GROUP OTP BANKA

ANNUAL REPORT
FOR THE YEAR ENDED
31 DECEMBER 2021

This version of the auditor`s report is translation from the original, which was prepared in the Croatian language. All possible care has been taken to ensure that the translation is an accurate representation of the original. However, in all matters of interpretation of information, views or opinions, the original language version of the report takes precedence over this translation.

Content

Dear clients and business partners,

Business environment

In the wake of the exceptionally challenging 2020, deeply beset with problems of the Corona virus pandemic, in which the gross domestic product of the Republic of Croatia plummeted by more than 8%, a recovery of the economic activities that was recorded in 2021 should entail the expected growth of the gross domestic product by as much as 10.8%, according to the most recent forecast of CNB. After the initial technical difficulties in terms of production and distribution of the vaccines preventing the Corona virus infection and mitigating its negative consequences, the inoculation of the population, and flattening the curve of the epidemic in the Republic of Croatia and the neighbouring countries created the preconditions for a return of tourism. According to the data of the Croatian Bureau of Statistics, the cumulated number of tourist nights in 2021 decreased by 23% compared to the tourist record year 2019, with the drop of the arrivals of as much as 33%. Taking into consideration the forecast of the Croatian National Bank voicing their expectations that the pre-pandemic levels of economic activities would be reached already by the end of the year, they have foreseen a more moderate growth of the gross domestic product (by 4.1%) for the year ahead.

The economies of the surrounding countries shared the experience of the Croatian economy during 2020, given the adverse effects entailed by the Corona virus pandemic, primarily the economic lockdowns. Certain highly developed economies within the Eurozone proved to be resistant to shocks, hence the average drop in the GDP at the level of the Eurozone was 6.4%. The mass inoculation process aimed at preventing further spread of the Corona virus epidemic took off across the European Union in 2021, so much so that the plan of the European Commission for inoculation of the minimum of 70% of the population with the first dose of the vaccine was reached by the end of August. As for the recovery of the economy in the Eurozone, the European Commission anticipated a 5.3% growth. According to the data provided by the Croatian Bureau of Statistics, the recovery of the Croatian economy, same as the recovery of the neighbouring countries, triggered the upturn in the foreign trade. Thus, in the first eleven months of 2021 the export grew by 26.8%, whilst the import rose by 23.2% compared to the same period of the previous year.

The employment market was rather gloomy at the beginning of 2021, considering that certain economic sectors (primarily service industry) were heavily affected by the lockdown, which reflected in a relatively high unemployment rate of 9.8% or 165 thousand of the unemployed recorded in January. With the relaxation of the epidemiologic measures, and gradual opening of the economy, the unemployment rate started its downward trend that continued until September when it reached the lowest point that year: 7%, or 119 thousand people. As the tourist season waned, the demand for labour eased, causing the unemployment rate to rise to 7.4% in December, which translated into 126 thousand of the unemployed.

Due to modest demand for goods and services at the beginning of 2021, the inflation rate at annual level was -0.3%. As the economy started picking up again, the consumer-spending component of the gross domestic product became more prominent, consequently causing the rise of the prices in general. Given that one of the negative ramifications of the pandemic on the global level was a disturbance in the supply chains, the supply contracted and triggered the growth of inflation. Along those lines, there was a trend of increasing inflation rate in Republic of Croatia throughout 2021, from -0.3 at annual level in January to 5.5% in December. The average inflation rate in 2021 was 2.6%, whilst for 2022 the Ministry of finance anticipate the average rate of 3.5%.

Business environment (continued)

After the extreme pressure that was imposed on public finances in 2020 reflected in both: lower revenue budget (primarily lower VAT) and higher expenditure in the form of the fiscal support package to the real economy sector aimed at job preservation in the pandemic, in 2021 the public finances recovered and stabilised. Due to a sharp decline of the gross domestic product, and an increase of the budget deficit at the end of 2020, the budget deficit to gross domestic product ratio spiked at 8%, whilst at the same time the public debt to gross domestic product ratio surged over 90%. Considering the economic recovery in 2021, accompanied by the stabilisation of the budget revenues and expenditures, the budget deficit is expected to be at 4% of the gross domestic product. According to data published by the CNB at the end of 2021, the ratio of public debt to gross domestic product at the end of September was 82.4% compared to 84.7% in the same period in 2020. Mid-November 2021 the Fitch Ratings upgraded the credit rating of the Republic of Croatia to BBB with positive outlook, which is the best ever credit rating of the Republic of Croatia. In the report accompanying the rating upgrade they stated that the effects of the structural reforms had become visible, which is expected to be additionally supported by Croatia's entry into the Eurozone, as the convergence should cut the transaction costs and decrease the currency risk for the local economic entities.

