investment securities at fair value through other comprehensive income | 760,537 | 698,201 | 760,537 | 698,201 |
| Derivatives | 14,469 | 6,991 | 14,469 | 6,991 |
| Derivatives hedge accounting | 175 | 3,142 | 175 | 3,142 |
| **FINANCIAL LIABILITIES** | | | | |
| Demand deposits from banks | 248,294 | 38,301 | 248,294 | 38,301 |
| Term deposits from banks | 266,860 | 400,649 | 266,860 | 400,649 |
| Demand deposits from customers | 3,630,553 | 2,602,190 | 3,630,553 | 2,602,190 |
| Term deposits from customers | 4,344,316 | 4,430,473 | 4,380,556 | 4,453,543 |
| Borrowings | 2,751,593 | 2,090,171 | 2,753,501 | 2,096,359 |
| Derivatives | 14,354 | 8,270 | 14,354 | 8,270 |
| Derivatives hedge accounting | 42,858 | 25,938 | 42,858 | 25,938 |

The Bank measures fair values using the following fair value hierarchy that reflects the significance of the inputs used in making the measurements.

- Level 1: quoted market price in an active market for an identical instrument;
- Level 2: valuation techniques based on observable inputs. This category includes instruments valued using: quoted market prices in active markets for similar instruments, quoted prices for similar instruments in markets that are considered less than active or other valuation techniques where all significant inputs are directly or indirectly observable from market data;
- Level 3: valuation techniques which are not based on observable inputs.

### Financial assets measured at fair value

| | | | | December 31, 2019 |
|---|---|---|---|---|
| | Level 1 | Level 2 | Level 3 | TOTAL |
| Investment securities at fair value through profit and loss | - | 12,538 | - | 12,538 |
| Investment securities at fair value through other comprehensive income | - | 760,537 | - | 760,537 |
| Derivative financial instruments | - | 14,469 | - | 14,469 |
| Forward transactions | - | 8 | - | 8 |
| Fx swap | - | 12,078 | - | 12,078 |
| Interest rate swaps | - | 2,383 | - | 2,383 |
| Currency options | - | - | - | - |
| Derivatives hedge accounting | - | 175 | - | 175 |
| **Total Financial Assets measured at fair value** | **-** | **787,719** | **-** | **787,719** |

| | | | | December 31, 2018 |
|---|---|---|---|---|
| | Level 1 | Level 2 | Level 3 | TOTAL |
| Investment securities at fair value through profit and loss | - | 11,426 | - | 11,426 |
| Investment securities at fair value through other comprehensive income | - | 698,201 | - | 698,201 |
| Derivative financial instruments | - | 6,991 | - | 6,991 |
| Forward transactions | - | - | - | - |
| Fx swap | - | 5,630 | - | 5,630 |
| Interest rate swaps | - | 1,281 | - | 1,281 |
| Currency options | - | 80 | - | 80 |
| Derivatives hedge accounting | - | 3,142 | - | 3,142 |
| **Total Financial Assets measured at fair value** | **-** | **719,760** | **-** | **719,760** |

### Financial assets for which fair value is disclosed

| | | | | December 31, 2019 |
|---|---|---|---|---|
| | Level 1 | Level 2 | Level 3 | TOTAL |
| Cash | 635,212 | - | - | 635,212 |
| Current accounts and deposits at banks | - | 417,025 | - | 417,025 |
| Accounts with the National Bank of Romania | - | 1,002,064 | - | 1,002,064 |
| Securities amortised cost | - | 544,455 | - | 544,455 |
| Loans and advances to banks | - | 296,436 | - | 296436 |
| Loans and advances to customers, net | - | - | 9,266,792 | 9,266,792 |
| **Total financial assets for which fair value is disclosed** | **635,212** | **2,259,980** | **9,266,792** | **12,161,984** |

| | | | | December 31, 2018 |
|---|---|---|---|---|
| | Level 1 | Level 2 | Level 3 | TOTAL |
| Cash | 469,476 | - | - | 469,476 |
| Current accounts and deposits at banks | - | 598,086 | - | 598,086 |
| Accounts with the National Bank of Romania | - | 966,354 | - | 966,354 |
| Securities amortised cost | - | 288,678 | - | 288,678 |
| Loans and advances to banks | - | 2,069 | - | 2,069 |
| Loans and advances to customers, net | - | - | 7,692,179 | 7,692,179 |
| **Total financial assets for which fair value is disclosed** | **469,476** | **1,855,187** | **7,692,179** | **10,016,842** |



Notes to the Separate Financial Statements for the period ended December 31st, 2019

### Financial liabilities measured at fair value

| | | | | December 31, 2019 |
|---|---|---|---|---|
| | Level 1 | Level 2 | Level 3 | TOTAL |
| Derivative financial instruments | - | 14,354 | - | 14,354 |
| Forward transactions | - | 66 | - | 66 |
| Fx swap | - | 11,905 | - | 11,905 |
| Interest rate swaps | - | 2,383 | - | 2,383 |
| Currency options | - | - | - | - |
| Derivatives hedge accounting | - | 42,858 | - | 42,858 |
| Interest rate swaps | - | 42,858 | - | 42,858 |
| **Total financial liabilities measured at fair value** | **-** | **57.212** | **-** | **57.212** |

| | | | | December 31, 2018 |
|---|---|---|---|---|
| | Level 1 | Level 2 | Level 3 | TOTAL |
| Derivative financial instruments | - | 8,270 | - | 8,270 |
| Forward transactions | - | 3 | - | 3 |
| Fx swap | - | 6,906 | - | 6,906 |
| Interest rate swaps | - | 1,281 | - | 1,281 |
| Currency options | - | 80 | - | 80 |
| Derivatives hedge accounting | - | 25,938 | - | 25,938 |
| Interest rate swaps | - | 25,938 | - | 25,938 |
| **Total financial liabilities measured at fair value** | **-** | **34,208** | **-** | **34,208** |

### Financial liabilities for which fair value is disclosed

| | | | | December 31, 2019 |
|---|---|---|---|---|
| | Level 1 | Level 2 | Level 3 | TOTAL |
| Due to Banks | - | 515,154 | - | 515,154 |
| Due to customers | - | 8,011,109 | - | 8,011,109 |
| Borrowings | - | 2,753,501 | - | 2,753,501 |
| **Total financial liabilities for which fair value is disclosed** | **-** | **11,279,764** | **-** | **11,279,764** |

| | | | | December 31, 2018 |
|---|---|---|---|---|
| | Level 1 | Level 2 | Level 3 | TOTAL |
| Due to Banks | - | 438,950 | - | 438,950 |
| Due to customers | - | 7,055,733 | - | 7,055,733 |
| Borrowings | - | 2,096,359 | - | 2,096,359 |
| **Total Financial Liabilities for which fair value is disclosed** | **-** | **9,591,042** | **-** | **9,591,042** |

# 6. NET INTEREST INCOME

| | December 31, 2019 | December 31, 2018 |
|---|---|---|
| Interest on loans and advances to customers | 516,646 | 433,668 |
| **Total interest on loans** | **516,646** | **433,668** |
| Deposits and accounts with other banks | 1,942 | 2,534 |
| Demand deposits and accounts with the Central Bank | 2,565 | 1,148 |
| **Total interest on deposits with banks** | **4,507** | **3,682** |
| Reverse repo agreements | 529 | 165 |
| Interest on treasury securities, net | 27,058 | 12,527 |
| **Total interest income** | **548,740** | **450,042** |
| Term deposits | (90,016) | (75,087) |
| Demand deposits | (3,263) | (2,202) |
| **Total interest on customers' deposits** | **(93,279)** | **(77,289)** |
| Interest expense on accounts and deposits with other banks | (8,836) | (5,527) |
| Interest on other borrowed funds | (42,938) | (22,212) |
| Interest expense on lease liabilities | (442) | - |
| **Total interest expense** | **(145,495)** | **(105,028)** |
| **Net interest income** | **403,245** | **345,014** |

Interest on loans includes interest on non-performing loans, in amount of 21,925 thousand, for the year ended December 31, 2019 (19,271 thousand for the year ended December 31, 2018).

Interest on loans increased in 2019, in accordance with the increase of the loans' portfolio, the gross exposure from 2019 is larger by RON 1,435 milion.

Interest expense increased in 2019 was influenced by the rising of the interest rates on local financial market.



Notes to the Separate Financial Statements for the period ended December 31st, 2019

# 7. FEES AND COMMISSIONS INCOME AND EXPENSES

| Fees and commissions income | December 31, 2019 | December 31, 2018 |
|---|---|---|
| Fees and commissions related to lending | 18,103 | 17,863 |
| Deposit and account maintenance fees and commissions | 22,595 | 22,159 |
| Fees and commissions related to the issued bank cards | 12,775 | 11,738 |
| Fees related to cash withdrawal | 7,719 | 6,497 |
| Fees and commissions related to fund management | 2,915 | 3,037 |
| Fees related to cards accepting activities | 13,756 | 11,980 |
| Commissions related to payments services | 4,120 | 4,456 |
| Other | 454 | 431 |
| **Fees and commissions from contracts with customers** | **64,334** | **60,298** |
| **Total** | **82,437** | **78,161** |

| Fees and commissions expense | December 31, 2019 | December 31, 2018 |
|---|---|---|
| Fees and commissions related to issued bank cards | (15,291) | (13,005) |
| Interchange fees | (13,470) | (11,565) |
| Fees and commissions related to deposits | (2,835) | (2,616) |
| Cash withdrawal transaction fees | (109) | (99) |
| Other | (8,703) | (2,067) |
| **Total fees and commissions expense** | **(40,408)** | **(29,352)** |
| **Net profit from fees and commissions** | **42,028** | **48,809** |

Fee and commission income is in amount of RON 72.4 million (increased by 9.87% compared to 2018) and fee and commission expenses are in amount of RON 40.4 million (increased by 37.7% compared to 2018).

**Revenues recognised from contracts with customers are coming from the following categories:**

- **fees related to lending which are not included in the effective interest rate calculation due to their nature**

For example, in case of revolving credit lines (where the borrower has the option to make multiple drawns up to a maximum amount, to repay part of such trenches and then to re-draw under the same loan agreement), the net fees are recognized on a straight-line basis over the period when the revolving credit line is available. Also, in this category, the Bank includes the following commissions: tax for credit analyse (for those analyses for which the loans are not granted), early reimbursement commission, commission for not witdrawing the loan (for off blance exposures) etc.
Also, commissions for financial guarantees and letters of credit are amortized linearly

Notes to the Separate Financial Statements for the period ended December 31st, 2019

over the lifetime of the instruments.

- **fees related to standard banking services-deposit and account maintenance fees and commissions**

This applies to a wide range of standard banking services, related fees (SMS alert, OTPdirekt monthly fee,opening current accounts, escrow accounts, material guarantees account and closing accounts etc.).
Such fees are treated as one-off fees related to specific service that is provided by the Bank and therefore accounted when the service is provided, but also can be charged monthly for the services provided in the previous month.

- **fees and commission related to the issued bank cards**

The Bank provides a variety of bank cards to its customers, for which different fees are charged.

- Fees for ongoing services are charged on a monthly basis during the period when they are provided:
  The fees are basically charged in connection with the issuance of cards and the related card transactions. The monthly administration fees of the cards are charged at the end of the month in a fixed amount for those cards which are in use by the clients. The amount of the monthly card fee depends on the type of card.
  Fees for ongoing services are charged on a monthly basis during the period when they are provided.
- Transaction-based fees are charged when the transaction takes place:
  In case of transaction-based fees (e.g. cash withdrawal/payment fee, merchant fee, interchange fee, etc.), the settlement of the fees will take place immediately after the transaction or on a monthly basis. The fee is typically determined in % of the transaction with a fixed minimum amount.

- **fees related to cash withdrawal,**

These commissions are recognised every time when the cardholder performs withdrawels from ATM. Commissions for all transactions carried out in branches involving cash such as: withdrawal, deposit and exchange.

- **fees and commissions related to fund management**

Fees from fund management services provided to investment funds. The fee incomes are calculated on the basis of market value of the portfolio and by the fee rates determined in the contracts.

- **fees and commission related to cards accepting activities**

These commissions are perceived for each transactions performed with the card at the merchant, but is perceived from the merchant, not from the cardholder.

- **fees and commission related to payments services**

These commissions are charged when the transaction takes place. We have included in this category all the commissions that refer to the direct debit conventions, money gram, payment orders and other means of payment.

- **other fees for financial services**

Fees that are not significant in the Bank total income are included in Other fees category. Such fees are safe lease, special procedure fee, fee of a copy of document, issuing comfort letters, etc.
Other fees may include charges for continuous services or for ad hoc administration services. Continuous fees are charged monthly (e.g., cash management fee). Fees for ad hoc services are charged immediately after the service obligation were met, usually in a fixed amount.

# 8. IMPAIRMENT LOSSES

| | Note | December 31, 2019 | December 31, 2018 |
|---|---|---|---|
| Allowance for loans receivable | 18 | (306,505) | (421,942) |
| Release of provisions for loans receivable | 18 | 212,939 | 341,727 |
| **Impairment losses on loans and advances to customers** | | **(93,566)** | **(80,215)** |
| Impairment losses on other assets | | | |
| (Impairment losses) / Release Provisions for litigation risk and CHF loan conversion | 18 | (10,577) | (34,459) |
| (Impairment losses) / Release on other Off BS commitments | | (1,081) | (8,092) |
| (Impairment losses) / Release of provision for advances to customers | | (994) | (1,368) |
| (Impairment losses) / Release Provisions for inventory | | (225) | (192) |
| (Impairment losses) / Release Provisions for fixed assets | | (18) | 3,365 |
| (Impairment losses) / Release Restructuring provision | 19 | - | 99 |
| (Impairment losses) / Release Provision on Investment property | | 193 | 3,725 |
| (Impairment losses) / Release Operational risk provisions | | 320 | 100 |
| (Impairment losses) / Release from sold receivables | | 1,520 | (3,825) |
| **Total (Impairment losses) / Release on other assets provisions** | | **(10,862)** | **(40,647)** |
| **Total Impairment losses on loans and other assets** | | **(104,428)** | **(120,862)** |

Impairment losses decreased from RON 120.9 million to RON 104.4 million as a result of the methodology for calculating impairment adjustments in line with the new IFRS 9 reporting standard. With this Standard, depreciation adjustments for expected losses are calculated for all financial assets, and for loans granted according to the stages in which they are located, adjustments are calculated for expected losses over the next 12 months or expected lifetime losses. Also in this position is the increase in provisions for litigation.

Notes to the Separate Financial Statements for the period ended December 31st, 2019

# 9. TRADING INCOME

| | December 31, 2019 | December 31, 2018 |
|---|---|---|
| Net foreign exchange income | 97,068 | 20,197 |
| Net foreign exchange income related to derivatives | (7,868) | 43,513 |
| **Total trading income** | **89,200** | **63,710** |

# 10. PERSONNEL EXPENSES

The value representing "Salaries" at the end of 2019 and 2018 does not contains management contracts. At December 31, 2019, the expense with the management contracts was RON 6,681 thousand (RON 5,284 thousand as at December 31, 2018).

| | December 31, 2019 | December 31, 2018 |
|---|---|---|
| Salaries | (172,546) | (144,260) |
| Social insurance contributions | (4,129) | (3,391) |
| Other employee benefits | (7,045) | (3,902) |
| **Salaries** | **(183,720)** | **(151,553)** |

# 11. OPERATIONAL EXPENSES

| | December 31, 2019 | December 31, 2018 |
|---|---|---|
| Rent and utilities expenses* | (1,562) | (19,865) |
| Insurance premiums | (3,889) | (3,198) |
| Fees for experts and services** | (15,876) | (15,135) |
| Cards related expenses | (8,083) | (7,262) |
| Advertising | (22,487) | (14,065) |
| Taxes*** | (20,607) | (10,425) |
| Other administrative expenses | (59,876) | (46,153) |
| **Total** | **(132,380)** | **(116,103)** |

*The rent and utilities expenses decreases significantly due to the adoption of IFRS 16. The expence is now reflected under the depreciecion charge of the right -of-use assets in amount of RON 20,284 thousand (Note 19.2.1). The amount for 2019 containes just the rent for low value assets.

** Fees for experts and services include the fees paid by the Bank to the statutory audit firm and other companies from their group: audit of statutory financial statements and group reporting package of the Bank and its controlled undertakings: RON 1,715 thousand (December 31, 2018: RON 854 thousand).

*** The annual contribution to Guarantee Scheme and Resolution Fund for 2019 were RON 12,631 thousand compared with 7,900 thousand in 2018.

# 12. OTHER INCOME AND OTHER EXPENSES

| | December 31, 2019 | December 31, 2018 |
|---|---|---|
| Rent and utilities income | 425 | 318 |
| Other non-banking services | 2,170 | 2,309 |
| Insurance premiums | 991 | 1,008 |
| Other operating income | 6,534 | 5,825 |
| Income from dividends VISA | 37 | 46 |
| Other income from loans | 4,781 | 6,172 |
| **Total other income** | **14,938** | **15,678** |
| Other operating expenses | (12,684) | (20,217) |
| **Total, net** | **2,254** | **(4,539)** |

# 13. CASH AND CASH EQUIVALENT

| | December 31, 2019 | | | December 31, 2018 | | |
|---|---|---|---|---|---|---|
| | RON | FCY | Total | RON | FCY | Total |
| Cash | 220,664 | 363,090 | 583,754 | 131,329 | 299,663 | 430,992 |
| Cash in ATM | 51,458 | - | 51,458 | 38,484 | - | 38,484 |
| **Total** | **272,122** | **363,090** | **635,212** | **169,813** | **299,663** | **469,476** |

For purposes of the statement of cash flows, the Bank considers cash on hand and current accounts at banks as cash and cash equivalents as follows:

| | December 31, 2019 | December 31, 2018 |
|---|---|---|
| Cash and cash equivalents | 635,212 | 469,476 |
| Current accounts and deposits at banks | 417,025 | 598,086 |
| Cash at the National Bank of Romania | 1,002,064 | 966,354 |
| | **2,054,301** | **2,033,916** |
| Less Compulsory reserves at National Bank of Romania | (689,765) | (549,891) |
| **Total cash and cash equivalents** | **1,364,536** | **1,484,025** |

# 14. CURRENT ACCOUNTS AND DEPOSITS AT BANKS

| | December 31, 2019 | | | December 31, 2018 | | |
|---|---|---|---|---|---|---|
| | RON | FCY | Total | RON | FCY | Total |
| Current accounts at banks | 17,002 | 395,017 | 412,019 | 172,012 | 424,004 | 596,016 |
| Deposits at banks | - | 5,006 | 5,006 | - | 2,070 | 2,070 |
| **Total** | **17,002** | **400,023** | **417,025** | **172,012** | **426,074** | **598,086** |

The bank's placements as at December 31, 2019 (as well as at December 31, 2018) are free of any obligation or commitment (not pledged).

The interest rates received by OTP Bank Romania S.A. for current accounts and deposits at banks as at the reporting dates were the following:

| | December 31, 2019 | | December 31, 2018 | |
|---|---|---|---|---|
| | RON | FCY | RON | FCY |
| Current accounts with banks | 0.00% | 0.00% | 0.00% | 0.00% |
| Deposits at banks | 0% - 3.05% | (0.5)% - 1.67% | 2.50% - 3.25% | (0.25)% - 0.08% |

Currents accounts with banks are not bearing interest.

Placement with other banks represent short term excess liquidity placed on the money market.

# 15. ACCOUNTS WITH THE NATIONAL BANK OF ROMANIA (NBR)

| | December 31, 2019 | | | December 31, 2018 | | |
|---|---|---|---|---|---|---|
| | RON | FCY | Total | RON | FCY | Total |
| Current accounts | 741,296 | 260,768 | 1,002,064 | 273,988 | 692,366 | 966,354 |

The National Bank of Romania ("NBR") requires Romanian commercial banks to maintain certain reserves ("mandatory reserve") computed in accordance with specific regulations by applying a percentage to the average balance of other borrowed funds (deposits from clients and borrowings) on a definite period of time and whose withdrawal are restricted.For the application period December 24, 2019 – January 23, 2020, the minimum mandatory reserve was determined at the level of RON 689,765 thousand (December 31, 2018: RON 549,891 thousand).

As at December 31, 2019, the reserve was set up at the following rates:
- RON: 8% of the borrowed funds in local currency (December 31, 2018: 8%);
- Foreign currency: 8% of the borrowed funds in other than local currency (December 31, 2018: 8%).

The interest rate paid by the National Bank of Romania for minimum mandatory reserve as of December 31, 2019 was as follows:
- RON: 0.20% (31 decembrie 2018: 0.20%)
- EUR: 0.01% (31 decembrie 2018: 0.02%)





# 16. SECURITIES AT AMORTIZED COST

Treasury securities represent financial instruments hold to collect (treasury certificates), issued by the Romanian Ministry of Finance.

Total treasury securities issued by the Romanian Ministry of Finance held by the Bank as of December 31, 2019 stand for RON 544,455 thousand (RON 288,678 thousand as of December 31, 2018).

On December 31, 2019, we have securities with residual maturity less than 1 year in amount of RON 20,125 thousand (no securities for December 31, 2018 with residual maturity less than 1 year). The treasury bonds are unencumbered and at the immediate disposal of the Bank as at December 31, 2019 and December 31, 2018. In accordance with IFRS 9 expected credit loss model, treasury bonds are classified as stage 1 at December 31, 2019 and December 31, 2018.

Moody's ratings available for Romania as at December 31, 2019 were as follows:

- Local currency: Baa3;
- Foreign currency: Baa3.

