TRANSPARENCY AND DISCLOUSURE REPORT FOR YEAR 2019

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

Contents

INTRODUCTION

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

This report is prepared individually for the year ended 31 December 2019 and includes information contained in the financial statements audited at the individual level in accordance with International Financial Reporting Standards. Taking in consideration that the publication of it takes place until 30 June 2020, the bank has decided not to publish the simplified report for the first quarter.

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

1.1 Shareholder structure

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

On 31.12.2019, the structure of shareholders of OTPBANK ROMANIA S.A was the following:

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

1.2 The organizational structure

The Bank is divided into organizational units at the Head Office level, regional centers and in 95 territorial units.
At the Head Office level it functions divisions, directorates and departments.
At territorial level, there are 5 Retail Regional Centers, which are acting independently in relation with the clients and represents the intermediary lead between the Central Administration of the bank and the territorial units allocated.
Regarding the Small and Medium Business Line, this is structured in 5 SME Regional Centers.
Corporate Business Line is present in the territory through 6 Corporate Regional Centers.
The business line for Private Banking and Prestige clients is represented by specialized personnel located in territorial units with portfolio of this nature.

On 31.12.2019 the organizational structure at the level of the central administration of the Bank is organized in 5 functional lines, as follows:

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

An extract of the organizational structure of OTP Bank Romania S.A. on 31.12.2019 is presented in Annex 2.

1.3. The management body

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

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

Until 01.11.2019, the **Supervisory Board** consisted of 6 (six) members appointed by the General Meeting of Shareholders. Starting with 01.11.2019, the number of members changed, the Supervisory Board being composed of 7 (seven) members. Their term of office is 4 (four) years with the possibility of being re-elected for periods of 4 (four) years.

The members of the **Supervisory Board** in the period 01.01.2019 - 31.12.2019 were:

Name	Function
Kovács Antal György	President
Hanusovszky Judit	Vice-president
Zsakó Enikő	Member
Dr. Rajmonné Veres Ibolya	Member
Csonka Tibor László	Member
Pál-Antal Ildikó	Independent Member

During 01.11.2019-31.12.2019, the members of the **Supervisory Board** were:

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

Mr. Antal György Kovács is Chairman of the Board of Directors of OTP Mortgage Bank Ltd. and OTP Building Society Ltd. since 2014. Also, he is Chairman of the Supervisory Board of OTP Fund Management and OTP Mobile Kft. Starting April 2016, Kovács holds the post of OTP Bank Nyrt Executive Board member.

Mr. Tibor László Csonka is member of the Management Board of Merkantil Bank Ltd. and Merkantil Car Ltd. since 2011 and he is a Vice President of Chamber of Commerce and Industry since 2012. In 2014, he became member of the Management Board of Garantiqa Creditguarantee Co. Ltd. as well.

As of 2012, Veres Ibolya Dr. Rajmonné is a member of the Management Board at Merkantil Bank Zrt, as well as at Merkantil Car Zrt. and from October 2016 member of the Management Board of OTP Faktoring Zrt.

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

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

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

The members of the Management Board in the period 01.01.2019 - 31.12.2019 were:

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

In 2019, the management bodies of OTP Bank Romania SA met in ordinary and extraordinary sessions, with the effective participation of the majority of their members, as it follows:

- the Supervisory Board: 4 ordinary meetings and 21 extraordinary meetings;
- the Management Board: 23 ordinary meetings and 135 extraordinary meetings.

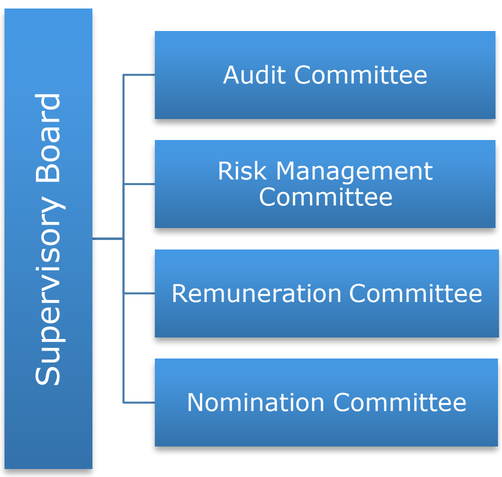
From the point of view of ensuring the gender diversity, in the structure of the management body, we mention that during 2019, the structure was the following:

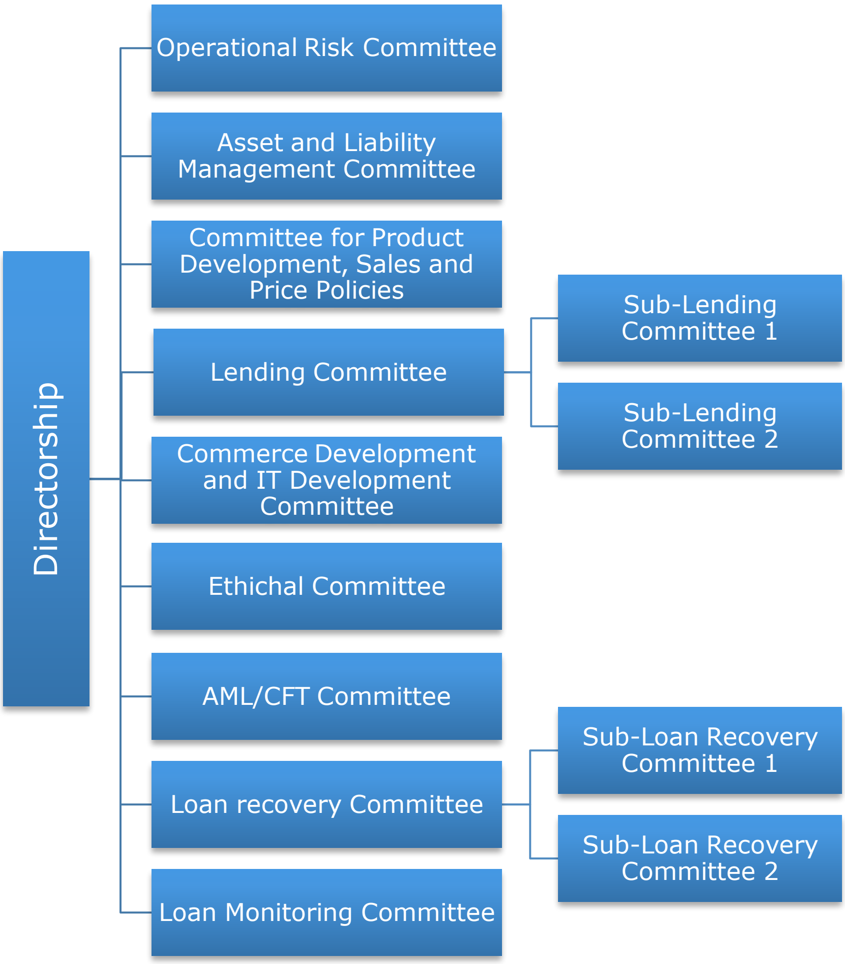
Management Board		
Men	Women	Member no.
60%	40%	5

Supervisory Board		
Men	Women	Member no.
57%	43%	7

1.4 Committees

In order to carry out the activity in accordance with regulatory requirements, the Management Board may set up permanent committees and subcommittees subordinated to them in order to ensure a continuing activity.
The Standing Committees and their subcommittees are analysis and decision-making structures, as well as advisory boards, subordinated to the Management Board, with specific competences for each field of activity, operating based on activity plans.





The establishment of the Audit Committee, the Risk Management Committee, the Remuneration Committee and the Nomination Committee, the definition of their structure and competencies are within the competence of the Supervisory Board. The functioning and structure of these committees are governed by the procedural rules applicable to each of them, approved by the Supervisory Board under whose subordination they operate.
The competencies of the other committees are defined by the decision of the Executive Board from which the decision-making powers are delegated and to which they report on the work carried out.

Responsibilities of the Audit Committee

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

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

During the year 2019, 8 Audit Committee meetings were held, out of which 4 were ordinary videoconferencing sessions and 4 were by correspondence.

The Audit Committee has the following main responsibilities:

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

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

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

During 2019 the Audit Committee's composition changed, this being established and approved according to the decision of the Supervisory Board no. 107/13.11.2019.

Responsibilities of the Risk Management Committee

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

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

- analyzes prior to the approval of the Supervisory Board, the Bank's Risk Strategy, including the risk appetite or risk tolerance at a level that ensures its proper functioning and achievement of its strategic objectives;
- analyzes, prior to the approval of the Supervisory Board, the strategies and policies regarding the identification, assessment, monitoring and control of the significant risks, based on the legislation in force and group level requirements;
- independently advises the Supervisory Board regarding any breach or non-compliance of the Risk Strategy, risk appetite / tolerance or of the risk limits and makes recommendations to avoid such situations;
- inform the Supervisory Board on a quarterly basis and, whenever necessary, on the problems and significant evolutions that might influence the Bank's risk profile;

- analyzes, prior to the final approval of the Supervisory Board, the internal process for the assessment of capital adequacy to risks and reports quarterly to the Supervisory Board the results of the internal process for the assessment of capital adequacy to risks;
- analyzes, prior to the approval of the Supervisory Board, the results regarding the identification, measurement, management and monitoring of the concentration risk, respectively the measures to mitigate the concentration risk;
- analyzes, prior to the approval of the Supervisory Board, the general framework regarding crisis simulations and assesses the related results and mitigation measures;

The Risk Management Committee is organized on a quarterly basis or whenever it is necessary, and its meetings may be organized by videoconference. During the year 2019, 11 meetings of the Risk Management Committee were organized (4 ordinary meetings, 7 committees by correspondence - e-mail).

Remuneration Committee

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

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

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

During 2019, seven meetings took place, three of which were video-conferencing sessions and four extraordinary mail meetings.

The Remuneration Committee has the following main tasks:

- supports and advises the Supervisory Board on the drafting of the Bank's remuneration policy, including the principles (policy) for identifying staff members in the category of staff identified;
- ensures the adequacy of the information provided to shareholders on remuneration policies and practices, in particular with regard to the maximum level proposed for the ratio between fixed and variable remuneration, when applicable;
- prepares decisions on the remuneration to be made by the Supervisory Board, in particular as regards the remuneration of the members of the Board, the process and criteria for determining the size of the pensions for the staff identified and the granting of exceptional remuneration to the staff identified;
- makes recommendations to the Supervisory Board on the preparation of the remuneration package and the amount of remuneration paid to the coordinators of the control functions (compliance, risk management, internal audit);
- directly supervises the remuneration of coordinators of control functions (compliance, risk management, internal audit);
- assesses the achievement of performance targets and the need to adjust ex post risk, including the application of malus and claw back measures;
- evaluates the detailed information on the final outcome of the performance assessment;
- supervises remuneration policies, practices and processes, and observes remuneration policies and reports to the Supervisory Board; the monitoring process should also include remuneration policies and practices at the sub-consolidated level of the bank;
- assesses the criteria and process of identifying staff members whose activities have a significant impact on the bank's risk profile (the identified staff), including any exceptions made;

- assesses the mechanisms and systems adopted to ensure that the remuneration system takes due account of all types of risk, liquidity and capital levels and that the overall remuneration policy is consistent with and promotes sound and effective risk management and is consistent with business strategy, corporate goals, culture and values and long-term interest of the bank; ensuring the assessment includes the results of the Risk Management Committee's review if the incentives offered by remuneration policies and practices take into account risk, capital, liquidity and probability and timing of earnings;
- reviews a range of possible scenarios to test how remuneration policies and practices react to external and internal events and test back the criteria used to determine the allocation and adjust ex ante risk based on actual risk outcomes;
- ensures that the bank's remuneration policy and practices are subject to central and independent internal review at least once a year;
- ensures that a remedial action plan is proposed, approved and implemented in a timely manner, if periodic reviews indicate that remuneration policies are not working as intended or if recommendations are made.

Nomination Committee

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

The Nomination Committee should include members of the Supervisory Board who are not Bank leaders.

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

During 2019, the Nomination Committee six meetings took place, three of which were videoconference session and three extraordinary mailing-in meeting.

The Nomination Committee has the following main tasks:

- supports and advises the Supervisory Board on the design of policy for the selection, assessment of suitability and succession of the bank for the members of the governing bodies (the Supervisory Board and the Executive Board) and the key function holders;
- periodically reviews the policy on selection, suitability assessment and succession planning for members of senior management bodies and key function holders and make recommendations to the Supervisory Board;
- advises the Supervisory Board on the numerically weakly gender-sensitive objective within the Supervisory Board / Directorate, as well as the policy to achieve or maintain that objective;
- contributes actively to the assessment of suitability and selection of candidates for vacant positions (for the Supervisory Board / Directorate and the coordinators of the internal control functions) in collaboration with the Human Resources Department;
- ensures that collective assessments of suitability of members of the Supervisory Board or the Executive Board are made prior to appointment;
- reviews the process and criteria used to identify key function holders;
- monitors the effectiveness of the bank's selection, suitability and succession policy and review its drafting and implementation;
- carries out at least once a year an individual reassessment of adequacy for the coordinators of internal control functions;

- evaluates periodically, but at least once a year, the structure, size, composition and performance of the Supervisory Board / Board and to make recommendations to the Supervisory Board on any changes; The Committee should assist the Supervisory Board in carrying out the individual reassessment of adequacy as well as in carrying out collective evaluation (self-evaluation) and report the results to the Supervisory Board, even if its composition has not changed or other measures are recommended;
- periodically, but at least once a year, assesses the individual, collective and individual knowledge, skills and experience of Directors and reports to the Board of Supervisors the reason for the reassessment and any recommendation on the identified deficiencies;
- assesses the decision-making process at the level of the Supervisory Board and the Board of Directors to determine whether it is dominated by a person or a small group of people in a way that is to the detriment of the Bank.

Operative Risk Committee

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

The main responsibilities of the Operative Risk Committee are:

- monitors the significant evolutions that might influence the Bank's risk profile and informs quarterly the Management Board related to this topic;
- analyzes and subsequently informs the Management Board regarding all relevant information related to the risks to which the Bank is exposed, in order to establish the level of the risk tolerance and risk appetite;
- independently analyzes any breach or non-compliance of the Risk Strategy, risk appetite/ tolerance or of the risk limits and takes decisions to avoid such situations;
- submits for approval to the Management Board appropriate policies and processes for identifying the individual exposures to persons with whom the Bank is in special relations;
- submits for approval to the Management Board the internal process for the assessment of capital adequacy to risks, and reports the results of the internal process regarding the assessment of capital adequacy to risks;
- submits for approval to the Management Board the Bank's Risk Strategy, including the risk appetite or risk tolerance at a level that will ensure its healthy functioning and the achievement of the strategic objectives;
- submits for approval to the Management Board the general framework regarding crisis simulations, reports the related results and proposes measures or actions to mitigate the significant risks to which the Bank is or might be exposed;
- submits for approval to the Management Board, the bank's outsourcing policy and the procedures for the management of the risks associated to outsourcing;
- establishes appropriate limits for risks exposure, including in crisis conditions, according to the size, complexity and financial situation of the bank, as well as the procedures necessary to approve exceptions to those limits.

The Operative Risk Committee is organized monthly (ordinary meetings) or whenever necessary (correspondence meetings). In 2019, 41 meetings of the Operative Risk Committee were organized (12 ordinary meetings and 29 meetings by correspondence - e-mail).

