TRANSPARENCY AND DISCLOUSURE REPORT FOR YEAR 2018

OTP Bank România S.A. –Administrated in dual system
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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: 1.509.252.960 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 2018 and includes information contained in the financial statements audited at the individual level in accordance with International Financial Reporting Standards.

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 1.509.252.960 RON, registered in the Bank Register under no. RB-PJR-40-028/ 1999 and is a member of OTP Bank Nyrt. from Hungary.

On 31.12.2018, 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 1.509.252.000 RON, representing 99, 99992346040119% 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 0,0000636076275% 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 96 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 Administation of the bank and the territorial units alocated.
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 31.12.2018 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 31.12.2018 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.

The Supervisory Board has the role of overseeing and monitoring the decision-making process by exercising permanent control over the Executive Board, as well as the compliance of its work with the strategies and policies adopted.

The Supervisory Board consists of 6 (six) members appointed by the General Assembly of Shareholders and their mandate is 0034 (four) years with the possibility to be re-elected for periods of 4 (four) years.

The members of the **Supervisory Board** in the period 01.01.2018 - 31.12.2018 were:

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

Mr. Kovács Antal György 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. Csonka Tibor László 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, Dr. Rajmonné Veres Ibolya 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 with regards to the members' mandates are presented in the OTP Bank România 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 Manangement 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 01.01.2018 - 31.12.2018 were:

Name	Position
Diósi László	President of Management Boardthe and General Manager(Chief Executive Officer)
Ljubičić Gábor	Vice-President of the management Board and deputy CEO, Coordinator of the Retail Division

Gáldi György	Member of the Management Board and Deputy CEO, coordinator of the Lending& Risk Management Division
Mirică Ioan Dragoș	Member of the Management Board and Deputy CEO, coordinator of the Corporate Division
Cristea Mara	Member of the Management Board and Deputy CEO, coordinator of the Finance and Planning Division

Mr. Ljubičić Gábor has other professional assignments, such as Member of the Supervisory Board at OTP Asset Management Romania SAI S.A., since 2008.

Mr. Mirică Ioan Dragoş holds as well the position of member of the Board of Directors of OTP Leasing Romania IFN SA. since 2014.

In 2018, 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 22 extraordinary meetings;
- the Management Board: 25 ordinary meetings and 136 extraordinary meetings.

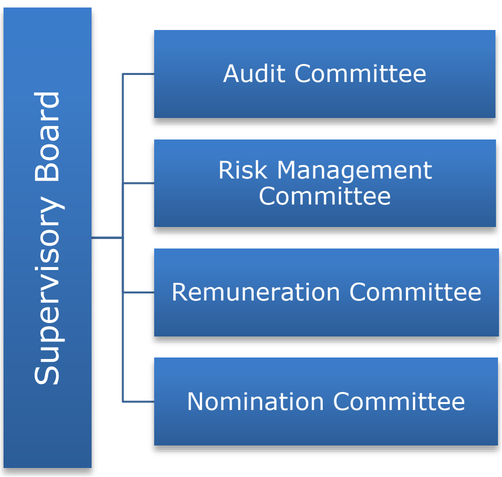
From the point of view of ensuring the gender diversity, in the structure of the management body, we mention that during 2017, the structure was the following:

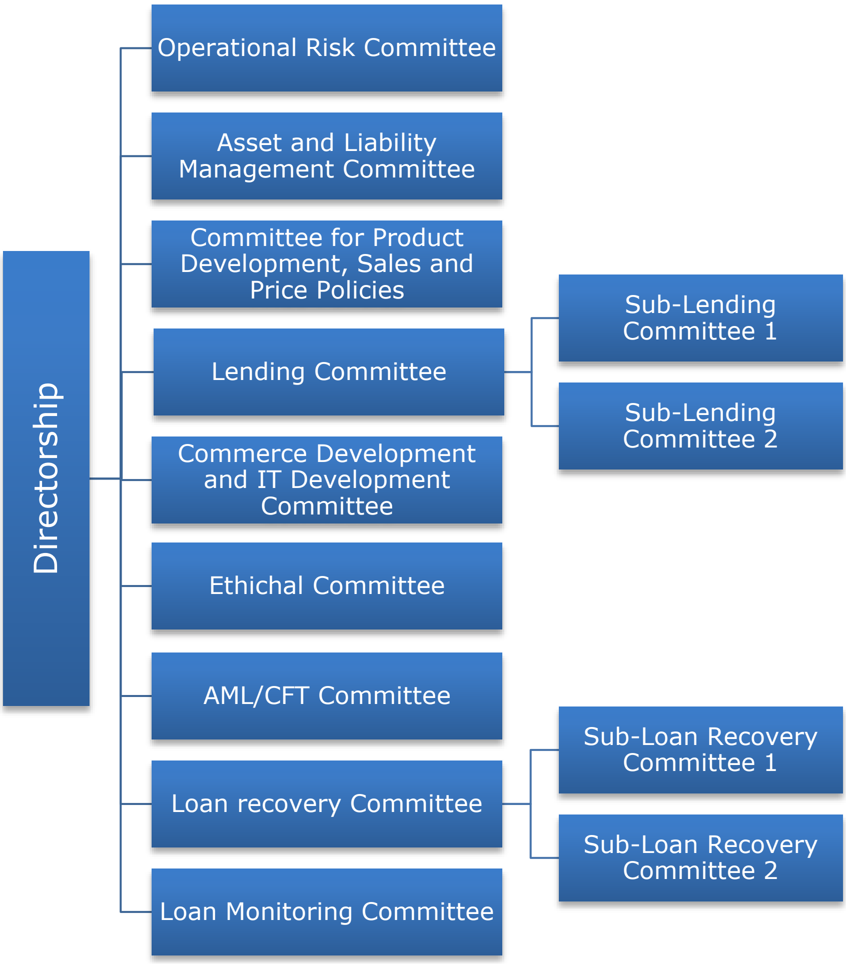
Management Board		
Men	Women	Member no.
80%	20%	5

Supervisory Board		
Men	Women	Member no.
33%	67%	6

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 on the basis of 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 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 video-conference. In exceptional cases, when rapid decisions must be made, the Chairman can request that a proposal is submitted for vote by correspondence (e-mail), without summoning a meeting.

During the year 2018, 9 Audit Committee meetings were held, out of which 4 were ordinary videoconferencing sessions and 5 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 2018 the Audit Committee's composition did not change, this being established and approved according to the decision of the Supervisory Board no. 6/21.01.2015.

Responsibilities of the Risks Management Committee

The Risk Management Committee is a Standing Committee that operates independently from the Bank's management and is directly subordinated to the Supervisory Board, with a consultative role.
The Risk Management Committee assists the Supervisory Board in carrying out its duties and has the following main tasks:

- analyze in advance the final approval of the Supervisory Board, the Bank's Risk Strategy, including appetite or risk tolerance at a level that ensures its proper functioning and achievement of its strategic objectives;
- submits for approval to the Management Board and Supervisory Board (by means of the Management Board), on a case by case basis, the strategies and policies for the identification, assessment, monitoring and control of the significant risks in compliance with the legislation in force and group policies;
- advise the Supervisory Board independently on any breach or non-compliance with strategies, appetite / risk tolerance or risk limits and issue recommendations to avoid such situations;
- inform the Supervisory Board on a half-yearly basis and, whenever necessary, on significant issues and developments that could influence the Bank's risk profile;

- analyze, prior to the final approval of the Supervisory Board, the internal risk capital adequacy assessment process and report to it quarterly the results of the internal process for assessing capital adequacy at risk;
- analyze, prior to the final approval of the Supervisory Board, the results of concentration concentration identification, measurement, management and monitoring, ie concentration risk mitigation measures;
- analyze, prior to the approval of the Supervisory Board, the general framework for crisis simulations and assess the results and mitigation measures of these simulations;
- assess reports on the operation of the internal control system.

The Risk Management Committee is organized on a quarterly basis or whenever necessary, and meetings can also be organized by videoconference. During the year 2018, 8 meetings of the Risk Management Committee were organized (3 ordinary meetings, 5 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.

Given that the Remuneration Committee was set up in May 2018, four meetings took place in 2018, one of which was a video-conferencing session and three extraordinary mail meetings.