The structure of bonds and other fixed-yield securities as at December 31, 2019 and December 31, 2018 was the following:

| | December 31, 2019 | December 31, 2018 |
|---|---|---|
| Fixed rate Bonds | 533,146 | 282,682 |
| Accrued interest | 12,006 | 6,467 |
| Loss allowance on securities at amortized cost | (697) | (471) |
| **TOTAL Securities at amortizezd cost** | **544,455** | **288,678** |

# 17. LOANS AND ADVANCES TO BANKS

The loans and advances to banks presented below as at December 31, 2019 are transit amounts to be received from banks.

| | December 31, 2019 | December 31, 2018 |
|---|---|---|
| Loans and advances to banks | 296,436 | 2,069 |
| - from with Reverse Repo | 295,869 | - |
| **Total loans and advances to banks** | **296,436** | **2,069** |

# 18. LOANS AND ADVANCES TO CUSTOMERS

### a) Structure of loans (gross and net amounts)

The item "Loans and advances to customers, net" includes all financial assets which are not classified as "Financial assets at fair value through profit or loss", "Securities at amortised cost" and has the following structure:

| | December 31, 2019 | December 31, 2018 |
|---|---|---|
| Loans, gross * | 9,588,630 | 8,119,576 |
| Impairment losses on loans | (450,130) | (415,584) |
| **Loans, net** | **9,138,500** | **7,703,992** |

* includes POCI category. At December 31, 3019, the POCI financial assets has a net exposure of RON 61,425 thousand (RON 66,995 thousand as at December 31, 2018).

### b) Structure of loans by currency (gross and net amounts)

| | December 31, 2019 | | | December 31, 2018 | | |
|---|---|---|---|---|---|---|
| **Structure by currency** | **RON** | **FCY** | **Total** | **RON** | **FCY** | **Total** |
| Loans, gross | 6,402,587 | 3,186,043 | 9,588,630 | 5,064,644 | 3,054,932 | 8,119,576 |
| Impairment losses on loans and advances to customers | (270,567) | (179,563) | (450,130) | (236,224) | (179,360) | (415,584) |
| **Total loans and advances to customers, net** | **6,132,020** | **3,006,480** | **9,138,500** | **4,828,420** | **2,875,572** | **7,703,992** |

### c) Structure of loans by type of customer (net amounts)

| | December 31, 2019 | | | |
|---|---|---|---|---|
| | **Total loans** | **RON** | **FCY** | **%** |
| Legal entities | 4,338,916 | 2,691,965 | 1,646,951 | 47.48% |
| Individuals | 4,799,584 | 3,440,055 | 1,359,529 | 52.52% |
| **Total loans and advances to customers, net** | **9,138,500** | **6,132,020** | **3,006,480** | **100%** |

| | December 31, 2018 | | | |
|---|---|---|---|---|
| | **Total loans** | **RON** | **FCY** | **%** |
| Legal entities | 3,715,009 | 2,325,333 | 1,389,676 | 48.22% |
| Individuals | 3,988,983 | 2,503,086 | 1,485,897 | 51.78% |
| **Total loans and advances to customers, net** | **7,703,992** | **4,828,419** | **2,875,573** | **100%** |



Notes to the Separate Financial Statements for the period ended December 31st, 2019

### d) Concentration by sector for legal entities and by product for individuals

| | December 31, 2019 | | December 31, 2018 | |
|---|---|---|---|---|
| **RETAIL** | **4,799,584** | **53%** | **4,007,177** | **52%** |
| Consumer loans | 849,451 | 9% | 750,158 | 10% |
| Housing | 3,950,133 | 43% | 3,257,019 | 42% |
| **CORPORATE** | **4,338,916** | **47%** | **3,696,815** | **48%** |
| Real estate and construction | 1,341,787 | 15% | 917,784 | 12% |
| Trade and finance | 946,160 | 10% | 858,848 | 11% |
| Manufacturing | 644,559 | 7% | 689,336 | 9% |
| Services | 630,324 | 7% | 475,093 | 6% |
| Agriculture and forestry | 585,253 | 6% | 449,642 | 6% |
| Transportation and communications | 181,599 | 2% | 168,239 | 2% |
| Other sectors | 9,234 | 0% | 137,873 | 2% |
| **Total loans and advances to customers, net** | **9,138,500** | **100%** | **7,703,992** | **100%** |

### e) Impairment allowance movement

| | December 31, 2019 | | | | |
|---|---|---|---|---|---|
| | **Stage 1** | **Stage 2** | **Stage 3** | **POCI** | **Total** |
| **Gross carrying amount as at 1 st January 2019** | **6,862,705** | **689,466** | **473,919** | **93,486** | **8,119,576** |
| Transfers to Stage 1 | 101,596 | (97,184) | (4,412) | - | - |
| Transfers to Stage 2 | (245,097) | 265,745 | (20,648) | - | - |
| Transfers to Stage 3 | (140,106) | (33,625) | 173,731 | - | - |
| New financial assets originated or purchased | 3,209,645 | 49,805 | 35,866 | 1,211 | 3,296,527 |
| Assets derecognised or fully repaid (excluding receivables write offs) | - | - | (69,141) | (2,441) | (71,582) |
| Write-off | (5) | - | (26,370) | (2,574) | (28,949) |
| Other changes including repayments | (1,539,406) | (128,551) | (55,686) | (3,299) | (1,726,942) |
| **Gross carrying amount as at December 31, 2019** | **8,249,332** | **745,656** | **507,259** | **86,383** | **9,588,630** |

| | **Stage 1** | **Stage 2** | **Stage 3** | **POCI** | **Total** |
|---|---|---|---|---|---|
| **Impairment allowance as at 1 st January 2019** | **91,174** | **58,310** | **239,609** | **26,491** | **415,584** |
| Transfers to Stage 1 | 5,556 | (3,862) | (1,694) | - | - |
| Transfers to Stage 2 | (4,403) | 14,866 | (10,464) | - | - |
| Transfers to Stage 3 | (1,896) | (4,333) | 6,229 | - | - |
| Increases due to change in credit risk | 2,892 | 46,804 | 160,712 | 13,671 | 224,079 |
| Decreases due to change in credit risk | (42,466) | (63,302) | (86,941) | (20,230) | (212,939) |
| New financial assets originated or purchased | 53,069 | 7,171 | 20,288 | 1,897 | 82,426 |
| Financial assets that have been derecognized | - | - | (37,911) | (1,733) | (39,644) |
| Write-offs | (2) | - | (24,354) | (2,523) | (26,879) |
| Other changes including FX impact | 1,037 | (6,690) | 5,771 | 7,385 | 7,503 |
| **Impairment allowance as at December 31, 2019** | **104,961** | **48,965** | **271,245** | **24,958** | **450,130** |

Notes to the Separate Financial Statements for the period ended December 31st, 2019

# 19. PROPERTY, EQUIPMENT, INTANGIBLE AND LEASES

## 19.1 Property, equipment and intangible assets

In December 2018, the Bank reassessed the land and buildings with an external evaluator member ANEVAR and the total impact of the reevaluation of the buildings is RON 15,571 million impact on its own funds (reserve) and - RON 1,547 thousand against P&L (expenses).

During 2019 the values of disposals of tangible assets are the folowings (in thousand RON):

| Land and Buildings | Furniture and Equipment | Vehicles | Computers |
|---|---|---|---|
| 4,059 | 4,151 | 5,083 | 964 |

| | Land and Buildings | Furniture and Equipment | Vehicles | Computers | Tangible assets | Construction in progress | Other intangibles | Total |
|---|---|---|---|---|---|---|---|---|
| **Gross book value January 1st, 2019** | **178,319** | **79,487** | **11,886** | **26,541** | **296,233** | **10,893** | **105,095** | **412,221** |
| Additions | 4,449 | 10,205 | 5,712 | 14,794 | 35,160 | 130,254 | 76,101 | 241,515 |
| Reclasification | - | - | - | - | - | - | - | - |
| Disposals | (4,177) | (4,379) | (5,084) | (2,345) | (15,985) | (123,201) | (59,889) | (199,075) |
| **Gross book value December 31, 2019** | **178,591** | **85,313** | **12,514** | **38,990** | **315,408** | **17,946** | **121,307** | **454,661** |
| **Accumulated depreciation January 1st, 2019** | **(70,423)** | **(58,520)** | **(8,175)** | **(17,692)** | **(154,810)** | **-** | **(66,624)** | **(221,434)** |
| Depreciation charge for 1 year period ended December 31, 2019 | (8,632) | (4,393) | (1,393) | (4,167) | (18,585) | - | (6,635) | (25,220) |
| Accumulated depreciation of disposals | 3,312 | 3,708 | 5,037 | 961 | 13,018 | - | 345 | 13,363 |
| **Accumulated depreciation December 31, 2019** | **(75,743)** | **(59,205)** | **(4,531)** | **(20,898)** | **(160,377)** | **-** | **(72,914)** | **(233,291)** |
| **Net book value December 31, 2019** | **102,848** | **26,108** | **7,983** | **18,092** | **155,031** | **17,946** | **48,393** | **221,370** |
| **Net book value at cost December 31, 2019** | **68,131** | **26,060** | **7,984** | **18,092** | **120,267** | **17,843** | **48,393** | **186,503** |

| | Land and Buildings | Furniture and Equipment | Vehicles | Computers | Tangible assets | Construction in progress | Other intangibles | Total |
|---|---|---|---|---|---|---|---|---|
| **Gross book value January 1st, 2018** | **161,079** | **74,531** | **12,118** | **23,103** | **270,831** | **12,646** | **84,988** | **368,465** |
| Additions | 26,021 | 11,430 | 504 | 5,968 | 43,923 | 54,956 | 37,605 | 136,484 |
| Reclasification | - | - | - | - | - | - | - | - |
| Disposals | (8,781) | (6,474) | (736) | (2,530) | (18,521) | (56,709) | (17,499) | (92,729) |
| **Gross book value December 31, 2018** | **178,319** | **79,487** | **11,886** | **26,541** | **296,233** | **10,893** | **105,095** | **412,221** |
| **Accumulated depreciation January 1st, 2018** | **(69,141)** | **(58,523)** | **(7,661)** | **(17,587)** | **(152,912)** | **-** | **(65,382)** | **(218,294)** |
| Depreciation charge for 1 year period ended December 31, 2018 | (4,679) | (4,500) | (1,227) | (2,441) | (12,847) | - | (5,526) | (18,373) |
| Accumulated depreciation of disposals | 3,397 | 4,503 | 713 | 2,336 | 10,949 | - | 4,284 | 15,233 |
| **Accumulated depreciation December 31, 2018** | **(70,423)** | **(58,520)** | **(8,175)** | **(17,692)** | **(154,810)** | **-** | **(66,624)** | **(221,434)** |
| **Net book value December 31, 2018** | **107,896** | **20,967** | **3,711** | **8,849** | **141,423** | **10,893** | **38,471** | **190,787** |

## 19.2 Leases

The bank entered into 14 variable interest contracts, which are linked to the index of consumer prices for Romania or for EU.

### 19.2.1 Right-of-use assets

| | Property | Equipment | Total |
|---|---|---|---|
| **Net book value January 1st, 2019** | **50,153** | **209** | **50,362** |
| Additions | 14,973 | 1,104 | 16,077 |
| Disposals | (3,204) | - | (3,204) |
| Depreciation charge | (20,115) | (169) | (20,284) |
| **Net book value December 31, 2019** | **41,807** | **1,144** | **42,951** |

### 19.2.2 Lease liabilities

| Operating lease commitments 2018 | 19,780 |
|---|---|
| Short- term leases and leases of low-value assets | (1,473) |
| Effect of discounting the above amounts | 1,760 |
| Present value of the lease payments due in periods | 29,163 |
| **Lease liability 01.01.2019** | **49,229** |

| Maturity analysis - discounted contractual cashflows | December 31, 2019 |
|---|---|
| Less than one year | 3,512 |
| One to five years | 34,619 |
| More than five years | 6,058 |
| **Lease liabilities included in the statement of financial position** | **44,189** |

| Amounts recognised in profit or loss | December 31, 2019 |
|---|---|
| Interest on lease liabilities | 442 |
| Losses from changes of cash flows – lease liabilities | 3 |
| Expenses related to short term leases | (1,562) |
| **Total** | **(1,117)** |

## 20. INVESTMENT SECURITIES

Investments in securities represent quoted and unquoted shares classified in the following categories as a result of applying IFRS 9:

#### a) Investment securities mandatorily measured at fair value through profit and loss

| Amounts in RON | December 31 2019 | December 31 2018 |
|---|---|---|
| OTP Premium Return | 2,493 | 2,259 |
| OTP Euro Premium Return | 2,614 | 2,457 |
| OTP Real Estate & Construction | 2,481 | 2,205 |
| OTP Dollar Bond | 4,950 | 4,505 |
| **Total** | **12,538** | **11,426** |



Notes to the Separate Financial Statements for the period ended December 31st, 2019

Bank holds investments in fund units of OTP Premium Return and OTP Euro Premium Return, OTP Real Estate & Construction and OTP Bond Dollar, common funds managed by OTP Asset Management SAI.

#### b) Investment securities measured at fair value through other comprehensive income

| Debt instruments securities measured at FVOCI | December 31 2019 | December 31 2018 |
|---|---|---|
| Romania Ministry of Finance | 400,512 | 359,848 |
| Poland Ministry of Finance | 116,146 | 106,457 |
| Slovenia Ministry of Finance | 51,689 | 47,893 |
| Spanish Ministry of Finance | 169,882 | 167,433 |
| Bucharest City Hall | 5,065 | 5,239 |
| **Total** | **743,294** | **686,870** |

| Equity investments, securities designated at FVOCI | December 31 2019 | December 31 2018 |
|---|---|---|
| Equity shares | 17,163 | 11,251 |
| Other investments | 80 | 80 |
| **Total** | **17,243** | **11,331** |

The Bank calculated for the debt instruments measured at amortized cost and FVOCI impairment allowance in amount of ~RON 0.7 million and are classified as Stage 1. The bank designated certain investments shown in the table above as equity securities at FVOCI. The FVOCI designation was made because the investment are expected to be held on long term.

**Shares in MasterCard**

The Bank owns a number of 2,980 shares, with a cost value amounting to 0.03 USD. According with the provisions of IFRS9, this type of asset is held at fair value through other comprehensive income, therefore the fair value of these shares are in amount of RON 3.791 milion.

**Share in VISA Europe LTD.**

The Bank currently helds a number of 1.268 series C VISA Inc. preffered shares with value 1,159,420 USD (eq RON 7,949,331) at December 31, 2018. As of 31 December 2019, the value of 1,268 series C VISA Inc. Preffered shares is RON 12,403 thousand.

**Other companies within OTP Groups**

Right to Education Foundation was registered and incorporated on 23 December 2013 by Decision General Meeting of Shareholders of October 2013. Bank Foundation was created with the support and experience gained in 20 years of activity of the Foundation Fáy, on education pupils and students. The project aims to develop a new dimension and approach in Romania, Bank acting as support for education by creating an institutional and organizational framework.

# 21. INVESTMENT IN ASSOCIATES AND SUBSIDIARIES

| | Gross book value | | Percentage owned |
|---|---|---|---|
| **Valoarea contabilă brută la 1 ianuarie 2019** | **December 31, 2019** | **December 31, 2018** | **December 31, 2019** |
| OTP Advisor SRL | 4,493 | 4,729 | 95% |
| OTP Consulting Romania SRL | 210 | 210 | 75% |
| OTP Leasing IFN Romania SA | 11,713 | 11,713 | 60% |
| OTP Factoring SRL | 34,513 | - | 100% |
| **Total Gross Value** | **50,929** | **16,652** | |
| OTP Advisor SRL | (4,376) | (4,729) | |
| **Total impairment** | **(4,376)** | **(4,729)** | |
| **Total net value** | **46,553** | **11,923** | |

**OTP Leasing Romania IFN S.A.** provides leasing for cars and equipment, operating on the market since August 2007. OTP Bank Romania acquired 60% of the share capital of OTP Leasing Romania, taking shares from the majority shareholder Merkantil Bank Hungary. Both companies are part of the same OTP Group Nyrt. Hungary. The registered office of OTP Leasing Romania IFN S.A. is located on Nicolae Caramfil Street no. 79. District 1, Bucharest.

The value of investment in **OTP Advisors SRL** on December 31, 2018 was RON 4,729 thousand, for which the Bank booked an impairment of 4,729 thousand. During April 2019 the Bank sold 5% of share capital to Inga Ketto Kft, therefore the Bank was not any more the sole share holder of the entity.
OTP Advisors offers direct sales for Bank lending products. The registered office of OTP Advisors LLC is located at the following address: Matei Voievod Str. No. 40, Bucharest.

**OTP Consulting Romania SRL** provides support for foreign investments in Romania and advice for local authorities and small and medium sized companies in accessing EU funds and implementation of projects. The gross value of investment in OTP Consulting Romania SRL has not changed during 2019 compared to 2018. The registered office of OTP Consulting Romania SRL is located at: Dacia Blvd., no. 83, Bucharest.

During December 2019, the Bank increased the participation in the company **OTP Factoring SRL**, and became the sole shareholder of it. The main reasons of this decision are the following:
- the entire collection flow, from the soft collection to the hard one, will be controlled and directed by a single entity in Romania, having the best know-how of the dynamic of local environment;
- the nature of the activity will be more straightforward, close to all operative decisions;
- the increase of the flexibility and speed in decision making;
- the feedback of the entire collection flow to the origination can be more direct and useful ones including also the Factoring's covered period;
- the local standards and legal expectations can be better met since the involvement of Bank's departments will be more adequate based on the governance principles (internal audit, compliance etc.).

The registered office of OTP Factoring SRL is located at: Dacia Blvd., no. 83, office M-03, Bucharest.



Notes to the Separate Financial Statements for the period ended December 31st, 2019

# 22. OTHER ASSETS

| | December 31, 2019 | December 31, 2018 |
|---|---|---|
| Settlement accounts | 47,596 | 44,526 |
| Sundry debtors | 11,702 | 9,650 |
| Advances for tangible & intangible assets | 6,828 | 968 |
| Collaterals | 5,397 | 4,014 |
| Prepayments | 5,206 | 6,316 |
| Tax receivables | 2,526 | 1,551 |
| Tangible assets classified as held for sale | 2,380 | 4,206 |
| Deferred income | 1,788 | 4,080 |
| Inventory | 1,416 | 408 |
| Personnel receivables | 13 | 12 |
| **Total** | **84,852** | **75,731** |

The amount from "Settlement accounts" class mainly represent transit amounts from promissory notes acceptance and transactions from POS. The amounts are settled against clients' accounts in the next days following the reporting period.

# 23. LIABILITIES DUE TO BANKS

| | December 31, 2019 | | | December 31, 2018 | | |
|---|---|---|---|---|---|---|
| | **RON** | **FCY** | **Total** | **RON** | **FCY** | **Total** |
| Demand deposits from banks | 248,017 | 277 | 248,294 | 15,046 | 23,255 | 38,301 |
| Term deposits from banks | 80,017 | 186,843 | 266,860 | 15,020 | 385,629 | 400,649 |
| **Total** | **328,034** | **187,120** | **515,154** | **30,066** | **408,884** | **438,950** |

# 24. LIABILITIES DUE TO CUSTOMERS

| | December 31, 2019 | | | December 31, 2018 | | |
|---|---|---|---|---|---|---|
| | **RON** | **FCY** | **Total** | **RON** | **FCY** | **Total** |
| Customers' current accounts | 1,626,724 | 975,465 | 3,630,553 | 1,626,725 | 975,465 | 2,602,190 |
| Deposits from customers | 2,822,793 | 1,607,680 | 4,344,316 | 2,822,793 | 1,607,680 | 4,430,473 |
| **Total** | **4,449,517** | **2,583,145** | **7,974,869** | **4,449,518** | **2,583,145** | **7,032,663** |

Notes to the Separate Financial Statements for the period ended December 31st, 2019

From the current acounts amounts, a percentage of 59% are held by retail customers, and 41% by legal entities.

From the deposits from customers amounts, a percentage of 28% are held by retail customers, and 72% by legal entities.

According to the currency and amount deposited by the clients. The Bank pays interest rates in the following ranges:

| Term deposits | December 31, 2019 | December 31, 2018 |
|---|---|---|
| RON | 0.00% - 7.00% | 0.00% - 7.00% |
| EUR | 0.00% - 1.40% | 0.00% - 2.15% |
| USD | 0.05% - 2.30% | 0.05% - 2.00% |
| CHF | 0.00% - 0.10% | 0.00% - 0.69% |
| HUF | 0.00% - 0.25% | 0.00% - 0.68% |
| GBP | 0.00% - 0.50% | 0.00% - 0.68% |

| Saving deposits | December 31, 2019 | December 31, 2018 |
|---|---|---|
| RON | 0.00% - 5.00% | 0.00% - 5.00% |
| EUR | 0.00% - 1.04% | 0.00% - 1.13% |
| USD | 0.00% - 1.45% | 0.00% - 2.00% |
| CHF | 0.00% - 0.67% | 0.00% - 0.25% |
| HUF | 0.00% - 0.10% | 0.00% - 0.10% |
| GBP | 0.00% - 0.25% | 0.00% - 0.40% |

## 25. BORROWINGS

The parent company will continue to provide to the Bank any financial support that might be necessary to comply with the central bank's regulatory requirements.

| | December 31, 2019 | December 31, 2018 |
|---|---|---|
| EUROPEAN INVESTMENT BANK | - | 6,763 |
| OTP FINANCING NETHERLANDS B.V. | - | 699,674 |
| OTP FINANCING MALTA COMPANY LTD. * | 2,751,593 | 1,383,734 |
| **Total** | **2,751,593** | **2,090,171** |

* The maturity structure of the deposits taken from OTP Financing Malta LTD is as follows:

| Maturity Date | Amount in thousand RON | Amount in thousand CCY |
|---|---|---|
| December 23, 2020 | 132,099 | CHF 30,000 |
| January 8, 2020 | 47,793 | EUR 10,000 |
| January 8, 2021 | 358,448 | EUR 75,000 |
| January 7, 2022 | 191,172 | EUR 40,000 |
| October 31, 2023 | 253,303 | EUR 53,000 |
| December 27, 2023 | 205,510 | EUR 43,000 |
| August 30, 2024 | 143,379 | EUR 30,000 |
| September 30, 2024 | 95,586 | EUR 20,000 |
| December 31, 2026 | 119,483 | EUR 25,000 |
| November 20, 2022 | 250,000 | EUR 250,000 |
| May 31, 2023 | 150,000 | RON 150,000 |
| August 31, 2023 | 200,000 | RON 200,000 |
| November 20, 2023 | 250,000 | RON 250,000 |
| November 28, 2023 | 100,000 | RON 100,000 |
| November 20, 2024 | 250,000 | RON 250,000 |

## 26. DERIVATIVES

The fair value of the derivative financial instruments is included in "Derivatives". Changes in their fair value that do not qualify for hedge accounting are recognized in the income statement lines "Trading income, net".