Responsibilities of the Asset and Liability Management Committee

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

The main responsibilities of this Committee are:

- submits for approval to the Management Board and the Supervisory Board The liquidity Management Strategy;
- submits for approval to the Management Board internal regulations concerning:
  - Stress testing in the OTP Bank Romania SA;
  - Liquidity risk management;
  - Management of the interest rate risk outside the trading book
- approves the system limits on the maximum exposure to liquidity risk. It also analysis the liquidity gap report and liquidity limits breaches, approves the measures and actions to be implemented;
- approves the limits system and the maximum level of exposure to interest rate risk;
- approves proposals for medium and long term investment and funding proposals;
- approves the maximum permissible exposure level and trading strategy for Treasury's Directorate trading book;
- establishes limits concerning securities and derivative transactions related to bank customers;
- approves alternative financing plans to establish formal strategy to address liquidity shortfalls recorded in crisis situations, for both bank specific scenarios and market scenarios;
- approves the methodology for calculating the potential changes in the economic value of the Bank as a result of applying a / some sudden and unexpected changes in interest rates;
- approves minimum margin for loan products;
- monitors, controls and manages the bank's liquidity using the monthly liquidity report;
- monitors, controls and manages interest rate risk outside the trading book using the monthly interest rate risk report;
- monitors Treasury's profitability based the monthly Treasury Profitability report;
- considers proposals of Assets and Liabilities Management Department and Risk Administration Directorate on hedging solutions (interest rates, liquidity, foreign exchange) and decides how to act;
- approves transfer pricing methodology;
- approves, if necessary preventive or remedial measures, according to results of macroeconomic stress testing;
- submits to the Management Board and to the Supervisory Board (by means of the Management Board) briefings on liquidity;
- decides the composition of the non-trading portfolio, hedging policy and tactics;
- approves Treasury instruments portfolio, product development strategy, as well as the plans for the securities by currency, maturity and product groups ;
- analyzes and acknowledges the sales situation, balances of loans and deposits, cost of funds based on Business Evolution report prepared monthly / bimonthly;
- ongoing monitors financial and capital market trends and significant changes in the structure of assets and liabilities and then, based on this analysis, take appropriate measures;
- approves the size and currency of standby credit lines;
- decides on the opportunity of reviewing trading limits in situations when the annual stop-loss limit is breached;
- any other duties stipulated by law, as determined by the internal regulations of the Bank or, as the case may be, delegated by the Board.

Responsibilities of the Product Development, Sales and Pricing Committee

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

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

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

The main responsibilities are the following:

- to approve the credit reports and undertaking of commitments, according to competence limits as established by IOR and with the legislation in force;
- in approving loans, the CC, SCC2 and SCC1 shall take into consideration at least:
  - the current and forecasted financial performance of the counter-parties;
  - the concentration of exposures to counterparties, the markets in which they operate, the economic sectors and countries where they are set up;
  - the capacity to implement, from the legal point of view, the contractual commitments;
  - the capacity and possibility to enforce the collateral under market conditions;
  - contractual commitments towards persons which are in special relations with the Bank, the Bank's employees or their family;
  - large exposures;
  - operations under favorable conditions;
- seeks that large exposures, loans involving a high credit risk or those not included in the Bank's lending policy are approved at the level of the Management Board;
- when approving credits, the Credit Committee(CC) and Sub-credit committees (SCC1 and SCC2) must take into consideration the integrity and reputation of its clients as well as their legal capacity to assume obligations;
- sees that the Bank uses adequate work procedures;
- sees that the Bank uses procedures to assess real collaterals on a permanent basis;

- as regards the personal guarantees, the CC, SCC1 and SCC2 shall evaluate the capacity of the guarantors to assume obligations;
- CC, SCC1 and SCC2 see that responsibilities within the lending activity are adequately distributed, in order for the personnel not to be assigned with responsibilities that might generate interest conflicts;
- approves other requests of conditions change, afferent tot the approved facilities at least at the competency level of the CC, SCC1 and SCC2;

The attributions of the CC can be completed by express provisions of the internal regulations regarding the lending activity, as well as based on the delegation decisions of the Management Board / Supervisory Board.
The approval competencies of the CC are included in Chapter I of the ROF (matrix M2 and M4) and within the Internal Norm on Assuming the Credit Risk.
The attributions of SCC2 and SCC1 can be completed by express provisions of the internal regulations regarding the lending activity, as well as based on the delegation decisions of the Credit Committee / Management Board / Supervisory Board.
The approval competencies of SCC2 and SCC1 are included in Chapter I of the ROF (matrix M2) and within the Internal Norm regarding the Assumption of Credit Risk.

Responsibilities of the Commerce Development and IT Development Committee

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

  In making prioritization and allocation of resources, the Committee has the following responsibilities:
  - analyzes the opportunity for development requests in the software and IT & C domains and estimates of the resources needed to solve these requests;
  - analyze the opportunity and decide on applications or IT development projects and prioritize them;
  - decides to prioritize development requests in the software and IT & C areas respectively;
  - approve priority lists for software development and IT & C developments, based on proposals received from bank structures
  - approve the proposals that will be included in or excluded from the priority lists;
  - track the state of IT & C and approved software development;
  - reports top priority lists for software development and IT & C developments to the Directorate;
  - monitor the resources allocated to projects and development requests (Service Request);
  - inform the Directorate in writing about the change in the order of priority for the development requests generated by the projects;
  - approve the Bank Data Ownership Scheme based on the Bank Data Ownership Policy;
  - approve criteria and methodology for prioritizing development requests;
  - approve the cost-benefit methodology applicable to development requests;

- coordinates and updates the marketing plan related to the bank's strategy; tracks the effectiveness of different campaigns from the perspective of business strategy;
- monthly, analyzes and proposes measures to improve the processes of the bank coming from members of the Committee, as well as any other attributions stipulated in the bank's internal regulations or, where appropriate, delegated by the Directorate.
- the Committee may make recommendations to the other committees, the Directorate and the Supervisory Board, on the overall business strategy and sales policy.
- any other attributions provided by the law, internal regulations of the bank or, where applicable, delegated by the Directorate.

Responsibilities of the Ethics Committee

The main responsibilities of the Ethics Committee are:

- present positions/ interpretation and recommendations in general and individual cases when applying the Code of Ethics;
- present positions and recommendations in general and individual cases on violations of the Code of Ethics that are submitted to Committee;
- prepares proposals to further develop the Code of Ethics on the basis of experience resulting of its practical work;
- any other responsibilities stipulated by the law, by the Bank’s internal regulations or, as the case may be, delegated by the Management Board.

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

Responsibilities of the AML/CFT Committee

Issues recommendations to the Management Board regarding the AML / CFT issues in the following situations:

- in the case of clients for whom the Compliance Directorate has issued a negative opinion for the initiation / continuation of the business relationship, and the business line supports the initiation / continuation of the relationship;
- if Compliance Directorate identifies a compliance risk from the perspective of non-compliance with the international sanctions regime in terms of sensitive transactions according to the Internal Norm on the principles and general rules of OTP Bank Romania SA for compliance with sanctions and protection of reputation;
- in the case of high risk clients for which new risk factors appears subsequent to their classification in the strictest risk degree.

Responsibilities of the Loan Recovery Committee (LRC)

The main responsibilities of the Restructuring and Workout Committee:

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

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

During 2019, the Workout Committee has met 63 times.

Responsibilities of the Loans Monitoring Committee

The responsibilities of the Committee are:

- Reviews and evaluates on monthly basis, in detail, the problematic and expecting to be problematic in the future clients/client groups (regardless the exposure);
- After this review, the committee shall discuss the further steps to do concerning problem management. The Committee has the authority to decide the following:
  - To keep the receivable in ordinary procedure in the portfolio of the given business unit;
  - Prescribing further, stricter monitoring tasks;
  - assigning responsibilities, deadlines, management strategies (restructuring proposal, strengthening collateral, requesting information, additional monitoring tasks, etc.)
  - Transferring the client in the management of the Restructuring& Work-Out Directorate and drafting a loan transfer report;
  - Asking for review of the client/transaction in the following Committee, etc.
  - Decides upon the risk status of the clients (normal/Watch List/work-out) and on the Watch List categories, based on the Early Warning Signals determined and presented;
  - Can decide the delisting of the Watch List clients;
  - Makes proposals for IFRS provisions to be set and approves the final provision amounts for the normal managed legal entities clients that are individually provisioned;
  - Follow up previous decisions and strategies;
- Any other responsibilities required by national laws, set up by the internal rules in force, or delegated by the Management Board.

Problematic clients/client groups means:

- the client was discussed in the previous Monitoring Committee meeting, and further tasks were prescribed concerning it;
- there is delay in fulfillment the payment obligation concerning the deals of the client of more than 15 days;
- there are legal actions in process concerning the client which can disturb the normal course of business of the client and the client/transaction is not in the management of the Restructuring& Work-out Directorate;

- clients classified as watch list/work-out according to the Early Warning System, for which is requested the Committee's decision regarding the final risk status;
- the restructured clients, depending on the decision of the first Committee after the restructuring;

In special cases other non-problematic clients could be also brought to Monitoring committee meetings, at its special request (for example all clients who operate in a problematic industrial sector).
Thus, clients without EWS signals, with client/client group exposures greater than 6 million EUR should be reviewed in the Monitoring Committee meetings with semi-annual frequency.
After the first appearance in the committee according to this rule, the committee has the power to decide, depending on the client's situation, a higher or lower frequency than the semi-annual frequency.

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

During 2019, the Credit Monitoring Committee met 49 times (both e-mail and meeting).

1.5. Organization of internal control system functions

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

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

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

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

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

- ***The first level*** or first line of defense is intended to ensure that transactions / operations / activities are carried out correctly and is represented by all the organizational units, starting with front office staff. The controls and the responsible for their performance are defined in specific regulations and the controls are based on the principle of the 4 eyes. Carrying out the activity accordingly is a first step in carrying out the control activity at this level.

- ***Second level*** or risk control and management - is the responsibility of two of the independent control functions:
  - **Risk Management function** (provided through the following organizational units: Risk Administration Directorate, Strategy, Controlling and Asset and Liability Management Directorate)
  - **Compliance function** (provided through the Compliance Directorate).

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

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

An extract of the Organizational chart of OTP BANK ROMANIA S.A. on divisions at 31.12.2018 is presented in Annex 2, with the indication that the directions belonging to the independent functions of the internal control system are highlighted in red.

Independent control functions

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

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

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

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

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

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

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

The compliance function is provided by the Compliance Directorate, which is responsible for managing the compliance risk within the Bank.
In order to ensure rigorous compliance risk management within the bank, the Compliance Directorate has developed OTP Bank's Compliance Policy, approved by the Supervisory Board, which is implemented at the level of the entire bank and communicated to all staff.

The compliance function has a role in identifying, assessing, monitoring and reporting compliance risk to the management body.
The findings of the compliance function must be considered by the governing body in the decision-making process.

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

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

The Internal Audit function assesses whether the quality of the internal control framework is both effective and efficient.

The Internal Audit function assesses the compliance of all the Bank's operations and operational units (including risk management function and compliance function) with the credit institution's policies and procedures. In this sense, the internal audit function is independent of the other two control functions mentioned above.

The internal audit function also assesses whether existing policies and procedures remain appropriate and comply with legal and regulatory requirements.

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

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

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

2. RECRUITMENT AND REMUNERATION PRACTICES

During the reported period, OTP BANK ROMANIA S.A. has reached over 1.520 employees, and 5 (five) persons the Bank concluded a management contract with, the approaching strategy being focused on stability and balance. The Bank applies flexible solutions for stability and safety, the maximum focus concentrating on the most important resource, namely the human resource.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

- **Reputation and integrity**

When assessing the reputation, the following aspects are considered:

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

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

- **Knowledge , skills and experience**

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

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

- **Competences**

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

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

2.2 Recruitment, selection and assessment for management body members

Within OTP Bank Romania SA the management body members are:

- **Executive management of the bank - Members of the Management Board**

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

At aggregate level, the following aspects must be considered:

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

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

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

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

It represents the management structure in the supervisory function, respectively the management structure that acts as a supervisory function, supervises, and monitors the decision-making process of the executive function.
When performing the suitability assessments for Supervisory Board members both the suitability of the composition of the body and the suitability of each individual member are assessed.

At aggregate level, the following aspects must be considered:

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

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

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

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

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

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

2.3 Performance measurement

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

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

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

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

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

2.4 Remuneration in case of Bank's employees

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

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

The Bank can grant the following types of remuneration:

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

The Bank classifies remuneration granted to its staff as fixed if its award and its amount:

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

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

- **Fixed remuneration**
  - **Basic Salary**

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

    Basic salary is negotiated in gross and in RON.

- **Other types of fixed remuneration**

  The Bank may grant the following additional types of fixed remuneration:
  - **Payment for relocation purposes** – applicable for employees relocated on a position outside their residing locality/ changing residence for employment purposes at the specific request of the Employer, for a period of a minimum 3 months. The maximum amount in this case is RON 11,000 gross value per relocation.
  - **Monthly housing allowance** – applicable for employees relocated on a position outside their residing locality/ changing residence for employment purposes. The amount to be granted is decided on a case-by-case basis and is subject to the approval of the Chief Executive Officer/ Deputy General Manager.
  - **Ordinary shares** - provided in the management contract.

  The Bank can grant additional fixed remuneration for expatriate staff members.

- **Benefits**

  The Bank sets through its Collective Employment Agreement benefits applicable to all its employees. Benefits applicable to employees are subject for approval of the Management Board or Supervisory Board, considering their approval limits from Internal Organizational Rules competencies matrix.

- **Variable remuneration**
  - **Bonuses**

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

  - **Exceptional payments**

    The extraordinary benefits can include:
    - assumption of rights due under a previous management contract;
    - retention bonus;
    - proportional compensation for a non-competition clause;
    - compensatory payments.

  - **Pension benefits**

    The Bank does not award discretionary pension benefits.

  - **Remuneration at termination of employment**

    Upon termination of the employment relationship, the Bank may pay the following:
    - basic salary until termination of the employment relationship or exemption from the obligation to work; (i.e. normal payments for remuneration relating to the length of a notice period, and not compensatory payments);
    - benefits granted under collective agreements and internal regulations; (i.e., related to normal remuneration);
    - individual compensation payments in accordance with the Collective Labor Agreement;
    - Compensation for a non-compete agreement, provided there is a contract to do so, and the beneficiary makes a statement under which the non-compete obligation remains in effect for a certain period of time after termination of the employment relationship;
    - payment of performance-based remuneration upon termination of the employment relationship, subject to the applicable variable remuneration requirements.

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

2.5 Rules applicable to all staff

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

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

  Conflicts of interests with regard to the remuneration policy and remuneration awarded must be identified and appropriately mitigated, including by:
  - Identifying and assessing such circumstances;
  - Establishing objective award criteria based on the internal reporting system/ data;
  - Applying appropriate controls, including the four eyes principle within the performance measurement and award processes.

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

- **Remuneration is aligned with performance**

  Remuneration is based on individual performance, business unit performance and the overall performance of the Bank.
  Individual performance is assessed considering both financial and non-financial criteria (such as skills, leadership abilities, compliance with Bank's internal rules etc.).

- **Fixed - variable ratio**

  The fixed and variable components of the total remuneration are appropriately balanced.
  The variable component may not exceed 100% of the fixed component of the remuneration.