The Remuneration Committee has the following main tasks:

- To support and advise 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;
- Ensure 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;
- Prepare 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;
- To make 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);
- Assess the achievement of performance targets and the need to adjust ex post risk, including the application of malus and clawback measures;
- Evaluate 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;
- Assess 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;

- Assess 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;
- Review 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;
- Ensure that the bank's remuneration policy and practices are subject to central and independent internal review at least once a year;
- Ensure 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, ie 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.

Given that the Nomination Committee was set up in May 2018, two meetings took place during 2018, one of which was a one-day videoconference session and one extraordinary mailing-in meeting.

The Nomination Committee has the following main tasks:

- to support and advise 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 review 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;
- advise 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;
- to contribute 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;
- ensure that collective assessments of suitability of members of the Supervisory Board or the Executive Board are made prior to appointment;
- review the process and criteria used to identify key function holders;
- monitor the effectiveness of the bank's selection, suitability and succession policy and review its drafting and implementation;
- carry out at least once a year an individual reassessment of adequacy for the coordinators of internal control functions;

- to evaluate 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, assess the individual, collective and individual knowledge, skills and experience of Directors and report to the Board of Supervisors the reason for the reassessment and any recommendation on the identified deficiencies;
- assess 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.

Operational Risk Committee

The Operational Risk Committee is a permanent committee, subordinated to the Executive Board, which has decision-making power in matters within its competence, according to the legislation in force and the Organization and Functioning Regulation of OTP Bank Romania S.A.

The Operational Risk Committee has the right to submit proposals to the Bank's Board of Directors on the development of appropriate policies and procedures for identifying, evaluating, monitoring and controlling significant risks.

The Operational Risk Committee constantly pursues significant developments that could influence the Bank's risk profile.

The main tasks of the Operational Risk Committee are:

- analyzes and subsequently informs the management body about all relevant risk-related information, in order to determine the level of tolerance and risk appetite;
- independently analyzes any violation or non-compliance with strategies, tolerance / risk appetite or risk limits and makes decisions to avoid such situations;
- propose for approval to the Directorate and the Supervisory Board, if any, appropriate policies and processes for identifying individual exposures to persons with whom the Bank is in special relations;
- proposes for approval to the Directorate and the Supervisory Board the internal process for assessing the adequacy of the capital at risk, respectively reports the results of the internal capital adequacy assessment process to the risks;
- proposes for approval to the Board of Directors and the Supervisory Board, the Bank's Risk Strategy, including the risk appetite or risk tolerance of the Bank at a level that will ensure its healthy functioning and the achievement of the strategic objectives;
- propose to the Directorate and the Supervisory Board for approval the general framework for crisis simulations, respectively report the results of the application of the crisis simulations and propose measures or actions to mitigate the significant risks to which the Bank is or might be exposed;
- proposes for approval to the Directorate and the Supervisory Board, the bank's policy on outsourcing of activities and the risk management procedures associated with outsourcing;
- set appropriate limits on exposure to risks, including in crisis conditions, according to the size, complexity and financial condition of the bank, as well as procedures necessary to approve exceptions to those limits.

The frequency of meetings of the Risk Operating Committee is monthly. In 2018, 40 meetings of the Operational Risk Committee were organized (12 ordinary meetings, 28 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, taking appropriate measures.

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 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 (eg. 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; On this occasion, the members of the Management Board may decide that a proposal already approved in the Committee but not yet implemented, be postponed to the date of launch so that it can be validated and approved by the members of the Management Board;
- 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 responsibilities of the CC, SCC1 and SCC2 may be complemented by direct stipulations of the internal regulations with regard to lending activity, as well as delegated by the Management Board/ Supervisory Board.

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

The main responsibilities are:
- take relevant decisions and give recommendations to the Directorate on the AML / CFT area (for example, in the case of a negative response from the Compliance Division for initiating / continuing the business relationship for high-risk clients, so that the approval of the Board of Directors based on the recommendation of the Committee on AML / CFT).
- provides advice on the conclusion of business relationships with clients (individuals, legal entities, credit / financial institutions with which OTP Bank Romania SA maintains a cross-border correspondence relationship, either through a correspondent account or through a connection RMA to facilitate transactions) that does not comply with, or does not comply with, the ALM / CFT area, or if there are reasonable suspicions about those customers.

Responsibilities of the Loan Recovery Committee (LRC)

The Workout Committee (WOC) has the authority to make decisions in matters of its competency, according to Internal Organisation Regulation and legal environment, and to present proposals and suggestions to the Bank’s Management Board, concerning the development of policies and procedures adquate to the recovery activity, which shall ensure:
- the indentification and management of non-performing loans, with values according to Matrix M4 of IOR;
- monitoring and control of restructuring and recovery activities realted to overdue loans;
- the proper evaluation of activity regarding the restructuring and ckaim recovery;

Workout Committee meetings take place, as a general rule, weekly, according to WOC Regulations, or by email (bay corespondence), each time it is required.

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:
  - unfavourable 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 2018, the Workout Committee has met 64 times (both via email/correspondence and meetings)

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 drfting 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 cathegories, based on the Early Worning 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 Worning 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 2018, the Credit Monitoring Committee met 42 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**, 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 and 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 Security and 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 at the Bank and OTP Bank Romania SA and reports directly to the 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 1.364 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. Also, 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.
- Key personnel: Employees, other than an Executive Director, who fall into the consolidated category of the Remuneration Policy, eg. Employee or manager - employee or other legal relationship with the Bank involving a personal employment obligation - which, through its professional activity, has a significant impact on the Group's risk profile at a consolidated level;
- 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 with regards to the selection of staff members, 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 finalised higher education. Moreover, the Key function holder (or a candidate) should have:

- A sound knowledge with regards to 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;
- **Expertize 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 and 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;
- **Expertize 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;
- **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; When assessing experience and expertise the Bank shall consider also if the respective person will be a member of the specialised committees of the Bank (e.g. Audit Committee);
- **Time commitment:** should be able to allocate the minimum expected time commitment of effective participation and adequately exercise of prerogatives as a member of the Supervisory Board; and
- **Objectivity:** should be able to act objectively, critically and independently. In this regards, any conflicts of interest need to be identified and adequately managed.

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

- financial markets;
- regulatory framework and requirements;
- strategic planning and understanding of a credit institution's business strategy or business plan and accomplishment thereof;
- risk management (identifying, assessing, monitoring, controlling and mitigating the main types of risk of a credit institution, including the responsibilities of the member);
- accounting and auditing;

- assessing the effectiveness of a credit institution's arrangements, creating effective governance, oversight and controls; and
- interpreting a credit institution's financial information, identifying key issues based on this information and appropriate controls and measures.

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

2.3 Performance measurement

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

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

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

The 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 unless the application is limited to certain categories of staff 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; (ie normal payments for remuneration relating to the length of a notice period, and not compensatory payments);
    - benefits granted under collective agreements and internal regulations; (ie, 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 with regards to mis-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 clawback, 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 A above, the Bank shall, on the basis of 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 Clasiffication 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 on the basis of the collective evaluation of targets (i.e. bonus pool ex-ante adjustment).

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

For performance measurement 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 general rule, deferred payment applies to 40% of performance-based remuneration, provided that 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 behaviour;
  - 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 with regards to the occurrence of any events which could trigger the application of malus arrangements (i.e. circumstances described above) and the fulfilment of the vesting conditions.
If vesting conditions are not met or if any circumstances/ events as the ones described above are identified which indicate that either the Bank should not pay or the individual should not be entitled to the deferred portion, the Bank shall perform the required assessments and decide not to pay the deferred portion either in part or in full.
Clawback
The performance-based remuneration paid to an individual earlier on must be refunded if the individual is found not up to the requirements pertaining to suitability or conformity by, considering he/she has committed a criminal act or in the case of such serious omission, abuse or defect that had significantly deteriorated the creditworthiness and/or profitability of the Bank.
The Bank can claim any variable remuneration paid within a period of at least three but not shorter than the cumulative period of deferral and retention applicable to that specific variable remuneration.

Process steps

Malus
- Identified staff is informed when variable remuneration is awarded with regards to the application of malus arrangements and with regards to 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 with regards to the application of malus on deferred variable remuneration for the remaining periods.