The financial derivative instruments at face and fair values as at December 31, 2019 and December 31, 2018 were as follows:

| | December 31, 2019 | | | December 31, 2018 | | |
|---|---|---|---|---|---|---|
| | Notional amount | Asset | Liability | Notional amount | Asset | Liability |
| Cross currency interest rate derivatives | 292,947 | 2,383 | 2,383 | 212,090 | 1,281 | 1,281 |
| Short term currency instruments | 3,871,745 | 12,086 | 11,971 | 3,325,851 | 5,630 | 6,909 |
| Options | - | - | - | 20,599 | 80 | 80 |
| **Total** | **4,164,692** | **14,469** | **14,354** | **3,558,540** | **6,991** | **8,270** |

# 27. DERIVATIVES ASSETS/LIABILITIES DESIGNATED AS HEDGING INSTRUMENTS

| | December 31, 2019 | | | December 31, 2018 | | |
|---|---|---|---|---|---|---|
| | Less than 1 year | 1 - 5 years | More than 5 years | Less than 1 year | 1 - 5 years | More than 5 years |
| Hedge of Euro notes | - | 487,940 | 148,158 | - | 158,456 | 365,970 |

The Bank uses interest rates swaps to hedge the foreign currency risks arising from treasury bills and bonds. The fair values of derivatives designated as fair value hedge are:

| | December 31, 2019 | | | December 31, 2018 | | |
|---|---|---|---|---|---|---|
| | Notional amount | Asset | Liability | Notional amount | Asset | Liability |
| Interest Rate Swap Hedging | 636,098 | 175 | 42,858 | 524,426 | 3,142 | 25,938 |
| **Total** | **636,098** | **75** | **42,858** | **524,426** | **3,142** | **25,938** |

In order to improve yield and maintain a low credit exposure, the bank purchased long duration EUR denominated Romanian Government Bonds (up to 8 years).

As the bonds are only available as fixed interest rate and the bank does not have fixed interest rates liabilities of similar maturities, in order to avoid EUR interest rate risk, the bank hedged the interest rate risk from the bonds purchase. The bank employed assets swaps against EURIBOR 3M - a customized interest swap to match all the details of the bonds - allowing the bank to transform the yield of the bonds into a floating rate against EURIBOR 3M. In order to minimize counterparty credit risk and corresponding credit valuation adjustments the bank entered in the hedge with OTPH (Group member - no CVA).

The bank will retain only the credit and liquidity risk of the bond, hedging funding and interest rate risk.

| | Changes in fair value used for calculation of hedge inefectiveness for 2019 | Inefectiveness recognized in profit or loss |
|---|---|---|
| Derivatives assets held for risk management | 8,453 | 0 |

| Acumulated amount of fair value hedge adjustments on the hedged item included in the carrying amount of the hedged item | Line item in the statement of financial position in which the hedged item is included | Change in value used for calculating hedge inefectiveness | Accumulated amount of fair value hedge adjustments remaining in the statement of financial position for any hedged items that have ceased to be adjusted for hedging gains and losses |
|---|---|---|---|
| Assets | | | |
| 9,995 | Investment securities at fair value through other comprehensive income | 8,453 | 0 |



Notes to the Separate Financial Statements for the period ended December 31st, 2019

# 28. PROVISIONS

| | December 31, 2019 | December 31, 2018 |
|---|---|---|
| Financial guarantees | 10,578 | 10,998 |
| Loans commitments | 26,731 | 25,012 |
| Other provisions, out of which | 101,713 | 87,717 |
| Litigations * | 81,208 | 68,298 |
| Personnel | 16,982 | 14,792 |
| Assigment of loans | 748 | 2,162 |
| Other risks | 2,775 | 2,465 |
| **Total** | **139,021** | **123,727** |

* The provisions for litigations are compose of:
- 3 cases with significant amounts RON 58,717 thousands;
- abusive provisions for loans agrements signed between Bank and Clients RON 17,630 thousands;
- potential litigation cases RON 4,625 thousand.

The movements in the provisions during 2019 were the following:

| | |
|---|---|
| **Balance at 31.12.2018** | |
| Net (income) / expense with provision for financial guarantees and loans commitments | 1,298 |
| Net (income) / expense with other provisions | 13,996 |
| **Balance at 31.12.2019** | **139,021** |

# 29. INCOME TAX

As at December 31, 2019 the Bank computed the deferred tax using the legal tax rate of 16% (2018: 16%). The method for estimating the tax loss used is to offset future profits. Starting with this date, the Bank expects to be able to use the tax loss carried forward up to limit of the future profits expected for the next 5 years.

The Bank didn't pay corporate income tax, using the tax losses carried forward from previous years.

Expenses with the income tax comprise:

| Description | December 31, 2019 | December 31, 2018 |
|---|---|---|
| Deferred tax release / (charge) to profit and loss | - | -17.369 |
| **Total income tax release/(charge) to profit and loss** | **-** | **-17.369** |

The deferred tax liability as of December 31, 2019 is presented as follows:

| Description | Temporary difference | Tax effect |
|---|---|---|
| Revaluation reserve for tangible and intangible assets | 49,121 | 7,859 |
| Deferred tax liability as of December 31, 2019 - Fair-value adjustment of assets at fair value through OCI | 22,043 | 3,527 |
| **Deferred tax liability as of December 31, 2019** | | **11,386** |

Notes to the Separate Financial Statements for the period ended December 31st, 2019

The deferred tax asset as of December 31, 2019 is presented as follows:

| Description temporary difference | Temporary difference | Tax effect |
|---|---|---|
| Difference in depreciation between tax and accounting base for tangible and intangible assets | 5,217 | 835 |
| Deferred tax asset at December 31, 2019, as a result of the carried forward tax loss, limited to the future estimated profits | 19,225 | 3,076 |
| Deferred tax due to provisions for other risks | 111,679 | 17,869 |
| **Deferred tax asset as of December 31, 2019** | | **21,780** |
| **Net of deffered tax as of December 31, 2019** | | **10,394** |

The total carried forward tax loss is presented as follows:

| Description | December 31, 2019 | December 31, 2018 |
|---|---|---|
| **Profit net statutar aferent perioadei curente (a)** | **70.540** | **26.217** |
| Non-taxable income (b) | (96,886) | (97,684) |
| Non-deductible expenses (c) | 117,206 | 170,515 |
| Other elements similar to Income (d) | 37,309 | 63,530 |
| Other elements similar to expenses (e) | - | (79,401) |
| Legal reserve (f) | (3,527) | (2,179) |
| **Fiscal profit / (loss) of current year (a+b+c+d+e+f)** | **124,642** | **80,998** |
| Tax loss reported by OTP Bank România | (407,562) | (488,560) |
| Fiscal loss carried forward expired in 2019 | 50,880 | |
| **Total carried forward fiscal loss (fiscal result + tax losses)** | **(232,040)** | **(407,562)** |

## 30. OTHER LIABILITIES

| | December 31, 2019 | December 31, 2018 |
|---|---|---|
| Other due amounts from interbank transactions | 16,053 | 19,230 |
| Other due amounts from transactions with non-banking clients | 39,336 | 38,589 |
| Current taxes | 14,014 | 8,391 |
| Sundry creditors | 10,911 | 9,299 |
| Unearned income | 9,269 | 8,191 |
| Salaries paid in advance | 6,327 | 5,683 |
| Expense to be paid | 41,378 | 28,217 |
| Others | 4,791 | 274 |
| **Total** | **142,079** | **117,874** |

In the category of "Other due amounts from interbank transactions" are included transit operations related to payment orders or other interbanking transactions and in "Other due amounts from transactions with non-banking clients", there are transit amounts due to clients.

## 31. SHARE CAPITAL

| | December 31, 2019 | December 31, 2018 |
|---|---|---|
| **Share capital as of January 1** | **1,509,253** | **1,379,253** |
| Increase of share capital during the period | 320,000 | 130,000 |
| **Share capital at the end of the period** | **1,829,253** | **1,509,253** |
| Effect of hyperinflation until December 31, 2003 | 42,751 | 42,751 |
| **Share capital under IFRS** | **1,872,004** | **1,552,004** |

In 2019, share capital increase of OTP Bank Romania S.A. with the amount of RON 320,000,000 by subscribed and paid cash contribution of shareholder OTP Bank Nyrt.

The reasons of capital increase were:

- EU regulation and IFRS 9 mitigation effect;
- excess from the current capital increase will be used for the current activity.

As at December 31, 2019 the Bank's share capital amounted RON 1,829,253 thousand and consisted of 7,621,888 registered ordinary shares with face value of RON 240 per share. All of the shares are ordinary shares and no special rights are attached to them. Voting rights per share are equivalent to the face value per share.

As at December 31, 2019, the Bank's entire share capital was registered at the Commercial Register and fully paid in.

**Earnings per share**

Income per share attributable to shares of the Bank (there are only common shares issued by the Bank) are computed as net profit for the relevant year attributable to the common shareholders divided by weighted average number of common shares outstanding during the year as follows:

| | December 31, 2019 | December 31, 2018 |
|---|---|---|
| Profit after tax in the accounting period | 70,540 | 26,217 |
| Average number of ordinary shares outstanding during the period | 7,621,888 | 6,288,554 |
| **Earnings per ordinary share (face value RON 240) in RON** | **9.25** | **4.17** |

# 32. OFF BALANCE SHEET FINANCIAL COMMITMENTS

### Issued guarantees and letters of credit

The Bank issues guarantees and letters of credit on behalf of its customers. The credit risk on guarantees is similar to that arising from granting of loans. In the event of a claim on the Bank as a result of a customer's default on a guarantee these instruments also present a degree of liquidity risk to the Bank.

All letters of credit issued by the Bank are collateralized. As at December 31, 2019 and December 31, 2018 the probability of material loss arising in connection with letters of credit is considered to be remote and accordingly no provision has been established.

The primary purpose of these instruments is to ensure that funds are available to a customer as required. Guarantees and stand by letters of credit which represent irrevocable assurances that the Bank will make payments in the event that a customer cannot meet its obligations to third parties carry the same credit risk as loans. Documentary and commercial letters of credit which are written undertakings by the Bank on behalf of a customer authorizing a third party to draw drafts on the Bank up to a stipulated amount under specific terms and conditions are collateralized and because of this carry a lower risk.

### Credit commitments

Commitments to extend credit represent unused portions of authorizations to extend credit in the form of loans, guarantees or letters of credit. With respect to credit risk on commitments to extend credit the Bank is potentially exposed to loss an amount equal to the total unused commitments. However, the likely amount of loss, though not easy to quantify, is considerably less than the total unused commitments, since most commitments to extend credit are contingent upon customers maintaining specific credit standards. While there is some credit risk associated with the remainder of commitments, the risk is viewed as modest since it results from the possibility of unused portions of loan authorizations being drawn by the customer and, secondly from these drawings, subsequently not being repaid as due.

The Bank monitors the term to maturity of credit commitments because longer-term commitments generally have a greater degree of credit risk than shorter-term commitments. The total outstanding contractual amount of commitments to extend credit does not necessarily represent future cash requirements since many of these commitments will expire or terminate without being funded.





The aggregate amounts of outstanding guarantees, commitments and other off balance sheet items as of December 31, 2019 and December 31, 2018 are the following:

| 2019 | Total out of which | Corporate | SME | Individuals |
|---|---|---|---|---|
| **Loan commitments** | | | | |
| Stage 1 | 1,654,228 | 1,120,159 | 490,033 | 44,036 |
| Stage 2 | 121,289 | 49,987 | 39,394 | 31,908 |
| Stage 3 | 6,372 | 5,513 | 633 | 226 |
| **Gross amount** | **1,781,889** | **1,175,659** | **530,060** | **76,170** |
| Allowance for impairment | (26,731) | (17,203) | (8,442) | (1,086) |
| **Carrying amount** | **1,755,158** | **1,158,456** | **521,618** | **75,084** |
| **Guarantee issued** | | | | |
| Stage 1 | 649,439 | 465,103 | 184,336 | - |
| Stage 2 | 13,857 | 6,018 | 7,839 | - |
| Stage 3 | 6,078 | 6,078 | - | - |
| **Gross amount** | **669,374** | **477,199** | **192,175** | **-** |
| Allowance for impairment | (10,275) | (8,084) | (2,191) | - |
| **Carrying amount** | **659,099** | **469,115** | **189,984** | **-** |
| **Letters of credit** | | | | |
| Stage 1 | 19,788 | 19,716 | 72 | - |
| Stage 3 | 1,372 | 1,372 | - | - |
| **Gross amount** | **21,160** | **21,088** | **72** | **-** |
| Allowance for impairment | (302) | (302) | - | - |
| **Carrying amount** | **20,858** | **20,786** | **72** | **-** |
| Total Off balance | 2,472,423 | 1,673,946 | 722,307 | 76,170 |
| Total allowance Off balance | (37,308) | (25,589) | (10,633) | (1,086) |

| 2018 | Total out of which | Corporate | SME | Individuals |
|---|---|---|---|---|
| **Loan commitments** | | | | |
| Stage 1 | 1,467,554 | 982,886 | 440,712 | 43,956 |
| Stage 2 | 31,525 | 7,077 | 5,852 | 18,596 |
| Stage 3 | 12,122 | 10,091 | 1,793 | 238 |
| **Gross amount** | **1,511,201** | **1,000,054** | **448,357** | **62,790** |
| Allowance for impairment | (25,012) | (14,886) | (9,476) | (651) |
| **Carrying amount** | **1,486,189** | **985,168** | **438,881** | **62,139** |
| **Guarantee issued** | | | | |
| Stage 1 | 492,220 | 449,465 | 126,653 | - |
| Stage 2 | 21,152 | 18,961 | 2,191 | - |
| Stage 3 | 10,821 | 10,796 | 25 | - |
| **Gross amount** | **524,193** | **479,222** | **128,869** | **-** |
| Allowance for impairment | (10,524) | (8,535) | (1,989) | - |
| **Carrying amount** | **513,669** | **470,687** | **126,880** | **-** |
| **Letters of credit** | | | | |
| Stage 1 | 39,207 | 39,137 | 70 | - |
| Stage 3 | 929 | 929 | - | - |
| **Gross amount** | **40,136** | **40,066** | **70** | **-** |
| Allowance for impairment | 474 | 474 | - | - |
| **Carrying amount** | **39,662** | **39,592** | **70** | **-** |
| Total Off balance | 2,075,530 | 1,519,342 | 577,296 | 62,790 |
| Total allowance Off balance | (36,010) | (23,895) | (11,465) | (651) |

Notes to the Separate Financial Statements for the period ended December 31st, 2019

# 33. CONCENTRATION OF ASSETS DUE BY GOVERNMENT AND HELD WITH THE CENTRAL BANK

The assets due by Government and the Central Bank are as follows:

| | December 31, 2019 | December 31, 2018 |
|---|---|---|
| Amounts with the National Bank of Romania (Note 15) | 1,002,064 | 966,354 |
| Treasury Bills (Note 16 and 20) | 1,287,749 | 975,548 |
| **Total** | **2,289,813** | **1,941,902** |

# 34. RELATED PARTIES

The Bank enters into transactions with related parties which are members of OTP Group in the normal course of the business. All related party transactions were made under substantially similar terms including interest rates and collateral requirements as those prevailing for similar transactions with unrelated parties. The most significant transactions represent time deposits loans and the respective interest and fees received/paid.

The volume of related party transactions outstanding balances and related expense and income for the periods ended December 31, 2019 and December 31, 2018 are presented below:

| | Management | | Parent company | | Other Related parties | |
|---|---|---|---|---|---|---|
| | 31-Dec-19 | 31-Dec-18 | 31-Dec-19 | 31-Dec-18 | 31-Dec-19 | 31-Dec-18 |
| **Assets** | | | | | | |
| Due from other banks | - | - | 630,536 | 382,466 | - | - |
| Loans and advances to customers, net | 5,568 | 7,479 | - | - | 3,014 | 3,324 |
| Other assets | - | - | 71 | - | 10,093 | 7,328 |
| Fair Value of Derivatives Financial Instruments | - | - | 5,719 | 6,703 | 101 | - |
| Investment in Associates and Subsidiaries | - | - | 6 | - | 47,288 | 12,924 |
| **Total assets** | **5,568** | **7,479** | **636,332** | **389,169** | **60,496** | **23,576** |
| **Liabilities** | | | | | | |
| Due to other banks | - | - | 143,809 | 373,835 | 9,198 | 5,499 |
| Due to customers | 4,333 | 5,302 | - | - | 2,825,926 | 2,845,946 |
| Other liabilities | - | - | - | 515 | 95 | 102 |
| Fair Value of Derivatives Financial Instruments | - | - | 49,532 | 31,531 | - | - |
| **Total liabilities** | **4,333** | **5,302** | **193,341** | **405,881** | **2,835,219** | **2,851,547** |
| Income statement items | | | | | | |
| Interest and Commission income | 14 | 20 | 21,239 | 15,451 | 3,356 | 5,187 |
| Interest and Commission expenses | (4) | (5) | (22,315) | (16,500) | (62,802) | (55,699) |
| Other income | - | 1 | - | - | 21,768 | 24,766 |
| Other expenses | - | - | - | (275) | (29,485) | (32,115) |
| **Total income statements items** | **10** | **16** | **(1,076)** | **(1,324)** | **(67,163)** | **(57,861)** |
| **Other commitments** | **-** | **-** | **-** | **1,907,740** | **11,387** | **10,524** |
| **Off-balance sheet commitments** | **-** | **-** | **-** | **1,907,740** | **11,387** | **10,524** |

## Compensation of key management personnel

Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the Bank, directly or indirectly, including any director (whether executive or otherwise) of the Bank.

The cumulated short term, long term and termination benefits granted to directors and other members of key management during periods ended December 31, 2019 and December 31, 2018 were as follows:

| | December 31, 2019 | December 31, 2018 |
|---|---|---|
| Salary for key management personnel | 4,430 | 2,834 |
| Short-term and long-term benefits | 11,286 | 9,225 |
| Termination benefits | - | - |
| **Total benefits for key management personnel** | **15,716** | **12,059** |

# 35. ENCUMBERED ASSETS

As of December 31, 2019 and December 31, 2018 the Bank didn't hold any encumbered assets.

# 36. CONTINGENT LIABILITIES

At December 31, 2019 (and also at the time of issuance of this report) the Bank was involved in several litigations. Complaints against the Bank are received after normal business conducted by the Bank. Bank management believes that debt, if any, from such complaints do not have a material adverse effect on the financial position or results of future operations conducted by the Bank.

Notes to the Separate Financial Statements for the period ended December 31st, 2019

# 37. SUBSEQUENT EVENTS

The new coronavirus epidemic has become global within 2 months, reaching Europe and the banking group countries. Based on the seemingly successful examples in China and South Korea, the epidemic can only be managed with drastic regulatory measures - extensive screening, quarantine measures. During these measures, economic activity in the affected areas is drastically declining, but as the epidemic recedes, the economy is gradually restarting. Europe, compared to China and South Korea, is lagging behind in introducing these – very likely unavoidable - measures.

The pandemic outbreak has a very negative effect on global and regional growth prospects. In the first round, fears of infection and quarantine slashes demand for tourism and related services. Quarantine measures also disrupt global supply chains, so manufacturing and transporation declines. Recessionary expectations are intensifying and the financial markets are under heavy pressure. With inadequate economic policy measures, the crisis is likely to have significant second-round effects well, as companies may go bankrupt on large scale due to temporary but very drastic revenue shortfalls and unemployment may rise rapidly, which could have a very negative lasting impact on consumption and investment. Mitigating second-round effects will require targeted corporate and job protection measures, higher budget deficits, central bank liquidity expansion, purchases of government securities, and temporary suspension of loan repayments.

**Two scenarios are considered:**

- In the first, authorities in Europe and the region - like China - have been successful in curbing the epidemic with swift but drastic measures, thus boosting economic activity from May onwards. In this case no significant recession is expected in the region, and most countries in the banking group could avoid a recession.
- In the second scenario, we initially anticipated a quarantine that lasts until July, which will permanently decrease demand in the most affected sectors. In this scenario, each of the countries in the region would be in recession, with a rate of decline of typically 1-3%, but may reach 5% in some countries, which are heavily exposed to tourism. With pharmaceutical manufacturers predicting that the coronavirus vaccine will be available next year, economic growth could materially pick up in 2021 and be above previous projections.

Growth risks are tilted to the downwards due to difficult to foresee second-round effects and errors that cannot be ruled out by regulatory measures.

In Romania, considering the events already registered at the current date, the Bank already took decision in order to reduce the potential impact.

A **Crisis Management Group** was settled, and **started its activity since 26th of February** and which, within the daily meetings, discuss the plan of measures necessary to manage this unprecedented situation.

Obviously, bank's priority is to ensure a safe working environment for all colleagues within OTP Bank Romania. Therefore, the first measures taken were the distribution of disinfectant solutions in all locations of the bank, as well as offering gloves and surgical masks to colleagues who work with cash and come into direct contact with clients. At the same time, to facilitate the implementation of work from home option, the bank increased the number of laptops for teams and placed new orders in this regard to allow as many colleagues to benefit from this work solution.

Because social distance has been scientifically identified as the most effective measure to prevent contamination, bank's departments coordinators have selected teams of colleagues whose activity is critical to maintaining OTP Bank Romania's essential services in the most pessimistic scenario and asked them to work from home to test if they are able to carry out their tasks under these conditions. On the other hand, in this way is provided less crowded common spaces for colleagues who will carry out their activity at the workplace. At the same time, it was introduced the flexi-time program option (where the activity allows), and ensured the continuous refill of disinfectant materials and frequent disinfection actions of the workspace.