The Croatian National Bank continued implementing its expansive monetary policy during 2021, thus providing the necessary support to the economy in dire need for a recovery after the sharp downturn of the gross domestic product suffered the previous year. As for the monetary operations, the Croatian National Bank continued securing liquidity to the banking sector via regular short-term interventions in the money market. However, the banks were not interested at all because the system was brimming with liquidity already, in average equalling HRK 65.3 billion throughout the year. In addition, the Croatian National Bank carried out two fine-tuning exercises whereby it intervened in the local foreign exchange market in attempts to stabilise the EUR exchange rate. Owing to the fact that the Croatian National Bank maintained its exceptionally expansive monetary policy, the interest rates in the interbank market remained at all times low. In 2021 the banking sector eased the retail lending conditions at the beginning of the year, but simultaneously stiffened the corporate lending conditions.

The total assets of credit institutions equalled HRK 493 billion at the end of September 2021, which represented an increase of HRK 30.5 billion, or by 6.6% compared to the same period 2020. As for credit facilities, there was a notable increase of the total loans and advances by 6.4%, while the non-performing loans (NPL) dropped by 8.1%, consequently resulting in lower share of the non-performing loans (5.4% at the end of 2020 to 4.7% at the end of third quarter 2021). The operations of the credit institutions resulted in the profit of HRK 4 billion at the end of the third quarter of 2021, which represented an increase of 59.3% compared to the same period of 2020. The profitability indicators of the banking sector grew accordingly, as evident when comparing their levels at the end of third quarter 2021 and 2020 year-end. For example, the return on assets (ROA) increased from 0.8% to 1.1%, whilst the return on equity (ROE) rose from 5.5% to 8.3%.

The banking sector remained very well capitalised in 2021. Thus, the total banking system capitalisation rate was at 25.6% at the end of September 2021, where all the credit institutions had the total capital rate higher than the floor rate of 8%. Measured by the liquidity coverage ratio (LCR), the liquidity of the banking system equalled 206.9% at the end of September 2021, noting that all credit institutions met the set minimum liquidity requirements.

Operations and activities of OTP banka Group in 2021

In 2021, the Group maintained a strong market position and successfully competed with other market participants. In this sense, OTP banka d.d. ("Bank"), which, as the parent company of the Group, further strengthened its market share in the retail segment to 13%, while the market share for received retail deposits was just over 10%. As for retail lending, especially good results were achieved in housing loans, as evident in the increase of the market share by 157 basis points, to the level of 14% of the total market.
The increase in the corporate lending segment reflected in the growth of the market share to 11% by the end of 2021 while observed through the total received deposits of companies, the Bank's market share in 2021 is around 8%.
Another significant business segment relates to the leasing activities of the Group, where OTP Leasing d.d. ranks second in terms of portfolio among leasing companies in the Republic of Croatia, and in terms of the value of newly concluded financial lease agreements, it ranks first with a market share of 19%.

At the end bussines year, the total assets of the OTP banka d.d. Group consisting of OTP banka d.d. as a parent company and subsidiaries OTP Invest d.o.o., OTP Leasing d.d., SB Leasing d.o.o. in liquidation, OTP Nekretnine d.o.o., Cresco d.o.o. and Georg d.o.o. ("Group") equalled HRK 52.1 billion, or 9.4% more than in 2020. At the end of 2021, loans and receivables from customers equalled HRK 34.7 billion which was an increase of 9.1%, compared to 2020. Client's deposits are still the main source of financing and on 31 December 2021 amounted to HRK 39.3 billion, which was an increase of 15.8% compared to 31 December 2020, with further emphasis on transformation of term deposits into demand deposits.

Such deposits inflow enabled a reduction in indebtedness to financial institutions, primarily the parent bank, providing a favorable liquidity position despite a significant increase in credit activity.