Clawback
- Identified staff is informed when variable remuneration is awarded with regards to the application of clawback arrangements as well as with regards to 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 clawback 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 clawback 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 2018

For the year 2018, the following remunerations were paid:

Nr. crt.		Members of the management body in its supervisory function	Members of the management body in its management function	Investment banking Services	Retail Banking Services	Assets administration	Corporate functions	Independent control functions	All other activity areas
		(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
(1)	No of members of personnel	7	8						
(2)	Total no of employees in equiv. of a full time			19.00	1,017.50		174.00	90.00	92.00
(3)	Net profit of N year (in euro)				5,634,309				
(4)	Total remuneration (in euro)	82,965	1,463,181	909,907	21,127,885		4,791,547	2,617,611	2,026,693
(4.1)	Out of which: Variable Remuneration (in euro)		282,537	200,850	4,007,841		272,123	296,858	91,320

For the members of identified personnel (including the members of the management body) the quantitative information on remuneration for the year 2018 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	14		4	6	2
(3)	**No of members of Identified Staff within Management Body**								
(4)	**Total fixed remuneration (euro), out of which:**	82,965	1,009,027	142,597	1,043,582		299,818	383,486	104,695
(4.1)	cash	82,965	1,009,027	142,597	1,043,582		299,818	383,486	104,695
(4.2)	shares and instruments related to shares								
(4.3)	other types of instruments								
(5)	**Total variable remuneration (euro), out of which:**		493,515	22,256	66,249		41,630	7,717	6,946
(5.1)	cash		260,288	22,256	34,511		32,176	3,858	5,073
(5.2)	shares and instruments related to shares		233,227		31,738		9,454	3,858	1,873
(5.3)	other types of instruments								
(6)	**Total amount of variable remuneration granted in the fiscal year N and deferred (in euro), out of which:**		318,764		106,128		12,605	5,145	2,497
(6.1)	cash		160,517		53,064		6,303	2,572	1,248
(6.2)	shares and instruments related to shares		158,247		53,064		6,303	2,572	1,248
(6.2)	other types of instruments								

Additional information related to the amount of the total variable remuneration

In 2018 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 2018, 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 2018.

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

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 to which a credit institution is exposed, depending on the risk appetite assumed by the management structure in decision-making and business strategy. Starting from the typology and specifics of the Bank, OTP Bank Romania S.A. proposes an average overall risk profile. Risk appetite is the level of risk, expressed for each risk category, which OTP Bank Romania S.A. is willing to accept it, in accordance with the established risk strategy and policies, in the context of keeping risk under the risk profile for each significant risk category individually. Risk appetite is defined to correspond to the Bank's risk profile. 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 risk profile at a maximum level of the environment.

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

The following graphics present the evolution of the main indicators during 2018:

Figure 1 : EBA - defined NPE ratio

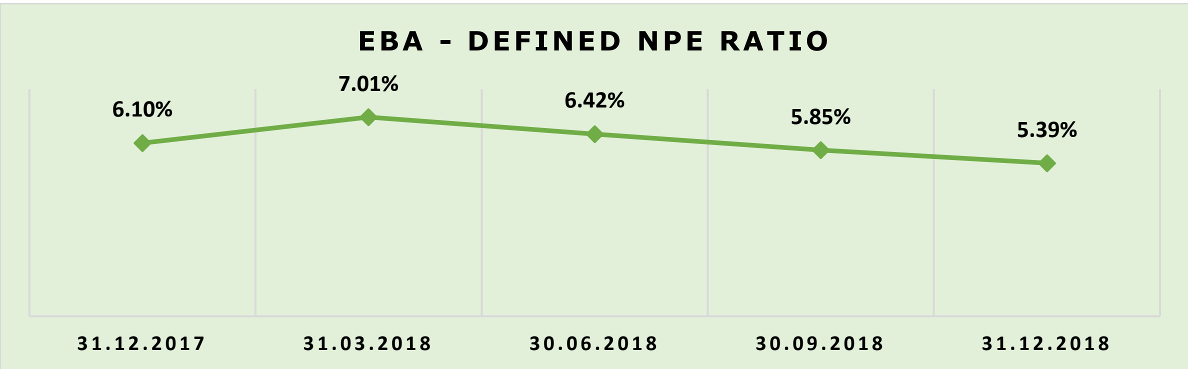


Figure 2: EBA - defined NPE coverage ratio

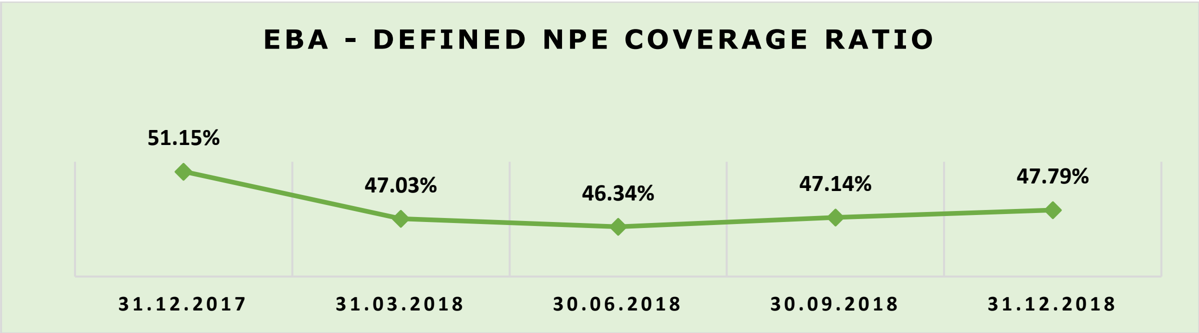


Figure 3 : Return on equity

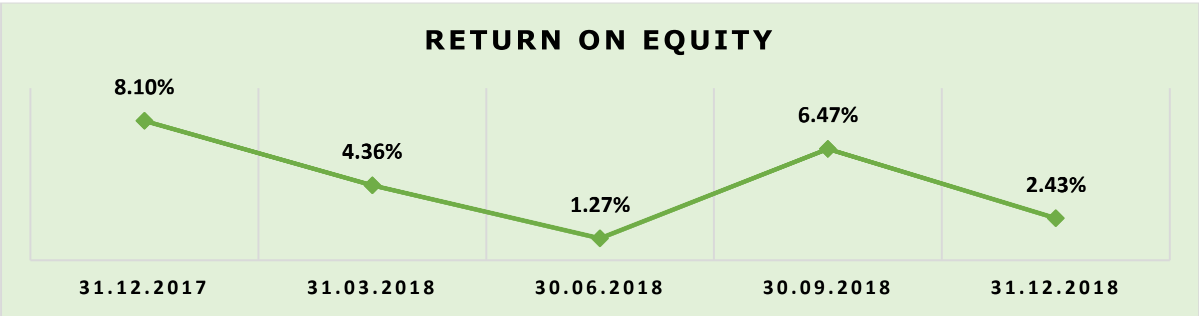
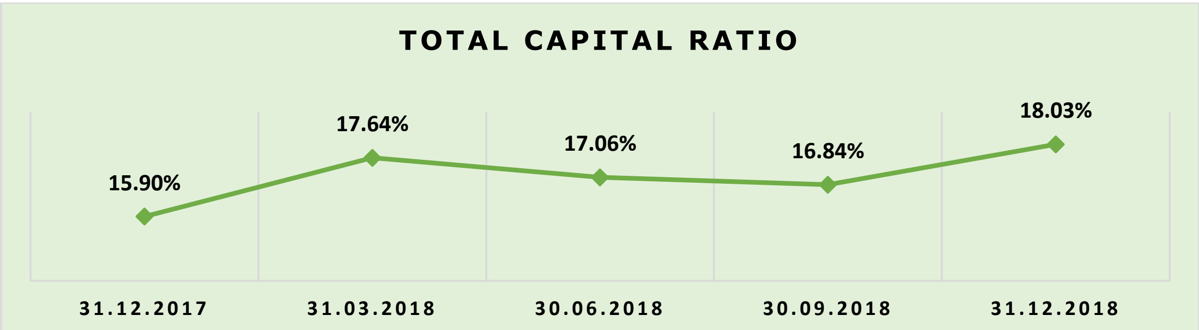


Figure 4: Total capital ratio



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

Further detailed information referring to banks financial results for the financial year 2016 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 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 31.12.2018 the situation of affiliated parties was:

- Individual level (OTP Bank Romania SA)

Number of clients	Gross exposure (LEI)	Related provisions	Excluded amounts (LEI)			Own funds %
			without protection	with protection		
				funded	unfunded	
Non-institutions						
51	60,459,530	5,050,117	12,855,776	6,682	0	3.31953882
Institutions						
2	525,551,330	0	0	0	0	41.0038284

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

Number of clients	Gross exposure (LEI)	Related provisions	Excluded amounts (LEI)			Own funds %
			without protection	with protection		
				funded	unfunded	
Non-institutii						
50	39,504,864	4,898,347	3,527,976	6,682	0	2.42183356
Institutii						
2	525,551,330	0	0	0	0	12.9293391

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];
- 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 12%.