As organization, the bank has taken the right proactive steps to evaluate the ever-changing situation and manage potential impact for its staff and customers. It is important to do so, as the representatives of the bank are working within a key industry for the economy, with an immense responsibility towards its customers and the entire system.

From business perspective, several measures are under preparation and consideration:

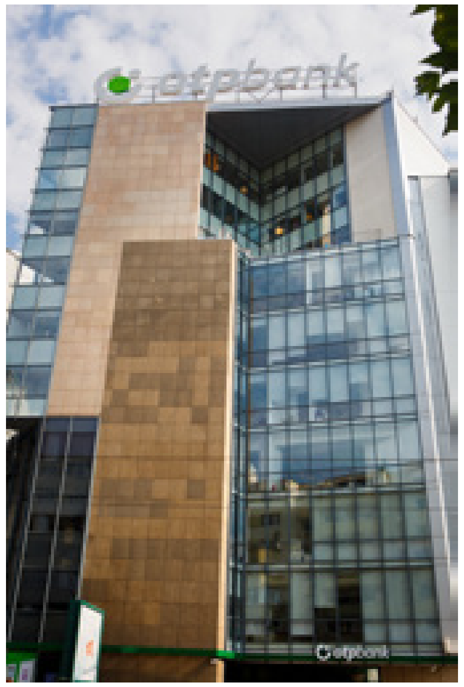
- Cash availability – to increase the cash reserves in the operational units of the Bank and ATMs
- Existing legal entities loan portfolios – case by case assessment of potentially impacted counterparties based on directly or indirectly affected economic sectors and/or regions
- Existing private individuals loan portfolios – short-term postponement of payments during "emergency state" situation as a social responsibility during the fight against the virus and its corresponding necessary isolation indications. Analysis and identification of potentially financially affected segments based on income sources vulnerability to economic changes. Development and implementation of payment protection instruments for such identified groups on a case by case basis.
- Prospective legal entities loan portfolios - review of underwriting criteria having in mind avoidance/thorough selection from directly or indirectly affected economic sectors and/or regions, avoidance of credit policy deviations
- Prospective private individuals loan portfolios - review of risk rejection criteria having in mind income sources, application scores, avoidance of high tickets, avoidance of high LTVs, avoidance of credit policy deviations

These separate financial statements have been authorized for issue by the management on 18th of March, 2020.

| | |
|---|---|
| Mara Cristea,<br>Member of the Management<br>Board and Deputy CEO | Ana-Maria Enache<br>Director, Finance &<br>Accounting Directorate |

Management Board Report for the year ended December 31st, 2019

# OTP BANK ROMANIA S.A. MANAGEMENT BOARD REPORT CONCERNING THE YEAR ENDED DECEMBER 31, 2019




**OTP Bank Romania (the Bank) is a subsidiary of OTP Bank, the largest independent banking group in Central and Eastern Europe, with operations in countries such as Hungary, Bulgaria, Croatia, Romania, Russia, Ukraine, Slovakia, Montenegro and Serbia. Active on the Romanian banking market since 2005, OTP Bank has set itself the target to become a powerful, universal bank, offering complete services for both individuals and corporate customers.**

Following the conclusion of the sale and purchase of shares of Commercial Bank ROBANK SA in July 2004, all shares of the Bank have been acquired by OTP Group in Hungary. Initially Robank Commercial Bank S.A. was registered with the Trade Register under number J40/10296/1995, based in Bucharest, Unirii Blvd. 59, district 3, and received authorization to operate from the National Bank of Romania under letter no. VII/G/185 in December 1995.

In July 2005 the Bank's name changed from RoBank Romania S.A. to OTP Bank Romania S.A. Starting from March 2005, the new head office of OTP Bank Romania S.A. was established in 66-68 Buzesti St., District 1, Bucharest.

With the aim of increasing its position of Romanian banking market, in 2015 OTP Bank Romania SA completed the acquisition of Millennium Bank SA shares from Banco Comercial Portugues S.A. and Millennium BCP Participacoes SGPS, Sociedade Unipessoal LDA.

The Bank operates through its registered Head Office and network of branches comprising 95 units out of which 62 branches and 33 agencies.

**The shareholders' structure at December 31, 2019 was as follows:**

| Shareholder | Ownership (%) | No. of shares | Amount (RON) |
|---|---|---|---|
| 1. OTP Bank Nyrt | 99.99994751956471% | 7,621,884 | 1,829,252,160 |
| 2. Merkantil Bank zrt | 0.00005248043529% | 4 | 960 |
| **Total** | **100%** | **7,621,888** | **1,829,253,120** |

The Share capital of OTP Bank Romania S.A. increased with the amount of RON 320,000,160 by subscribed and paid cash contribution of shareholder OTP Bank Nyrt.

**The reasons of capital increase were:**

- Continuous business growth which leads to the increase of the loan portfolio;
- Balance sheet growth due to higher liquidity, as liquid assets grew their weight in total assets;
- Capital buffers which came into force in 2018 (systemic risk buffer) or that increased their value as of 1 January 2019 (capital conservation buffer);
- Transactions planned for 2019, that are expected to increase the consolidated risk weighted assets in 2019;
- EU regulation and IFRS 9 mitigation effect.

**Economic environment**

In 2019, **Romania's GDP grew by 4.1%**, slowing somewhat compared to the previous year (4.4%). Household consumption and change in inventories both contributed to the slowdown, while gross fixed capital formation picked-up significantly.

**Romania was one of the best performing country in the EU in terms of GDP growth**, nevertheless, the broader picture suggests **increasing vulnerabilities:** the slowing but still high growth performance was achieved at the expense of a **substantial deterioration of fiscal balance** and a **smaller increase in the current account deficit.** While the budget deficit increased from 2.9% to 4.5%, driven by higher spending on wages and pensions and to a smaller extent investments, the current account deficit increased from 4.4% to 4.8% due to strengthening domestic demand, and weakness of exports amidst the deteriorating European economic environment. Furthermore, political uncertainty was weighing on the business environment, which contributed to recurrent weakenig pressures on the currency and increasing government bond yields.

Despite a slowdown, **consumer spending** could have added the highest contribution to GDP with a 4.9% growth, as real wages grew rapidyl (8.9% annually) and unemployment hit record low levels (3.9%). The declining **inventory** component in GDP could have reflected the lower agricultural production after the bumper harvest in 2018.

After a slight decrease in 2018, **gross fixed capital formation** could have grown by around 19%, driven by a significantly increased absorption of EU funds, as well as housing investments strengtened. As a consequence, after several years of decline, the investment to GDP ratio surged, and reached almost 25% by Q3 2019, the latest data available.

**Exports** could have lost further momentum, with a meagre growth of around 2% (2018 5.9%, 2017: 7.8%), as weakness in Western European industries, took their toll on Romanian output. **Imports** could have slowed as well to 6.7% (2018 9.2%), nonetheless by a smaller amount than exports, given the still strong domestic demand. Nevertheless, the net export's negative contribution to GDP has remained roughy the same, due to quick overall GDP growth. From the production side, the sectors mirrored processes visible in the demand side decomposition: **industrial sector** slightly declined, while **construction** stregthened significantly, as well as **market services.**

The annual **inflation rate** practically exceeded the (2.5% +/- 1%) target band of the NBR, throughout the whole year, with the exception of two months in September and October. The annual average inflation came out at 3.8%, however constant tax inflation stood at 3.5%, at the upper edge of the central bank band. The NBR justified its relaxed stance on monetary policy with the assumption that large foreign central banks will maintain lose policy stance and the fact that inflation will revert to around

3% by 2020 as the effect of food and oil price shocks fades away and the economy weakens.

The **EUR/RON** rate ended in 2019 at 4.79, mostly continuing it's weakening throughout the year. This reflected higher vulnerabilities in the economy: an increasing budget deficit and political uncertainties.

In 2019, the **stock of non-government (household+corporate) loans** increased by 6.6%, compared with a 8.0% increase in 2018. Loans to households slowed somewhat (7.6% vs. 9.2%), while loans to non-financial corporations remained constant (at 6.3%). Housing loans grew double digit (10.5% vs. 11.1%), while consumer credit slowed substantially (4.0% vs. 6.9%). The **share of credits in RON** reached a new multi-year record level close to 90% for the household sector and hovered around 67% in the corporate sector. At the same time, the rate of **non-performing loans** decreased to 4.58% from 5.56% (2019Q3 vs. 2018Q3).

NBR data showed that the profitability of the sector slightly deteriorated up to Q3 on an annual basis, with the **ROE** index declining to 13.39% compared to 15.53% in the previous year. At the same time, the capital adequacy ratio remained high, reaching 20.0% by Q3 2019, on an annual basis. **The loan/deposit ratio** stood at 74.5% on annual terms up to Q3.

| Key economic indicators | | 2018 | 2019 |
|---|---|---|---|
| Real GDP | % | 4.4 | 4.1 |
| Final consumption of households* | % | 6.9 | 4.7 |
| Consumption expenditure of households* | % | 7.2 | 4.9 |
| Consumption of public administrations* | % | 5.7 | 3.2 |
| Gross fixed capital formation* | % | -1.0 | 19.4 |
| Export of goods and services* | % | 5.9 | 2.3 |
| Import of goods and services* | % | 9.2 | 6.7 |
| Consumer prices | % average | 4.6 | 3.8 |
| * Budget balance | % from GDP | -2.9 | -4.5 |
| * Public debt | % from GDP | 35.0 | 36.3 |
| * Current account | % from GDP | -4.4 | -4.8 |
| Monetary policy interest rate | % average | 2.4 | 2.5 |
| Monetary policy interest rate | % end of period | 2.5 | 2.5 |
| EUR / RON | average | 4.65 | 4.75 |
| EUR / RON | end of period | 4.65 | 4.79 |
| Nominal GDP* | billion RON | 952.4 | 1049.2 |
| Unemployment | % | 4.2 | 3.9 |
| Nominal wage growth | % | 13.1 | 13.1 |
| Real wage growth | % | 8.1 | 8.9 |
| Nominal GDP | billion EUR | 204.66 | 221.10 |

*estimations for 2019
Sources: INS, BNR, OTP Research



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## EU Financial Perspective 2014–2020

In August 2014, Romanian authorities signed a Partnership Agreement with EC for the 2014-2020 financial period. In order to achieve the economic growth aspirations reflected in the global objective of the agreement, Romania has identified five development challenges: competitiveness and local development, people and society, infrastructure, resources, administration and government. Investments in the priority areas will be instrumental in helping Romania to respond to the priorities of the Europe 2020 Strategy and country-specific recommendations, including corresponding policy reforms in education, employment, social inclusion and public administration.

Out of the EUR 36.7 bn total funds, EUR 30.9 bn is financed by the EU. Up to September 2019, 88% of the total envelope has been decided, but only 31% was spent. Total EU payments stood at 38% of the total envelope.

**Summary of OTP Bank Romania's result:**

**Highlights**

- The Bank continued to finance the real economy, being among the banks that grew the financing of legal entities. The market share or loans to legal entities climbed from 3.35% (31 December 2018) to 3.71%, while the market share of deposits and current accounts from legal entities went up from 2.53% (31 December 2018) to 3.02% (31 December 2019);
- The bank has been an active player on the market for mortgage loans, which remained the most dynamic segment within the retail portfolio, growing its market share from 2.95% (31 December 2018) to 3.67% (31 December 2019), while the monthly market share of new loans overpassed, at times, the 6% mark;
- Customer deposits continued to be on focus with the aim of further strengthening the funding base;
- Solid capital position, with capital adequacy ratio of 19.74% (the Bank standalone).

Statement of financial position

| STATEMENT OF FINANCIAL POSITION RON thousand | December 31, 2019 | December 31, 2018 | Variation % |
|---|---|---|---|
| **ASSETS** | | | |
| Cash | 635,212 | 469,476 | 35% |
| Current accounts and deposits at banks | 417,025 | 598,086 | -30% |
| Accounts with the National Bank of Romania | 1,002,064 | 966,354 | 4% |
| Securities at amortized cost | 544,455 | 288,678 | 89% |
| Loans and advances to customers, net | 9,138,500 | 7,703,992 | 19% |
| Loans and advances to banks | 296,436 | 2,069 | 14,228% |
| Investment securities at fair value through profit and loss | 12,538 | 11,426 | 10% |
| Investment securities at fair value through other comprehensive income | 760,537 | 698,201 | 9% |
| Investment in Associates and Subsidiaries | 46,553 | 11,923 | 290% |
| Property and Equipment | 172,977 | 152,316 | 14% |
| Intangible assets | 48,393 | 38,471 | 26% |
| Right-of-use assets | 42,951 | - | - |
| Investment property | 1,500 | 461 | 225% |
| Derivatives | 14,469 | 6,991 | 107% |
| Derivatives hedge accounting | 175 | 3,142 | -94% |
| Deferred tax asset | 23,413 | 25,510 | -8% |
| Other assets | 84,851 | 75,732 | 12% |
| **Total assets** | **13,242,050** | **11,052,827** | **20%** |
| **LIABILITIES** | | | |
| Due to Banks | 515,154 | 438,950 | 17% |
| Demand deposits from banks | 248,294 | 38,301 | 548% |
| Term deposits from banks | 266,860 | 400,649 | -33% |
| Due to customers | 7,974,869 | 7,032,663 | 13% |
| Demand deposits from customers | 3,630,553 | 2,602,190 | 40% |
| Term deposits from customers | 4,344,316 | 4,430,473 | -2% |
| Total deposits | 8,490,023 | 7,471,613 | 14% |
| Borrowings | 2,751,593 | 2,090,171 | 32% |
| Derivatives | 14,354 | 8,270 | 74% |
| Derivatives – Hedging Accounting | 42,858 | 25,938 | 65% |
| Lease liabilities | 44,189 | - | 100% |
| Provisions | 139,021 | 123,727 | 12% |
| Other financial liabilities | 142,079 | 117,874 | 21% |
| **Total liabilities** | **11,624,117** | **9,837,593** | **18%** |
| **SHAREHOLDERS' EQUITY** | | | |
| Share capital | | | |
| Share capital, nominal | 1,829,253 | 1,509,253 | 21% |
| Share capital inflation effect | 42,751 | 42,751 | 0% |
| Total share capital | 1,872,004 | 1,552,004 | 21% |
| Accumulated deficit and reserves | (254,071) | (336,770) | -25% |
| **Total shareholders' equity** | **1,617,933** | **1,215,234** | **33%** |
| **Total liabilities and shareholders' equity** | **13,242,050** | **11,052,827** | **20%** |



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**Statement of Financial Position of OTP Bank Romania S.A.**

**Cash** increased by 35% compared to December 31, 2018, their weight in the total assets increasing from 4.25% to 4.80%. As at December 31, 2019 they amounted to RON 635.2 million, out of which RON 272 million are in local currency. The caption includes **cash in hand and ATMs.**

**Current accounts and deposits at banks** amount to RON 417 million (decreased by 30%). This item includes Nostro accounts (RON 66.1 million), **on demand deposits at other credit institutions** (RON 345.9 million) and **term deposits at other credit institutions** (RON 5 million).

**Accounts with the National Bank of Romania** are in amount of RON 1,002 million and represent minimum compulsory reserves. They are computed as a percentage to the daily average outstanding of deposits from banking and non-banking customers, for each period of one month.

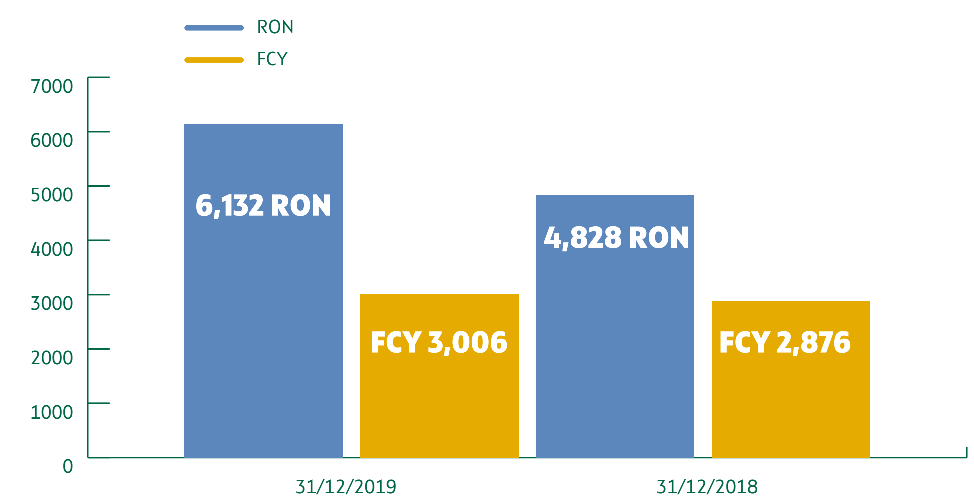
**Securities held to maturity at amortised cost**, in amount of RON 544.5 million as at December 31, 2019 includes securities issued by Ministry of Finance. The treasury bonds are unencumbered and at the immediate disposal of the Bank.

The Bank has increased in portfolio of securities, as part of its liquidity management and diversification of assets.

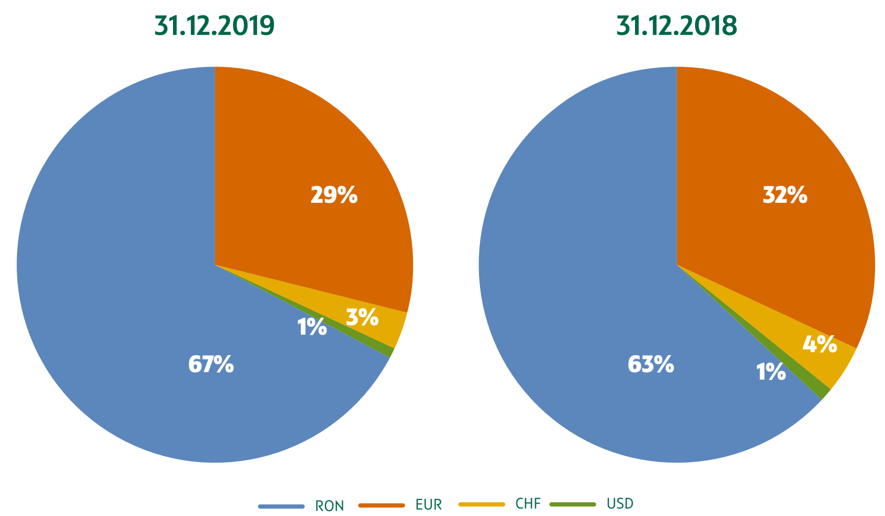
**Loans and advances to customers, net** are in amount of RON 9,138.5 million at December 31, 2019 and presents the following structure:

- Private individuals – RON 4.800 million (RON 4.040 million at December 31, 2018)
- SME – RON 3.366 million (RON 2,732 million at December 31, 2018)
- Corporate – RON 972 million (RON 932 million at December 31, 2018).

**Loans to customers, net - million RON equivalent**



**Net loans by currency**




**Investment securities at fair value through other comprehensive income** increased in 2019 by 9%, and includes bonds issued by: **Ministry Of Finance of Romania** (RON 400.5 million), **Ministry Of Finance of Poland** (RON 116.1 million), **Ministry Of Finance of Slovenia** (RON 51.7 million), **Ministry Of Finance of Spain** (RON 169.9 million) and **Municipal Bucharest City Hall** (RON 5.1 million).

Similarly to its portfolio of securities held to maturity, the Bank invested in a diversified range of RON and foreign-denominated portofolios and strengthened its liquidity position through having a higher share of liquid assets in its balance sheet. Based on availability of securities in the market and their return and maturity, the Bank also purchases securities issued by other EU countries.

**Other investment securities at fair value through other comprehensive income** in amount of RON 17.2 million at December 31, 2019 comprises: investment in **VISA** (RON 12.4 million), **MasterCard** (RON 3.8 million), **OTP Asset Management SAI SA** (RON 0.7 million), **SWIFT** (RON 206 thousand), **"Dreptul la Educatie" Foundation** (RON 80 thousand), **S.N.C.D.D.** (RON 0.27 thousand), **Aloha Buzz SRL** (RON 0.01 thousand), **Favo Consultanta SRL** (RON 0.01 thousand) and **Tezaur Cont SRL** (RON 0.01 thousand).

**Other investments measured at fair value through profit and loss account** include unit funds held by the Bank in: **OTP Premium Return** (RON 2.3 million), **OTP Euro Premium Return** (RON 2.6 million), **OTP Dollar Bond** (RON 4.9 milion), and **OTP Real Estate & Construction** (RON 2.5 million).

**Investment in Associates and Subsidiaries** represent in high weight the Bank's equity investment in **OTP Factoring SRL** (RON 34.5 million), and **OTP Leasing Romania SA** in amount of RON 11.7 million.

During December 2019, the Bank increased the participation in the company OTP Factoring SRL, and became the sole shareholder of it. The main reasons of this decision are the following:

- the entire collection flow, from the soft collection to the hard one, will be controlled and directed by a single entity in Romania, having the best know-how of the dynamic of local environment;
- the nature of the activity will be more straightforward, close to all operative decisions;
- the increase of the flexibility and speed in decision making;
- the feedback of the entire collection flow to the origination can be more direct and useful ones including also the Factoring's covered period;
- the local standards and legal expectations can be better met since the involvement of Bank's departments will be more adequate based on the governance principles (internal audit, compliance etc.).

The other equity investments are in **OTP Consulting Romania SRL** in amount of RON 210 thousand and **OTP Advisors SRL** of RON 4.5 million gross value for which an impairment in amount of 4.3 million was recognised.

**Property and Equipment** are in amount of RON 173 million as at December 31, 2019 (RON 152.3 million at 31 December 2018). Tangible assets are recognized using the revaluation method. The bank performed in 2019 the test of depreciation of land and buildings internally.