- **Variable remuneration is flexible**

  Fixed and variable components of total remuneration are properly balanced. The fixed component will represent a sufficiently high proportion of total remuneration ensuring the operation of a fully flexible variable remuneration policy, including the possibility to pay no variable remuneration.
  Up to 100% of any variable remuneration granted by the Bank shall be subject to malus and claw-back arrangements.
  Guaranteed variable remuneration can be granted only in exceptional cases upon hiring new staff for a period not exceeding 1 year provided the Bank has a sound capital base.

- **Personal hedging is forbidden**

  Staff members are forbidden to transfer the downside risks of variable remuneration to another party through hedging, insurance or any other type of mitigation technique, which compensates them in the event of a downward adjustment in remuneration.
  If a staff violates the prohibition stipulated in the previous paragraph, the Bank may:
  - claim damages and apply malus and claw back, or
  - demand instead of damages that the staff concerned assigns the transaction concluded for his/her own benefit, or
  - may demand to surrender his/her profit arising from the transaction concluded on a third party's account or to assign his/her related receivable to the Bank.

2.6 Rules applicable to Identified staff

- **Identified Staff Policy**

The Bank performs at least on an annual basis a self-assessment in order to identify the categories of staff having a material impact on the Bank's risk profile.
The process considers the following perspectives:

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

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

- the employee's impacts on the risk profile does not qualify as material according to the results of the risk analysis carried out in accordance with the risk assessment methodology prescribed in the prevailing administrative instruction setting out the Risk Classification Rules.
- the employee does not actually have a material impact on the Bank's risk profile in view of the absolute amount of the performance-based remuneration that may be allocated to him or her.

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

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

Self-assessment process

- The Human Resources Directorate performs a preliminary identification based on the specific regulatory criteria and based on the results of the application of the Risk Classification Rules performed by Operational and Market Risk Department (Risk Administration Directorate).
- The list of Identified Staff will be reviewed by the other control functions within the Bank, respectively by Risk Administration Directorate, Compliance Department and Legal Directorate.
- The list of Identified Staff and any exemptions thereof are approved by the Supervisory Board.
- The Human Resources Directorate ensures the list of Identified Staff is updated during a financial year if specific changes occur (e.g. changes in roles and responsibilities of staff members). The Risk Administration Directorate should communicate to the Human Resources Directorate any significant changes in the Bank's risk appetite/ risk profile which could lead to additional staff members meeting the Identified Staff criteria and hence to a revision of the list of Identified Staff members.
- Changes performed during the year to the list of Identified Staff will be subject to Supervisory Board approval only if they are determined by significant changes (e. g. introduction of a new

product/ business line, changes in the regulatory requirements with impact on the activities/ authority of staff members, changes in the target risk profile of the Bank/ risk profile outside target level).

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

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

- **Fixed to variable ratio**

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

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

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

- Performance measurement system and method for defining risk levels,
- Proportion of deferred component of performance-based remuneration,
- The structure of the organizational unit / Bank, the nature and complexity of its activity,
- Positioning the staff member in the organizational hierarchy,
- Level of risk / decision-making assigned to functions.

Considering the above as well as functional partitioning, the highest variable remuneration should be defined for business function, followed by support functions, whilst the lowest ratio should be set for control functions.
The allocated ratios for Identified Staff are approved by Supervisory Board.

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

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

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

- **Performance measurement and risk alignment**

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

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

  For performance measurement for the awarded, the specific variable remuneration the principles related to selection of KPIs and risk adjustments.
  Any performance indicators used in performance evaluation will not consider share capital increases performed over the performance assessment period unless specifically considered within the objective setting process.

  In the case of Management Board members, the performance measurement system will include a RORAC indicator in line with OTP Bank Group remuneration framework provisions. RORAC is calculated based on OTP Bank Group performance measurement and monitoring methodology taking account of the following:
  - The value of adjusted profit after tax is to be established by applying the definition of "stock exchange profit or loss", i.e. the accounting profit or loss is adjusted by the special items not related to the business activity (e.g. goodwill impairment, potential one off sales profit or loss from disinvestment, tax imposed on bank, etc.).
  - The economic capital is calculated on the basis of OTP Bank Plc.'s internal methodology, with the provision that capital requirement calculated in accordance with the Basel rules is applied as long as the values of the regulatory capital requirement and of the economic capital requirement do not materially differ from each other (adjusted by the SREP rate approved in the Supervision's resolution).

  The definition of the target value of the return on risk-adjusted capital (RORAC) applicable to the respective reporting period/ fiscal year is based on the prevailing annual financial plan at OTP Bank Group level. The proposal concerning the target value of the return on risk-adjusted capital (RORAC) for the respective fiscal year is to be submitted to the Supervisory Board for approval based on the proposal of the Strategic and Financial Directorate after validation with OTP Bank Group – by 31 March of the current year.

- **Payment in instruments**

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

  During the deferral period, the employees will not have a right to receive compensation equivalent to any dividends/ interest, which were distributed for the specific instruments.
  Variable remuneration paid in instruments will be subject to 1-year retention after vesting.

  The specific type of instruments to be used will be set within the performance-based remuneration plan for an accrual year (e.g. actual shares, synthetic shares etc.).

- **Deferral**

  For staff identified at a consolidated level, 60% of performance-based remuneration is subject to postponement, while for staff identified at sub-consolidated and local levels, as a rule, deferred payment applies to 40% of performance-based remuneration, if the total remuneration of the person does not exceed EUR 175,000.

  The deferred portions will vest if and only if:
  - The Bank meets its objectives during the vesting period (financial and risk targets);
  - Individual performance criteria is achieved.

  For bank level, vesting conditions the following minimum criterion shall be used:
  - **Financial performance** – indicators reflecting the Bank's profitability;
  - **Risk adjusted performance** – RORAC indicator;

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

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

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

The payment of deferred interests is approved by the OTP Bank Romania SA Board of Supervisors, based on the recommendation of the Remuneration Committee and the prior approval of the Chairman and General Manager of OTP Bank Plc.

In accordance with the deferment schedule, the Human Resources Directorate informs the persons concerned in writing about their entitlement to and the rate of the individual instalments as well as the corresponding vesting conditions, based on the Management Body decision.
The settlement of the due deferred instalment takes place as follows:

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

- **Ex-post adjustment**

Criteria and application

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

- participation in or responsibility for conduct which resulted in significant losses to the Bank;
- failed to meet appropriate standards of fitness and propriety;
- misconduct or serious error by the staff member (e.g. breach of code of conduct and other internal rules, especially concerning risks);
- whether the Bank and/or the business unit in which the identified staff member works suffers a significant failure of risk management;
- significant increases in the Bank's or business unit's economic or regulatory capital base;
- any regulatory sanctions where the conduct of the identified staff member contributed to the sanction.

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

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

Malus

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

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

Process steps

Malus

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

Claw back

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

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

2.7 The remuneration paid in the financial year 2019

For the year 2019, the following remunerations were paid:

Nr. crt.		Members of the management body in its supervisory function	Members of the management body in its management function	Investment banking Services	Retail Banking Services	Assets administratio n	Corporate functions	Independent control functions	All other activity areas
		(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
(1)	No of members of personnel	8	9						
(2)	Total no of employees in equiv. of a full time			21	1.109	0	231	104	127
(3)	Net profit of N year (in th ron)	68.578							
(4)	Total remuneration (in th ron)	402	11.083	5.766	118.579	-	29.360	16.371	14.065
(4.1)	Out of which: Variable Remuneration (in th ron)	-	3.759	2.346	25.272	-	2.160	698	1.318

For the members of identified personnel (including the members of the management body) the quantitative information on remuneration for the year 2019 is presented below:

Nr. crt.		Members of the management body in its supervisory function	Members of the management body in its management function	Investment banking Services	Retail Banking Services	Assets administration	Corporate functions	Independent control functions	All other activity areas
		(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
(1)	**No of members of personnel**	7	8						
(2)	**No of members of Identified staff, in equiv. of a full time**			1	15	0	4	5	2
(3)	**No of members of Identified Staff within Management Body**								
(4)	**Total fixed remuneration (in th ron), out of which:**	**37**	**6.727**	**377**	**5.717**	**0**	**1.843**	**2.013**	**899**
(4.1)	cash	37	6.727	377	5.717	0	1.843	2.013	899
(4.2)	shares and instruments related to shares	0	0	0	0	0	0	0	0
(4.3)	other types of instruments	0	0	0	0	0	0	0	0
(5)	**Total variable remuneration (in th ron), out of which:**	**0**	**3.168**	**367**	**2.499**	**0**	**229**	**259**	**622**
(5.1)	cash	0	1.584	184	1.249	0	114	130	311
(5.2)	shares and instruments related to shares	0	1.584	184	1.249	0	114	130	311
(5.3)	other types of instruments	0	0	0	0	0	0	0	0
(6)	**Total amount of variable remuneration granted in the fiscal year N and deferred (in th ron), out of which:**	**0**	**1.786**	**220**	**1.227**	**0**	**92**	**102**	**273**
(6.1)	cash	0	893	110	613	0	46	51	137
(6.2)	shares and instruments related to shares	0	893	110	613	0	46	51	137
(6.2)	other types of instruments	0	0	0	0	0	0	0	0

In 2019, there were not registered cases for miscarriage of the conditions for entering in rights in case of deferred remuneration or reduced through performance adjustments.

2.8 Compensators related to cessation of employment

In the financial year 2019, no payments were made for new employment or compensation payments for the cessation of employment relationships for members of senior management or members of staff whose actions have a significant impact on the institution's risk profile.

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

There are no persons who received a remuneration of 1 million EUR or more in the financial year 2019.

3. RISK MANAGEMENT

3.1 Objectives and policies related to risks management

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

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

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

Risk Administration Directorate

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

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

Credit risk Department – has the role of:

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

Strategy, Controlling and Asset and Liability Management Directorate

Assets and Liabilities Management Department – has the role to:

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

Risk Controlling Department - has the role to:

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

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

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

3.2 Management Body Declaration

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

analysis to identify, control and manage the risks, as well as to provide their reporting to the management body of the bank.
This statement is approved by the Management body of OTP Bank Romania S.A. by approving this report.

According to the information presented below, the Management body of OTP Bank Romania S.A. declares relating to **the Article 435, (1) (f) of Regulation No. 575/2013 of the Parliament and the European Council on the prudential requirements for credit institutions and investment companies** that the risk profile is built in accordance with the Bank's risk appetite assumed by OTP Bank Romania SA's Risk Strategy and aims at a sustainable development of the Bank's activity. The risk profile represents all the risks the Bank's exposures to actual and potential risks in a particular moment in time. Risk appetite is the absolute level of risk, expressed for each significant risk category as well as at general level, which OTP Bank Romania S.A. is willing to accept it, in accordance with the established risk strategy and policies. Risk appetite is defined in terms of five risk categories: low; medium-low; environment; medium-high; picked up. Thus, the risk appetite of the bank is to have a general risk profile at a medium level.

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

The following graphes represent the evolution of the main indicators in 2019:

Figure 1 : EBA - defined NPE ratio

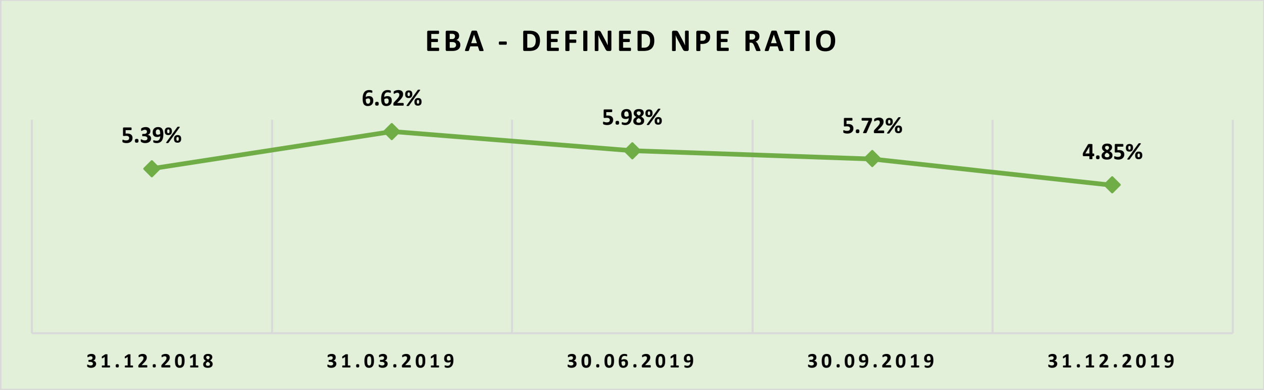


Figure 2: EBA - defined NPE coverage ratio

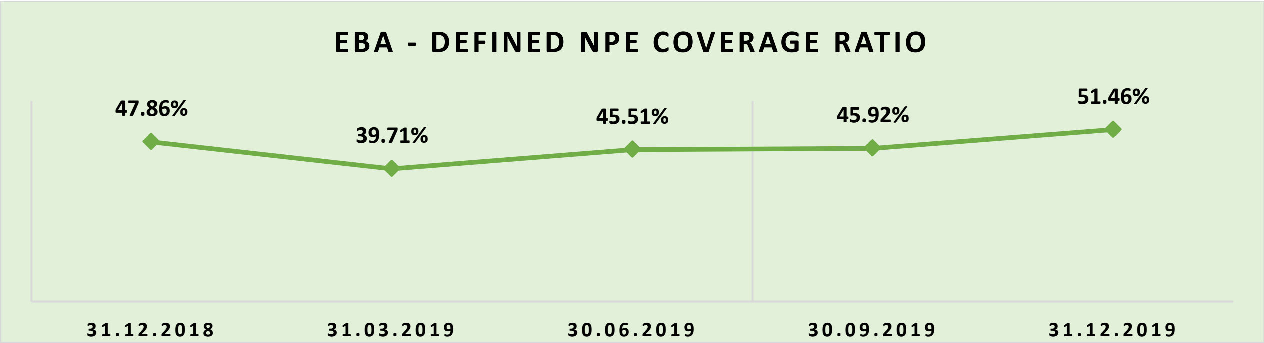


Figure 3 : Return on equity

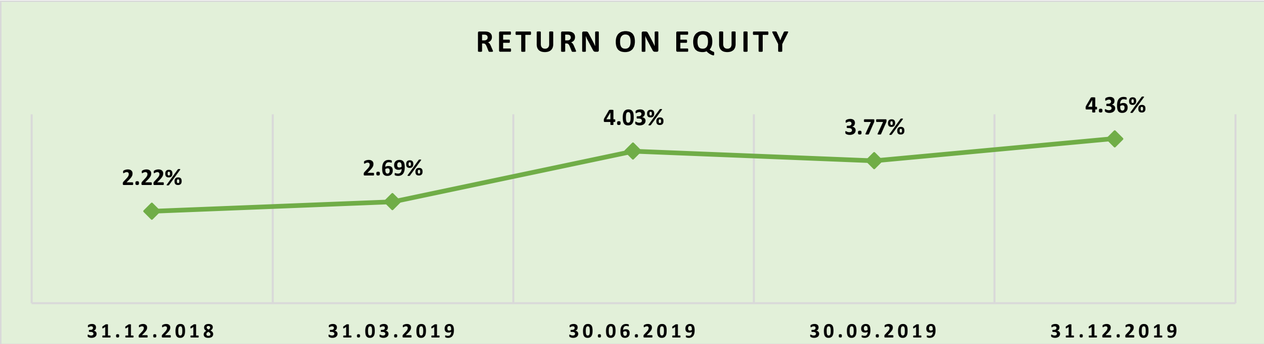
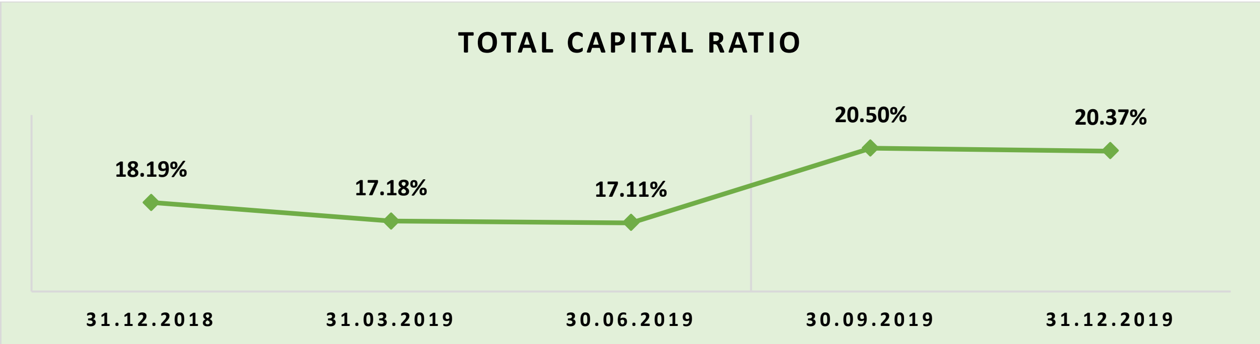


Figure 4: Total capital ratio



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

Further detailed information referring to banks financial results for the financial year 2019 can be found in the Annual Report published on OTP website.