The Bank's strategy for 2018 related to the credit risk management included:

- digital channel orientation and online credit, dedicated to both new and existing customers;
- continuing to prioritize the management of outstanding loans accumulated during the crisis;
- Constant testing through pilot products of the adequacy of the strategy applied to PFs and SMEs with regard to the exposure considered and the tolerated risk profile;
- Orientation towards more flexible funding structures for corporate customers, such as credit lines or overdraft facilities;
- limitation of pre-approval for state-owned entities such as CNAIR / CFR on which factoring / settlement operations are quickly approved;
- Receivables provided by specialized companies, which can help to fund their clients / prospecting them by accelerating the analysis and approval process;
- the maturity of withdrawals within the settlement ceiling is aligned with the maturity of the invoice;
- continuing the development of commercial factoring (domestic factoring with domestic appeal and non-recourse factoring), including international factoring (export);
- improving the predictive power and predictive power of risk models and credit monitoring activity;
- The financing of clients in the category of corporations that have registered negative own funds in the last closed year or those that have registered negative EBITDA over the last two years is not supported;
- development of new product corporations specially designed to finance agriculture with different guarantee schemes and maturities;
- increasing the number of approved loans through a high level of standardization following the launch / recalibration of credit products dedicated to SME customers;
- land financing (unless land acquisition is part of a funded project) is prohibited;
- placing a great emphasis on preventing problems faced by debtors;
- improving soft collections to maintain the quality of the new loan portfolio: acquiring / developing software to better manage the business;
- encouraging lending activity in LEI to individuals and companies;
- launch of new products dedicated to both categories of customers, meeting both the current requirements of the economy and customer requirements and capabilities;
- loyalty program for individuals, by offering facilities in accessing new credit products;
- offering new loans to individual clients who had a good credit history within the bank;

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

- Developing credit products for individuals who open a current account for wage transfer at the bank;
- reviewing the desired customer profile for personal need and mortgage credit so that the number of potential customers increases;
- increasing the share of customers who transfer their income to current accounts opened with OTP Bank Romania S.A. in order to ensure the greatest convenience of monitoring the changing circumstances of clients;
- Initiation of promotional campaigns on both asset side, personal and passive loans, for the maintenance of existing deposits;
- Monthly sessions of the Credit Monitoring Committee sessions for a more frequent monitoring of corporate customers with early depreciation signals;
- Weekly organization of the Debt Recovery Committee sessions, with the purpose of approving the debt recovery strategy for the clients in charge of the Restructuring and Recovery Department;
- organizing monthly sessions where the evolution of the bank's strategic products is monitored to maintain this portfolio at a high quality level;
- the involvement of the territorial network and the Corporate Division in managing the problems faced by the bank's clients as well as in the troubled problem recovery business by introducing portfolios quality indicators (PMUs) in the Performance Planning and Evaluation (PMP) document will be involved only in the activity of recovering credits granted to individuals);
- tracking the quality and evolution of the loan portfolio, the monthly and quarterly presentation within the Risk Operations Committee of the analyzes and the prepared statements, as well as presenting these materials to the Bank's Board of Directors for information;
- organizing the TOP 30 review meetings within the Restructuring and Recovery Division of Credits to monitor the main exposures and decide on the recovery strategy;
- organizing pre-filter sessions to help the sales team by accelerating the process of selecting the proposed files for approval and streamlining the approval process for credit applications;
- monitoring and modifying the value of guarantees so that their value reflects as closely as possible the major changes in the various markets (mortgage revaluation every 3 years according to the regulations in force and the reassessment of the mortgages related to the credits included in the client protection program);
- details of the credit risk profile for both corporate banking and retail banking are set in the bank's lending policy, which is updated annually.

The Bank does not finance:

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

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

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

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

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

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

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

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

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

The Bank uses two approaches to estimate the expected losses:

- Individual assessment
- Collective assessment

Recognition of the expected loss on loans on a collective basis

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

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

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

Recognition of expected loss on loans on an individual basis

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

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

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

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

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

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

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

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 through the use of internal limits. Setting the internal limits shall be done after analyzing the structure of the loan portfolio, including its estimate trends.

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

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
		31/12/2018	31/12/2017	31/12/2018
1	**Credit risk (excluding CCR)**	**6,150,223**	**5,241,979**	**492,018**
2	Of which the standardized approach	6,150,223	5,241,979	492,018
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**	**2,791**	**33**	**223**
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)	2,791	33	223
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**	**46,108**	**393**	**3,689**
20	Of which the standardized approach	46,108	393	3,689
21	Of which AMI			
22	Large exposures	-	-	**-**
23	Operational risk	**848,694**	**800,417**	**67,895**
24	Of which basic approach	848,694	800,417	67,895
25	Of which the standardized approach			
26	Of which advanced assessment approach			
27	Values below the deduction thresholds (which are subject to a 250% risk weight)			
28	Adjustment for the minimum threshold			
29	**Total**	**7,047,816**	**6,042,822**	**563,825**

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

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

(mii RON)	**Valoarea netă a expunerilor la sfarșitul perioadei**	**Expuneri nete medii aferente perioadei**
Central governments or central banks	1,936,217	1,518,783
Regional governments or local authorities	11,495	11,051
Public sector entities	692,933	793,739
Companies	4,015,072	3,764,325
Retail	2,992,178	2,804,233
Exposures secured by mortgages on immovable property	2,528,052	2,360,212
Exposures in default	358,397	385,974
Collective investment (OPC)	11,426	9,574
Other items	763,573	694,458
Total	**13,309,342**	**12,342,347**

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

Table 3: Geographical breakdown of exposures

(mii RON)	Center	North East	North West	South East	South West	Other countries	Other areas	Total
Central governments or central banks	-	-	-	1,936,217	-	-	-	1,936,217
Regional governments or local authorities	1,936	95	-	9,464	-	-	-	11,495
Public sector entities	-	-	-	646,290	-	36,839	9,803	692,933
Companies	522,109	566,973	540,389	2,274,013	109,991	-	1,598	4,015,072
Retail	393,298	478,977	406,497	1,325,858	387,306	-	242	2,992,178
Exposures secured by mortgages on immovable property	329,988	289,082	442,203	1,098,156	368,623	-	-	2,528,052
Exposures in default	59,019	47,625	47,161	179,354	25,238	-	-	358,397
Collective investment (OPC)	-	-	-	11,426	-	-	-	11,426
Other items	25,449	17,844	21,918	673,859	24,502	-	-	763,573
Total	**1,331,799**	**1,400,596**	**1,458,168**	**8,154,638**	**915,660**	**36,839**	**11,642**	**13,309,342**

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 2018:

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	65,899	102,025	451,691	-
Retail	36,327	8,415	208,847	8,130
Exposures secured by mortgages on immovable property	5,219	6,329	16,700	282
Exposures in default	1,986	6,836	6,866	185
Collective investment (OPC)	-	-	-	-
Other items	4	85	63	0
Total	**109,436**	**123,690**	**684,168**	**8,597**

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	76,395	-	305,408	194,348
Retail	179,124	1,429	19,348	8,302
Exposures secured by mortgages on immovable property	64,584	-	14,928	6,328
Exposures in default	29,977	6	15,911	245
Collective investment (OPC)	-	-	-	-
Other items	158	0	1	17,037
Total	**350,237**	**1,434**	**355,597**	**226,260**