**Intangible assets** increased by 26% compared to the previous year's balance, having a value of RON 48.4 million at December 31, 2019, the bank invested in increasing efficiency of the activities through automation.
During 2019 the Bank increased its spending for capital expenditure and investments, supporting its growth strategy. The investments are related to business initiatives and digitalization, as well as compliance with regulatory measures.

The Bank owns as at 31 December 2019 fixed assets and disposal groups, classified as **held for sale** amounting to RON 2.4 million, representing the stock of buildings from the foreclosures, which are put on sale.

Starting with 2019, the Bank adopted the new standard regarding "Leases" – IFRS16 that sets out the principles for the recognition, measurement, presentation and disclosure of leases for both parties to a contract, the customer - "lessee" and the supplier - "lessor". This standard requires lessees to recognize most leases in the financial statements. The bank recognises right-of-use asset and lease liabilities at the lease commencement date. At the adoption date, 1st of January 2019, the right-of-use assets amounted RON 50.4 million, and at December 2019, RON 42.9 million.

**Investment property,** net amounts to RON 1.5 million and contains foreclosed real-estate, formerly collateral for loans granted to customers.

**Derivatives** (assets) are in amount of RON 14.6 million at December 31, 2019, of which RON 0.17 million are hedging derivatives. This caption includes the debit balances of the accounts where the fair value of forward contract is recognized (debit balances represent positive differences when derivatives contracts are evaluated).

**Other assets,** net increased by 15%, and are in amount of RON 82.5 million at December 31, 2019 and represent amounts in transit/settlement: RON 47.6 million (RON 44.5 million as at December 31, 2018), sundry debtors: RON 11.7 million (RON 9.7 million as at December 31, 2018), prepayments: RON 5.2 million (RON 6.3 million as at December 31, 2018), deferred income RON 1.8 million (RON 4.1 million as at December 31, 2018), advances to personnel, tax receivables, advances for tangible and intangible assets, inventory, collateral received RON 16.1 million (RON 6.9 million as at December 31, 2018).

**Liabilities due to banks** have seen an increase over last year by 17% and are in amount of RON 515.1 million and comprised: Loro accounts (RON 23.2 million), sight deposits (RON 225 million) and term deposits (RON 266.9 million).
The Bank enjoys the full and substantial support of the Group, both for funding its balance sheet growth and its capital and liquidity position. The Bank's aim remains to increase its share of financing from customer deposits and current account but it also relied on group funding.

**Liabilities due to customers presents the following structure:**

- current accounts – RON 2,958 million (RON 2,323 million at December 31, 2018)
- sight deposits – RON 672.9 million (RON 278.8 million at December 31, 2018)
- term deposits – RON 4,243 million (RON 4,346 million at December 31, 2018)
- collateral deposits – RON 101.1 million

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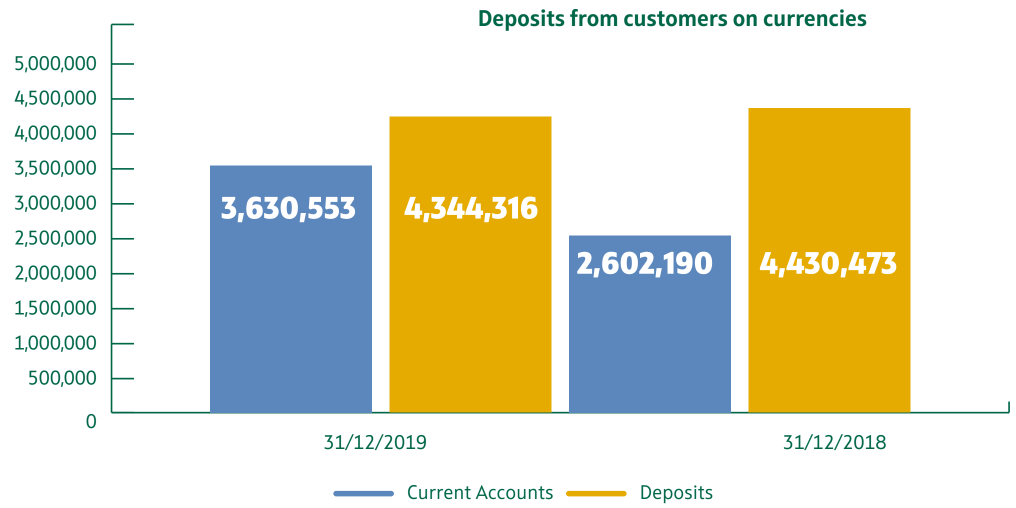
(RON 84.6 million at December 31, 2018)
Within deposits are included Accrued and amortized amounts.
During 2019, as part of its efforts to improve its liquidity and funding position, the Bank has stepped up its efforts to attract new customers and new funds. On one side, it ran a promotional campaign with attractive interest rate for RON Term Deposits of Private Individuals. On the other side, it ran marketing campaigns promoting its liability products.




**Borrowings** are in amount of RON 2,7 billions at December 31, 2019, the entire amount being withdrawn from OTP Financing Malta Company LTD.

**Derivatives** (liabilities) in amount of RON 14.4 million at December 31, 2019 (December 31, 2018 RON 8.2 million) represent negative fair value of derivatives. Value of hedging derivatives is of RON 42.9 million for 2019 (RON 25.9 million for 2018).

**Provisions** increased in 2019 by 12%. The provisions for loan commitments, financial guarantees and other commitments given are in amount of RON 37 million (RON 36 million at December 31, 2018), provisions for litigation are in amount of RON 81.2 million (RON 68.3 million at December 31, 2018), provisions for other employee benefits are in amount of RON 16.9 million and other provisions are in amount of RON 3.5 million.
The provisions for litigations increased due to one significant case, that required additional coverage, based on the legal assessment of the risk, following the preliminary Court decisions.

**Other liabilities** are in amount of RON 142 million as at December 31, 2019 and include amounts from **transitory accounts** RON 55.3 million, **allowances and salaries** – RON 6.3 million, **various contributions to the state budget** of RON 14 million, **sundry creditors** of RON 10.9 million, **deferred income** – RON 9.3 million and **expenses to be paid** - RON 41.4 million.

**Shareholders' equity** is RON 1,617.9 million, from which:

- Share capital RON 1,829.2 million:
- Share capital inflation effect: RON 42.8 million;
- Revaluation reserves for fixed assets, net: RON 49.1 million;
- Revaluation reserves for securities at fair value through other comprehensive income: RON 21.8 million;
- Other reserves: RON 7.4 million;
- Retained earnings RON - 403 million;
- Current year's profit of RON 70.5 million.

| **SEPARATE INCOME STATEMENT** | **Year ended December 31, 2019** | **Year ended December 31, 2018** |
|---|---|---|
| Interest Income | 548,740 | 450,042 |
| Interest Expense | (145,495) | (105,028) |
| **Net interest income** | **403.245** | **345.014** |
| Fee and commission income | 82.437 | 78.161 |
| Fee and commission expense | (40.408) | (29.352) |
| **Net fee and commission income** | **42.029** | **48.809** |
| **Impairment losses** | **(104.428)** | **(120.862)** |
| **Net interest, fee and commission income after impairment losses** | **340,846** | **272,961** |
| Trading income, net | 89,200 | 63,710 |
| Gains or losses on financial assets and liabilities designated as at fair value through profit or loss - net | (195) | (2,326) |
| Gains or losses on financial assets and liabilities designated as at fair value through other comprehensive income | 56 | (191) |
| Other operating income | 14,938 | 15,678 |
| **Total income from financial operations** | **103,999** | **76,871** |
| **Total operating revenues** | **444,845** | **349,832** |
| Salaries and related expenses | (183,720) | (151,553) |
| Other administrative expenses | (132,380) | (116,103) |
| Depreciation of tangible and Intangible assets | (45,521) | (18,373) |
| Other operating expenses | (12,684) | (20,217) |
| **Total non-interest expense** | **(374,305)** | **(306,246)** |
| **Profit / (Loss) before income taxes** | **70,540** | **43,586** |
| Deferred tax expense | - | (17,369) |
| **Net profit for the period** | **70,540** | **26,217** |
| **Items that will not be reclassified to profit or loss** | | |
| Revaluation of property, plant and equipment (net of deferred tax) | (997) | 13,911 |
| Net change in fair value of financial assets through other comprehensive income (net of deferred tax) - equity | 5,987 | 1,938 |
| **Total items that will not be reclassified to profit or loss** | 4,990 | 15,849 |
| **Items that may be reclassified to profit or loss** | | |
| Net change in fair value of financial assets through other comprehensive income (net of deferred tax) -debt instruments | 5.981 | (6.079) |
| **Total items that may be reclassified to profit or loss** | **5,981** | **(6,079)** |
| **Other comprehensive income, net of tax** | **10,971** | **9,770** |
| **Total comprehensive income for the reporting period** | **81,511** | **35,987** |
| **Basic earnings per ordinary share** | **9.25** | **4.17** |

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**The Income Statement** of the bank for the period ended as at December 31, 2019, is as follows:

**Interest income** increased by **22%**, mainly linked to:

- loans of RON 516.7 million (RON 433.7 million in 2018);
- placements with other credit institutions and Central Bank RON 3.3 million (RON 3.7 million in 2018);
- securities and reverse repo agreements RON 27.6 million (RON 12.7 million in 2018).

**Interest expense**s increase by **38%.** The structure of Interest expenses is as follows:

- RON 93.3 million from customers' deposits (RON 77.3 million as at December 31, 2018);
- RON 42.9 million from borrowings (RON 22.2 million as at December 31, 2018);
- RON 7.6 million are related to deposits from banks (RON 5.5 million as at December 31, 2018).

**Fee and commission income** is in amount of RON 82.4 million (increased by 5% compared to 2018) and **fee and commission expenses** are in amount of RON 40.4 million (increased by 38% compared to 2018).

**Impairment losses** decreased from RON 120.9 million to RON 104.4 million as a result of the methodology for calculating impairment adjustments in line with the new IFRS 9 reporting standard. With this Standard, depreciation adjustments for expected losses are calculated for all financial assets, and for loans granted according to the stages in which they are located, adjustments are calculated for expected losses over the next 12 months or expected lifetime losses. Also in this position is the increase in provisions for litigation.

**Trading income, net** increased by 40%, from 63.7 million in 2018 to RON 89.2 million in 2019. This item contains **net result from derivatives, concluded mostly** with the parent-company and **the net result from the revaluation of the open currency position.**

**Other operating income** is in amount of RON 14.9 million. These incomes include **fees for non-banking services** – RON 2.2 million, **incomes from insurance** – RON 1 million, **other operating income** – RON 6.5 million, **other income and fees related to the loans** – RON 4.8 million and others.

**Salaries and related expense** are of RON 183.7 million at December 31, 2019, increased by 21% compared to the previous year (RON 151.6 million).
Salary costs were driven up by market conditions, more staff and sales results.
The growth of average salaries from the period 2016-2019, both in the private and especially the public sector, has put pressure on the bank's cost. In order to retain and acquire staff, the Bank had to stay competitive and offer wages in line with the market.
The additional staff was driven by business needs but as well by the need to cover operational gap in head-office staff, in order to sustain the organizational growth project.
Sales results, which saw the Bank growth above market for loans to legal entities and mortgage loans, also drove up the sales-related salary costs.

**Other administrative expenses** are in amount of RON 132.4 million at December 31, 2019, increased by 14% compared to the previous year (RON 132.4 million in 2018).

**Depreciation of tangible and intangible assets** is of RON 45.9 million at December 31, 2019, comparing to RON 18.4 million in 2018.

**Other operating expenses** are in amount of RON 12.7 million (RON 20.2 million in 2018). These include: **fines and penalties** of RON 0.06 million, **sponsorship expenses** of RON 1.3 million, **expenses representing prizes**, **sales competitions** of RON 1 million and **other expenses** of RON 10.2 million.

**Net profit for the period** is RON 70.6 million in 2019 (RON 26.2 million in 2018).
The net profit also accounts for the provision of one significant litigation, increased in December 2019.
At the end of year, it was also accounted the tax on assets, provisioned by Governance Ordinance no. 19/2019. The legislative changes stipulate the tax on assets payment by the bank depending on the market share. In case of OTP Bank Romania S.A., the rate of 0.4% per year is applicable. Considering the fact that the bank respected 2 of 3 reduction of the percentage (increase in loans volumes for households and non-financial companies, and reduction on net interest margin for the same categories), the final amount to be paid until 25th of August 2020 is RON 5.35 million.

## Risk management within OTP Bank Romania S.A.

The main risks that the Bank faces include:

- interest rate risk in the banking book;
- market risk – which refers to exposures to market factors such as interest rates, foreign exchange rates, equity and commodity prices;
- credit risk;
- liquidity risk;
- operational risk.

Other risks managed by bank are reputational risk, risk due to outsourced activities and compliance risk.

## Credit Risk Management

The credit risk is associated with the loans granted by the Bank, being the risk that the customer will be unable to fulfil its obligations thus causing financial losses to the Bank.

The Bank's main objective regarding credit risk management was to maintain the portfolio quality by monitoring the evolution of a set of indicators which are detailed in the Risk Strategy for 2019.

**The Bank's main objectives regarding credit risk management are:**

- Developing a diversified portfolio, the performance of which does not excessively depend on the changes in the position of any particular sector, geographical region or debtor group, that ensures stable profitability on the long run;
- Increasing the profitability of the credit products;
- Credit approval and keeping assumable risks within limits;
- Increasing the capacity to collect overdue receivables;
- Maintaining the solvency indicator within normal limits so that the capital requirement for credit risk is not increasing excessively;
- Maintaining the portfolio quality by monitoring the evolution of a set of indicators, which is detailed in Risk Strategy 2019.

**The Bank's strategy regarding credit risk management includes:**

- Putting a strong emphasis on preventing problems faced by borrowers;
- Improving debt collection;
- Customer loyalty program for individuals by offering new products facilities in accessing credit;
- Private individual lending to be performed exclusively in RON and also encouraging the financing of legal entities in the local currency;
- Developing and implementing a new scoring model for personal loan in order to improve the quality of the unsecured loans portfolio;
- Developing and implementing two new behavioural scoring models, for personal loan and mortgage loan, to be used for evaluating SICR and establishing the stage of the loans

Management Board Report for the year ended December 31st, 2019

as required by the provisioning methodology under IFRS 9;

- Developing and implementing a new scoring model for corporate clients in order to improve the quality of the corporate loans portfolio and to be used for evaluating SICR and establishing the stage of the loans as required by the provisioning methodology under IFRS 9;
- Involving the territorial network and the Retail Banking and Corporate Banking Divisions in managing the problems customers are faced with;
- Monitoring new loan portfolio, especially for new consumer loans to individuals, through reports at least monthly and information presented for the Management Board and Supervisory Board of the Bank;
- Monitoring continuously the legal entities portfolio, reporting and deciding upon their risk status at least monthly in the Loans Monitoring Committees.
- Improve retail lending flow reactiveness and efficiency by creating the Retail Risk Advanced Modelling and Analyses Directorate.

The credit risk is managed in compliance with lending norms approved by the Board of Directors, based on the risk related type of products.

As part of the overall credit risk management, the credit concentration risk is actively managed using standard tools (e.g. analysis, assessment, setting of internal limits, reporting and use of risk mitigation techniques as appropriate). The Bank aims not to take any excessive credit concentration risk. Credit concentration risk management procedures cover individual counterparties as well as economically connected groups, selected industry sectors and collateral providers. The system of internal limits is established such that the Bank complies with regulatory limits set in respect of concentration risk.

The Bank regularly re-assesses all credit exposures that have already been specifically provided for, as well as all credit exposures that appear on watchlist and which are classified as individually significant.

## Bank portfolio sensitivity to interest rate risk

The Bank grants loans with mainly variable interest rate indexed by reference (ex.: Euribor, Robor) and aims to harmonize the financing structure with the structure of assets and other liabilities so as to maintain a low interest rate risk exposure.

In 2019 the Bank concentrated on local currency loans and the weight of fixed interest loans increased for consumer loans. On liabilities side, the bank maintained the maturity structure for client deposits.

The monitoring of the exposure to interest rate risk of banking book and the compliance with the internal limits is done at least monthly, within the Asset and Liability Management Committee.

In assessing the interest rate risk for the banking portfolio, the Bank uses maturity analysis until the next financial assets and liabilities restoration, maturity analysis and stress test scenarios, to estimate the possible effects of interest rate changes on profits, and on the economic value of the Bank.

The methodology used for measuring the impact of an interest rate shock in the economic value of the Bank is the standardized one from the NBR Reg. No. 5/2013 with further amendments, adjusted for optionality risk. At 31st December 2019, with adjustments to take into account the risk of option for loans and deposits, the Bank had a low exposure to the interest rate risk on banking book, 3,58% of own funds (2.61% as of December 2018). The decrease in the calculated value was mainly due to the inclusion of non-maturity contractual deposits (current accounts).

During 2019 the exposure to the interest rate risk on banking book had a stable level, medium-low.

## Managing the market risk

Market risk is the risk of loss related to balance sheet and off–balance sheet items due to adverse changes in market prices, such as, for example, stock prices, interest rates, currency exchange rates.

The Bank's objective in market risk management is to ensure appropriate management of the risks generated by trading activities, through the implementation of procedures, models and adequate application of monitoring and risk controls related with trading activities.
In view of limiting potential losses due to market risk exposure, the bank manages market risk exposure by means of a set of limits, which shall be set annually and updated periodically according to market conditions, in compliance with a prudent policy, based on the experience of OTP Bank Nyrt Hungary.
The limits are established according to the potential loss and the value of the Bank's equity capital. Market risk limits are set up by OTP Bank Nyrt Hungary and are managed in Market Risk Portal system.

## Interest Rate Risk (Trading book)

The interest rate risk refers to the fluctuation in the value of financial instruments included in the trading book due to the changes in the level of market interest rates.

The purpose of the Bank in market risk management is to ensure adequate management in line with trading activities, implementation of procedures, models, and monitoring and control of trading activities.

Limits are approved for trading with financial instruments sensitive to interest rate risk such as bonds issued by the Romanian Government, interest rate swaps, foreign exchange swaps, deposits and money market placements have been approved. Appropriate assessment and monitoring of the resulting interest rate risk are ensured by implementing a system of limits and the use of appropriate risk management systems.

The Bank has set the following types of limits: the bond position limit, the VaR limit, the Base Value limits (in currencies and for Total), and limitation of loss limits. These limits are monitored using Kondor + and Market Risk Portal systems.

## Managing the foreign currency risk

Currency risk is the risk of loss resulting from changes in the level of exchange rates on the market.
The currency fluctuations induce the risk of losses in value in respect of net monetary assets.

The Bank manages its exposure to movements in exchange rates by permanently adjusting its assets and liabilities mix, based on the market movements in exchange rates. The exposure is daily monitored by Operational and Market risk Department.

The bank may trade currencies and take positions in the followings currencies: EUR, USD, GBP, CHF, CAD, JPY, HUF, AUD, SEK, DKK, NOK, CZK and PLN.

The open foreign exchange currency position is managed continuously on automatic basis within Kondor+ according to the internal rules and also considering the NBR regulations.

The bank sets net FX open position limits (per currency and for total), stop-loss limits and Value at Risk (VaR) limits which are monitored on a daily basis by the Operational and Market Risk Department using the Market Risk Portal system.

The Value at Risk indicator (VaR) estimates the potential loss over a certain period for a certain degree of confidence. The Bank uses a VaR based on historical data (using exponential average methodology to determine the observed weighted profit and loss weights) which allows for easy aggregation of risk factors and VaR values for trading departments, thus enabling VaR to be calculated at the Treasury level.

Management Board Report for the year ended December 31st, 2019

### Liquidity Risk Management

The liquidity risk is associated either to the difficulty of an entity to raise necessary funds in order to meet all the commitments when they fall due or to the possibility of incurring losses if the entity has to sell assets in unfavourable conditions or has to attract more expensive supplementary funding.

The bank's objective regarding liquidity risk was to maintain an adequate level of liquidity by ensuring the optimal mix of funding and lending transactions in order to achieve the budget.

As stated on the "Liquidity Strategy" and on the "Liquidity risk administration policy" of the bank, permanently improved and updated in compliance with the local requirements for a prudent regulation but also, in compliance with group requirements, OTP Bank Romania S.A. has implemented an internal system of identification, measurement, monitoring and control of the liquidity risk, structured on two levels: the current liquidity management – the continuity of the activity in normal conditions (the assurance of cash flows for normal business operations) and the management of liquidity on crisis situations – the continuity of the activity in different crisis conditions.

OTP Bank Romania S.A. manages the liquidity risk considering: the estimation of the cash flows needs and of the operative liquidity, the daily banking book structure, the liquidity GAP – on each currency and overall, the level and the structure of the liquid assets portfolio, the liquidity indicators – calculated on a daily basis and having early warning limits internally established, the simulation regarding the liquidity indicators levels, the risk assessment on crisis situations by using stress tests.

If the indicators monitored in the reports enumerated above, register an attention or crisis level the Assets and Liabilities Committee evaluates the situation and disposes necessary measures needed for the indicators to revert to normal levels. If the measures taken in Assets and Liabilities Committee did not lead to an improvement of the monitored liquidity indicator, the alternative plan for liquidity management in crises will be activated.

Strict monitoring and prudent management of liquidity is supervised by the Assets and Liabilities Management Committee. Following recommendations made by the National Bank of Romania in the previous year the bank has maintained a level of quick liquidity above 30% for the entire year. Liquidity indicators (regulatory and internal) where complied with during the year. The bank's liquidity risk profile objective of medium-low was maintained permanently.

At December 31, 2019 the aggregate value for stand-by credit facilities contracted with the parent bank with purposes of use in a liquidity crisis (and unused at December 31, 2019) represent RON 454,034 thousand equivalent (746,224 thousand as at December 31, 2018).

### Operational risk management

Operational risk represents the risk of loss resulting from inadequate or failed internal processes, people and systems, or from external events, and includes legal risk.