The total profit after tax of the Group in 2021 equalled HRK 671 million, which was 138.8% more than in 2020.
Although a significant part of the increase in profit can be primarily attributed to the lower amount of provisions for credit risk coverage compared to 2020, which was marked by moratoriums, the Group's result confirms prudent risk management and positive trends in credit operations and positive business revenues.

Profit before value adjustment and operating expenses amount to 1.94 billion which was for HRK 18 million higher compared to the previous year, i.e. an increase of 1%. The significant part of operating income consists of net interest income amounting to HRK 1.25 billion, and compared to 2020, it recorded a slight increase of 0.6%. The situation in the economic environment and reduction of both interest rates on receivables and liabilities had a negative effect on net interest income. The second most important segment of operating income is net fee income equalled to HRK 383 million which was an decrease of 15.4% compared to 2020, mostly as a result of increase of income from card transactions and commissions from merchants due to more favorable economic environment and a more successful tourist season compared to 2020. Net gains from trading and other income equalled HRK 308 million which was decrease of 11.7% compared to 2020.

The total operating expenses equalled HRK 1.07 billion and are lower for HRK 17 million, which is a decrease of 1.6%. Consequently, the cost / income ratio is lower for 120 basis points than in 2020 and amounts to 55.4% which proves the Group's commitment to continuous improvement on efficiency.
Profit before value adjustments and provisions for losses amounts to HRK 873 million. The increase of HRK 33 million compared to 2020 is the result of the previously described trends in operating revenues and expenses.

Impairment expenses and provisions for losses amount to HRK 43 million, which is a significant increase compared to 2020. The decrease in these costs is a result of the improvement in credit risk due to the market recovery during 2021 after the negative trends that were present during 2020 due to the COVID 19 pandemic.

The Group's profit before tax for 2021 amounts to HRK 830 million which was a increase of 142.2% compared to 2020.

The Group observed all the regulatory requirements throughout 2021, maintaining a strong liquidity and capital position, which guarantees Group's long-term stability and sustainability of business.

Operations and activities of OTP banka in 2021

The total assets of OTP banka d.d. as at 31 December 2021 amounted to HRK 49.5 billion, or 9.6% more than at the end of 2020. A growth of the total balance sheet was primarily generated by a growth of clients' deposits, in retail and corporate segments alike.

The retail deposits recorded a growth of 13.1%, with continued downward trend of the time deposits and a prominent surge in demand deposits due to low interest rates paid on time deposits and scarce investment options. A rise of corporate clients' deposits by 21% in the observed period was caused by the growth of demand deposits in both foreign and local currencies, and time deposits in local currency.

This inflow of deposits helped reduce the borrowings from financial institutions, primarily from the parent bank, and secured a more favourable liquidity position despite substantial increase in lending. The total loans to and receivables from clients grew by 9%, where lending to both retail and corporate clients expanded. As for retail lending, especially good results were achieved in housing loans, as evident in the increase of the market share by 157 basis points, to the level of 14% of the total market. The increase in the corporate lending segment reflected in the growth of the market share to 11% by the end of 2021.

Measured by the total assets, the market share of the Bank is just shy of 10%, securing it the solid fourth position among the credit institutions of the Republic of Croatia.

In addition to excellent results in terms of market shares, the Bank also performed very well in terms of total profit after tax, which amounted to HRK 631 million, or 151% more than total profit in 2020.

Although it can be largely attributed to lower provisions levels required for coverage of credit risk than the ones required the year before, riddled with loan moratoria, the mentioned result is a testimony to careful risk management, positive trends in credit operations and positive trends in business revenues.

Thus, the net fee income grew by 12.2%, primarily as a result of recovery of card operations and the fees charged to merchants, encouraged by a brighter economic outlook and a more successful tourist season than the one of 2020. The net interest income stagnated (increase of 0.3%) due to the fact that a significant growth in volume barely offsets the negative effect of the continuous scaling down of interest rates.

At the same time, the operations optimisation and efficiency improvement trend has continued, along with a 1.6% decrease in the total operating costs, which resulted in scaling down of the cost to income ratio by 100 basis points (down to 53.5%).

The Bank observed all the regulatory requirements throughout 2021, maintaining a strong liquidity and capital position, and fortifying its foundations for further growth.