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	1,136	3,872	789,422	7,092
Retail	18,371	21,733	229,156	6,541
Exposures secured by mortgages on immovable property	1,151	2,468	16,203	-
Exposures in default	151	5,057	43,325	142
Collective investment (OPC)	-	-	-	-
Other items	0	0	1,459	0
Total	**20,810**	**33,130**	**1,079,564**	**13,774**

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

(ths.RON)	Other service activities	Professional, scientific and technical activities	Public administration and defence; compulsory social security	Transportation and storage
Central governments or central banks	-	-	-	-
Regional governments or local authorities	-	4,225	2,031	-
Public sector entities	-	-	-	-
Companies	379	76,192	-	966,876
Retail	8,967	39,625	-	129,832
Exposures secured by mortgages on immovable property	3,039	6,896	-	17,403
Exposures in default	437	57,727	153	6,220
Collective investment (OPC)	-	-	-	-
Other items	241	23	0	168
Total	**13,063**	**184,688**	**2,184**	**1,120,499**

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	-	-	-	1,936,217	1,936,217
Regional governments or local authorities	-	-	-	5,239	11,495
Public sector entities	-	-	-	692,933	692,933
Companies	150,918	17,910	758,952	46,559	4,015,072
Retail	31,752	13,377	315,718	1,707,185	2,992,178
Exposures secured by mortgages on immovable property	11,444	2,050	69,823	2,283,204	2,528,052
Exposures in default	8,619	67	63,479	111,007	358,397
Collective investment (OPC)	-	-	-	11,426	11,426
Other items	9	4	369	743,949	763,573
Total	**202,742**	**33,408**	**1,208,340**	**7,537,719**	**13,309,342**

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

	Gross carrying values of					
	Defaulted exposures	**Non - defaulted exposures**	**Specific credit risk adjustmen**	**General credit risk adjustmen**	**Credit risk adjustment charges of the period**	**Net values (a+b-c-d)**
Central governments or central banks						
Institutions						
Corporates						
Of which: Specialised lending						
Of which: SME						
Retail						
Secured by real estate property						
SMEs						
Non-SMEs						
Qualifying revolving						
Other retail						
SMEs						
Non-SME						
Equity						
Total IRB approach						
Central governments or central banks	-	2,240,909	916	-		2,239,992
Regional governments or local authorities	-	11,584	89	-		11,495
Public sector entities	-	-	-	-		-
Multilateral development banks	-	-	-	-		-
International organisations	-	-	-	-		-
Institutions	-	773,783	-	-		773,783
Corporates	-	4,005,475	69,438	-		3,936,037
Of which: SMEs		*2,693,148*	*51,769*	-		2,641,378
Retai	-	2,753,729	67,142	-		2,686,587
Of which: SMEs	-	*1,257,701*	*24,182*	-		1,233,519
Secured by mortgages on immovable property	-	2,528,052	-	-		2,528,052
Of which: SMEs	-	*230,086*	-	-		230,086
Exposures in default	548,863	-	190,466	-	48,816	358,397
Items associated with particularly high risk	-	-	-	-		-
Covered bonds	-	-	-	-		-
Claims on institutions and corporates with a short-term credit assessment	-	-	-	-		-
Collective investments undertakings	-	11,426	-			11,426
Equity exposures	-	-	-	-		-
Other exposures	-	991,120	227,547	-		763,573
Total standardized pproach	**548,863**	**13,316,077**	**555,598**	**-**	**48,816**	**13,309,342**
Total	**548,863**	**13,316,077**	**555,598**	**-**	**48,816**	**13,309,342**
Of which: Loans	524,991	10,179,918	523,508	-	48,816	10,181,401
Of which: Debt securities	-	1,004,097	5,646	-		998,451
Of which: Off - balance- sheet exposures	23,872	2,132,062.75	26,445	-		2,129,490

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

	Gross carrying values of		Specific credit risk adjustmen	General credit risk adjustmen	Credit risk adjustment charges of the period	Net values (a+b-c-d)
	Defaulted exposures	Defaulted exposures				
Agriculture, forestry and fishing	11,502	961,825	18,447	-	372	954,879
Mining and quarrying	213	2,532	117	-		2,629
Manufacturing	85,278	883,194	52,022	-	3,917	916,450
Electricity, gas, steam and air conditioning supply	23,265	179,194	13,205	-		189,254
Water supply	884	32,124	900	-	85	32,108
Construction	27,164	670,560	19,359	-	3,331	678,365
Wholesale and retail trade	146,733	1,220,048	60,493	-	37,746	1,306,288
Transport and storage	13,303	166,441	5,893	-	2,923	173,851
Accommodation and food service activities	2,731	249,113	4,753	-	151	247,091
Information and communicatio	11,760	34,569	6,043	-	16	40,287
Financial and insurance activities	12,003	2,446,759	238,698	-		2,220,063
Real estate activities	12,070	432,977	12,294	-		432,753
Professional, scientific and technical activities	14,905	156,397	6,751	-	219	164,551
Administrative and support service activities	6,771	261,153	5,332	-		262,592
Public administration and defence, compulsory social security	153	983,462	917	-		982,698
Education	18	280	18	-	34	280
Human health services and social work activities	-	19,633	306	-		19,326
Arts, entertainment and recreation	3,418	4,924	231	-	15	8,111
Other services	986	2,483	433	-	0	3,036
Households	175,708	4,608,407	109,387	-	6	4,674,728
Total	**548,863**	**13,316,077**	**555,598**	**-**	**48,816**	**13,309,342**

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

Table 6: Maturity of exposures

(ths.RON)	**On demand**	**<= 1 year**	**> 1 year <= 5 years**	**> 5 years**	**No maturity declared**	**Total**
Central governments or central banks	-	96,323	473,488	395,816	970,589	1,936,217
Regional governments or local authorities	-	1,473	8,086	1,936	-	11,495
Public sector entities	-	582,379	1,030	-	109,524	692,933
Institutions	2	1,828,466	1,080,976	1,092,678	12,950	4,015,072
Companies	40	757,326	1,143,569	1,090,872	371	2,992,178
Retail	-	121,309	153,983	2,252,760	-	2,528,052
Exposures secured by mortgages on immovable property	0	189,628	63,260	105,072	436	358,397
Exposures in default	-	-	-	-	11,426	11,426
Collective investment (OPC)	-	2,865	346	-	760,362	763,573
Total	**42**	**3,579,769**	**2,924,738**	**4,939,135**	**1,865,658**	**13,309,342**

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

ths. RON	Gross book value for non-performing and non-performing exposures							Depreciations, provisions and adjustments of negative cumulative fair value determined by credit risk				Material and financial guarantees received	
		Of which performant, but DPD > 30 days and <= 90 days	Of which restructured performing exposures	Of which non-performing				Asupra expunerilor performante		Asupra expunerilor neperformante			
					Of which in default	Of which depreciated	Of which restructured		Of which restructured		Of which restructured	On non-performing exposures	Of which restructured exposures
Debt securities	289,149	-	-	-	-	-	-	(457)	-	-	-	-	-
Credits and advances	9,736,855	102,020	96,800	524,999	524,999	524,999	235,274	(144,296)	(34,114)	(250,913)	(115,697)	259,493	180,021
Off balance exposures	2,161,505	-	724	23,872	23,872	-	1,488	30,220	-	3,512	-	-	-

The table below shows the movements in depreciation adjustments.

Table 8: Form 16: EU CR2-A - Changes in the stock of general and specific credit risk adjustments

	Specific adjustments for cumulative credit risk
Opening balance	(271,619)
Increases due to initiation and purchase	(15,911)
Decreases due to derecognition	4,484
Changes due to changes in credit risk (net)	(57)
Variations due to changes without derecognition (net)	(21,255)
Variations due to updating the institution's estimation methodology (net)	-
Decrease in the depreciation adjustment account due to off-balance sheet removals	53,853
Other adjustments	(769)
Closing balance	**(251,273)**
Recoveries of amounts previously removed from the balance sheet directly recognized in profit or loss	2,086
Sums deducted directly from the profit or loss statement	-

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 which do not have a guarantee value, in order to improve the safety of the lending process and to consolidate the solvability of its debtors.