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

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

The activity is conduct with respect to the legal provision of art. 399-403 from EU Regulation no. 575/2013, the affiliated parties exposure registered after considering the effect of credit risk reduction during year 2018 is respecting the legal requirement of 25% from its eligible capital or, if the group of affiliated parties to the institution includes one or more institutions, the exposure value to that group may not exceed either 25% of the eligible credit institution's eligible capital or the equivalent of EUR 150 million depending on which of these the amounts are higher provided that, in the event of the application of the absolute limit, the sum of the exposure values for all related parties which are not institutions, does not exceed, after taking into account the credit risk mitigation effect in accordance with Art. 399-403 of Regulation (EU) No. 575/2013, 25% of the eligible capital of the Bank.
If the equivalent of EUR 150 million is greater than 25% of the eligible credit institution's exposure capital, the exposure value shall not exceed, after taking into account the effect of the credit risk mitigation in accordance with Art. 399-403 of Regulation (EU) No. 575/2013, 100% of the eligible capital of the Bank.

Therefore, on 31.12.2019 the situation of affiliated parties was:

- Individual level (OTP Bank Romania SA)

Number of clients	Gross exposure (LEI)	Related provisions	Excluded amounts (LEI)			Own funds %
			without protection	with protection		
				funded	nefinanţată	
Non-institutions						
45	97,710,667	4,605,676	0	6,848	-	5.59285798
Institutions						
3	503,630,726	27793	-	-	-	30.2538761

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

Number of clients	Gross exposure (LEI)	Related provisions	Excluded amounts (LEI)			Own funds %
			without protection	with protection		
				funded	nefinanţată	
Non-institutions						
46	32,463,254	4,505,608	0	6,848	-	1.69132709
Institutions						
2	503,630,726	27793	-	-	-	30.4734514

3.3 Strategies and processes for each category of risk management

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

3.3.1 Credit Risk Management

A. Objectives and strategy

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

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

[1] Non-performing exposures relative to total exposure - FINREP report, Form F18, [Line 070, 250; Column 060] / [Line 070, 250; Column 010];
[2] Provisions accrued at the level of non-performing exposures reported for total non-performing exposures - FINREP ratio, Form F18, [Line 070, 250; Column 150] / [Row 070, 250; Column 060];

- the rate of non-performing restructured loans out of total restructured loans (forwards) does not exceed 75%[3];
- the risk-weighted rate (credit risk) does not exceed 60%[4];
- the rate of loans and advances with restructuring measures ("forbearance ratio") does not exceed 7%[5];
- the total write off weight in the total loan portfolio (net) does not exceed 24%.

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

- orientation towards digital channels and online lending, dedicated both to new and existing customers;
- testing constantly through pilots and champion challengers the appropriateness of the applied strategy in case of PF and SME counterparties with strict limitation in place concerning the exposure taken and risk profile tolerated;
- focusing on more flexible financing structures for corporate customers such as credit lines or overdraft facilities;
- limiting pre-approval for state entities as CNAIR/CFR based on which (reverse) factoring/discounting to be quickly approved;
- covering the receivables by specialized companies that can help finance clients/prospects with a faster analysis and approval;
- aligning the maturity of the discounting ceilings withdrawals to the invoices' maturity;
- further development of commercial factoring activity (domestic factoring with recourse and domestic factoring without recourse), including international factoring (of export);
- improving the predictive power of risk models and credit monitoring activity;
- not supporting the financing of clients having negative owner's equity for previous closed year or clients having generated negative EBITDA for the two last closed years;
- new products specially designed for agriculture financing with different structures of guarantees and maturities;
- increasing the number of approved loans through high level of standardization as a result of the launch / recalibration of credit products dedicated to SME customers;
- prohibiting the land financing (alone, not part of a financed project);
- putting a heavy emphasis on preventing problems faced by borrowers;
- improving soft collection activities in order to maintain loan portfolio quality: acquisition / development of IT programs for a better management of this activity;
- encouraging lending activity in RON both to private individuals and to companies;
- launching new products for both categories of customers that meet the demands of today's economy and customers' needs and possibilities;
- continuing the customer loyalty program for individuals by offering new products facilities in accessing new loan products;
- granting new loans for the private individuals with good credit history within the Bank;
- promotion of the lending products for private individuals which have opened account for salary transfer;
- a review of the desired client profile for lending personal loans and mortgage loans in order to increase the number of potential customers;
- an increase of the weight of the clients who transfers their salary into OTP Bank Romania S.A. account in order to ensure the largest possible comfort about monitoring the changes of the circumstances of the given clients;
- initiate promotional campaigns both on the assets for personal loans and on the liabilities side, to maintain existing deposits;
- organizing of Credit Monitoring Committee meetings on monthly basis for a better monitoring of legal entities with early warning signals;

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[3] Non-performing restructured exposures relative to total restructured exposures - FINREP report, Form F19, [Line 330, Column 060] / [Row 330; Column 010];
[4] Risk-weighted exposure (related to credit risk), COREP report, form C07.s001, [Line 010; Column 220] + C08.01.s001, Form C08.01.s002, [Line 010; Column 260] / Form C07.s001, [Line 010; Column 200] + C08.01.s001, Form C08.01.s002, [Line 010; Column 110];
[5] Restructured exposures relative to total exposures - FINREP report, Form F19, [Row 070, 250, Column 060] / FINREP report, Form F18, [Row 070, 250; Column 010].

- organizing Work-out Committees weekly meetings having as purpose the approval of the strategy for recovery of loans in case of legal entities, clients administrated by the Restructuring and Work-out Directorate;
- organizing meetings on a monthly basis in order to monitor the evolution of the Bank's strategic products in order to keep the portfolio quality on a high level as possible;
- involving the territorial network and the Corporate Banking Division in managing the problems clients are faced with, as well as in the work-out activity (introducing within the document "Planning and Evaluating Performance" (MBO of territorial units) of the portfolio quality indicators;
- monitoring the quality and evolution of the loan portfolio, monthly and quarterly presentation within the Operative Risk Committee of the drawn analyses and situations, as well as the presentation of these materials to Bank's Directorate for information;
- organizing TOP 30 review by the Restructuring and Work-out Directorate where the principal exposures are monitored and further recovery strategies are decided
- organizing pre-engagement sessions in order to help the business and sales force by accelerating the selection process of the pipelines and to help the approval flow for the loan applications;
- Monitoring and modifying the guarantees values so that they reflect as precisely as possible major changes which occurred within different markets (reappraisal of mortgages every three years according to regulations and reappraisal of mortgages for loans included in customer protection program);

The Bank does not finance:

- **Customers:**
  - against whom risk assumption is excluded by international accords, European Union acts and international legal regulations;
  - whose activity presumably violates public morals, social value systems or is related to crimes;
  - which can be possible connected to crimes, directly or indirectly, the conscious violation or evasion of legal regulations.

- **Transactions:**
  - Aiming to violate legal regulations. Illegal arms trade, prohibited gambling, drug trade and all other activities that breach legal regulations qualify as prohibited business areas (e.g. money laundering, black economy);
  - Do not comply with environmental requirements;
  - not complying with the principles of responsible lending (for example, the amount of credit that can be granted must be determined by the customer's ability to repay the loan in monthly installments);
  - involving the acquisition of securities representing membership rights issued by a member of a group of credit institutions or an undertaking closely linked to it or the acquisition of the cooperative holding;
  - where the performance of the guarantee is reputational.

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

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

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

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

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

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

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

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

The Bank uses two approaches to estimate the expected losses:

- Individual assessment
- Collective assessment

Recognition of the expected loss on loans on a collective basis

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

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

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

Recognition of expected loss on loans on an individual basis

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

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

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

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

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

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

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

3.3.2 The management of the concentration risk

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

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

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

3.3.3 Quantitative and qualitative information on credit and concentration risks

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

		Risk-weighted assets (RWA)		Minimum capital requirements
		31/12/2019	**31/12/2018**	**31/12/2019**
1	**Credit risk (excluding CCR)**	**7,261,447**	**6,150,223**	**580,916**
2	Of which the standardized approach	7,261,447	6,150,223	580,916
3	Of which the core IRB (FIRB) approach			
4	Of which advanced IRB (AIRB) approach			
5	Of which equity securities from the IRB Approach under the simple risk-weighted approach or AMI			
6	**CCR**	**3,902**	**2,791**	**312**
7	Of which method of marking the market	-	-	-
8	Of which initial exposure method			
9	Of which standardized method			
10	Of which the Internal Model Method (MMI)			
11	Of which the amount of risk exposure for contributions to the CCP guarantee fund			
12	Of which credit assessment adjustment (CVA)	3,902	2,791	312
13	Settlement risk	-	-	**-**
14	Exposures in securitization in the banking portfolio (after the ceiling)			
15	Of which IRB approach			
16	Of which the IRB regulated formula method (SFA)			
17	Of which the Internal Assessment Based Approach (IAA)			
18	Of which the standardized approach			
19	**Market risk**	**7,597**	**46,108**	**608**
20	Of which the standardized approach	7,597	46,108	608
21	Of which AMI			
22	Large exposures	-	-	**-**
23	**Operational risk**	**898,016**	**848,694**	**71,841**
24	Of which basic approach	898,016	848,694	71,841
25	Of which the standardized approach			
26	Of which advanced assessment approach			
27	Values below the deduction thresholds (which are subject to a 250% risk weight)			
28	Adjustment for the minimum threshold			
29	**Total**	**8,170,962**	**7,047,816**	**653,677**

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

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

(ths RON)	**Net Exposure at the end of period**	**Net average exposure for the period**
Central governments or central banks	2,317,160	1,849,482
Regional governments or local authorities	25,913	15,441
Public sector entities	-	-
Multilateral Developed Banks	-	-
International Organizations	-	-
Institutions	813,599	938,838
Companies	4,778,218	4,421,423
Retail	3,282,176	3,085,532
Secured by mortgages on immovable property	3,207,365	2,885,518
Overdue elements	339,313	409,519
Items associated with particularly high risk	-	-
Guaranteed bonds	-	-
Short claims on institutions and corporate	-	-
Collective Investment Undertakings (CIU)	12,538	12,308
Debt securities	63,796	63,796
Other items	999,474	898,163
Total	**15,839,551**	**14,580,020**

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

Table 3: Geographical breakdown of exposures

(ths. RON)	**Center**	**North East**	**North West**	**South East**	**South West**	**Other countries**	**Other areas**	**Total**
Central governments or central banks	-	-	-	2,317,160	-	-	-	2,317,160
Regional governments or local authorities	1,730	422	-	23,760	-	-	-	25,913
Public sector entities	-	-	-	149,949	-	312,624	351,026	813,599
Companies	667,882	600,048	590,473	2,710,581	205,654	-	3,579	4,778,218
Retail	425,113	494,747	472,666	1,424,827	464,605	-	219	3,282,176
Exposures secured by mortgages on immovable property	359,205	297,900	551,867	1,517,264	481,128	-	-	3,207,365
Exposures in default	36,318	61,817	87,028	134,790	19,359	-	-	339,313
Collective investment (OPC)	-	-	-	12,538	-	-	-	12,538
Equity exposures	-	-	-	63,796	-	-	-	63,796
Other items	30,957	26,599	24,198	891,609	26,110	-	-	999,474
Total	**1,521,205**	**1,481,535**	**1,726,232**	**9,246,276**	**1,196,856**	**312,624**	**354,824**	**15,839,551**

The Bank monitors quarterly the concentration of the portfolio by sectors of activity and compliance with the limits set by the risk strategy. Below are the exposure classes according to the main sectors of activity at the end of 2019:

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

(ths.RON)	Accommodation and food service activities	Administrative and support service activities	Agriculture, forestry and fishing	Arts, entertainment and recreation
Central governments or central banks	-	-	-	-
Regional governments or local authorities	-	-	-	-
Public sector entities	-	-	-	-
Companies	196,119	92,046	505,467	-
Retail	54,955	11,168	236,007	8,825
Exposures secured by mortgages on immovable property	7,876	2,779	13,829	244
Exposures in default	2,093	4,605	7,576	109
Collective investment (OPC)	-	-	-	-
Equity exposures	-	-	-	-
Other items	-	-	-	-
Total	**261,043**	**110,598**	**762,879**	**9,178**

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

(ths.RON)	*Construction*	*Education*	*Electricity, gas, steam and air conditioning supply*	*Financial and insurance activities*
Central governments or central banks	-	-	-	-
Regional governments or local authorities	-	-	-	-
Public sector entities	-	-	-	-
Companies	303,860	-	360,403	181,798
Retail	190,451	3,927	19,908	36,859
Exposures secured by mortgages on immovable property	25,300	50	21,129	15,277
Exposures in default	15,218	-	17,457	213
Collective investment (OPC)	-	-	-	-
Equity exposures	-	-	-	-
Other items	-	-	-	-
Total	**534,829**	**3,977**	**418,897**	**234,147**

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

(ths.RON)	*Human health and social work activities*	*Information and communication*	*Manufacturing*	*Mining and quarrying*
Central governments or central banks	-	-	-	-
Regional governments or local authorities	-	-	-	-
Public sector entities	-	-	-	-
Companies	9,786	4,486	713,523	3,583
Retail	5,899	26,837	197,315	15,844
Exposures secured by mortgages on immovable property	1,926	3,600	22,549	1,622
Exposures in default	114	3,679	98,631	-
Collective investment (OPC)	-	-	-	-
Equity exposures	-	-	-	-
Other items	-	-	-	-
Total	**17,725**	**38,602**	**1,032,019**	**21,048**