Legal risk is the risk of loss caused by fines, penalties and sanctions to which the credit institution is exposed in case of failure to apply or defective application of legal or contractual provisions, i.e. the inappropriate establishment of contractual rights and obligations of the credit institution and / or of its counterpart.

The Bank seeks to minimize the risks arising from inappropriate systems and processes, human error as well as external factors by developing an appropriate control environment and risk awareness and also by transferring them through insurance or by setting up of operating risk provisions.
The Bank has an operational risk management framework that includes policies and procedures for identifying, measuring / evaluating, analysing, monitoring and managing/controlling operational risk. Policies and procedures are appropriate to the size, nature and complexity of the Bank's activities and are adjusted periodically according to the operational risk profile of the bank and in line with external market developments.

Bank's operational risk policy aims:
- Periodical revision of the operational risk management framework within the Bank;
- Registering operational risk provisions to minimize the impact of losses from operational risk events across the entire bank;
- Permanent support provided to the organizational units for the reporting of operational risk;
- Informing the organizational units on the decisions taken by the Operative Risk Committee and the Bank's Management Board;
- Assessing the exposure to operational risk based on the history of recorded losses and the permanent updating of the database of events generating operational risk losses reported by the organizational units;
- Evaluating activities and processes, products and systems by performing annual self-assessment of activities and processes within all organizational units, in order to report risks already identified during the activity or potential risks and control measures to reduce the occurrence or elimination of risks;
- Preparation of scenarios for the continuity of Bank's activity in unpredictable situations. The business continuity plan is one of the operational risk management tools.

### Capital management within OTP Bank Romania S.A.

The Bank manages its capital with the objective of maintaining a strong capital base to support its business activities and to meet capital regulatory requirements in the current period and going forward. The Bank's capital level planning process is based on a regular capital structure analysis and a forecast, which takes into account future capital requirements generated by increasing business volumes and future risks as expected by the Bank. This analysis principally leads to adjustments of the level of the Bank's dividend pay-out (if it's the case), identification of future capital needs and maintenance of a balanced capital composition.

### Derivative Financial Instruments

In the ordinary course of business, the Bank is a party to contracts for derivative financial instruments, which represent a very low initial investment compared to the notional value of the contract. Generally, derivative financial instruments include currency forward, swap agreements, and interest rate swap. The Bank mainly uses these financial instruments for business purposes and to hedge its currency exposures associated with transactions in financial markets.

Derivative financial instruments are accounted for on a trade date basis and at subsequent reporting dates are revaluated at fair value. The fair value of derivatives is determined using valuation techniques consisting of updating future cash flow estimates with a rate derived from the market yield curve and the exchange rate conversions resulting from the use of the NBR rates valid on the day of the calculation. The fair values of derivative transactions are calculated individually.

### Management's assessment of fair values

Where the fair value of financial instruments cannot be derived from active market, the Bank establishes fair value by using a valuation technique. The objective of using a valuation technique is to establish what the transaction price would have been on the measurement date in an arm's length exchange motivated by normal business considerations. Deciding on the model inputs requires judgment.

## Communities

The Bank approach remained unchanged in 2019: OTP Bank Romania has a business philosophy, which it influences, the decisions in many aspects of company's life. The Bank has always in mind the social and environmental impacts when it comes to business operations or interactions with his stakeholders. The Bank is committed within core business and beyond: it is connected with the communities it is part of, thus it takes responsibility for them.

### *Sponsorship policy*

As a responsible and active citizen, OTP Bank Romania invests in communities' well-being through sponsorships. It expresses and strengthen his commitment to its values. It builds long-term cooperation. The Bank most significant community investment is the "Right to Education" Foundation, aiming to enhance financial literacy to a large category of people, from school pupil to adults.

Financial education is in the center of the Bank social responsibility activities. The Foundation is supported by OTP Bank Romania and OTP Fáy András Foundation, having experience of more than 20 years in the field of financial education. The main objective of the Foundation is to improve the financial, economic and managerial skills among secondary and high school students. In 2019, OTP Financial Fitness, the financial education program for adults that provides tools, methods, and techniques was attended by more and more participants interested in acquiring a responsible financial behaviour. In addition, OK Center, the first financial education centre in Romania, hosted a large number of different events organized by NGOs and associations.

The sponsorship initiatives are developed and implemented under the umbrella of CSR, based on three main directions:

- OTP Equal Opportunity Program: we support disadvantaged groups with physical or mental disabilities lacking resources to have access to adequate education as well as children and youth organizations. We try to help these groups by improving the quality of life and integrating them into society;
- OTP Community: volunteers participating in events and programs that support local communities;
- OTP Sport Program: we promote sports organizations, competitions and recreational activities involving physical and mental strength, concentration, tactical skills and teamwork.

### *OTP Community*

OTP Community is an internal volunteer program initiated by OTP Bank Romania in October 2016 dedicated to employees who want to impress their local community and contribute to the implementation of the financial education activities of the Foundation for Education Rights, established by OTP Bank Romania in 2014.

In 2019, OTP Community volunteers contributed to the local community by:
- Participation in two editions of the Bucharest Marathon, where over 30 volunteers participated in the event in order to raise money for Autism Voice NGO, who takes care of children with autism.
- 100 OTP Bank Romania volunteers helped children from disadvantaged backgrounds to start the new school year with fully equipped backpacks within the campaign organized by the Edulier Association.
- Fundraising program in the 2% donation campaign, where 5 NGOs benefited the support.
- OTP Bank Romania volunteers cooked and sold delicious foods for their colleagues, in order to raise funds for helping children in difficulty.
- Host in the bank's premises Autumn and Spring fairs where NGO's raised money by selling handmade objects to the banks employees.
- Organize donation campaign: employees donated clothes, shoes, toys and other goods that they no longer used.
- Blood donation sessions in the office - In 2019, OTP Bank Romania organized 4 sessions with over 40 eligible participants in each session. The amount of blood taken from a person (450 ml) helps to save 3 lives; so in 2019, OTP Bank Romania employees helped save 480 lives.

## Environment

The Bank strives to operate its offices in an environmentally friendly way. Reducing our energy, water, paper consumption is also important for saving costs.
The Bank electricity supplier ensures that a significant ratio of our consumption derives from renewable resources.

Business travel is a significant portion of our environmental impact. At the same time, the Bank used the video conference infrastructure to the full and whenever possible.

As a result of digitalization program, several paperless initiatives were maintained in 2019:
- post mail is replaced by e-mail as much as possible both in internal and external communication;
- the Bank introduced an IT solution for scanning and electronic archiving;
- the Bank has implemented solutions for streamlining the operational activity by using the extracts received from the inter-bank transfer system provider in electronic format
- the e-products eliminate the use of paper in the processes.

Besides the headquarters, Bucharest branches are involved in centralized waste paper collection.

## Employees

Bank is aware of the importance of its staff in its success and in achieving its mission.

The Bank started the implementation of the organizational development program and the main objectives of the program are:

- drive performance;
- shape a collaboration culture;
- to communicate more efficiently;
- to build a learning culture.

Within the framework of the organizational development program, the Bank placed great emphasis on trainings, especially, on the improvement of communication skills, collaboration and customer centricity.

## Human Rights

The Bank is committed to maintain and improve the systems and processes that enable it to ensure respect for human rights in the operations and management of human resources, its supply chain and its products and services.

The commitments of OTP Bank Romania S.A. regarding human rights are guided by the following conventions, standards and initiatives:
- Universal Declaration of Human Rights, the International Covenant on Civil and Political Rights and the International Covenant on Economic, Social and Cultural Rights;
- Fundamental Conventions of the International Labor Organization, aimed in particular at eliminating forced labour and child labour, discrimination in work, and freedom of association and effective recognition of the right to collective negotiation;
- United Nations Guidelines on Business and Human Rights;
- OECD guidelines for multinational enterprises;

The Bank is determined to act with integrity and in accordance with the applicable laws in all its activities.

One notable example is the Code of Conduct, where OTP Bank Romania is committed to respect human rights and the rules set by the International Labor Organization. The same applies to the policies and processes developed by OTP Bank Romania SA in relation to its obligations to combat money laundering, terrorism and corruption.

### Corruption and bribery prevention

The desire to maintain an adequate and safe internal control environment and the need to protect bank's reputation has determined OTP Bank Romania SA to treat corruption and bribery prevention as a top priority.

No employee or any other empowered person shall ever offer, promise or pay, neither accept any valuable assets, with the purpose to influence public clerks or other persons or to obtain an unfair business advantage.

Offering gifts is often part of local culture and traditions, that is why offering gifts in business affairs and in relation to clients might preserve good reputation and enable business cooperation. Usual gifts for business purposes may be offered and accepted within strictly internally regulated limits. Nevertheless, employees are forbidden to offer or accept gifts in such circumstances that might be interpreted as influencing business decision or as bribery.

Business decisions are always taken according to bank's interests and never to favour the personal relationship that can be developed based on the granted gifts or other facilities. Bank's employees are also forbidden to offer – on their labour relationship – any financial or nonfinancial support to any political party, organization, member of representative thereof.

### Bank's objectives for 2020

The Bank pursues its medium term strategy, focused on delivering value to customers through professional excellence, focusing on digitalization and sustainable growth, in line with Apollo program.

Several months ago, Apollo program started a transformation journey that will fundamentally change the way the Bank interacts with customers and the manner it reaches their expectation. This transformation needs permanent and transparent collaboration within the entire organization, and also an agile way of working.

The goals of the strategy are to improve shareholders' value and improve profitability and profit, through efficiency and growth, by its own forces, organically.

The growth of the Bank is to be achieved by increasing the number of active customers, who are generating revenues, with special attention to home-bank customers.

Appealing to customers, the Bank targets a higher penetration of internet and mobile banking, a higher usage of online channels for sales, in an overall effort to augment digitalization. The Bank will also rely on direct sales agents, a flexible and mobile sales force.

Another strategic objective of the Bank is to continue product innovation, in a highly competitive market.
Focusing on deposits collection, the Bank will offer targeted products, balancing its need for liquidity and stable funding, with the customer needs for pricing and availability.

Lending to legal entities will continue to address their short and long term needs, developing new agro products.
Lending for SME will be automatized to a greater extent, via semi-standard flow included in CRPJ and "Rocket loan" platform for semi-standard loans, while the existing portfolio of products will be extended with dedicated offers.

The Bank will optimize its lending processes,





will invest in software dedicated to customer relationship management and business & processes management.
In line with market conditions, the Bank will balance new funding from the customers versus the Group, so as to achieve both short-term pricing and long-term sustainability.

During 2020 the Bank will invest in the OTP brand, creating Brand awareness through marketing campaigns.

The Bank will also target its resources, with focus on its employees, and will continue to maintain an adequately motivated and trained staff, properly managed so as to deliver sales and quality targets.

### Subsequent events

The new coronavirus epidemic has become global within 2 months, reaching Europe and the banking group countries. Based on the seemingly successful examples in China and South Korea, the epidemic can only be managed with drastic regulatory measures - extensive screening, quarantine measures.
During these measures, economic activity in the affected areas is drastically declining, but as the epidemic recedes, the economy is gradually restarting. Europe, compared to China and South Korea, is lagging behind in introducing these – very likely unavoidable - measures.
The pandemic outbreak has a very negative effect on global and regional growth prospects. In the first round, fears of infection and quarantine slashes demand for tourism and related services. Quarantine measures also disrupt global supply chains, so manufacturing and transporation declines. Recessionary expectations are intensifying and the financial markets are under heavy pressure. With inadequate economic policy measures, the crisis is likely to have significant second-round effects well, as companies may go bankrupt on large scale due to temporary but very drastic revenue shortfalls and unemployment may rise rapidly, which could have a very negative lasting impact on consumption and investment. Mitigating second-round effects will require targeted corporate and job protection measures, higher budget deficits, central bank liquidity expansion, purchases of government securities, and temporary suspension of loan repayments.

### Proposals

As a consequence of the above presented activity performed during the financial year 2019, OTP Bank Romania S.A.'s Management Board submits to the General Shareholders Meeting approval the following:

- Report of the Management Board regarding the development and performance of OTP BANK ROMANIA S.A.'s activities and its financial position for the financial year ended December 31, 2019;

- Discharging of the members of the Management Board from their duties related to 2019 financial year.

Mara Cristea,
Member of the Management
Board and Deputy CEO

Ana-Maria Enache
Director, Finance &
Accounting Directorate

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**INDEPENDENT AUDITOR'S REPORT**

To the Shareholders,
OTP Bank Romania S.A.

**Report on the Audit of the Financial Statements**

**Opinion**

1. We have audited the separate financial statements of OTP Bank Romania S.A. (the Bank), with registered office in 66-68 Buzesti street, District 1, Bucharest, Romania, identified by unique tax registration code RO 7926069, which comprise the separate statement of financial position as at December 31, 2019, and the separate statement of profit or loss and other comprehensive income, separate statement of changes in equity and separate statement of cash flows for the year then ended, including a summary of significant accounting policies and notes to the separate financial statements.

2. The separate financial statements as at December 31, 2019 are identified as follows:

   - Equity RON 1,617,932,964
   - Net profit for the financial year RON 70,540,443

3. In our opinion, the accompanying separate financial statements present fairly, in all material respects, the separate financial position of the Bank as at December 31, 2019, and its separate financial performance and its separate cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union ("IFRSs") and National Bank of Romania Order no. 27/2010 for the approval of Accounting regulation in accordance with International Financial Reporting Standards as adopted by the European Union, with subsequent amendments, ("Order 27/2010").

**Basis for Opinion**

4. We conducted our audit in accordance with International Standards on Auditing (ISAs), Regulation (EU) No. 537/2014 of the European Parliament and the Council (forth named "the Regulation") and Law 162/2017 ("the Law"). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Bank in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code), in accordance with ethical requirements relevant for the audit of the financial statements in Romania including the Regulation and the Law and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

**Emphasis of Matter**

5. We draw attention to Note 37 in the separate financial statements describing management's evaluation of the actual or potential impact of the effects of the COVID-19 coronavirus on the Bank. Our opinion is not modified in respect of this matter.

**Key Audit Matters**

6. Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the separate financial statements of the current period. These matters were addressed in the context of our audit of the separate financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.



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| **Collective impairment of loans and advances to customers** | |
|---|---|
| **Nature of the area of focus** | **How our audit addressed the key audit matter** |
| Refer to note 18 and accounting policies 3.8.6 from the separate financial statements.<br><br>In accordance with IFRS 9, the Bank accounts for credit losses based on expected credit losses (ECL): for a period up to 12 month for credit exposures for which the credit risk did not increase significantly since origination and for credit life time for those with significant increase in credit risk, as detailed in impairment policy from Note 3.8.6 to the separate financial statements.<br><br>As at 31 December 2019, the Bank has booked Impairment allowances of 450.1 mil RON for the Loans and advances to customers in gross amount of 9,588.6 mil RON.<br><br>The Bank exercises significant judgement using complex models, extensive data and subjective assumptions over both when and how much to record as impairment for loans and receivables.<br><br>Key areas of professional judgment included:<br><br>• The interpretation of the requirements to determine impairment under application of IFRS 9, which is reflected in the expected credit loss model.<br><br>• Assumptions used in the expected credit loss models to assess the credit risk related to the exposure and the expected future cash flows of the customers.<br><br>• The identification of exposures with a significant deterioration in credit quality.<br><br>Because loans and advances to customers form a major portion of the Bank's assets, and due to the significance of the Management judgments applied in classifying loans and receivables into various stages stipulated in IFRS 9 and determining related impairment requirements, this audit area is considered a key audit matter. | Based on our risk assessment and industry knowledge, with the support of our Credit risk experts, we have examined the impairment charges for loans receivables and evaluated the methodology applied as well as the assumptions made according to the description of the key audit matter.<br><br>Our procedures included the following elements:<br><br><u>Testing of internal controls</u><br><br>We have challenged the appropriateness of key processes and related controls management has established to support their impairment calculations, including:<br><br>• controls for quality assurance of the source data used in developing professional judgements and ECL related models;<br><br>• controls related to timely identification of impairment triggers, including significant increase in credit risk;<br><br>• controls related to debtors financial performance assessment and estimation of future cash flow<br><br>For the controls identified to be relevant in addressing the risks, we have tested the design and operating effectiveness of these controls.<br><br><u>Obtaining and analysing the evidence to support the assumptions used in:</u><br><br>• Development of the models for computation of the key risk parameters (12 month probability of default, lifetime Probability of default and Loss given default), including procedures on the source data quality;<br><br>• Development of the expected credit loss models<br><br>• Development of the stage allocation; and<br><br>• Development of models to reflect the potential impact of future economic conditions in the ECL computation.<br><br><u>Test of the implementation of the methodology into the ECL computation systems, including:</u><br><br>• Test the general IT controls related to the data sources and computations of ECL;<br><br>• Assessment on a sample basis of the credit quality and stage allocation; and<br><br>• Test on a sample basis the ECL computations.<br><br>We have analysed the adequacy of significant ECL-related disclosures for compliance with the relevant IFRS requirements. |

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| Interest and Fee Income Recognition | |
|---|---|
| **Nature of the area of focus** | **How our audit addressed the key audit matter** |
| Refer to Note 6 and 7 of the separate financial statements<br><br>For the year ended 31 December 2019 the interest income represents RON 548.7 mil RON and fee and commission income represents 82.4 mil RON, the main source being loans to customers. These are the main contributors to the operating income of the Bank affecting the Bank's profitability.<br><br>While interest income is accrued over the expected life of the financial instrument using the effective interest rate, the recognition of fee income depends on the nature of the fees as follows:<br><br>• Fees that are directly attributable to the financial instrument are part of the effective interest rate and accrued over the expected life of such an instrument and are presented as interest income.<br><br>• Fees for services provided are recognized when service is provided and are presented as fee and commission income.<br><br>• Fees for the execution of an act are recognized when the act has been completed and are presented as fee and commission income.<br><br>Revenue recognition specifics, a high volume of individually small transactions which depends on data quality of interest and fee inputs and on IT solutions for their recording, resulted in this matter being identified as a key audit matter. | We have tested the design and operating effectiveness of the key internal controls and focused on:<br><br>• Interest/fee inputs on customer loans and accounts;<br><br>• Recording/ changes of fees and interest rates;<br><br>• Management oversight and control on interest and fee income;<br><br>• IT controls relating to access rights and change management of relevant automated controls with the assistance of our IT specialists.<br><br>We performed also the following procedures with regard to interest and fees revenue recognition:<br><br>• We evaluated the accounting treatment performed by the Bank in respect of fees charged to clients to determine whether the methodology complies with the requirement of the relevant accounting standard (IFRS 9). We have focused our testing on challenging the correct classification of:<br><br>  • Fees that are identified as directly attributable to the financial instrument and are part of the effective interest rate;<br><br>  • Fees that are not identified as directly attributable to the financial instrument.<br><br>• We have assessed the interest income by building our own expectation on the revenue and compared with the actual results of the Bank.<br><br>• We evaluated the presentation in the financial statements of interest and commission income in accordance with the relevant IFRS requirements. |

**Other information – Administrator's separate Report**

7. The administrator is responsible for preparation and presentation of the other information. The other information comprises the Administrator's separate report which includes the non-financial information declaration, but does not include the separate financial statements and our auditor's report thereon.

   Our opinion on the separate financial statements does not cover the other information and, unless otherwise explicitly mentioned in our report, we do not express any form of assurance conclusion thereon.

   In connection with our audit of the separate financial statements for the year ended December 31, 2019, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the separate financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

   With respect to the Administrator's separate report, we read it and report if this has been prepared, in all material respects, in accordance with the provisions of the National Bank of Romania Order no. 27/2010, articles 12-14.



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On the sole basis of the procedures performed within the audit of the separate financial statements, in our opinion:

a) the information included in the administrators' separate report for the financial year for which the separate financial statements have been prepared is consistent, in all material respects, with these separate financial statements;

b) the administrators' separate report has been prepared, in all material respects, in accordance with the provisions of the National Bank of Romania Order no. 27/2010, articles 12-14.

Moreover, based on our knowledge and understanding concerning the Bank and its environment gained during the audit on the separate financial statements prepared as at December 31, 2019, we are required to report if we have identified a material misstatement of this Administrator's separate report. We have nothing to report in this regard.

**Responsibilities of Management and Those Charged with Governance for the Financial Statements**

8. Management is responsible for the preparation and fair presentation of the separate financial statements in accordance with IFRS as adopted by European Union and Order 27/2010 and for such internal control as management determines is necessary to enable the preparation of separate financial statements that are free from material misstatement, whether due to fraud or error.

9. In preparing the separate financial statements, management is responsible for assessing the Bank's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Bank or to cease operations, or has no realistic alternative but to do so.

10. Those charged with governance are responsible for overseeing the Bank's financial reporting process.

**Auditor's Responsibilities for the Audit of the Financial Statements**

11. Our objectives are to obtain reasonable assurance about whether the separate financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

12. As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

    - Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

    - Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Bank's internal control.

    - Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

    - Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Bank's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Bank to cease to continue as a going concern.

    - Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

Deloitte.

13. We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

14. We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

15. From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

**Report on Other Legal and Regulatory Requirements**

16. We have been appointed by the General Assembly of Shareholders on March 25, 2019 to audit the financial statements of OTP Bank Romania S.A. for the financial year ended December 31, 2019. The uninterrupted total duration of our commitment is 16 years, covering the financial years ended December 31, 2004 until the December 31, 2019.

We confirm that:

- Our audit opinion is consistent with the additional report submitted to the Audit Committee of the Bank that we issued the same date we issued and this report. Also, in conducting our audit, we have retained our independence from the audited entity.

- No non-audit services referred to in Article 5 (1) of EU Regulation No. 537/2014 were provided.

The engagement partner on the audit resulting in this independent auditor's report is Irina Dobre.