Corporate social responsibility

The Group takes pride in the fact that corporate social responsibility is embedded into its business policy. As of this year, the Bank demonstrated its commitment to the responsible and transparent operations (ranging from loan approval to savings and risk management) and to the projects focused on contributions to the development of the communities it is immersed in, by joining the Croatian Business Council for Sustainable Development (HRPSOR).

The Banker magazine, with a 95-year long tradition that guarantees a critical and comprehensive evaluation of business results, progress, and overall activities of financial institutions in their respective areas, awarded OTP banka d.d. the Bank of the Year Award 2021 in Croatia for its business operations, customer relations and contribution to the society in general.

A project of a complete integration of environmental, social and governance (ESG) standards into the business strategy, policies and risk management has been initiated at the level of the Bank. The integration of the sustainability principles also implies contribution to the UN sustainable development goals in all segments. This year the Bank prepared its Sustainability Report for the year 2020.

OTP is the first bank in Croatia that uses own solar power sources from the solar power stations mounted on the roofs of its head office buildings in Zadar, Dubrovnik and Pula. On top of that, the Bank financed a public electric car charging station. Through its “Green light to green living” programme it has provided modern waste management systems in its business buildings, thus fostering the practices of cutting down on the use of plastic in its everyday operations.

Since October 2021, OTP banka d.d. has switched to the power generated exclusively from renewable sources. Namely, the Bank concluded the contract with HEP Opskrba whereby it undertook to go completely green by using a unique product created by HEP Opskrba called ZelEn, where the earnings from such sale of green energy are channelled to energy efficiency projects and development of renewable sources.

The Bank has been contributing to better schooling conditions for students nationwide, in cooperation with local communities, through its programme “Green light to knowledge” that has been running for 12 consecutive years now. In the academic year 2020/2021, the project for granting scholarships to students of lower financial standing has been realised in partnership with the towns of Split, Zadar, Sisak, Buzet and Biograd na Moru, the municipalities of Župa dubrovačka, Bilje, Jakšić, Nuštar, Lanišće, Barban and Pićan, the University of Zadar, and the charity of the Dubrovnik Diocese, which means that the Bank, as a partner, joined the existing grant programmes for this academic year. The scholarships were awarded following the invitation to tenders, and the main criteria included financial and social standing of the applicants, and their academic performance.
Over the last twelve years the Bank set aside in excess of seven million kunas for this programme.

Wishing to foster excellence in sports at the Croatian universities, OTP banka d.d. once again decided to award additional scholarships to four full time students who, apart from their academic accomplishments, have also achieved noteworthy results in their chosen sports.

Upholding another tradition for the eleventh year running, OTP banka d.d. invited tenders for donations intended for projects within four different categories: the young, education and science; protection of cultural, historic and traditional heritage and environmental protection; humanitarian projects, and sports. We received several hundred applications from all parts of Croatia, out of which our commission chose 37 projects focusing on improvement of the quality of life in the relevant communities.

Over the last eleven years, OTP banka d.d. has donated HRK 4.2 million and helped in the implementation of more than 400 quality projects critical for the development of the related communities and the society as a whole.

In addition, with its partner MasterCard, OTP banka d.d. initiated one of the most significant donation schemes for public health institutions in 2020, intended to help two Croatian hospitals in procuring necessary equipment for children’s wards each year.
All clients of OTP banka d.d. holding Mastercard® cards can join this scheme by activating the OTP RoundUp service, which enables them to simply “round up” their bills when shopping, and thus contribute to this worthy cause. For example, if your bill totals HRK 18.50, it will be rounded up to HRK 19.00, whereas the HRK 0.50 difference is paid directly to the donation account set up exclusively for this purpose. The largest amount donated with a single bill is HRK 0.99. At the beginning of each donation cycle, OTP banka and MasterCard jointly credit HRK 1 million to this donation account.

Corporate social responsibility (continued)

The first two hospitals that benefited from this programme were the General Hospital of the Šibenik and Knin Country (Children's Ward) and the Zagreb Clinical Hospital (Neonatology Ward of the Gynaecology and Obstetrics Institute, also known as "Petrova"), whilst in 2021 two donations of HRK 810,5 thousand each were granted to the Split Clinical Hospital (Paediatric Cardiology Ward) for the ultrasound device, and to the Children's Hospital at Klaićeva in Zagreb for refurbishment of the accommodation facilities at the Children's Surgery Ward.