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

(ths.RON)	*Other service activities*	*Professional, scientific and technical activities*	*Public administration and defense; compulsory social security*	*Transportation and storage*
Central governments or central banks	-	-	-	-
Regional governments or local authorities	-	-	20,848	-
Public sector entities	-	-	-	-
Companies	8,728	83,205	-	1,279,166
Retail	11,210	55,762	-	95,782
Exposures secured by mortgages on immovable property	8,011	7,739	-	14,831
Exposures in default	422	38,767	-	6,772
Collective investment (OPC)	-	-	-	-
Equity exposures	-	-	-	-
Other items	-	-	-	-
Total	**28,370**	**185,474**	**20,848**	**1,396,551**

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

(ths.RON)	*Transportation and storage*	*Water supply, sewerage, waste management, and remediation activities*	*Wholesale and retail trade; repair of motor vehicles and motorcycles*	*Others*	*Total*
Central governments or central banks	-	-	-	2,317,160	2,317,160
Regional governments or local authorities	-	-	-	5,065	25,913
Public sector entities	-	-	-	813,599	813,599
Companies	146,739	21,935	833,147	34,226	4,778,218
Retail	51,521	32,171	393,003	1,834,733	3,282,176
Exposures secured by mortgages on immovable property	7,123	2,231	71,349	2,979,900	3,207,365
Exposures in default	7,223	72	49,718	86,642	339,313
Collective investment (OPC)	-	-	-	12,538	12,538
Equity exposures	-	-	-	63,796	63,796
Other items	-	-	-	999,474	999,474
Total	**212,607**	**56,408**	**1,347,217**	**9,147,134**	**15,839,551**

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

(ths.RON)	**On demand**	**<= 1 year**	**> 1 year <= 5 years**	**> 5 years**	**No maturity declared**	**Total**
Central governments or central banks	-	20,989	1,069,580	162,622	1,063,970	2,317,160
Regional governments or local authorities	-	422	5,065	20,426	-	25,913
Public sector entities	-	392,208	50	-	421,342	813,599
Companies	-	1,939,969	1,306,312	1,528,357	3,579	4,778,218
Retail	35	843,459	1,342,816	1,095,605	262	3,282,176
Exposures secured by mortgages on immovable property	-	139,147	98,121	2,970,096	-	3,207,365
Exposures in default	0	146,251	74,512	77,967	40,584	339,313
Collective investment (OPC)	-	-	-	-	12,538	12,538
Equity exposures	-	-	-	-	63,796	63,796
Other items	-	4,321	8	3	995,142	999,474
Total	**35**	**3,486,765**	**3,896,464**	**5,855,076**	**2,601,211**	**15,839,551**

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

	Gross carrying values of		Specific credit risk adjustment	General credit risk adjustment	Credit risk adjustment charges of the period	Net values (a+b-c-d)
	Defaulted exposures	Non-defaulted exposures				
Central governments or central banks						
Institutions						
Corporates						
Of which: Specialized lending						
Of which: SME						
Retail						
Secured by real estate property						
SMEs						
Non-SMEs						
Qualifying revolving						
Other retail						
SMEs						
Non-SME						
Equity						
Total IRB approach						
Central governments or central banks	-	2,914,929	1,119	-		2,913,810
Regional governments or local authorities	-	25,933	19	-		25,913
Public sector entities	-	-	-	-		-
Multilateral development banks	-	-	-	-		-
International organizations	-	-	-	-		-
Institutions	-	629,804	-	-		629,804
Corporates	-	4,746,205	65,938	-		4,680,267
Of which: SMEs	-	3,414,285	46,267	-		3,368,018
Retail	-	3,049,945	82,673	-		2,967,272
Of which: SMEs	-	1,393,788	23,230	-		1,370,558
Secured by mortgages on immovable property	-	3,207,365	-	-		3,207,365
Of which: SMEs	-	211,464	-	-		211,464
Exposures in default	565,442	-	226,129	-	194,395	339,313
Items associated with particularly high risk	-	-	-	-		-
Covered bonds	-	-	-	-		-
Claims on institutions and corporates with a short-term credit assessment	-	-	-	-		-
Collective investments undertakings	-	12,538	-			12,538
Equity exposures	-	68,172	4,376	-		63,796
Other exposures	-	1,254,337	254,863	-		999,474
Total standardized approach	**565,442**	**15,909,226**	**635,117**	**-**	**194,395**	**15,839,551**
Total	**565,442**	**15,909,226**	**635,117**	**-**	**194,395**	**15,839,551**
Of which: Loans	551,620	13,403,028	606,244	-	194,395	13,348,404
Of which: Debt securities	-	52,383	-	-		52,383
Of which: Off - balance- sheet exposures	13,822	2,453,814	28,872	-		2,438,764

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

	Gross carrying values of		Specific credit risk adjustment	General credit risk adjustment	Credit risk adjustment charges of the period	Net values (a+b-c-d)
	Defaulted exposures	Non-defaulted exposures				
Agriculture, forestry and fishing	7,805	765,367	10,790	-	1,356	762,381
Mining and quarrying	-	21,296	247	-	-	21,048
Manufacturing	153,631	943,564	61,704	-	21,652	1,035,491
Electricity, gas, steam and air conditioning supply	49,630	385,666	16,169	-	605	419,126
Water supply	70	57,103	821	-	-	56,352
Construction	53,351	1,153,598	43,083	-	21,613	1,163,866
Wholesale and retail trade	99,067	1,316,358	67,234	-	107,252	1,348,191
Transport and storage	8,540	208,370	3,657	-	16,820	213,253
Accommodation and food service activities	3,118	262,704	4,754	-	356	261,069
Information and communication	3,826	35,801	1,015	-	11,299	38,612
Financial and insurance activities	3,992	3,405,690	266,742	-	68	3,142,940
Real estate activities	2,095	777,018	7,657	-	598	771,456
Professional, scientific and technical activities	59,371	147,843	21,563	-	2,428	185,651
Administrative and support service activities	10,434	127,942	7,701	-	9,570	130,675
Public administration and defense, compulsory social security	-	1,342,151	1,138	-	-	1,341,013
Education	0	4,024	46	-	28	3,978
Human health services and social work activities	139	17,818	229	-	-	17,728
Arts, entertainment and recreation	236	9,140	195	-	15	9,181
Other services	251	8,337	113	-	47	8,475
Households	173,111	4,856,210	120,256	-	688	4,909,065
Total	**628,668**	**15,846,000**	**635,117**	**-**	**194,395**	**15,839,551**

Table 7: Template 1: Credit quality of forborne exposures

	Gross carrying amount/nominal amount of exposures with forbearance measures				Accumulated impairment, accumulated negative changes in fair value due to credit risk and provisions		Collateral received and financial guarantees received on forborne exposures	
	Performing forborne	**Non-performing forborne**			**On performing forborne exposures**	**On non-performing forborne exposures**		**Of which collateral and financial guarantees received on non-performing exposures with forbearance measures**
			Of which defaulted	**Of which impaired**				
Loans and advances	83,597	254,530	254,530	254,530	-11,295	-130,557	535,609	356,060
Central banks	-	-	-	-	-	-	-	-
General governments	-	-	-	-	-	-	-	-
Credit institutions	-	-	-	-	-	-	-	-
Other financial corporations	-	-	-	-	-	-	-	-
Non-financial corporations	67,463	209,456	209,456	209,456	-9,659	-103,876	456,360	306,151
Of which SMEs	55,349	106,179	106,179	106,179	-8,330	-52,275	313,045	196,443
Households	16,134	45,074	45,074	45,074	-1,636	-26,681	79,249	49,909
Debt securities	-	-	-	-	-	-	-	-
Loan commitments given	-	-	-	-	-	-	-	-
Total	**83,597**	**254,530**	**254,530**	**254,530**	**-11,295**	**-130,557**	**535,609**	**356,060**

Table 8: Template 2: Quality of forbearance

	Gross carrying amount of forborne exposures
Loans and advances that have been forborne more than twice	163,415
Non-performing forborne loans and advances that failed to meet the non-performing exit criteria	84,806

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

	Gross carrying amount/nominal amount											
	Performing exposures			Non-performing exposures								
		Not past due or past due ≤ 30 days	Past due > 30 days ≤ 90 days		Unlikely to pay that are not past due or are past due ≤ 90 days	Past due > 90 days ≤ 180 days	Past due > 180 days ≤ 1 year	Past due > 1 year ≤ 2 years	Past due > 2 years ≤ 5 years	Past due > 5 years ≤ 7 years	Past due > 7 years	Of which defaulted
Loans and advances	**10,775,443**	**10,677,010**	**98,433**	**563,489**	**238,461**	**60,746**	**134,256**	**21,127**	**70,068**	**31,001**	**7,832**	**563,489**
Central banks	1,002,064	1,002,064	-	-	-	-	-	-	-			-
General governments	3,472	3,472	-	-	-	-	-	-	-	-		-
Credit institutions	717,597	717,597	-	-	-	-	-	-	-			-
Other financial corporations	197,681	197,665	16	213	-	-	221	-	-			-
Non-financial corporations	4,015,497	4,004,921	10,576	406,261	149,734	18,030	128,392	17,956	61,680	23,006	7,463	406,261
Of which SMEs	3,299,810	3,289,234	10,576	264,578	44,314	11,994	100,739	16,760	61,680	22,544	6,547	264,578
Households	4,839,132	4,751,291	87,841	157,015	88,727	42,716	5,643	3,171	8,388	7,995	369	157,015
Debt securities	**545,151**	**545,151**	**-**	**-**	-	-	-	-	-	-	-	**-**
Central banks	-	-		-	-		-	-	-	-	-	-
General governments	545,151	545,151	-	-	-	-	-	-	-	-	-	-
Credit institutions	-	-	-		-	-	-	-	-	-	-	-
Other financial corporations	-			-	-	-	-	-	-	-	-	-
Non-financial corporations	-	-	-	-	-	-	-	-	-	-	-	-
Off-balance-sheet exposures	**2,491,982**			**13,822**								**13,822**
Central banks	-			-								-
General governments	36,955			-								-
Credit institutions	48,047			-								-
Other financial corporations	97,928			-								-
Non-financial corporations	2,215,151			13,596								13,596
Households	93,901			226								226
Total	**13,812,576**	**11,222,161**	**98,433**	**577,311**	**238,461**	**60,746**	**134,256**	**21,127**	**70,068**	**31,001**	**7,832**	**577,311**

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

	Gross carrying amount/nominal amount						Accumulated impairment, accumulated negative changes in fair value due to credit risk and provisions						Accumulated partial write-off	Collateral and financial guarantees received	
	Performing exposures			Non-performing exposures			Performing exposures – accumulated impairment and provisions			Non-performing exposures – accumulated impairment, accumulated negative changes in fair value due to credit risk and provisions				On performing exposures	On non-performing exposures
		Of which stage 1	Of which stage 2		Of which stage 2	Of which stage 3		Of which stage 1	Of which stage 2		Of which stage 2	Of which stage 3			
Loans and advances	**10,775,443**	**9,999,633**	**775,810**	**563,489**	**-**	**563,489**	**-154,390**	**-104,961**	**-49,429**	**-295,739**	**-**	**-295,739**	**-**	**12,551,207**	**759,079**
Central banks	1,002,064	1,002,064	-	-	-	-	-	-	-	-	-	-		-	-
General governments	3,472	3,472	-	-	-	-	-3	-3	-	-	-	-		2,610	-
Credit institutions	717,597	717,597	-	-	-	-	-	-	-	-	-	-		-	-
Other financial corporations	197,681	197,649	32	213	-	213	-3,503	-3,492	-11	-8	-	-8		170,491	1,147
Non-financial corporations	4,015,497	3,751,722	263,775	406,261	-	406,261	-76,854	-56,261	-20,593	-208,940	-	-208,940		5,163,319	567,028
Of which SMEs	3,299,810	3,097,745	202,065	264,578	-	264,578	-61,618	-44,302	-17,316	-141,528	-	-141,528		-	-
Households	4,839,132	4,327,129	512,003	157,015	-	157,015	-74,030	-45,205	-28,825	-86,791	-	-86,791		7,214,787	190,904
Debt securities	**545,151**	**-**	**-**	**-**	**-**	**-**	**-697**	**-697**	**-**	**-**	**-**	**-**	**-**	-	-
Central banks	-	-	-	-		-	-		-	-	-	-			
General governments	545,151	-	-	-		-	-697	-697	-	-	-	-			
Credit institutions	-	-	-	-		-	-		-	-	-	-			
Other financial corporations	-	-	-	-		-	-		-	-	-	-			
Non-financial corporations	-	-	-	-		-	-		-	-	-	-			
Off-balance-sheet exposures	**2,491,982**	**2,491,982**	**-**	**13,822**	**-**	**13,822**	**-34,380**	**-34,380**	**-**	**-2,927**	**-**	**-2,927**		**3,100,586**	**19,251**
Central banks	-	-	-	-	-	-	-	-	-	-	-	-			
General governments	36,955	36,955	-	-	-	-	-21	-21	-	-	-	-		27,781	-
Credit institutions	48,047	48,047	-	-	-	-	-	-	-	-	-	-		-	-
Other financial corporations	97,928	97,928	-	-	-	-	-1,128	-1,128	-	-	-	-		84,458	-
Non-financial corporations	2,215,151	2,215,151	-	13,596	-	13,596	-31,996	-31,996	-	-2,853	-	-2,853		2,848,348	18,976
Households	93,901	93,901	-	226	-	226	-1,235	-1,235	-	-74	-	-74		139,999	275
Total	**13,812,576**	**12,491,615**	**775,810**	**577,311**	**-**	**577,311**	**-189,467**	**-140,038**	**-49,429**	**-298,666**	**-**	**-298,666**	**-**	**15,651,793**	**778,330**

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

	Gross carrying/nominal amount	Of which non-performing	Of which defaulted	Of which subject to impairment	Accumulated impairment	Provisions on off-balance-sheet commitments and financial guarantees given	Accumulated negative changes in fair value due to credit risk on non-performing exposures
On-balance-sheet exposures	**11,338,932**	**563,489**	**563,489**	**11,338,932**	**-450,129**	**-**	**-**
Romania	10,649,908	561,795	561,795	10,649,908	-449,712		
Hungary	630,782	-	-	630,782	-3		
Switzerland	16,498	-	-	16,498	-		
Slovakia	10,425	1,694	1,694	10,425	-220		
Germany	8,534	-	-	8,534	-2		
Slovenia	8,219	-	-	8,219	-180		
United States	4,913	-	-	4,913	-1		
Ireland	2,824	-	-	2,824	-4		
United Kingdom	2,779	-	-	2,779	-4		
France	1,701	-	-	1,701	-		
Denmark	746	-	-	746	-1		
Japan	431	-	-	431	-		
Sweden	324	-	-	324	-		
Poland	218	-	-	218	-		
Spain	212	-	-	212	-		
Belgium	165	-	-	165	-1		
Canada	129	-	-	129	-1		
Austria	71	-	-	71	-		
Italy	16	-	-	16	-		
Greece	10	-	-	10	-		
Portugal	8	-	-	8	-		
Réunion	4	-	-	4	-		
Turkey	3			3	-		
Egypt	3			3	-		
Moldavia	2			2	-		
Netherlands	1			1	-		
Bulgaria	1			1	-		
Lithuania	1			1	-		
Belize	1			1	-		
Russia	1			1	-		
Israel	1			1	-		
Macedonia	1	-	-	1	-		
Off-balance-sheet exposures	**2,505,804**	**11,591**	**11,591**	**2,505,804**	**-37,307**	**-**	**-**
Romania	2,463,849	11,591	11,591	2,463,849	-37,297		
Hungary	39,170			39,170	-		
Portugal	2,272			2,272	-		
United States	403			403	-10		
Greece	21			21	-		
Netherlands	20			20	-		
Germany	18			18	-		
Italy	13			13	-		
United Kingdom	13			13	-		
Bulgaria	10			10	-		
Austria	8			8	-		
Turkey	5			5	-		
Egypt	1			1	-		
Réunion	1			1	-		
Total	**13,844,736**	**575,080**	**575,080**	**13,844,736**	**-487,436**	**-**	**-**