The policies and processes used for the assessment and management of real collaterals contain the following:

- the legal provisions and types of collateral most frequently used as guarantee in loans contracts

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

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

	Unsecured exposures - Book value	**Guaranteed Exposures - Book Value**	**Exposures secured by collateral**	**Exposures secured by financial guarantees**	**Exposures secured by credit derivatives**
Total loanes	9,167,487	3,143,404	3,093,823	49,581.16	-
Total debt securities	998,451	-	-	-	-
Total exposures	**10,165,938**	**3,143,404**	**3,093,823**	**49,581**	**-**
Of which in default	*177,252*	*181,144,591*	*181,144,591*	-	-

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

Exposure classes	**Expuneri înainte de CCF și de CRM**		**Expuneri după CCF și CRM**		**RWA și densitatea RWA**	
	Valoare bilanțieră	**Valoare extrabilanțieră**	**Valoare bilanțieră**	**Valoare extrabilanțieră**	**RWA**	**Densitatea RWA**
Central governments or central banks	1,936,217	-	2,239,992	-	154,999	1.33%
Regional government or local authorities	10,019	1,476	10,019	-	2,004	0.02%
Public sector entities	-	-	-	-	-	0.00%
Multilateral development banks	-	-	-	-	-	0.00%
International organisations	-	-	-	-	-	0.00%
Institutions	644,728	48,204	693,124	77,326	205,667	1.76%
Corporates	2,684,739	1,330,333	2,629,178	364,304	2,938,872	25.16%
Reta	2,332,416	659,762	2,017,366	54,596	1,432,893	12.27%
Secured by mortgages on immovable property	2,459,984	68,068	2,459,984	14,353	854,272	7.31%
Exposures in defau	336,750	21,647	336,750	6,940	372,889	3.19%
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	11,426	-	11,426	-	11,426	0.10%
Equity	-	-	-	-	-	0.00%
Other items	763,573	-	763,573	-	177,200	1.52%
Total	**11,179,852**	**2,129,490**	**11,161,414**	**517,520**	**6,150,223**	52.66%

Table 11: Form 20: EU CR5 - Standardized Approach

Exposure classes	**Risk weight**																**Total**	**Of which unrated**
	0%	**2 %**	**4 %**	**10%**	**20%**	**35%**	**50%**	**70 %**	**75%**	**100%**	**150%**	**250 %**	**370 %**	**1250 %**	**Others**	**Deducte**		
Central governments or central banks	730,137	-	-	1,051,777	154,302	-	-	-	-	-	-	-	-	-	-	-	1,936,217	1,614,563
Regional government or local authorities	-	-	-	-	11,495	-	-	-	-	-	-	-	-	-	-	-	11,495	11,495
Public sector entities	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Multilateral development banks	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
International organisations	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Institutions	-	-	-	-	580,177	-	112,756	-	-	-	-	-	-	-	-	-	692,933	570,161
Corporates	-	-	-	-	-	-	-	-	-	4,015,072	-	-	-	-	-	-	4,015,072	4,015,072
Reta	-	-	-	-	-	-	-	-	2,992,178	-	-	-	-	-	-	-	2,992,178	2,992,178
Secured by mortgages on immovable property	-	-	-	-	-	2,528,052	-	-	-	-	-	-	-	-	-	-	2,528,052	2,528,052
Exposures in defau	-	-	-	-	-	-	-	-	-	289,857	68,540	-	-	-	-	-	358,397	358,397
Exposures associated with particularly high risk	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Covered bonds	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Institutions and corporates with a short-term credit assessment	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Collective investment undertakings	-	-	-	-	-	-	-	-	-	11,426	-	-	-	-	-	-	11,426	11,426
Equity	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Other items	549,098	-	-	-	46,593	-	-	-	-	167,882	-	-	-	-	-	-	763,573	763,573
Total	**1,279,235**	**-**	**-**	**1,051,777**	**792,567**	**2,528,052**	**112,756**	**-**	**2,992,178**	**4,484,236**	**68,540**	**-**	**-**	**-**	**-**	**-**	**13,309,342**	**12,864,916**

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

Table 12: Type of collaterals

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

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

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 Management of the countries exposures

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

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

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

3.3.7 Management of the counterparty's exposures

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

The limit for a counterparty is determined based on:
- counterparty's rating
- the counterparty's regulatory capital
- aspects related to the business strategy, along with the compliance with legal provisions regarding risk taking activity.

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

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

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

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

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

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

	Notional	Replacement cost/ current market value	Potential future credit exposure	EEPE	Multiplier	EAD post CRM	RWA
Mark to market		10,133	38,349			48,481	15,781
Original exposure							
Standardised approach							
IMM (for derivatives and SFTs)							
Of which securities financing transactions							
Of which derivatives and long settlement transactions							
Of which from contractual cross-product netting							
Financial collateral simple method (for SFTs)							
Financial collateral comprehensive method (for SFTs)							
VaR for SFTs							
Total		**10,133**	**38,349**			**48,481**	**15,781**

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

31/12/2018	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	13,860	2,791
Based on the original exposure method		
Total subject to the CVA capital charge	**13,860**	**2,791**

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 level of market risk. For this purpose, market risk level will be permanently measured and monitored in view of its mitigation.

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

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

Table 15: Form 34: EU MR1 - Market risk according to the standardized approach

	RWAs	Capital requirements
Outright products		
Interest rate risk (general and specific)	5,632	451
Equity risk (general and specific	-	-
Foreign exchange ris	40,475	3,238
Commodity risk	-	-
Options		
Simplified approach	-	-
Delta-plus method	-	-
Scenario approach	-	-
Securitisation (specific risk)	-	-
Total	**46,108**	**3,689**

3.3.10 Foreign currency risk

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

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

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

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

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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 and stop-loss limits. The limits are monitored at OTP Bank Romania level and throughout OTP Bank Group using the Kondor+ and Market Risk Portal systems.

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

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

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

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

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

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

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

RONEQ mio	EVE	NII
Year	2018	
Parallel up	(35.3)	12.1
Parallel down	4.7	-12.1
Steepener	(38.8)	
Flattener	12.7	
Short rate up	(6.2)	
Short rate down	(0.6)	
Maximum	38.8	12.1
Year	2018	
Tier 1 Capital	1,282	

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, 2018, 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.

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 to fulfill its financial obligations in stress situations on an acceptable time horizon, without being forced to modify significantly its strategy or business model.

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

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

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

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

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

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

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

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

Liquidity risk profile of the Bank has remained constant over the course of 2017, registering a medium-low level (assumed risk appetite of the Bank for 2017) level and fits within the limits set by national regulatory framework as well within the bank's risk tolerance of medium-high.

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

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

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

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

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

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

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

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

Coin mismatch at CRL level
The LCR is calculated in all major currencies representing at least 5% of the bank's debt (RON, EUR, occasionally HUF and total cumulative in RON equivalent). During the year 2018 no specific minimum level was set for individual currencies even if all values were monitored, after which the bank pursued a minimum of 100% for all significant currencies.