The RoundUp programme continues in 2022 as a declaration of OTP banka's commitment to galvanising affirmative social actions.

Repurchase of own shares

OTP banka d.d. is 100% owned by OTP Bank Nyrt Hungary, and during 2021 none of the companies within the Group repurchased its own shares.

Risk management

In order to establish an adequate risk management process, the Group also adopts in writing strategies, policies, guidelines, procedures, i.e. establishes a risk management framework, which are updated and whose implementation is monitored.

During 2021, the Group paid special attention to the risks management to which it was or could be exposed by implementing procedures and methods for identifying, measuring or assessing, managing and monitoring risks, including risk reporting.
Identification of significant risks is carried out through:

- -Risk control self assessment (RCSA)
- -Scenario analysis
- -Key risk indicators
- -Business Impact Analysis (BIA)

In cooperation with senior management and relevant control functions, RCSA and scenario analysis are conducted on an annual basis, while key indicators are monitored and revised on a quarterly basis. The business impact analysis is updated at least once a year.
Risk identification is also performed during externalization, introduction of new products and implementation of significant business changes.

For detailed disclosure of risk management please see note 33, 34, 35, 36 and 37 of this Annual Report.

Risk management (continued)

The most significant risks to which the Group is exposed:

Credit risk

The Group is exposed to credit risk, which is the risk that the counterparty will not be able to settle in full the amounts owed as they fall due. The Group structures the levels of credit risk it undertakes by placing limits on the amount of risk accepted in relation to a single borrower, or a group of borrowers and industry segments. The Group monitors the risks and reviews them on an annual or more frequent basis. The exposure to credit risk for all assets is limited by the carrying amount of each asset reported in the statement of financial position. The exposure to credit risk of derivatives which relate to foreign currencies is equal to the sum of the positive current market value of the underlying contract and the potential exposure to the counterparty risk. Additionally, the Group is exposed to credit risk on off-balance-sheet items, which include undrawn commitments to extend credit, issued guarantees and letters of credit.

The Group manages its exposure to credit risk by analysing regularly the ability of the borrowers and potential borrowers to repay interest and principal and by revising the credit limits, where necessary, or obtaining collateral, corporate or personal guarantees.

Market risk

Market risk is the effect of external influences on the value of positions in the Group's portfolio due to changes in prices or fluctuations in the financial markets. Market risk, by that definition, consists of: - Currency risk - Interest rate risk and - Price risk.

The basic objective of market risk management in the Trading Book is to make profit by taking advantage of fluctuations in exchange rates and interest rates, which means limiting losses that may result from their adverse fluctuations so as not to endanger the profitability and operation of the Group.

Liquidity risk

Cash flow management policy aimed at maintaining a balance between cash receipts and expenses is part of the Group's wider asset and liability management policy. To ensure a satisfactory level of liquidity reserves, the Group consistently implements the cash flow monitoring and planning process and anticipates future liquidity needs taking into account changes in the Group's economic, legislative and other circumstances. This planning involves identifying known, expected and potential cash outflows and developing strategies to meet the Group's liquidity requirements in certain currencies. It is important to emphasize that the Group, when managing its liquidity risk, seeks to ensure the currency matching of the liquid assets' portfolio with the currency distribution of its net liquidity outflows.

Operational risk

Operational risk is the risk of loss resulting from inadequately defined or improperly executed business process, human error, inappropriate system operation or as a result of external factors, including legal risk.

The Group's activities in the area of managing operational risk are in line with the applicable regulations and good operational risk management practice, and are regularly revised to reflect any changes therein.

The Management Board believes that, by applying all measures adopted risk management is carried out in a satisfying manner.

Plans for 2022

Group's plans for the year 2022 have been made in accordance with the forecasts for macroeconomic indicators and expectations for further development and expansion of the banking market, on the presumption that the business environment will go back to normal.