Irina Dobre, Audit Partner

*For signature, please refer to the original signed Romanian version.*

*Registered in the Electronic Public Register of Financial Auditors and Audit Firms under no. AF 3344*

On behalf of:

**DELOITTE AUDIT SRL**

*Registered in the Electronic Public Register of Financial Auditors and Audit Firms under no. FA 25*

The Mark Building, 84-98 and 100-102 Calea Grivitei,
8th Floor and 9th Floor, District 1
Bucharest, Romania
April 15, 2020

OTP Bank România S.A. Annual Report

# Corporate Governance

2019

# Supervisory Board


The Supervisory Board, one of the governing body of the Bank, ensures the supervisory function within the Bank, by exercising the permanent control over the Management Board's activity and also over its activity of compliance with strategies and policies in force.

The Supervisory Board consists of the Chairman, Vice-Chairman and the other members. The Supervisory Board members are appointed by the General Assembly of Shareholders and their appointment is subject of the prior approval of the National Bank of Romania, in compliance with the legal framework in force.

## ANTAL GYÖRGY KOVÁCS

**Chairman of the Supervisory Board**

Antal György Kovács graduated from Budapest University of Economics as a certified economist. He started his career in banking in 1990 at K&H Bank Ltd. (KBC Group) where between 1993 and 1995 he worked as Branch Manager.

Antal György Kovács joined OTP Bank Plc. in 1995 as County Director for Somogy County and from 1997 he was responsible for Tolna County as well. Between 1998 and 2007 he served as Managing Director of the South-Transdanubian Region of OTP Bank Plc. Since July 2007, Antal György Kovács is Deputy CEO heading the Retail Division of OTP Bank Plc. and exercising professional supervision over the retail business lines of OTP Group's subsidiary banks.

He widened his professional knowledge at the training programs of the International Training Center for Bankers and the World Trade Institute. Between 2007 and 2012 he was Chairman of the Supervisory Board of OTP Banka Hrvatska and as from December 12, 2012, Antal György Kovács serves as Chairman of the Supervisory Board of OTP Bank Romania S.A.. He is Chairman of the Boards of Directors of OTP Mortgage Bank Ltd. and OTP Building Society Ltd., and Chairman of the Supervisory Board of OTP Fund Management Ltd. and OTP Mobil Kft. Between 2004 and 2016 he was a member of the Supervisory Board of OTP Bank Plc.
Antal György Kovács is a member of OTP Bank Plc.'s Board of Directors since April 2016.

# JUDIT HANUSOVSZKY

**Vice-Chairman of the Supervisory Board**

Judit Hanusovszky graduated from Corvinus University of Budapest with specialization in Finance and Corporate Management. She also obtained a Certificate in Accountancy from Budapest Business School.

Judit Hanusovszky started her career at OTP Bank Hungary in 2003, as a Consultant at Strategic and Finance Division. Between June 2007 and July 2009, she worked first at Citibank, as Financial Head of card business, then became the CFO of Biggeorges Real Estate Financing Co. She returned to OTP in August 2009 and for 2 years she supported the work of the retail Deputy CEO as a professional assistant.

Since September 2012, as the Retail Controlling Director, she is responsible for the Retail Performance Management including Retail budgeting, KPI setting, the product's and sales channels' performance especially of the branch network, for the headcount capacity management, branch optimization and development based on profitability model. Judit Hanusovszky coordinates the implementation of Retail omnichannel strategy, and she is responsible for the renewal of the branch network infrastructure.

Judit Hanusovszky became Member of the Supervisory Board of OTP Bank Romania at the end of 2015, and now she fulfills the Vice-Chairman position.

# ENIKŐ ZSAKÓ

**Member of the Supervisory Board**

Enikő Zsakó has been Member of the Supervisory Board since December 2007. Between 2004 and 2007 she was Member of the Board of Directors of OTP Bank Romania. Besides this position, Enikő Zsakó is also member of the Supervisory Board of PortfoLion Ltd. Hungary and of the Audit Committee of OTP Bank Russia. She joined OTP Bank Plc. Internal Audit Directorate in 1993.

Between 2001 and 2007 she was the Leader of the IT audit area and between 2007 and 2014 the Head of Bank Group Coordination, Analyzing and Methodology Department. In 2014 she was appointed Deputy Managing Director of the Internal Audit Directorate, being responsible especially for the coordination and supervision of the internal audit activities of the OTP group members.

She graduated as Electrical Engineer at the Technical University of Cluj-Napoca in 1985 and as Banking Consultant at the International Banking School in Budapest in 1997. She obtained a postgraduate degree in Economics at the Budapest Business School, Finance and Accounting College in 2008. She has earned the designation of Certified Internal Auditor conferred by the Institute of Internal Auditors, and of Certified Information System Auditor granted by the Information Systems Audit and Control Association. At the Hungarian Economic Association, Enikő Zsakó is the chairperson of the Audit Section since 2011 and member of the Supervisory Board since 2014.

# ILDIKÓ PÁL-ANTAL

**Member of the Supervisory Board**

Ildikó Pál-Antal has been Member of the Supervisory Board and President of the Audit Committee since 2014. She has relevant experience in management and also in the financial audit of several non-banking financial institutions of various dimensions.

She graduated from the Economic Sciences Faculty - Finance and Accounting Section - at Babeș-Bolyai University of Cluj-Napoca in 1988, had worked for a short period of time in the Romanian banking system, then as Chief Accountant and Economic Manager for commercial companies. In 2001 Ildikó Pál-Antal set up her own company, SC Consulta Carpatica SRL, followed by Transilvania Interconsult IPURL. The companies offer a wide range of services, performing book-keeping and accounting expertise activities, financial audit, tax consultancy, business and management consultancy.

Ildikó Pál-Antal has obtained several professional qualifications: chartered accountant (1996), financial auditor (2001), insolvency practitioner (2005), tax consultant (2007) and

has been an active member of the respective Romanian national professional bodies since her certifications.

Furthermore, she has been member of the Hungarian Economists' Association in Romania and one of the sponsors of the annual professional conferences held by this organization for over a decade.

# ATTILA VÉGH

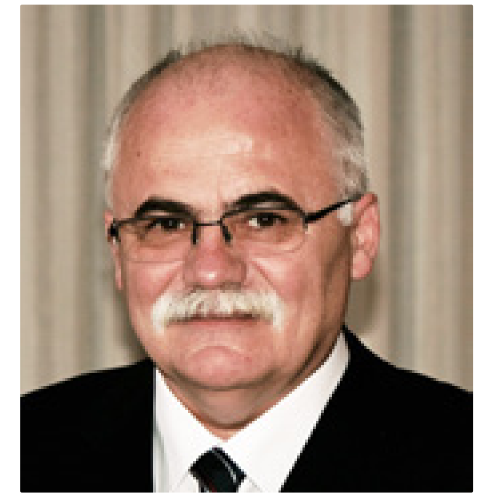
**Member of the Supervisory Board**

Attila Végh graduated in the year 1980, from Budapest, Karl Marx ("Corvinus") University of Economics – Finance Faculty as a certified economist. He started his career in banking in 1987 at Magyar Hitel Bank (ABN AMRO Bank Hungary) where between 1987 and 1991 held several positions, respectively Head of Department of Economics, Head of Finance Department, Finance Director in the Liquidity Department and, including the position of Head of Institutional Development Directorate, Project Director.

Mister Attila Végh consolidated his experience in the financial banking field occupying several positions, such as Corporate Lending Officer between 1980 and 1982, Banking Expert between 1982-1983, Deputy Head of Department between 1983 and 1986, respectively between 1991 - 1992 the positions of Project manager, all of the above in the National Bank of Hungary.

During the period 1992 - 1995, respectively 2001-2002, he developed the knowledge in banking finance through the position of Banking Consultant and Poject team leader at Digital Equipment Hungary Ltd., respectively that of Senior Manager at Deloitte & Touche Advisory & Management Consulting Ltd.

Also, he served as Executive Director at the National Bank of Hungary, where he was also a member of the Directorate from 1995 to 2001; between 2002 and 2005 he served as Executive Director and member of the Management Committee at Central European International Bank Ltd.
Attila Végh joined OTP Bank Plc. for the first time in 2002 as Advisor to the Deputy Chief Executive Officer, being responsible for managing of several projects, including "Lending Systems Consolidation" and "URBIS - Integrated Banking Systems Implementation".



Between 2005 and 2009 he has fullfield within Central European International Bank Ltd. the positions of Head of Strategic Relationships Department and Head of Operation and Quality Management Department, and from 2009 to 2011 he served as IT Compliance Officer, while managing several development projects for IT services management.

The professional knowledges in the IT field have deepened by carrying out activities in the software industry and occupying between 2011 and 2013, respectively between 2013-2015, the functions of Deputy Director and Program Manager within Loxon Solution Ltd., respectively the function of Software Development Manager and Project Manager at Statlogics Software Development Company Ltd.

Since September 2017, Mr. Attila Végh has been Project Manager at OTP Bank Plc., where he participated in preparations for the merger and acquisition of the Romanian Bank (BROM) by OTP Bank Romania S.A., as a delegate from the mother company, within the IT and IT Security team.
From November 2019, Mr. Attila Végh is a member of the Supervisory Board of OTP Bank Romania S.A. and also a member of the Risk Management Committee.

## TIBOR LÁSZLÓ CSONKA

**Member of the Supervisory Board**

Regarding his academic background, in 2002, Tibor László Csonka graduated from Szent István University, Faculty of Economics and Social Sciences, certified agricultural economist.

He joined OTP Bank Hungary in 2002. Initially, he worked as a RM of the Central Hungarian Region in Budapest and after a few months, in 2003, he became a Corporate Customer Relationship Manager at the Corporate Customer Relationship Department. In 2005, he became Corporate Customer Relationships Director of the North – Buda area. Between April 2007 and September 2008, Tibor László Csonka was the Sales Director of Budapest Region. Between 2008 and 2011 he was the Deputy Managing Director of the South-Transdanubian Region. From April 2011 until 2014, he was the Senior Managing Director of the Micro and Small Enterprises Department. Since May 2014, Tibor László Csonka has been leading the reformulated Corporate Directorate as a Senior Managing Director.

Besides these positions, since 2011, Tibor László Csonka is member of the Management Board of Merkantil Bank Ltd. and untill end of 2018 Vice President of the Budapest Chamber of Commerce and Industry.

Tibor László Csonka holds the position of member of the Supervisory Board of OTP Bank Romania S.A. since December 2012.

## GÁBOR SUDÁR

**Member of the Supervisory Board**

Gábor Sudár graduated from the Budapest Business School, College of Commerce in 1994 as a certified economist. After graduating, he attended several educational institutions, respectively in 1995 the Securities and Exchange Commission from Hungary, obtaining a degree in securities examinaion; in 1996 he attended the Budapest Stock Exchange and the Central European Training Center for Brokers and becoming a certified broker and in 2001 he attended the International Training Center for Bankers and Association of Hungarian Investment Fund and Asset Management Companies, obtaining a portfolio and mutual fund manager's degree.

He began his career in banking in 1997 at CA IB Fund Management Ltd. (Member of the HVB Group) where from 1997 to 2002 he held the position of Associate Director in the Fund and Portfolio Management Department, and between 2002 and 2005 he served as Director (Executive Director) and member of the Board of Directors.
Gábor Sudár consolidated his experience in banking finance by holding various functions, including that of Customer Advisor between 1995 and 1997 within MKB Bank Ltd.

From 2005 to 2006, he served as Regional Manager at Cross Border Activity Consulting & IT Solutions Gmbh.
Between 2006 and 2013, he served as Head of the Department for Supervision of Capital Markets Firms.

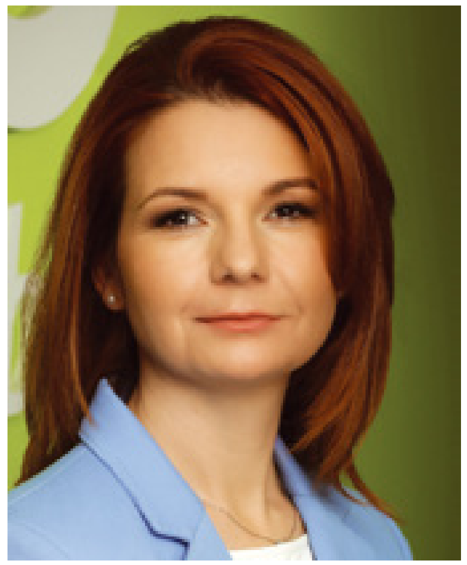
Gábor Sudár developed his knowledge in the banking financial field through the position of Director, Credit Institutions Supervision Directorate at the National Bank of Hungary and through experience gained during 2014 where, within SG Advisory Budapest, he held the position of Owner and Managing Director.

Gábor Sudár joined for the first time OTP Bank Plc., where, between 2014 and 2018, he held the position of Compliance Director, governing compliance activity within the entire Banking Group (including national and foreign subsidiaries). Since 2018 he has been the Regulatory Senior Manager, with the main responsibilities of starting an effective corporate governance activity within the Banking Group and providing support for decision-making at the level of the Bank's Deputy Chief Executive Officer.

From the end of 2019, Gábor Sudár is a member of the Supervisory Board of OTP Bank Romania S.A., being a member of the Nomination Committee.

## DR. IBOLYA RAJMONNÉ VERES

**Member of the Supervisory Board**



Dr. Ibolya Rajmonné Veres joined OTP Bank Hungary in 2007 and since then she is the Head of Retail Consumer Loans. As of 2012, she is a member of the Management Board at Merkantil Bank Zrt. and from October 2016 member of the Management Board of OTP Faktoring Zrt. Prior to that, she was part of the Management Board of CKB, OTP Bank Montenegro in 2009 and Chairman of the Supervisory Board of OTP Mortgage Bank between 2012 and 2014.

She has a Master in Project Management Sciences from Budapest University of Economic Sciences and Public Administration. She got her first degree in Economics at the College of Commerce and Economics in Szolnok.

Dr. Ibolya Rajmonné Veres started her career at K&H Bank (subsidiary of KBC), where she filled different positions in the Retail Division's product development area. In 2003, she moved on to Santander Consumer Finance Hungary Zrt. as Managing Director of Sales and Marketing, where she was also a Member of the Management Board.

Dr. Ibolya Rajmonné Veres was the member of the Supervisory Board of OTP Bank Romania S.A. from September 2012 until the end of October 2019.

# Management Board


The Management Board, one of the governing bodies of the Bank, ensures the management function within the Bank, through the fulfillment of all the necessary and useful actions for the achievement of the Bank's business objectives.

The Management Board implements the Bank's strategies and policies and, also, delegates duties tomiddle management/permanent committees and overseas the performance of the delegated responsibilities, remaining in charge of the performance of the Bank in front of the Supervisory Board.

The Management Board consists of Chairman, Vice-Chairman and the other members. The Chairman of the Management Board is the Chief Executive Officer. The members of the Management Board are appointed by the Supervisory Board and start performing their responsabilities after obtaining the prior approval of the National Bank of Romania, in compliance with the legal framework in force.

Also, the Management Board is responsible for the overseeing of the Bank's and its Subsidiaries investments in its position of local investment committee, together with the group-wide competent bodies, having the competences established in the regulations in force both internally, as well as at group level.

# GYULA FATÉR

**CEO and Chairman of the Management Board**

Gyula Fatér has been Chairman of the Management Board and CEO of OTP Bank Romania since June 2019. Starting with November 2018, and until June 2019, he held the position of Advisor of the CEO, after joining OTP Bank Romania.

Gyula Fatér has over 27 years of international banking experience and he successfully led from start-ups to top Central and Eastern European banks. He had high performances in a wide spectrum of banking areas, as retail banking, asset management business strategy, capital markets. Between 1992 and 2000, he was CEO of Europool Investment Fund Management, and in 2000 he joined the Budapest Bank Group as CEO of Budapest Fund Management, which he held until 2014.

Between 2006 and 2009 Gyula Fatér was also a regional wealth management leader at GE Money Bank, responsible for the regional oversight of eight countries, and since 2009 he worked in the retail banking management at Budapest Bank. He has been a member of the Board of Directors of Budapest Bank for more than 10 years. For 4 years, he was Head of Consumer at the same bank.

Gyula Fatér started his mandate with focus on accelerating the bank's growth, further strengthening the group's market position in the country.
Gyula Fatér has a master's degree in Economics, accomplished in 1990 at the Karl Marx University of Economy Sciences - currently, Budapest Corvinus University.

# GÁBOR LJUBIČIĆ

**Deputy CEO and Vice-Chairman of the Management Board, Head of Retail Banking Division**

Gábor Ljubičić has been Deputy CEO of OTP Bank Romania and head of the Retail Banking Division between 2007 and July 5, 2019. He was also Vice-Chairman of the Management Board at OTP Bank Romania since 2012 taking over for a limited time the responsibilities of the CEO during 2019.

Gábor Ljubičić has a prosperous career with OTP Group. He joined the Bank in 1986 and worked in several positions. Since 1997, he led the projects for digital banking services and later became the Head of the Electronic Services Directorate. Between 2001 and 2007, he occupied various managerial positions at OTP Bank Plc., as Deputy Executive Director for Banking Group and Branch Network Directorate, Executive Director at Downtown Region and Deputy Executive Director for Northern Hungary Region.

Besides these positions, Gábor Ljubičić had other professional assignments, such as: Member of the Board at OTP Mortgage Bank (2003-2007), Member of the Supervisory Board at OTP Asset Management Romania SAI S.A. since 2008 and Member of the Board of Right for Education Foundation since 2014.
Regarding his academic background, Gábor Ljubičić graduated from the College of Finance and Accountancy with Faculty of Banking in 1993. He also obtained a Master of Business Administration degree from Corvinus University in 2007 and from Henley Business School in 2017.

## MARA CRISTEA

**Deputy CEO and Member of the Management Board, Head of Finance and Planning Division**

Mara Cristea has been a Member of the Management Board and Deputy CEO, Head of Finance and Planning Division of OTP Bank Romania S.A. since October 2016. Mara Cristea is a highly skilled professional with vast knowledge in the financial and banking area, especially in the strategic planning and controlling, regulatory reporting and accounting. Proactive, assertive, team-player and detail-oriented are ones of the main characteristics that describe her personality.

Regarding her professional life, Mara Cristea has an experienced banking career. She started as an accountant at Elisabeta Palace in 1990, followed by a long and full of achievements career in the banking domain. Her banking journey began in the first established private bank in Romania, namely Banca Comercială "Ion Țiriac". In April 2006 she took over the position as Director of Financial Accounting Division at Volksbank Romania S.A. and afterwards, starting July 2015, joined OTP Bank Romania S.A. as Director of Accounting.

In terms of academic background, Mara Cristea has graduated from the Romanian – American University from Bucharest, Romania, with a degree in Finance and Banking. She is also a member of the Chamber of Fiscal Consultants in Romania since 2007 and a member of the Chamber of Financial Auditors in Romania since 2010.

## ROXANA MARIA HIDAN

**Deputy CEO and Member of Management Board, Head of Retail Banking Division**

Roxana Maria Hidan has been Member of the Management Board and Deputy CEO, Retail Division of OTP Bank Romania, since July 2019.

With over 19 years' experience in banking, out of which 15 years in at OTP Bank Romania, Roxana Hidan previously coordinated the SME business line. Between 2012 and 2015, as a Director in SME division, she oversaw the development and implementation of the bank's strategy for this segment.

In 2015, Roxana Hidan had a major involvement in the process of integrating OTP Bank Romania with Millennium Bank, first as Executive Retail Director and Member of the Board of Directors, then as General Manager and Chairman of the Board of Directors. Her main mission as head of the Retail division is to further develop this business and to contribute to the improvement of a customer-oriented culture.

Holding an Executive MBA (2012-2014) in Advanced Global Management at IE Business School in Madrid, Roxana Hidan is currently a member of the Global Alumni Advisory Board. In addition, in 2018 she added to her educational portfolio The Harvard Business School's Global Management Program (GMP24), as well as being a graduate from this prestigious institution.

## DRAGOȘ IOAN MIRICĂ

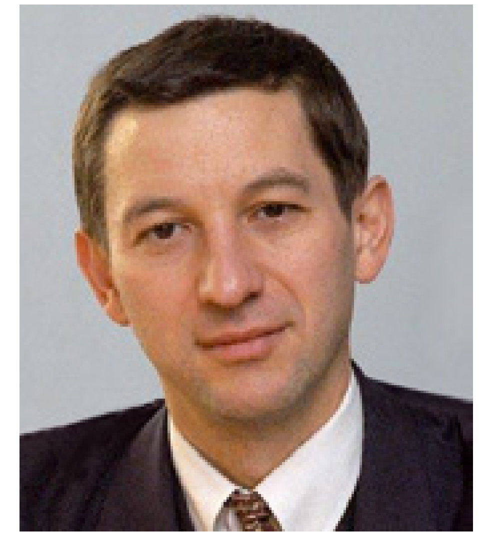
**Deputy CEO and Member of Management Board, Head of Corporate Banking Division**

Dragoş Ioan Mirică has been Member of the Management Board and Deputy CEO, Corporate Banking since February 2013. Since 2008, Dragoş Ioan Mirică took the assignment to manage the activity of the corporate business line, after joining OTP Bank Romania as Director of Large Corporate Directorate, in May 2006. Dragoş Ioan Mirică is a highly skilled financial professional with extensive experience in banking and financial institutions, negotiations, business and people management, analytical budgeting activity and financial appraisal. He employs excellent planning skills to ensure consistent, continuous and efficient operations.

With respect to the educational background, Dragoş Ioan Mirică graduated from University Pierre Mendes, Grenoble, France, in 1993 having his Bachelor degree in Business Administration. In 1996, he also graduated from Academy of Economic Studies, Bucharest, the Faculty of Economic Studies in Foreign Languages, French Department, obtaining his Bachelor`s Degree in Business Administration, Finance and Banking. During his career, Dragoş Ioan Mirică held senior administrative and professional positions in several banks acting in Romania, such as UniCredit Bank and BRD-Société Générale and he was involved in business advisory as well.

## GYÖRGY GÁLDI

**Deputy CEO and Member of Management Board, Head of Lending and Risk Management Division**



György Gáldi has been Head of Lending and Risk Management Division at OTP Bank Romania, and Deputy CEO and Member of the Management Board of OTP Bank Romania, between 2012 and February 29, 2020. He has an engineering and economist academic background and collected three diplomas of Budapest University of Technology and Budapest University of Economics. Beyond such, he completed several courses among others at several short-term courses at Oxford University, Institute for Management Development Lausanne (1992), Institute for Public-Private Partnerships Washington D.C.