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

	Scope of consolidation : solo Currency and units (RON million)	Total unweighted value	Total weighted value	Total unweighted value	Total weighted value	Total unweighted value	Total weiehted value	Total unweighted value	Total weiehted value
	Quarter ending on (DD Month YYY)	31.12.2018	31.12.2018	30.09.2018	30.09.2018	30.06.2018	30.06.2018	31.03.2018	31.03.2018
	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)		1,341		1,210		1,063		978
CASH-OUTFLOWS									
2	Retail deposits and deposits from small business customers, of which:	1,985	151	1,961	150	1,903	147	1,820	139
3	*Stable deposits*	1,373	69	1,341	67	1,285	64	1,232	62
4	*Less stable deposits*	612	82	620	83	618	82	588	77
5	Unsecured wholesale funding	2,247	1,226	2,015	1,070	1,906	998	1,828	944
6	*Operational deposits (all counterparties) and deposits in networks of cooperative banks*	-	-	-	-	-	-	-	-
7	*Non-operational deposits (all counterparties)*	2,247	1,226	2,015	1,070	1,906	998	1,828	944
8	*Unsecured debt*	-	-	-	-	-	-	-	-
9	Secured wholesale funding		-		-		-		-
10	Additional requirements	212	42	243	41	247	38	252	34
11	*Outflows related to derivative exposures and other collateral requirements*	1	1	-	-	1	1	1	1
12	*Outflows related to loss of funding on debt products*	-	-	-	-	-	-	-	-
13	*Credit and liquidity facilities*	212	41	243	41	247	37	251	33
14	Other contractual funding obligations	135	125	151	143	125	118	135	126
15	Other contingent funding obligations	1,350	69	1,274	66	1,137	58	1,021	52
16	**TOTAL CASH OUTFLOWS**		1,612		1,469		1,359		1,295
CASH-INFLOWS									
17	Secured lending (eg reverse repos)	-	-	-	-	-	-	-	-
18	Inflows from fully performing exposures	750	681	689	609	698	617	663	584
19	Other cash inflows	14	5	14	4	17	5	21	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**	764	685	703	613	715	622	684	589
EU-20a	***Fully exempt inflows***	-	-	-	-	-	-	-	-
EU-20b	***Inflows Subject to 90% Cap***	-	-	-	-	-	-	-	-
EU-20c	***Inflows Subject to 75% Cap***	764	685	703	613	715	622	684	589
			TOTAL ADJUSTED VALUE		TOTAL ADJUSTED VALUE		TOTAL ADJUSTED VALUE		TOTAL ADJUSTED VALUE
21	**LIQUIDITY BUFFER**		**1,341**		**1,210**		**1,063**		**978**
22	**TOTAL NET CASH OUTFLOWS**		**839**		**778**		**702**		**700**
23	**LIQUIDITY COVERAGE RATIO (%)**		**163%**		**158%**		**153%**		**142%**

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

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

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		Q4 2018		Q3 2018		Q2 2018		Q1 2018	
Scope of consolidation : consolidated		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)		31.12.2018	31.12.2018	30.09.2018	30.09.2018	30.06.2018	30.06.2018	31.03.2018	31.03.2018
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)		1,341		1,210		1,063		978
CASH-OUTFLOWS									
2	Retail deposits and deposits from small business customers, of which:	1,985	151	1,961	150	1,903	147	1,820	139
3	*Stable deposits*	1,373	69	1,341	67	1,285	64	1,232	62
4	*Less stable deposits*	612	82	620	83	618	82	588	77
5	Unsecured wholesale funding	2,239	1,218	2,008	1,063	1,900	992	1,823	940
6	*Operational deposits (all counterparties) and deposits in networks of cooperative banks*	-	-	-	-	-	-	-	-
7	*Non-operational deposits (all counterparties)*	2,239	1,218	2,008	1,063	1,900	992	1,823	940
8	*Unsecured debt*	-	-	-	-	-	-	-	-
9	Secured wholesale funding		-		-		-		-
10	Additional requirements	230	43	260	43	264	40	268	35
11	*Outflows related to derivative exposures and other collateral requirements*	1	1	-	-	1	1	1	1
12	*Outflows related to loss of funding on debt products*	-	-	-	-	-	-	-	-
13	*Credit and liquidity facilities*	229	43	260	43	263	39	267	35
14	Other contractual funding obligations	139	125	154	142	129	118	140	126
15	Other contingent funding obligations	1,340	68	1,264	65	1,127	58	1,013	52
16	TOTAL CASH OUTFLOWS		1,605		1,463		1,354		1,291
CASH-INFLOWS									
17	Secured lending (eg reverse repos)	-	-	-	-	-	-	-	-
18	Inflows from fully performing exposures	760	686	697	614	706	622	670	587
19	Other cash inflows	14	5	14	4	17	5	21	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	774	691	711	618	723	627	691	592
EU-20a	***Fully exempt inflows***	-	-	-	-	-	-	-	-
EU-20b	***Inflows Subject to 90% Cap***	-	-	-	-	-	-	-	-
EU-20c	***Inflows Subject to 75% Cap***	774	691	711	618	723	627	691	592
			TOTAL ADJUSTED VALUE		TOTAL ADJUSTED VALUE		TOTAL ADJUSTED VALUE		TOTAL ADJUSTED VALUE
21	LIQUIDITY BUFFER		1,341		1,210		1,063		978
22	TOTAL NET CASH OUTFLOWS		827		767		693		692
23	LIQUIDITY COVERAGE RATIO (%)		166%		161%		155%		144%

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

During 2018 the leverage risk level has stayed within the approved limit (both maxim and warning limit).

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

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

At 31.12.2018, the leverage transition indicator was 10.81% compared to 31.12.2017 when its value was 9.85%. 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	3,835,684
Total exposures to financial derivatives	48,482
Alte expuneri extrabilanțiere	**Applicable amounts**
Off-balance sheet exposures denominated in gross notional value	679,780
(Adjustments for conversion into equivalent credit amounts)	-
Other off-balance exposures	-
Exposures for calculating the leverage indicator according to the CRR Regulation	**Applicable amounts**
Total balance sheet exposures (excluding financial derivatives, SFT and exempted exposures), of which:	11,131,372
Exposures related to the trading book	-
Exposures related to the banking portfolio, out of which:	-
Guaranteed bonds	-
Exposures considered as sovereign	2,239,992
Exposures to regional governments, multilateral development banks, international organizations and public sector entities that are not treated as sovereign entities	10,019
Institutions	646,482
Exposures secured by mortgages on immovable property	2,459,984
Retail exposures	2,026,608
Companies	2,636,535
Exposures in default	336,751
Other exposures (eg equity securities, securitisations and other assets that do not meet credit obligations)	774,999
Own funds and total exposure measurement indicator	**Applicable amounts**
Tier 1 capital - transitional definition	1,281,713
Total Leverage Ratio exposure - using a transitional definition of Tier 1 capital	11,859,633
Leverage Ratio - using a transitional definition of Tier 1 capital	**10.81%**

3.3.14 Management of the Operational Risk

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

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

- avoiding unexpected operational losses, with serious consequences for the business;
- avoidance of recording a large number of operational losses generating events, with low consequence on the activity of the organizational unit and a high probability of occurrence;
- improving operational efficiency inside the operational risk management process;
- increasing customer service quality;
- enhanced attention for the operational risk within the risk management activity frame;
- efficient management of information and human resources within the Bank;
- improvement of the system for reporting and monitoring the losses caused by the operational risk;
- assessment of exposure to operational risk based on the history of registered losses and permanent updating of the database on events that generate losses due to operational risk, reported by all organizational units;
- assessment of the activities and processes, products and systems by preparing annual self-assessments for the activities and processes carried out within all the organizational units with the view of reporting the risks already identified during the performance of the activities or of the potential risks and the control measures taken to mitigate or eliminate the risks.
  The self-assessment of the risks within the Bank is made annually based on the activities/ processes, and the responsible persons within the organizational units have to assess the operational risk for their own activities, the modifications and the effectiveness of the control

measures based on a methodology issued by the Operational and Market Risk Department, with the involved Organizational Units. Also, action plans for the management of the identified issues may be drawn-up;

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

Strategy

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

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

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

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

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

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

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

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

3.3.15 Management of the Reputational Risk

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

Objectives

The objectives of management of the reputational risk are:

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

Strategy

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

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

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

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

3.3.16 Management of the Strategic Risk

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

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

- **Strategic planning process**

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

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

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

In order to assess the occurrence of the strategic risk, the bank carried backward looking analysis on its strategic objectives from past years (3-5 years) and compares them with actual figures / ratios or other soft facts, non-quantifiable, for example:

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

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

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

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

- **Risk categories**

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

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

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

3.3.17 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 2018, macroeconomic crisis simulations were conducted over a three-year horizon (2017-2019), **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

3.3.18 Encumbered and unencumbered assets

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

	Carrying amount of encumbered assets	**Fair value of encumbered assets**	**Carrying amount of unencumbered assets**	**Fair value of unencumbered assets**
Assets of the reporting institution			**11,061,862**	
Equity instruments			11,331	11,331
Debt securities			986,974	986,974
Other assets			10,063,557	

At 31.12.2018 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	**1,552,004**
Of which: Capital instruments subscribed by public authorities in emergency situations	1,552,004
Retained earnings	(401,937)
Other reserves	59,524
Funds for general banking risk	4,763
Common Equity Tier 1 (CET1) before regulatory adjustments	**1,214,354**
Common Equity Tier 1 (CET1): Regulatory Adjustments	-
Additional Value Adjustments (Negative Value)	(674)
Intangible assets (excluding related tax liabilities) (negative)	(38,471)
Deferred tax assets that are based on future profitability, excluding those resulting from temporary differences (without related tax liabilities when the conditions of Article 38 (3) are met) (negative)	(5,853)
Other transitional adjustments for core Tier 1 own funds	109,537
Basic own-fund items or deductions from them - others	2,820
Basic level 1 core funds (CET1)	**1,281,713**
Additional level 1 own funds (AT1)	**-**
Level 1 own funds (T1 = CET1 + AT1)	**1,281,713**
Level 2 own funds (T2)	**-**
Total own funds (TC = T1 + T2)	**1,281,713**
Total risk weighted assets	**7,047,816**
Rate and amortization of own funds	**-**
Additional Tier 1 own funds (as a percentage of the total exposure amount)	18.19%
Tier 1 own funds (as a percentage of the total exposure value)	18.19%
Total own funds (as a percentage of the total exposure amount)	18.19%
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)	132,147
of which: the capital buffer	132,147
Basic Tier 1 own funds available to meet the damping requirements (as a percentage of the exposure value)	16.31%

At 31.12.2018 the level 1 own funds value was 1.552.004 RON.