The retail banking segment will focus its activities in 2022 on further growth of the client portfolio, better customer experience on all our communication and sales channels, enhancing of credit products and further digitalisation of business operations. Simultaneously with the processes of branch network optimisation and digital channels development, the plan envisages improvement of the business processes in branches aimed at significant advance of the quality of service and client satisfaction, whilst remaining committed to the fulfilment of the new loan sales plan. Appreciating the specific circumstances of the Croatian market in terms of credit products, special focus will be put on service quality as the competitive edge bringing high client satisfaction levels, all in line with the strategy of the Group.

The 2022 plans for the corporate banking segment assume that the business activities will go back to normal, and that the effects of COVID pandemic on the business operations will taper off. Same as in 2021, the success of the operations will largely depend on the results of the tourist season. Taking that into account, quality of service model, client satisfaction, speed of responding to their requests, and nature and status of the business relationship enabling timely recognition of client's needs remain an everlasting condition precedent to success. In addition, further digitalisation across key segments remains of the utmost importance.

Another factor that must be weighed in this year is certainly the Croatian EUR changeover plan with the changeover date scheduled for 1st January 2023. Namely, the preparation for joining the monetary union requires not only alignment of the processes and operations, but also affects the strategic determinants and actions of the Group. To that end, a whole set of activities has been initiated, and will continue throughout 2022.

Recognising clients' needs when designing products and services, under the assumption of normalisation of life and economy, will contribute to the planned scaling up of the operating income in 2022. Simultaneously with the mentioned activities, we expect improvement of the internal efficiency, whilst keeping the risk costs at bay, which should create preconditions for even better business results.

Research and development

Taking into account the requirements of product research and development, the activities of the Group are primarily related to the research of the financial market and the design of appealing and competitive financial products and solutions predominantly tailored to suit the clients' needs, whilst remaining true to the nature of its business activities. This will continue to be the area of paramount importance where the Group will invest even more funds in order to provide top-notch services to meet the increasingly more demanding market standards.

We will continue monitoring the activities of our clients and keeping an ear on the ground for any needs of our community, as a sign of our dedication and commitment to social responsibility.

The status of related companies

OTP Leasing d.d.

The company’s core activity is performing financial and operating leasing activities. The company operates through 45 branches, with offices located in Pula, Rijeka, Zadar, Split, Varaždin, Osijek, Slavonski Brod and Dubrovnik.

Business operations and activities of the company in 2021

In 2021 OTP Leasing d.d achieved outstanding results due to recovery of economic activities.
As at 31 December 2021, the Company's net profit equalled HRK 36,5 million (in 2020: HRK 31,1 million) and increased by 17.2% compared to 2020.
In 2021, net interest income, fee income and operating income totalled to HRK 165 million (in 2020: HRK 157 million), which was a increase of 5.2% compared to 2020. Out of the HRK 165 million from operating revenues, 56.6% accounted for interest income amounting to HRK 93 million, which was an increase of 7.9% compared to the interest income in 2020. Revenues from operating leases accounted for 39.5% of total operating revenues, which was a increase of 0.7% compared to 2020.

Total operating expenses in 2021 equalled HRK 122 million (in 2020: HRK 131 million) and were 7% lower than in the previous year. Operating expenses mostly consisted of depreciation costs (the largest share referred to the depreciation of tangible assets given in operating leases) with a share of 44.3% and compared to the previous year, they dropped by 10%. The decrease of depreciation expenses for operating leases, and the pertaining income, is in line with the decrease in the operating leases portfolio. Excellent revenues and realized savings on the expenditure side have a favorable effect on the "cost / income" indicator of the Company.

A significant share in operating expenses in 2021 accounted for impairment losses, which amounted to HRK 15.8 million and made 13% of the total operating expenses. However, compared to 2020, this position is 30.4% lower, which is a result of the high efficiency of the Company's receivables collection.

Profitability indicators showed an increase in comparison with 2020. Realized return on equity (ROE) in 2021 was 19.4%, and is almost at the level of 2020. The return on average assets (ROAA) was 1.6% for 2021 and increased by 143.4% compared to 2020.

Plans for the year 2022

The key strategic areas of the Company have not changed - to be a leading leasing company that finances all types of leasing facilities (except real estate), all types of lessees in all regions through different sales channels. Due to limited potential market, strong competition and globally sufficient sources of financing, interest rates are still expected to decrease. Due to strictly defined business regulations, leasing companies are not able to compensate the expected decrease of interest income by introducing additional fees.