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

	Gross carrying amount				Accumulated impairment	Accumulated negative changes in fair value due to credit risk on non-performing exposures
		Of which non-performing		Of which loans and advances subject to impairment		
			Of which defaulted			
Agriculture, forestry and fishing	563,324	7,743	7,743	563,324	-10,065	
Mining and quarrying	14,483	-	-	14,483	-231	
Manufacturing	704,752	144,854	144,854	704,752	-74,537	
Electricity, gas, steam and air conditioning supply	225,718	26,521	26,521	225,718	-18,029	
Water supply	19,983	82	82	19,983	-448	
Construction	694,370	50,247	50,247	694,370	-49,257	
Wholesale and retail trade	860,309	99,281	99,281	860,309	-78,083	
Transport and storage	165,973	8,301	8,301	165,973	-3,975	
Accommodation and food service activities	167,082	3,651	3,651	167,082	-4,528	
Information and communication	20,321	1,341	1,341	20,321	-719	
Financial and insurance activities	-	-	-	-	-	
Real estate activities	703,279	-	-	703,279	-8,273	
Professional, scientific and technical activities	138,056	51,342	51,342	138,056	-25,734	
Administrative and support service activities	114,660	12,291	12,291	114,660	-11,267	
Public administration and defense, compulsory social security	-	-	-	-	-	
Education	3,978	-	-	3,978	-58	
Human health services and social work activities	15,922	127	127	15,922	-272	
Arts, entertainment and recreation	6,551	228	228	6,551	-227	
Other services	2,997	252	252	2,997	-91	
Total	**4,421,758**	**406,261**	**406,261**	**4,421,758**	**-285,794**	**-**

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

	Loans and advances											
		Performing		Non-performing								
			Of which past due > 30 days ≤ 90 days		Unlikely to pay that are not past due or are past due ≤ 90 days	Past due > 90 days						
							Of which past due > 90 days ≤ 180 days	Of which: past due > 180 days ≤ 1 year	Of which: past due > 1 years ≤ 2 years	Of which: past due > 2 years ≤ 5 years	Of which: past due > 5 years ≤ 7 years	Of which: past due > 7 years
Gross carrying amount	11,338,934	10,775,443	98,433	563,491	238,461	325,030	60,746	134,256	21,127	70,068	31,001	7,832
Of which secured	8,254,104	7,755,365	74,924	498,739	229,798	268,941	40,938	110,614	20,813	63,256	25,553	7,767
Of which secured with immovable property	7,641,125	7,152,144	74,798	488,981	226,656	262,325	40,072	110,280	19,171	60,313	24,722	7,767
Of which instruments with LTV higher than 60% and lower or equal to 80%	1,686,587	1,672,081		14,506	14,506	-						
Of which instruments with LTV higher than 80% and lower or equal to 100%	1,485,721	1,444,582		41,139	41,139	-						
Of which instruments with LTV higher than 100%	1,393,738	1,352,599		41,139	41,139	-						
Accumulated impairment for secured assets	-333,076	-92,424	-9,339	-240,652	-85,276	-155,376	-19,091	-50,802	-10,312	-47,148	-22,389	-5,634
Collateral												
Of which value capped at the value of exposure	7,788,313	7,365,265	71,850	423,048	216,931	206,117	38,683	84,922	20,693	37,259	18,277	6,283
Of which immovable property	6,801,546	6,409,149	70,014	392,397	198,726	193,671	35,984	80,768	18,253	35,049	17,329	6,288
Of which value above the cap	8,641,809	8,286,528	77,179	355,281	188,691	166,590	30,140	73,715	31,280	22,509	5,279	3,667
Of which immovable property	6,591,950	6,375,783	64,825	216,167	133,524	82,643	18,776	22,213	12,137	21,413	4,442	3,662
Financial guarantees received	398,018	375,692	10,813	22,326	16,053	6,273	5,283	380	375	235	-	-
Accumulated partial write-off	-	-	-	-	-	-	-	-	-	-	-	-

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

	Debt balance reduction		Total collateral obtained by taking possession									
					Foreclosed ≤ 2 years		Foreclosed > 2 years ≤ 5 years		Foreclosed > 5 years		Of which non-current assets held-for-sale	
	Gross carrying amount	Accumulated negative changes	Value at initial recognition	Accumulated negative changes	Value at initial recognition	Accumulated negative changes	Value at initial recognition	Accumulated negative changes	Value at initial recognition	Accumulated negative changes	Value at initial recognition	Accumulated negative changes
Collateral obtained by taking possession classified as PP&E	-	-	-	-								
Collateral obtained by taking possession other than classified as PP&E	4,190	-	2,173	-	1,169	-	1,004	-	-	-	-	-
Residential immovable property	4,190	-	2,173	-	1,169	-	1,004	-	-	-	-	-
Commercial immovable property	-	-		-		-		-	-	-	-	-
Movable property (auto, shipping, etc.)	-	-		-		-		-	-	-	-	-
Equity and debt instruments	-	-		-		-		-	-	-	-	-
Other	-	-		-		-		-	-	-	-	-
Total	**4,190**	**-**	**2,173**	**-**	**1,169**	**-**	**1,004**	**-**	**-**	**-**	**-**	**-**

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

	Collateral obtained by taking possession	
	Value at initial recognition	Accumulated negative changes
Property, plant and equipment (PP&E)	-	-
Other than PP&E	2,173	-
Residential immovable property	2,173	-
Commercial Immovable property	-	-
Movable property (auto, shipping, etc.)	-	-
Equity and debt instruments	-	-
Other	-	-
Total	**2,173**	**-**

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

	Gross carrying amount	Related net accumulated recoveries
Initial stock of non-performing loans and advances	**534,601**	
Inflows to non-performing portfolios	173,731	
Outflows from non-performing portfolios	25,060	
Outflow to performing portfolio	25,060	
Outflow due to loan repayment, partial or total	25,644	
Outflow due to collateral liquidation	45,958	-
Outflow due to taking possession of collateral	4,190	-
Outflow due to sale of instruments	-	-
Outflow due to risk transfer	-	-
Outflow due to write-off	38,249	
Outflow due to other situations	5,742	
Outflow due to reclassification as held for sale	-	
Final stock of non-performing loans and advances	**563,489**	

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

	Specific adjustments for cumulative credit risk
Opening balance	**(415,584)**
Increases due to initiation and purchase	(84,932)
Decreases due to derecognition	4,114
Changes due to changes in credit risk (net)	-
Variations due to changes without derecognition (net)	25,239
Variations due to updating the institution's estimation methodology (net)	-
Decrease in the depreciation adjustment account due to off-balance sheet removals	25,885
Other adjustments	(4,851)
Closing balance	**(450,129)**
Recoveries of amounts previously removed from the balance sheet directly recognized in profit or loss	1,824
Sums deducted directly from the profit or loss statement	28

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

	Cumulated specific adjustments for credit risk
Opening balance	**(266,100)**
Increases due to initiation and purchase	(21,983)
Decreases due to derecognition	3,738
Changes due to changes in credit risk (net)	6,889
Variations due to changes without derecognition (net)	(41,840)
Variations due to updating the institution's estimation methodology (net)	-
Decrease in the depreciation adjustment account due to off-balance sheet removals	25,624
Other adjustments	(2,068)
Closing balance	**(295,739)**
Recoveries of amounts previously removed from the balance sheet directly recognized in profit or loss	1,824
Sums deducted directly from the profit or loss statement	28

3.3.4 Using credit risk mitigation techniques

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

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

Table 19: Form 18: EU CR3 - Credit risk mitigation techniques - Overview

	Unsecured exposures - Book value	Guaranteed Exposures - Book Value	Exposures secured by collateral	Exposures secured by financial guarantees	Exposures secured by credit derivatives
Total loans	10,403,741	4,155,494	3,802,378	353,116	-
Total debt securities	1,280,316	-	-	-	-
Total exposures	**11,684,057**	**4,155,494**	**3,802,378**	**353,116**	**-**
Of which in default	157,153	182,159	182,159	-	-

The Bank calculates risk-weighted amounts based on the standardized approach described in EU Regulation 575/2013 of the European Parliament and of the Council from June, 26th 2013 on prudential requirements for credit institutions and investment firms and amending EU Regulation no.648/2012. In this respect, the Bank uses ratings information provided by three external credit assessment institutions: Standard and Poor's. Moody's and Fitch. This information is used for the following asset classes: central governments or central banks, regional government or local authorities, public sector entities, multilateral development banks, international organisations, institutions, corporates, retail, secured by mortgages on immovable property, exposures in default, exposures associated with particularly high risk, covered bonds, institutions and corporates with a short-term credit assessment, collective investment undertakings, equity, other items.

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

Exposure classes	Exposures before CCF and CRM		Exposures after CCF and CRM		RWA and RWA density	
	Balance sheet value	Off-balance sheet value	Balance sheet value	Off-balance sheet value	RWA	RWA density
Central governments or central banks	2,264,777	52,383	2,578,478	10,477	237,979	1.75%
Regional government or local authorities	8,535	17,378	8,535	8,656	3,438	0.03%
Public sector entities	-	-	-	-	-	0.00%
Multilateral development banks	-	-	-	-	-	0.00%
International organizations	-	-	-	-	-	0.00%
Institutions	472,178	45,552	511,717	88,005	177,238	1.30%
Corporates	3,209,418	1,568,800	3,160,828	347,364	3,458,723	25.45%
Retail	2,555,905	726,271	2,229,411	80,037	1,589,569	11.70%
Secured by mortgages on immovable property	3,138,622	68,743	3,138,622	21,019	1,095,927	8.06%
Exposures in default	327,293	12,019	327,293	3,289	344,840	2.54%
Exposures associated with particularly high risk	-	-	-	-	-	0.00%
Covered bonds	-	-	-	-	-	0.00%
Institutions and corporates with a short-term credit assessment	-	-	-	-	-	0.00%
Collective investment undertakings	12,538	-	12,538	-	12,538	0.09%
Equity	63,796	-	63,796	-	63,796	0.47%
Other items	999,474	-	999,474	-	277,398	2.04%
Total	**13,052,534**	**2,491,147**	**13,030,690**	**558,846**	**7,261,447**	53.43%

Table 21: Form 20: EU CR5 - Standardized Approach

Exposure classes	Risk weight															Total	Of which unrated
	0%	10 %	20%	25%	35%	50%	70 %	75%	100%	150%	250 %	370 %	1250 %	Others	Deducted		
Central governments or central banks	1,928,337	-	167,787	817,687	-	-	-	-	-	-	-	-	-	-	-	2,913,810	2,913,810
Regional government or local authorities	-	-	25,913	-	-	-	-	-	-	-	-	-	-	-	-	25,913	25,913
Public sector entities	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Multilateral development banks	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
International organizations	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Institutions	-	-	438,815	-	-	185,867	-	-	5,122	-	-	-	-	-	-	629,804	613,610
Corporates	49,977	-	-	-	-	-	-	-	4,630,290	-	-	-	-	-	-	4,680,267	4,680,267
Retail	20,189	-	-	-	-	-	-	2,947,083	-	-	-	-	-	-	-	2,967,272	2,967,272
Secured by mortgages on immovable property	-	-	-	-	3,207,365	-	-	-	-	-	-	-	-	-	-	3,207,365	3,207,365
Exposures in default	-	-	-	-	-	-	-	-	307,264	32,048	-	-	-	-	-	339,313	339,313
Exposures associated with particularly high risk	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Covered bonds	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Institutions and corporates with a short-term credit assessment	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Collective investment undertakings	-	-	-	-	-	-	-	-	12,538	-	-	-	-	-	-	12,538	12,538
Equity	-	-	-	-	-	-	-	-	63,796	-	-	-	-	-	-	63,796	59,562
Other items	683,605	-	48,088	-	-	-	-	-	267,781	-	-	-	-	-	-	999,474	883,070
Total	**2,682,108**	**-**	**680,603**	**817,687**	**3,207,365**	**185,867**	**-**	**2,947,083**	**5,286,791**	**32,048**	**-**	**-**	**-**	**-**	**-**	**15,839,551**	**15,702,719**

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

Table 22: Type of collaterals

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

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

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

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

3.3.6 Country Risk Management

The country risk is associated to the credit risk, determined by the economic, social and politic conditions of the borrower’s country of origin.
The country risk is managed through permanent monitoring of the evolutions in those countries where the Bank registers exposures and by taking decisions related to the available limits, when appropriate. In addition, country risk will be considered by Treasury Directorate in all risk assumptions towards counterparties, particularly towards the Banks that are making deals with.

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

3.3.7 Counterparty Risk Management

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

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

The limit for a counterparty is determined based on:

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

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

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

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

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

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

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

Table 23: Form 25: EU CCR1 - Analysis of CCR exposure by approach

	Notional	**Replacement cost/ current market value**	**Potential future credit exposure**	**EEPE**	**Multiplier**	**EAD post CRM**	**RWA**
Mark to market		14,644	44,311			58,955	20,068
Original exposure							
Standardized approach							
IMM (for derivatives and SFTs)							
Of which securities financing transactions							
Of which derivatives and long settlement transactions							
Of which from contractual cross-product netting							
Financial collateral simple method (for SFTs)							
Financial collateral comprehensive method (for SFTs)						295,869	2,584
VaR for SFTs							
Total		**14,644**	**44,311**			**354,824**	**22,652**

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

31/12/2019	Exposure value	RWA
Total portfolios subject to the advanced method		
(i) VaR component (including the 3×multiplier)		
(ii) SVaR component (including the 3×multiplier)		
All portfolios subject to the standardised method	19,609	3,902
Based on the original exposure method		
Total subject to the CVA capital charge	**19,609**	**3,902**

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

	Gross positive fair value or net carrying amount	Netting benefits	Netted current credit exposure	Collateral held	Net credit exposure
Derivatives	14,644	-	14,644	-	14,644
SFTs	295,869	-	295,869	282,949	12,920
Cross-product netting	-	-	-	-	-
Total	**310,513**	**-**	**310,513**	**282,949**	**27,564**

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

	Collateral used in derivatives transactions				Collateral used in SFTs	
	Fair Value of Collateral Received		Fair Value of Collateral Posted		Fair Value of Collateral Received	Fair Value of Collateral Posted
	Segregated	Unsegregated	Segregated	Unsegregated		
	-	-	-	-	295,487	-
Total	**-**	**-**	**-**	**-**	**295,487**	**-**

3.3.8 Residual Risk Management

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

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

3.3.9 Market Risk Management

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

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

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

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

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

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

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

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

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

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

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

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

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

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

	RWAs	Capital requirements
Outright products		
Interest rate risk (general and specific)	7,597	608
Equity risk (general and specific	-	-
Foreign exchange risk	-	-
Commodity risk	-	-
Options		
Simplified approach	-	-
Delta-plus method	-	-
Scenario approach	-	-
Securitisation (specific risk)	-	-
Total	**7,597**	**608**

3.3.10 Foreign currency risk

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

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

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

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

3.3.11 Interest Rate Risk

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

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

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

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

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

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

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

For reporting purposes, the Bank uses the contractual maturity and cash flows for assets and liabilities that are sensitive to interest rate – adjusted for optionality risk (early prepayment/ withdrawal of loans/ deposits), as well as working hypotheses for items that do not have clearly specified contractual maturity. The Bank grants loans mainly with variable interest rate indexed by a reference public rate (benchmark ex.: Euribor, Robor) and aims to harmonize as possible the financing structure with the structure of assets so that to maintain a low interest rate risk exposure of the Bank. Most of fixed rate loans are RON consumer loans and a lower amount of RON mortgage loans with fixed interest rate for the first 5 years.