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

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

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

On December 31, 2018, 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 assessment**

The process of capital adequacy to risks within OTP Bank Romania SA covers both risks for which the Romanian National Bank requires capital allocation and risk which are internally assessed in order to have an adequate internal capital in relation to the risk profile of the bank. The ratio between total capital requirement and regulated capital requirement at 31 December 2017 is 131.14% 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 on the minimum capital requirements**

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

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

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

Anexa1

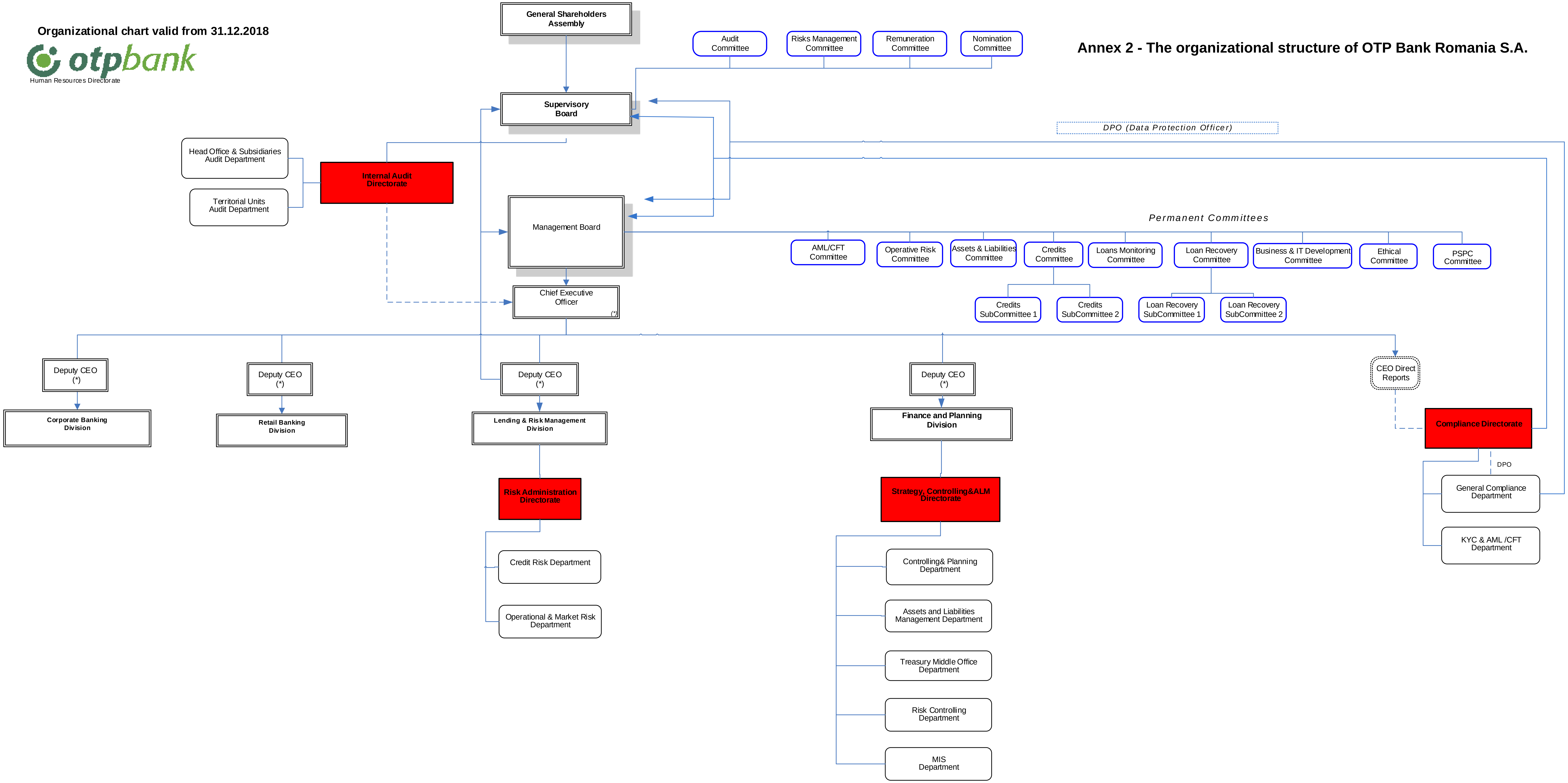
IFRS 9-FL Form: Comparison of own funds, capital ratios and leverage of institutions, depending on the application or non-application of the transitional measures on IFRS 9 or ECLs analogous

		a	b	c	d	e
		31-12-2018	30-09-2018	30-06-2018	31-03-2018	31-12-2017
	Available capital (amounts)					
1	Common Equity Tier 1 (CET1) capital	1,281,713	1,146,550	1,132,224	1,104,403	n/a
2	Common Equity Tier 1 (CET1) capital as if IFRS 9 or analogous ECLs transitional arrangements had not been applied	1,172,176	1,039,962	1,027,000	1,024,067	
3	Tier 1 capital	1,281,713	1,146,550	1,132,224	1,104,403	
4	Tier 1 capital as if IFRS 9 or analogous ECLs transitional arrangements had not been applied	1,172,176	1,039,962	1,027,000	1,024,067	
5	5 Total capital	1,281,713	1,146,550	1,132,224	1,104,403	
6	Total capital as if IFRS 9 or analogous ECLs transitional arrangements had not been applied	1,172,176	1,039,962	1,027,000	1,024,067	
	Risk-weighted assets (amounts)					
7	Total risk-weighted assets	7,047,816	6,808,703	6,636,477	6,260,369	n/a
8	Total risk-weighted assets as if IFRS 9 or analogous ECLs transitional arrangements had not been applied	6,950,602	6,714,106	6,543,091	6,189,071	
	Capital ratios					
9	Common Equity Tier 1 (as a percentage of risk exposure amount)	18.19%	16.84%	17.06%	17.64%	n/a
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	16.86%	15.49%	15.70%	16.55%	
11	Tier 1 (as a percentage of risk exposure amount)	18.19%	16.84%	17.06%	17.64%	
12	Tier 1 (as a percentage of risk exposure amount) as if IFRS 9 or analogous ECLs transitional arrangements had not been applied	16.86%	15.49%	15.70%	16.55%	
13	Total capital (as a percentage of risk exposure amount)	18.19%	16.84%	17.06%	17.64%	
14	Total capital (as a percentage of risk exposure amount) as if IFRS 9 or analogous ECLs transitional arrangements had not been applied	16.86%	15.49%	15.70%	16.55%	
Leverage ratio						
15	Leverage ratio total exposure measure	11,821,162	11,272,188	10,609,108	10,086,886	n/a
16	Leverage ratio	10.84%	10.17%	10.67%	10.95%	
17	Leverage ratio as if IFRS 9 or analogous ECLs transitional arrangements had not been applied	9.92%	9.23%	9.68%	10.15%	

Organizational chart valid from 31.12.2018

Human Resources Directorate

Annex 2 - The organizational structure of OTP Bank Romania S.A.



Legend

(*) Member of the Management Board

László Diósi

Chairman of the Management Board and CEO