Based on such learning and accumulated professional experience, he has been acting as lecturer of various universities and colleges, focusing mainly on risk management topics and structured and project finance related subjects.
He has also participated as speaker, mainly on the same themes, at several Hungarian, European and North-American business forums/conferences since 1994, making studies and publications also concerning these topics.

In terms of professional experience, György Gáldi started as a researcher at Budapest University of Technology, followed by a period when he worked as adviser within the Ministry of Transport Communication and Water Management. He started his banking career at K&H Bank Structured and Project Finance area, as Unit Head (1993) and becoming Executive Director (2001), being responsible for a large number of cash-flow based transactions in various sectors (e.g. energy/ power, telecommunications, transport, utilities, real estate etc.), industrial production. Between 2005 and 2007, the responsibility was extended also for the large corporate relationship management, as well acting as Senior Executive Director. Afterwards, he became Executive Director of MKB Bank Zrt., being responsible for Structured, Real Estate and Project Financing's risk management in 2007 and becoming Chief Risk Officer in October 2008.

From April 2009 he was also Deputy CEO and Member of Board of Directors. He acted as Chairman of the bank's central credit committee for 39 months and as member of several other decision making and steering committees, for a longer period of time. He has also fulfilled membership in Board of Directors and in Supervisory Board in various companies since 1994, which are active mainly on various infrastructure/ service industry/financing sub-sectors.

György Gáldi was in charge among others of (i) intensification of the group-wide collection activities of the OTP Bank in Romania; (ii) the adoption of the risk handling practice best matching time to time developments of the business activity; (iii) introduction of business standards assuring the largest efficiency of the applied risk handling technics and practices.

OTP Bank România S.A. Annual Report

# Corporate Social Responsibility

2019

# Corporate Social Responsibility

**Corporate Social Responsibility is a business philosophy within OTP Bank Romania, as it influences the decisions we make in many aspects of our company's life. We always keep in mind the social and environmental impact when it comes to our business operations and the interactions with our stakeholders.**

Sustainable development meets the present needs, without compromising the ability of future generations to satisfy their own needs. Sustainable development implies economic growth, together with the protection of the society and of the environmental quality.

The most efficient method of development is investing in education, which is already proven in many nations. Nowadays, we are all aware that lifelong learning is not just a saying, but it has become a daily necessity. Without consistent education, neither the survival of a business nor its development can be guaranteed.

## Highlights from our activity along 2019

### Right to Education Foundation

**OTP Bank Romania aims to contribute to the development of responsible and healthy financial behaviour among the young generation, the Right to Education Foundation being the institution that coordinates and implements the financial education activities of the Bank.**

#### Financial education for students

The Foundation's mission is to train as many students as possible, free of charge. The target group of the financial education program for students consists of youngsters across the country, aged between 10 and 19 years. In addition to the financial education courses, our curriculum includes the career orientation courses, which are intended for students aged between 13 and 19 years.

In 2019, the Foundation has continued this mission, our trainers reaching 36 localities in the country to deliver financial education courses for youngsters.

In 2019, the Foundation has signed partnerships with 89 public and private schools and NGOs at national level.

As for the Foundation's activities as OTP Bank Romania's main CSR project respectively, of the target of reaching a total of 2,500 youngsters trained nationwide, we mention:

In 2019, the Foundation's trainers have implemented 298 training sessions at national level (147 training sessions in Bucharest and 151 training sessions outside Bucharest, namely in: Alexandria, Bacău, Bascov, Brănești, Brașov, Buftea, Buzău, Cernavodă, Chirnogi, Ernei, Filipeștii de Pădure, Focșani, Gălășești, Gostinari, Lița, Lugoj, Măgurele, Municipiul București, Năvodari, Odorheiu Secuiesc, Oradea, Parincea, Ploiești, Popești-Leordeni, Potlogi, Râmnicu Sărat, Sadova, Sălsig, Săscut, Sfântu Gheorghe, Slănic, Suceava, Târgu Mureș, Târgu Ocna, Tărtășești, Vasilați).

Thus, the trainers have implemented educational programs for youngsters living in 20 counties across the country. At the end of 2019, a total of 4,071 youngsters took part in these training sessions, namely: 3,626 pupils took part in our financial education programs, while 445 pupils took part in our career orientation training programs.

In March 2019, the Foundation became involved, for the second consecutive year, in the global event called Global Money Week, organizing and implementing financial education courses at OK Center for 299 students from Ilfov and Bucharest.

In September and October 2019, as a result of a collaboration with some partner associations (ADER, Better Youth, Candy Taxi), the Foundation implemented courses at schools whose students have disadvantaged backgrounds. Also, within these partnerships, the students of the Special School for the Hearing Impaired "Sfânta Maria" benefited from the courses of the Foundation, as well as the students of the Special School No. 3 in Bucharest.

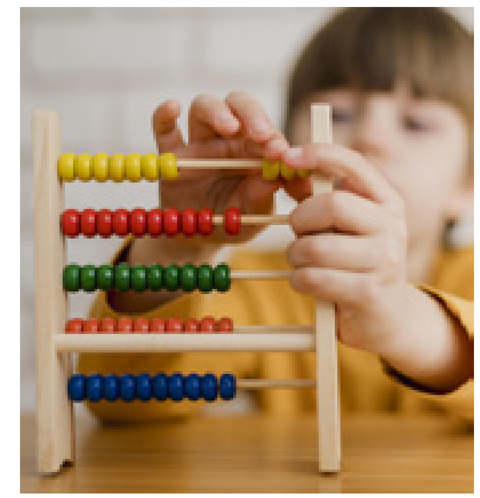
## Financial Fitness

**Financial Fitness, the financial education program, strengthened its important position within the curricula of Right to Education Foundation, not only because its target consists of the adult people, but especially due to its role to make an outstanding contribution towards a responsible financial attitude.**

The Financial Fitness sessions were attended by 902 persons, 205 one of them being our colleagues from OTP Group. As compared to the previous year, there was a significant growth of the number of external participants, which proves an increasing interest for financial education.

The Financial Fitness trainers travelled to 25 cities from 11 counties and hosted a number of 85 training sessions.

One of the strategic directions of our program was the "Cities" project, Financial Fitness sessions being an important component of a marketing initiative with the goal to increase the awareness of the retail network branches within their local communities. With the support of the branch managers from 11 cities (Pitești, Giurgiu, Ploiești, Buzău, Miercurea Ciuc, Sfântu Gheorghe, Vaslui, Galați, Brăila, Oradea and Arad), the sessions were attended by 121 participants.



## "Vara Urbană" Project – 2019 edition

**"Vara Urbană" is a program initiated by OTP Bank Romania with the support of the Right to Education Foundation, held at the OK Center in July - August. The program's goal is to give the company's employees the opportunity to enroll their children in a free educational and interactive program during the summer holidays during the parents' working program. Thus, the parents knew that the little ones were in a safe place, with an environment according to their age,**

**during the period which they were at the office.**

The first edition of this program was held in 2018 and was rewarded with the 2nd prize in the category "Best employee support program" within the Romanian CSR Awards 2019.

In 2019, the second edition of this program was organized.

Children aged 6 to 14 years could be enrolled in the program.

Thus, from July to August, all parents in the Bucharest branches of OTP Bank Romania had the opportunity to leave their children at the OK Center from Monday to Friday (excluding public holidays), between 8:00 and 18:00, to take part in activities under the "Vara Urbană" program. Participation in the program was free of charge, based on enrollment, and parents had the choice if they wanted to sign up for a few days, weeks, a whole month or for both months of the program. During the 9 weeks of the program, 905 children were hosted, of which 71 were single children. A total of 57 parents were the beneficiaries of this program in the OK Center. The average participation rate was 21 children / day, while the average age of the children was 8.5 years.


## OK Center

**The objective of the OK Center is to encourage the organic development of the urban society in Bucharest and not only, through a learning approach from the individual to the community, with focus on financial management.**

Also, through this project, OTP Bank Romania aims to encourage a financially responsible attitude among young people in Romania. The Right to Education trainers, through courses held at OK Center or in schools, help create an interactive learning environment that allows learners to immediately apply practical concepts such as planning, risk, strategic thinking, and more. Also, the OK Center space is offered free of charge for other non-profit organizations, particularly for those which are active in the field of education, as well for youth / student organizations, but also for start-ups, artists and freelancers, to hold their events here.

Thus, in 2019, the OK Center hosted a total of 1130 events, out of which 42% were events dedicated to education, with 10,321 participants.

A total of aprox. 25,000 people, representatives of the non-governmental sector and entrepreneurs, benefited from the OK Center space to organise their work meetings, projects, events, trainings or conferences. Of those 25,000 people, 1,637 participants took part in the financial education courses.

**In 2020, we have set the following objectives:**

· Reaching a number of 2,835 trainees to take part in our financial education training program and career orientation training program offered by Right to Education Foundation;
· Development of a financial education module that includes programming activities with robots for children under the age of 11;
· Organizing another edition of the Global Money Week event in OK Center in partnership with 5 educational institutions;
· Taking part in outdoor events and summer camps during the Summer;
· Organizing events promoting the Right to Education Foundation through internal and external communication channels;
· Including as many categories of individuals as possible in the Financial Fitness training program: OTP Bank Romania employees and subsidiaries, external clients which will take part in this program (employee benefit);
· Diversifying the content by developing new online learning modules which come as a completion to our current educational offer and also, which will offer all those interested the possibility of accessing this program from right in front of their computers, smartphone-s or tablets;
· Developing of financial education programs dedicated to certain types of socio-professional categories (sportsmen, artists, retirees etc.) so that each of these categories should find information of personal interest in the field of personal finance according to their priorities specific to their age and field of activity;
· Partnerships with libraries, universities and senior clubs;
· Exploring of new partnership opportunities with other ONGs and/or Universities.

## Sponsorship activity

As a responsible and active institutional citizen, we invest in communities' wellbeing through sponsorships. When choosing the events and initiatives we support, we take into consideration their consistency not only with our business interests, but also with our values.

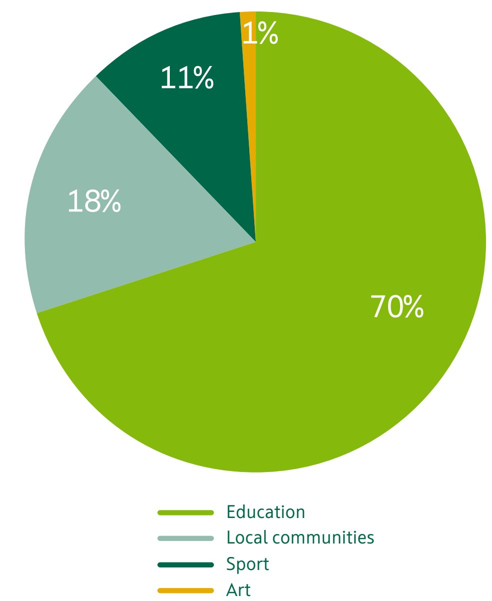
This type of involvement helps us promote OTP Bank Romania by increasing awareness and building reputation. We contribute in money (directly to the beneficiaries) or in kindness (through the Right to Education Foundation) in return for a public acknowledgement of the support.

The sponsorship initiatives are developed and implemented under the CSR umbrella:

**• OTP Equal Opportunity Program:** we support disadvantaged groups who need to overcome a drawback – mental or physical handicap, lacking resources to obtain proper education and also children and youth organizations. We attempt to help these groups by improving their life quality and by integrating them in the society;
**• OTP Community:** we support events, programs that strengthen communities and contribute to the preservation of cultural heritage and further cultural development;
**• OTP Sport Program:** we promote sports organizations, competitions and leisure activities that require physical and mental stamina, concentration, tactical skills and finely tuned teamwork.

In 2019, OTP Bank Romania sponsored the activities of 21 associations in various fields: education (70%), local community development (18.1%), sport (10.6%), and art (1.3%).

**Budget distribution by sponsorship type:**




The three most important fields of sponsorship were education, local community development and sports, where we strengthen our long-term relationships. The main organizations and projects supported in 2018 were:

• **Right to Education Foundation:** support for the maintenance of the daily activity of the foundation and the OK Center space;
• **Oricum Association - ShortsUP Marele**

**Picnic:** OTP Bank Romania had a community-level visibility of over 12000 participants at the event, and was present with an OK Center dedicated space;

- **Sport Club Miercurea Ciuc Association:** OTP supporting in 2019 - 2020 the hockey team from Miercurea Ciuc, one the top-level teams that play in the Romanian Hockey League and participate in the international competition Erste Liga.

## OTP Community

**OTP Community is an internal volunteering program initiated by OTP Bank Romania in October 2016 dedicated to employees who want to have an impacet on the local community and to contribute to the implementation of the financial education activities of the Right to Education Foundation, established by OTP Bank in 2014.**

The main objective of OTP Community is to support the education of children from disadvantaged areas and to prevent school dropout. In 2019, OTP Community volunteers contributed to the local community by:

- Participation in two editions of the Bucharest Marathon, where over 30 volunteers participated in the event in order to raise money for Autism Voice NGO, who takes care of children with autism;
- 100 OTP Bank Romania volunteers helped children from disadvantaged backgrounds to start the new school year with fully equipped backpacks within the campaign organized by the Edulier Association;
- Host in the bank's premises Autumn and Spring fairs where ONG's raised money by selling handmade objects to the banks employees;
- Organize donation campaign: employees donated clothes, shoes, toys and other goods that they no longer used;
- Fundraising program within the 2% donation campaign, where 5 NGOs benefited from the support of 25 OTP Bank Romania employees;
- Blood donation sessions in the office - In 2019, OTP Bank Romania organized 4 sessions with over 40 eligible participants in each session. The amount of blood taken from a person (450 ml) helps to save 3 lives; so in 2019, OTP Bank Romania employees helped save 480 lives.

The total number of direct beneficiaries of OTP Community projects is over 600 people.


OTP Bank România S.A. Annual Report

# Compliance Function

2019

# Compliance Function

**The compliance function is one of the three independent control functions within OTP Bank Romania and, during 2019, it was ensured by the Compliance Directorate.**

**The Compliance Directorate is subordinated to OTP Bank Romania Chief Executive Officer and its independence is ensured by direct reporting to OTP Bank Romania Management Board and Supervisory Board. Also, Compliance Directorate regularly reports to the Audit Committee and the Risk Management Committee on the activity and associated risks identified.**

**Compliance Directorate objective** is to ensure Bank compliance with the legal and the regulatory framework, standards of professional ethics and conduct and the development of compliance culture at the institution level.

As a result of the reorganization from 2019, **Compliance Directorate organizational structure** was as follows:

- **General Compliance Department**
  - o General Compliance Regulations and Advice Compartment
  - o General Compliance Monitoring and Control Compartment
  - o Investment Services Compartment
- **Data Protection Department**
  - o Data Protection Regulations and Advice Compartment
  - o Administration and Monitoring System Compartment
- **KYC & Regulations Department**
  - o KYC Regulation and Authorities
  - o KYC Advises and Consultancy
- **Monitoring and Control Department**
  - o AML & CFT Monitoring Compartment
  - o AML & CFT Control Compartment

The reorganization main purpose was to better address the Bank's compliance needs by clearer definition and appropriate segregation of specific compliance activities in general compliance areas (including investment services and data protection) respectively area of knowing the customer in order to prevent money laundering and combat terrorist financing (KYC/AML/CFT).

Data Protection Department is coordinated by the Data Protection Officer (DPO) - Department Manager, subordinated to the Executive Director of Compliance Directorate, directly reporting to the Bank's Management Board and Supervisory Board.

**The compliance function main attributions within the Bank are:**

- Manages compliance risk for maintaining an acceptable level, according to Bank's Risk Strategy;
- Reports to OTP Bank Romania S.A. Management and to OTP Bank Nyrt., information on compliance risk determined on specific assessments basis, as per related methodologies in force;
- Provides consultancy to Bank's Management regarding provisions of legal and regulatory framework applicable to Bank activity and the ethical standards the Bank must apply and comply with;
- Reports to OTP Bank Nyrt. and Bank's Management, as per Group standards and internal regulations;
- Verifies, through monitoring and control, ensuring permanent compliance of Bank activity with the legal and regulatory framework applicable on compliance issues, making recommendations (applicable punctually and/or throughout the Bank) to ensure this objective is achieved and to manage compliance risk;
- Verifies Bank products/services/regulations compliance with the regulatory framework in force, including agreements, recommended practices, ethical standards related to the banking activity;
- Ensures the measures within the Action Plans issued on compliance issues, following the controls of Supervisory Authorities (National Bank of Romania, National Authority for the Supervision of Personal Data Processing), are fully implemented and within the established deadlines;
- Elaborates, provides assistance with elaboration, implements and monitors regulations (including compliance manuals, codes of conduct, guidelines for Bank personnel etc.) to ensure permanent compliance of Bank activity with the legal and internal regulatory framework;
- Contributes to the training of Bank employees on compliance issues, providing necessary training and testing materials, in order to develop the organizational compliance culture;
- Performs the annual evaluation of the compliance culture at the Bank level;
- Through Data Protection Department, it exercises guidance, coordination, control and monitoring the unitary application of legislation on protection of individuals regarding the processing of personal data and the free circulation of such data within the Bank;
- Manages the money laundering and terrorism financing related risks, ensuring an internal regulatory framework aligned with legal requirements in the field and implementing effective monitoring and control processes and systems.

The **compliance fundamental principles** as well as the main direction of activity within the compliance area are highlighted within the Compliance Policy of OTP Bank Romania S.A. and they aim to establish, facilitate and support Bank proper, legal, safe and prudent operation.

Based on Compliance Policy, including personal data protection aspects, the Bank has developed regulations and established the necessary tools for policy implementation, considering Bank activity and size complexity, as well as the applicable national, European and international regulations, aligned with OTP Bank Nyrt. own policy.
Regarding personal data protection, it is expressly stipulated the non-observance of Personal Data Privacy Policy may lead to affecting the personal rights of data subjects, as well as to significant financial and reputational losses for OTP Bank Romania S.A. and to possible disciplinary consequences for concerned responsible Bank employees.

The Compliance Directorate also manages the Bank's Code of Ethics which establishes fundamental values, principles and rules, based on which Bank Management and all employees act and fulfill their tasks, contributing to the achievement of business objectives.


• The general principles underlying the **Code of Ethics** reflect the standards of corporate governance, values of moral and professional integrity, good business relationships based on sharing common values and rules of conduct governing inter-human relations, compliance with specific banking financial legislation, avoidance and combating conflicts of interests and corruption, preserving confidentiality, transparency and prudent approach related to performed activities.
• The Bank has implemented adequate communication channels (whistleblowing) to facilitate the reporting of inappropriate behavior that may arise in connection with customers, suppliers or Bank staff and to encourage the presentation in good faith of any situations of non-compliance with the Code of Ethics.

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, analyzing the areas with such risk potential (personal recruitment, family relationships, participation in companies, suppliers) and including procedures providing information flow barriers and responsibility segregation.

OTP Bank Romania S.A. is committed to permanently comply with the legal provisions and regulations in the field of combating money laundering (ML) and terrorist financing (FT) and to ensure a robust know-your-customer process, to allow identification of customer associated risks and the appropriate application of customer due diligence measures.
• To ensure an effective know-your-customer process, the Bank has implemented the risk-based approach, applying customer due diligence correlated with the ML/FT risk associated to customers, both in terms of their characteristics and in terms of purchased products and services.
• In this respect, the Bank displays enhanced due diligence towards the categories of customers with higher degree of risk from ML/FT risk perspective, such as publicly exposed persons, persons / entities in relationships with countries/territories subject to international sanctions or other categories of customers with higher potential risk.

In order to comply with the specific legislation and the applicable regulations in AML/CFT field and that of international sanctions, OTP Bank Romania S.A. implemented procedures adapted to the business model adopted by the Bank, intended to be a real support for ML/FT risk management.
• Responsibilities of Compliance Directorate:
- identification of applicable regulatory requirements;
- development of internal regulations on performing activity for the purpose of preventing and combating money laundering;
- regularly checking the way regulatory requirements are effectively integrated into Bank systems and within the internal regulatory framework developed and implemented at Bank level.
• As well, all Bank staff is involved in the process of preventing and combating money laundering, according to the approved authority limits and as per the attributions established within Bank Internal Organizational Rules. Thus, the responsibilities regarding customer due diligence and ML/FT risk assessment associated to customers, transactions and the entire activity, reside with all Bank staff, as per the established limits, structured according to the principles within the three lines of defense.
• In this respect, Compliance Directorate provides advise both to territorial units and Head Office entities regarding ML/FT risk management and with respect to observance of international sanctioning regimes imposed – with the purpose of:
- unitary implementation of provisions applicable in the field;
- limiting reputational and/or financial impact generated by compliance / reputational / operational risks to which the Bank may be exposed.

• Regarding personnel recruitment strategy, at OTP Bank Romania S.A. level, specific standards are set for hiring staff with responsibilities in the KYC/AML/CFT area, standards that ensure an adequate selection process versus specific requirements related to the compliance function.

The observance of sanctioning regimes imposed at the international level is a permanent concern at Bank level, considering the global political and economic context.
Aspects regarding international sanctions are important as they may increase the level of risk associated with the Bank's activity in relationship to its customers.
At OTP Bank Romania S.A. level, enforcing commercial embargoes and economic sanctions represents a priority.
For this purpose, policies, norms, procedures, and workflows regulating the activity and specific attributions are issued and implemented, the activity being supported by the implemented IT solutions.
By using them, the Bank ensures continuous updating of information regarding the persons and entities upon which international sanctions have been imposed at international level - periodical adequate checks are performed to ensure compliance with latest sanctions.

Compliance Directorate elaborates on-going training programs to ensure the maintenance of an adequate level of compliance risk awareness versus Bank activity complexity and size.