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

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

RONEQ mio	EVE	NII
Year	Q4 2019	
Parallel up	(83.7)	2.5
Parallel down	26.2	-2.5
Steepener	(77.8)	
Flattener	29.9	
Short rate up	(21.3)	
Short rate down	6.4	
Maximum	83.7	2.5
Year	Q4 2019	
Tier 1 Capital	1,664.59	

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

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

At December 31, 2019, Bank performed stress tests applying different shocks for the modification of the market interest rates by 250 bp, 300 bp. The decline of the economic value in all scenarios mentioned above registered comfortable levels within the monitored limits established through internal and NBR regulations.

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

OTP Leasing has a simple interest rate risk structure. Most loan, as well as funding received, are of floating rate type with 3 months repricing period. Fixed rate loans are hedged for interest rate risk using fixed rate funding.
Interest rate risk is measured by OTP Leasing using the same method as the bank. The exposure is also monitored at consolidated level. Given the size and profile of OTP Leasing's interest risk profile the effect at consolidated level is not significant.

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

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

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

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

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

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

Close monitoring and prudent management of liquidity are permanently supervised by the Asset & Liabilities Committee and at the Group level.

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

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

- ***Current management of liquidity*** – developing the current activity in normal condition. Ensure the fulfillment of financial obligation anticipated and unexpected by maintaining the balance between incoming and outgoing cash. Determining the daily cash flow and operative liquidity to cover liquidity needs on 3 months horizon are the basic used tools. In the case of operative liquidity, prudential, is included a possible shock applied to attracted resources, determined by statistical methods.
- ***Structural liquidity management*** - aims to ensure proper liquidity on medium and long term in order to avoid any pressure on current and future sources of liquidity.
- ***Liquidity management in crisis situations*** - the pursuit of activity on individual crisis conditions (idiosyncratic scenario), in conditions of a general crisis, when the entire liquidity of the Banking system is affected, and also for another more complicated situation including both an individual and generally system crisis. The Bank follows to ensure enough liquidity reserve so it allows fulfilling its financial obligations in stress situations on an acceptable time horizon, without being forced to modify significantly its strategy or business model.

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

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

The bank's funding structure is comprised of a significant part of Group funding (around 30% of total liabilities). In the management of liquidity OBR assumes that maturing Group funding can be rolled over and that new Group funding can be accessed according to approved budgets or to meet any liquidity need during the normal course of business.
For liquidity contingency planning, supplementary to the bank's own on balance sheet liquidity, stand-by lines from the OTP Group are considered as available liquidity.

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

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

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

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

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

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

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

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

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

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

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

  Concentration of funding and liquidity sources:
  The only concentration of funding is related to Group Funding obtained to various Group entities (25% of total liabilities). The bank considers that maturing Group funding can be rolled over at any time.

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

  Coin mismatch at LCR level
  The LCR is calculated in all major currencies representing at least 5% of the bank's debt (RON, EUR, occasionally HUF and total cumulative in RON equivalent). During the year 2019, bank pursued a minimum of 100% for all significant currencies.

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

		Q4 2019		Q3 2019		Q2 2019		Q1 2019	
Scope of consolidation : solo		Total unweighted value	Total weighted value	Total unweighted value	Total weighted value	Total unweighted value	Total weiehted value	Total unweighted value	Total weiehted value
Currency and units (RON million)									
Quarter ending on (DD Month YYY)		31-12-19	31-12-19	30-09-19	30-09-19	30-06-19	30-06-19	31-03-19	31-03-19
Number of data points used in the calculation of averages		12	12	12	12	12	12	12	12
HIGH-QUALITY LIQUID ASSETS									
1	Total high-quality liquid assets (HQLA)		1,859		1,741		1,540		1,427
CASH-OUTFLOWS									
2	Retail deposits and deposits from small business customers, of which:	2,182	163	2,126	159	2,076	157	2,046	155
3	*Stable deposits*	1,536	77	1,495	75	1,434	72	1,415	71
4	*Less stable deposits*	646	86	631	84	642	85	631	84
5	Unsecured wholesale funding	3,408	1,788	3,073	1,639	2,798	1,529	2,549	1,403
6	*Operational deposits (all counterparties) and deposits in networks of cooperative banks*	-	-	-	-	-	-	-	-
7	*Non-operational deposits (all counterparties)*	3,408	1,788	3,073	1,639	2,798	1,529	2,549	1,403
8	*Unsecured debt*	-	-	-	-	-	-	-	-
9	Secured wholesale funding		-		-		-		-
10	Additional requirements	193	35	180	35	186	35	197	38
11	*Outflows related to derivative exposures and other collateral requirements*	10	10	8	8	4	4	2	2
12	*Outflows related to loss of funding on debt products*	-	-	-	-	-	-	-	-
13	*Credit and liquidity facilities*	183	25	172	27	182	31	194	35
14	Other contractual funding obligations	158	140	132	115	137	121	135	122
15	Other contingent funding obligations	1,455	73	1,402	70	1,434	72	1,414	72
16	**TOTAL CASH OUTFLOWS**		2,198		2,017		1,914		1,790
CASH-INFLOWS									
17	Secured lending (eg reverse repos)	256	256	143	143	79	79	40	40
18	Inflows from fully performing exposures	787	717	821	758	963	902	874	809
19	Other cash inflows	16	6	15	6	15	6	15	5
EU-19a	(Difference between total weighted inflows and total weighted outflows arising from transactions in third countries where there are transfer restrictions or which are denominated in non-convertible currencies)		-		-		-		-
EU-19b	(Excess inflows from a related specialised credit institution)		-		-		-		-
20	**TOTAL CASH INFLOWS**	1,059	980	980	908	1,057	987	929	854
EU-20a	***Fully exempt inflows***	-	-	-	-	-	-	-	-
EU-20b	***Inflows Subject to 90% Cap***	-	-	-	-	-	-	-	-
EU-20c	***Inflows Subject to 75% Cap***	1,059	980	980	908	1,057	987	929	854
			TOTAL ADJUSTED VALUE		TOTAL ADJUSTED VALUE		TOTAL ADJUSTED VALUE		TOTAL ADJUSTED VALUE
21	**LIQUIDITY BUFFER**		**1,859**		**1,741**		**1,540**		**1,427**
22	**TOTAL NET CASH OUTFLOWS**		**1,198**		**1,122**		**945**		**897**
23	**LIQUIDITY COVERAGE RATIO (%)**		**158%**		**158%**		**165%**		**161%**

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

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

		Q4 2019		Q3 2019		Q2 2019		Q1 2019	
Domeniul de aplicare al consolidării : consolidat Monedă și unități (RON milioane)		Valoare totală neponderată (medie)	Valoare totală ponderată (medie)	Valoare totală neponderată (medie)	Valoare totală ponderată (medie)	Valoare totală neponderată (medie)	Valoare totală ponderată (medie)	Valoare totală neponderată (medie)	Valoare totală ponderată (medie)
Trimestru care se încheie la (ZZ luna AAA)		31-12-19	31-12-19	30-09-19	30-09-19	30-06-19	30-06-19	31-03-19	31-03-19
Numărul punctelor de date utilizate la calcularea mediilor		12	12	12	12	12	12	12	12
ACTIVE LICHIDE DE CALITATE RIDICATĂ									
1	Total active lichide de calitate ridicată (HQLA)		1,859		1,741		1,580		1,427
NUMERAR - IEȘIRI									
2	Depozite retail și depozite ale clienților întreprinderi mici, din care:	2,182	163	2,126	159	2,094	157	2,046	155
3	*Depozite stabile*	1,536	77	1,495	75	1,461	73	1,415	71
4	*Depozite mai puțin stabile*	646	86	631	84	632	84	631	84
5	Finanțare de tip wholesale negarantată	3,391	1,771	3,062	1,628	2,826	1,535	2,539	1,393
6	*Depozite operaționale (toate contrapărțile) și depozite în rețele cooperatiste*	-	-	-	-	-	-	-	-
7	*Depozite neoperaționale (toate contrapărțile)*	3,391	1,771	3,062	1,628	2,826	1,535	2,539	1,393
8	*Creanțe negarantate*	-	-	-	-	-	-	-	-
9	Finanțare de tip wholesale garantată		-		-		-		-
10	Cerințe suplimentare	207	36	194	36	198	37	213	39
11	*Ieșiri de lichidități aferente expunerilor din operațiuni cu instrumente financiare derivate și alte cerințe privind garanții real*	10	10	8	8	5	5	2	2
12	*Ieșiri aferente pierderii de fonduri asociate titlurilor de creanță*	-	-	-	-	-	-	-	-
13	*Facilități de credit și de lichiditate*	197	27	187	29	193	32	210	37
14	Alte obligații de finanțare contractuale	165	140	137	115	134	114	139	122
15	Alte obligații de finanțare contingente	1,445	72	1,392	70	1,397	70	1,404	71
16	**TOTAL IEȘIRI DE NUMERAR**		2,182		2,007		1,913		1,781
NUMERAR - INTRĂRI									
17	Operațiune de creditare garantată (de exemplu, acorduri reverse repo)	256	256	143	143	104	104	40	40
18	Intrări ca urmare a expunerilor pe deplin performante	805	727	837	767	867	798	886	816
19	Alte intrări de numerar	16	6	15	6	15	5	15	5
EU-19a	(Diferența dintre intrările totale ponderate și ieșirile totale ponderate care rezultă din tranzacțiile efectuate în țările terțe în care există restricții privind transferul sau care sunt denominate în monede neconvertibile)		-		-		-		-
EU-19b	(Intrările excedentare provenite de la o instituție specializată de credit afiliată)		-		-		-		-
20	**TOTAL INTRĂRI DE NUMERAR**	1,078	990	996	917	986	907	940	861
EU-20a	***Intrări exceptate integral***	-	-	-	-	-	-	-	-
EU-20b	***Intrări supuse plafonului de 90 %***	-	-	-	-	-	-	-	-
EU-20c	***Intrări supuse plafonului de 75 %***	1,078	990	996	917	986	907	940	861
			Valoare totală ponderată (medie)		Valoare totală ponderată (medie)		Valoare totală ponderată (medie)		Valoare totală ponderată (medie)
21	**REZERVA DE LICHIDITĂȚI**		**1,859**		**1,741**		**1,580**		**1,427**
22	**TOTAL IEȘIRI NETE DE NUMERAR**		**1,177**		**1,104**		**995**		**882**
23	**INDICATOR DE ACOPERIRE A NECESARULUI DE LICHIDITATE (%)**		**161%**		**161%**		**161%**		**163%**

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

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

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

3.3.13 Leverage Risk

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

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

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

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

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

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

At 31.12.2019, the leverage transition indicator was 11.8% compared to 31.12.2018 when its value was 10.81%. The increase in the indicator is the result of the increase in the value of own funds above the level of the increase in the total exposure.

Exposures to financial derivatives	**Applicable amounts**
Effective notional effective value of underwriting credit derivatives	4,635,140
Total exposures to financial derivatives	58,955
Other off –balance exposures	**Applicable amounts**
Off-balance sheet exposures denominated in gross notional value	756,340
(Adjustments for conversion into equivalent credit amounts)	-
Financing operations for securities that are not subject to a clearing agreement between different products	295,869
Other off-balance exposures	-
Exposures for calculating the leverage indicator according to the CRR Regulation	**Applicable amounts**
Total balance sheet exposures (excluding financial derivatives, SFT and exempted exposures), of which:	12,993,580
Exposures related to the trading book	-
Exposures related to the banking portfolio, out of which:	-
Guaranteed bonds	-
Exposures considered as sovereign	2,558,930
Exposures to regional governments, multilateral development banks, international organizations and public sector entities that are not treated as sovereign entities	8,535
Institutions	456,560
Exposures secured by mortgages on immovable property	3,138,622
Retail exposures	2,240,782
Companies	3,167,502
Exposures in default	327,294
Other exposures (e.g. equity securities, securitisations and other assets that do not meet credit obligations)	1,075,807
Own funds and total exposure measurement indicator	**Applicable amounts**
Tier 1 capital - transitional definition	1,669,351
Total Leverage Ratio exposure - using a transitional definition of Tier 1 capital	14,104,744
Leverage Ratio - using a transitional definition of Tier 1 capital	**11.80%**

3.3.14 Operational Risk Management

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

Objectives
The following objectives are pursued for an appropriate management of the operational:
- to avoid the unexpected operational losses, with high consequences for the activity;
- to avoid recording a large number of operational losses generating events, with low consequence on the activity of the organizational unit and a high probability of occurrence;
- to improve the efficiency within the operational risk management process;
- to increase customer service quality;
- enhanced attention for the operational risk within the risk management activity framework;
- efficient management of information and human resources within the Bank;
- to improve the system for reporting and monitoring the losses caused by the operational risk.

Strategy
The Bank's strategy for acquiring the objectives related to operational risk includes:
- the improvement of the operational risk management framework;
- periodic review of the regulatory framework for a good management of the operational risk within the Bank, development of new key risk indicators in order to use them for a better management of operational risks and connecting them to the specific and monitored activity;

- reviewing the model risk management framework;
- keeping evidence of the operational risk events reported for the entire bank within the operational risk management database; Operational risk loss events are recorded in an integrated IT system with a uniform content at Group level in line with Basel III requirements, so that the development and distribution of losses can be analyzed and continuously monitored based on the data for long periods of time and also to identify the cause that generated the losses.
- paying special attention to the definition of risk mitigating measures, monitoring their execution and improving the control environment through a closer cooperation with the organizational units engaged in risk management and control;
- Establishing provisions for operational risk in order to minimize the impact generated by losses from operational risk events in the entire bank;
- permanent support offered to the organizational units when drawing-up their operational risk reports;
- informing the Operative Risk Committee, the Management Board, Risk Management Committee and the Supervisory Board about the operational risk events reported by the organizational units to the Operational and Market Risk Department;
- informing the organizational units on the decisions taken by the Operative Risk Committee, the Management Board, the Risk Management Committee and the Supervisory Board related to operational risk;
- permanent monitoring of operational key risk indicators;
- assessment of the operational risk exposure based on losses history and permanent update of the database on operational risk loss generating events reported by the organizational units;
- assessment of the activities and processes, products and systems by preparing the annual self-assessment for the activities and processes carried out within all organizational units, in order to report the risks already identified during the performance of the activities or the potential risks and to identify the control measures to mitigate or eliminate risks occurrence;
- preparing plausible scenarios to establish the plans for resuming or continuing the activity and for unforeseen situations; The Business Continuity Plan and the Crisis Communication Plan represent operational risks management tools.

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

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

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

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

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

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

In addition to the qualitative risk appetite limit, the Bank has established quantitative risk limits based on the data collected during the operational risk management process for pre-defined risk categories.

3.3.15 Reputational Risk Management

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

Objectives

The objectives of reputational risk management are:

- To avoid registering losses or the failure in achieving the estimated incomes as a result of reputational risks generating events;
- To avoid the direct or indirect harm of the Bank's reputation;
- To improve the Bank's image;
- To avoid the revealing of secret or confidential information;
- To avoid using internal/ professional/ secret/ confidential information by the Bank's employees for personal benefits or to any other purpose that may have consequences to the detriment of the Bank's image or results or to that of its clients;
- To improve the quality of the Bank's products and services in order to decrease the number of complaints submitted by the clients.

Strategy

The Bank's strategy regarding reputational risk management includes:

- defining the Bank's image attributes in fully accordance with the Bank's strategy and values;
- defining the instruments to improve the Bank's image and their implementation;
- effective management of customers' requests and complaints and establishing appropriate, effective corrective actions in order to improve the quality of the products and services provided by the Bank, respectively the customers' loyalty process;
- defining methods for assessing the Bank's reputation and applying them;
- setting action plans for eventual reputational crisis situations and ensuring the necessary premises for their implementation, if necessary;
- continuous training of sales personnel in all aspects regarding the Bank's products and services, so that they can offer to clients all the necessary information to make informed and correct decisions, according to their needs regarding the acquisition or use of the Bank's financial products and services;
- periodic revision of "Know Your Customer" internal regulations in order to avoid the initiation of business relationships with clients having a fraudulent past, involved in terrorist acts, money laundering, major payment incidents, bad debtors, and/ or involved in the production or commercialization of forbidden substances and/ or illegal activities (such as the illegal producing and commercialization of drugs, guns and ammunition);
- automation, wherever possible, of the necessary verifications to be performed when initiating a business relationship with a client, in order to prevent the enrolment of the clients from the above mentioned categories in the Bank's system;
- development of the existing IT application in order to improve the process of identifying the suspicious transactions;
- developing the trust of shareholders/ customers;
- improving the business relationship with the Bank's clients by informing them correctly, completely and in a timely manner regarding the new products and services, changes in the existing portfolio of products and services, as well as by communicating them all the aspects that might have an influence on the client's banking activity;
- the alignment of the internal regulations and activities performed within the Bank to all the legal provisions applicable to credit institutions. Changes affecting the customers' situation will be communicated to them according to the legal requirements.
- increasing the customer loyalty;
- attracting the loyalty of the clients and providers;
- attracting the necessary resources/ investments for an optimal development of the financial-banking specific activity;
- implementing the necessary measures to limit the unauthorized access to the Bank's resources, regardless of their type;
- the possibility to recruit/ retain the best specialists;
- making capital reserves for reputational risk to protect the institution in case of future crises;
- preparing business recovery and continuity plans and for unforeseen situations. The Business Continuity Plan represents a reputational risk management tool;
- drawing up Crisis Communication Plans in order to ensure the normal functioning of the activity in the entire Bank.

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

3.3.16 Outsourced activities related Risk

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

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

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

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

3.3.17 Compliance Risk Management

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

The compliance risk includes risks related to the general compliance framework and associated activities, as well as risks related to know-your-customer process, money laundering prevention and terrorism financing prevention activities.

The objective of the general compliance risk strategy is to maintain this type of risk at the level established and agreed by the Bank and it includes the following general/main actions:
- Periodic revision of the internal regulations in order to align them to legal and regulatory framework and monitoring the implementation status for the new legal provisions applicable to the financial-banking sector;
- Monitoring the national and European legal regulation framework in order to identify the trends and those banking sector regulations having an impact on the compliance risk;
- Identification and assessment of the non-compliance risks associated to the Bank's business processes, including those related to the development of new products, services and practices;
- Establishing corrective measures following the deficiencies identified during the control missions of the supervisory authority and/or the internal/external auditors or from the Group related to general compliance aspects, respectively the monitoring of their timely implementation;
- assessing the effectiveness of the corrective measures taken within the Bank following control actions performed by authorities;

- monitoring of the timely transmission of reports to authorities by all the organizational units within the Bank, according to the legal and regulation requirements;
- monitoring of the complaints submitted directly by the customers or through authorities in order to manage the risk generated by the non-compliance with the consumer protection regulation/data protection regulation;
- developing the compliance culture within the Bank as an integrated part of risk culture and their management, by providing training sessions on general compliance issues.

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

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

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

OTP Bank Romania targets a medium-low level of the KYC & AML/CFT risk exposure.

3.3.18 Management of the Strategic Risk

Strategic risks are risks that affect or are created by the Bank's business strategy and strategic objectives. They arise from the Bank's inability to implement appropriate business plans, strategies, decisions, resource allocation and its inability to adapt to changes in its business environment. This risk is therefore a function of:

- the Bank's strategic goals;
- the business strategies developed to achieve the goals;
- the resources deployed in pursuit of these goals and the quality of implementation;
- the resources needed to carry out business strategies.

- **Strategic planning process**

OTP Bank România S.A. aims to put in place strategic plan(s) supported by realistic budget(s). Any strategic plan clarifies the Bank's overall purpose, defines goals and priorities and determines practical approaches for achieving them.
If the strategic planning process is not appropriate or if the assumptions are not realistic, the strategic plan will be flawed thereby exposing the Bank to the strategic risk.
In this regard, OTP Bank România S.A. aims to have an appropriate strategic planning process, encompassing the following:

- support or participation of the board, delegated committees, and senior management;
- participation of staff from various departments;
- adequacy of information in developing assumptions in relation to economic factors, position of the Bank compared to competitors, current competitive position, future market trends and customer needs;
- consistency of the operational plans with the overall objective of the Bank;
- assessment of actual performance against strategic plans.

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

In order to assess the occurrence of the strategic risk, the Bank carried backward looking analysis on its strategic objectives from past years (3 years) and compares them with actual figures / ratios or other soft facts, non-quantifiable, for example:

- market penetration;
- product development;
- enhancement of certain qualities / attributes of the Bank's product portfolio;
- segmentation of customers or of products;
- deployment of Group of local initiatives etc.

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

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

In the actual vs. plan analysis special events that occurred due to market opportunities and that could not have been foreseen will not be taken into consideration (CHF conversion, gain from Millennium acquisition).
The Bank examines the fulfillment of the plan on a quarterly basis for the last 3 years.
For each quarter between Q1 2017 and Q4 2019 a comparison actual vs. plan is made for profit before tax. A weight is distributed for each period (the more recent periods receive a higher rate as it is more relevant and the older periods receive lower weights). The gap between actual and plan (in mil RON) are weighted for each quarter.
On individual level, the gaps for the analyzed period, (2017-2019) are added up to **+202 million RON**.
For the calculation of the capital requirement for strategic risk for OTP Leasing (the subsidiary included in local consolidation), the actual differences versus budget for the last 3 years were analyzed. The calculation method is used to calculate the Bank's capital requirement. The gap calculated for the analyzed period (2017-2019) is -**3.9 million** RON.
The capital required for strategic risk is calculated as the negative amount of the current difference versus the plan, so it only occurs if the realization was below the plan.
The positive result of the gaps for the analyzed period, (2017-2019) are added up to **+198 million RON**, on a country consolidated level (OBR Group, including the leasing and the factoring subsidiaries), **means that for the period under review the realization exceeded the plan, highlighting the lack of the capital requirement for the individual and consolidated strategic risk.**

- **Risk categories**

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

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

Calculation of capital requirement for strategic risk, exemplified for 2019 for OTP Bank România
Since the capital requirement for strategic risk in 2019 at the consolidated level is null, the strategic risk is low.

3.3.19 Management of the external risks of the credit institution

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

Thus, in 2019, macroeconomic crisis simulations were conducted over a three-year horizon (2019-2021), **and available capital is sufficient to cover the capital requirement**, taking into account the minimum solvency ratio (SREP) at individual level.
It should be emphasized that these capital requirements are determined before applying any measures to supplement the own funds or reduce the risks to which the Bank is exposed.
In the event of any unfavorable scenario, the Bank will take preventive risk mitigation measures (risk-weighted assets and other risk mitigation techniques) as well as additional capital measures.

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

Macroeconomic crisis scenarios include values of the macroeconomic indicators that have the most impact on the profitability of OTP BANK ROMANIA S.A., such as EUR / RON exchange rate, LIBOR CHF, ROBOR, unemployment rate and others.
The steps taken to estimate the implications for OTP BANK ROMANIA S.A. in the crisis simulations are the following:

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

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

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

3.3.20 Encumbered and unencumbered assets

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

	Carrying amount of encumbered assets	Fair value of encumbered assets	Carrying amount of unencumbered assets	Fair value of unencumbered assets
Assets of the reporting institution			**13,252,736**	**1,317,529**
Equity instruments			17,243	17,243
Debt securities			1,300,286	1,300,286
Other assets			11,935,207	-

At 31.12.2019 the Bank did not have any encumbered assets.

4. OWN FUNDS AND CAPITAL REQUIREMENTS

- **Own Funds**

Common Equity Tier 1 (CET1): Instruments and Reserves	Individual
Capital instruments eligible as CET1 Capital	**1,872,004**
Of which: Capital instruments subscribed by public authorities in emergency situations	1,872,004
Retained earnings	(332,389)
Other reserves	62,380
Funds for general banking risk	4,763
Common Equity Tier 1 (CET1) before regulatory adjustments	**1,606,758**
Common Equity Tier 1 (CET1): Regulatory Adjustments	-
Additional Value Adjustments (Negative Value)	(832)
Intangible assets (excluding related tax liabilities) (negative)	(48,393)
Deferred tax assets that are based on future profitability, excluding those resulting from temporary differences (without related tax liabilities when the conditions of Article 38 (3) are met) (negative)	(3,077)
Other transitional adjustments for core Tier 1 own funds	98,052
Basic own-fund items or deductions from them - others	12,080
Basic level 1 core funds (CET1)	**1,664,588**
Additional level 1 own funds (AT1)	-
Level 1 own funds (T1 = CET1 + AT1)	**1,664,588**
Level 2 own funds (T2)	-
Total own funds (TC = T1 + T2)	**1,664,588**
Total risk weighted assets	**8,170,962**
Rate and amortization of own funds	-
Additional Tier 1 own funds (as a percentage of the total exposure amount)	20.37%
Tier 1 own funds (as a percentage of the total exposure value)	20.37%
Total own funds (as a percentage of the total exposure amount)	20.37%
The requirement for own-account silencer (the own-funds requirement of Tier 1 under Article 92 (1) (a) plus the capital buffer and anti-cushioned shock absorbers plus the systemic shock absorber, plus the institution's shock absorber of systemic importance expressed as a percentage of the exposure value)	204,274
of which: the capital buffer	204,274
Basic Tier 1 own funds available to meet the damping requirements (as a percentage of the exposure value)	11.58%

At 31.12.2019 the level 1 own funds value was 1.664.588 thousand RON.

The bank included in the prudential perimeter OTP Leasing, in which it owns a shareholding of 59.99% for the social capital, as well as well as OTP Factoring, in which it holds a share of 100% and for which the prudential consolidation conditions provided by Regulation no 575/2013 art 19 were fulfilled. Prudential consolidation has been done through the global consolidation method.

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

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

On December 31, 2019, OTP BANK ROMANIA S.A. has calculated its own funds in accordance with Regulation 5/2013 of the National Bank of Romania on prudential requirements for credit institutions and Regulation (EU) 575/2013 on the own funds of credit institutions and investment firms with subsequent amendments and completions.

- **Internal capital adequacy**

The process of capital adequacy to risks within OTP Bank Romania SA covers both risks for which the Romanian National Bank requires capital allocation and risk which are internally assessed in order to have an adequate internal capital in relation to the risk profile of the bank. The ratio between total capital requirement and regulated capital requirement at 31 December 2019 is 125.21% at consolidated level. The main categories of risks followed are: credit risk, operational risk, residual risk, concentration risk, risks which arise from the activity of granting loans in FX to the debtors, which are exposed to foreign currency risk, liquidity risk, reputational risk, stress test component (including external risks to the credit institution) and interest rate risk.

- **Information of minimum capital requirements**

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

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

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

Anexa1

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

		a	b	c	d	e
		31-12-2019	**30-09-2019**	**30-06-2019**	**31-03-2019**	**31-12-2018**
	Available capital (amounts)					
1	Common Equity Tier 1 (CET1) capital	1,664,590	1,608,099	1,276,902	1,277,085	1,281,713
2	Common Equity Tier 1 (CET1) capital as if IFRS 9 or analogous ECLs transitional arrangements had not been applied	1,566,537	1,499,492	1,179,090	1,173,399	1,172,176
3	Tier 1 capital	1,664,590	1,608,099	1,276,902	1,277,085	1,281,713
4	Tier 1 capital as if IFRS 9 or analogous ECLs transitional arrangements had not been applied	1,566,537	1,499,492	1,179,090	1,173,399	1,172,176
5	5 Total capital	1,664,590	1,608,099	1,276,902	1,277,085	1,281,713
6	Total capital as if IFRS 9 or analogous ECLs transitional arrangements had not been applied	1,566,537	1,499,492	1,179,090	1,173,399	1,172,176
	Risk-weighted assets (amounts)					
7	Total risk-weighted assets	8,170,962	7,845,438	7,462,825	7,433,205	7,047,816
8	Total risk-weighted assets as if IFRS 9 or analogous ECLs transitional arrangements had not been applied	8,083,941	7,749,049	7,376,017	7,341,184	6,950,602
	Capital ratios					
9	Common Equity Tier 1 (as a percentage of risk exposure amount)	20.37%	20.50%	17.11%	17.18%	18.19%
10	Common Equity Tier 1 (as a percentage of risk exposure amount) as if IFRS 9 or analogous ECLs transitional arrangements had not been applied	19.38%	19.35%	15.99%	15.98%	16.86%
11	Tier 1 (as a percentage of risk exposure amount)	20.37%	20.50%	17.11%	17.18%	18.19%
12	Tier 1 (as a percentage of risk exposure amount) as if IFRS 9 or analogous ECLs transitional arrangements had not been applied	19.38%	19.35%	15.99%	15.98%	16.86%
13	Total capital (as a percentage of risk exposure amount)	20.37%	20.50%	17.11%	17.18%	18.19%
14	Total capital (as a percentage of risk exposure amount) as if IFRS 9 or analogous ECLs transitional arrangements had not been applied	19.38%	19.35%	15.99%	15.98%	16.86%
	Leverage ratio					
15	Leverage ratio total exposure measure	14,056,351	13,195,848	12,526,270	12,139,680	11,821,162
16	Leverage ratio	11.84%	12.19%	10.19%	10.52%	10.84%
17	Leverage ratio as if IFRS 9 or analogous ECLs transitional arrangements had not been applied	11.14%	11.36%	9.41%	9.67%	9.92%