On the other hand, increasingly demanding legal and internal regulations, introduction of EUR and a strategic commitment to digital business transformation require more highly educated and professional resources, which is taken into account through planned increased operating costs and sufficient capital investment. Therefore, it is necessary to ensure additional growth of a healthy portfolio, in order to ensure profitability and long-term stability of the business.

The leasing market is expected to increase by 20% in 2022 compared to 2021 and to reach market levels for 2019 in 2022.

In 2022, the Company plans to maintain its leading market position for newly concluded contracts.

For the purpose of effective asset risk management, standard assets for leasing placements have been defined as a key financing priority. A moderately conservative approach to risk-taking is applied, based primarily on the creditworthiness of the lessee, but also on the value of the leased asset for facilities that have a known secondary market.

The goal is to have a quality portfolio (maintain the concentration of exposure according to the set criteria), which will maintain a stable balance between profitability and cost of risk, ie the Company will achieve long-term stable growth and profitable business.

In conclusion, the Company primarily wants to ensure long-term stability, which is based on a moderately conservative approach, which has so far proved to be a good strategy.

Risk management

Risk management protects the value and profit in accordance with the strategy and objectives. Depending on the approach applied, different instruments are used for enforcing risk management. In order to establish an adequate risk management process, risk policies, guidelines and procedures are adopted and a framework i.e. methodology for risk management is established. In this way, the Company defines the risks to which it is exposed to and, by using certain methods and processes, analyses all types of risks, measures and mitigates existing risks, and manages and controls those risks more effectively.

The most significant risks to which the company is exposed to are: foreign exchange risk, interest rate risk, liquidity risk and credit risk.

Foreign exchange risk is the risk of having a financial instrument change its value due to a shift in foreign currencies' exchange rate. The company is mostly exposed to changes in the HRK/EUR exchange rate as the claims and income from the financial and operating lease are denominated in those currencies. Risk management is based on an attempt to set off these claims with interest-earning loans in the same currency.

Interest rate risk represents the risk that the value of a financial instrument will fluctuate due to changes in market interest rates.
Due to the fact that interest rate changes are allowed in lease agreements, the company reduces the gap by regularly adjusting interest rates in accordance with periodic changes in interest rates on the funding sources.

Liquidity risk is the risk that a company assumes when it does not have adequate funding to meet all payment obligations.
In order to manage liquidity risk, the company undertakes the following activities:

- planning of expected and possible cash outflows and sufficient cash inflows to cover them (projection of cash flows on a daily, weekly, monthly, quarterly and annual basis),
- continuous monitoring of liquidity,
- preventing or eliminating potential causes of illiquidity

Credit risk is the risk of failure of a counterparty to settle its liabilities under a financial instrument, which may cause loss for the other party. The company is exposed to credit risk from activities regarding financial and operating leases, i.e. claims from its lessees.
Credit risk is managed by monitoring the concentration per individual clients, regions and economic sectors.

OTP invest d.o.o.

The core activity of OTP invest d.o.o. is management of investment funds in the Republic of Croatia. In 2020 the company was licensed to pursue two new activities: investment consulting and portfolio management.

Company's operations and activities in 2021

Although the Company's operations in 2021 were still affected by the epidemic caused by the corona virus, several infrastructural IT activities were performed during the year, which had a positive impact on the Company's operations by expanding its potential customer base.

As at 31 December 2021 the total assets of the company amounted to HRK 5.1 million, whereas its total equity equalled HRK 4.4 million.
In 2021 the company reported a insignificant loss of HRK 51 thousand.
In 2021 the total net fee and commission income amounted to HRK 7.3 million, of which HRK 6.2 million (89%) pertained to the fund management fee.

Plans for the year 2022

The company's Board expects the company's operations to pick up in 2022. The main force behind positive trends in company’s operations should come from the expected increase in the sale of funds by OTP banka, as the main distribution channel of the funds managed by OTP Invest.
Sales activities in 2022 will be focused on the sale of mixed funds and equity funds and the sale of structural products, ie deposits with investments in mixed funds and / or short-term bond funds, in accordance with the risk profile of investors.
In the coming period, the company will pay more attention to the quality management of funds and their successful sale, than to the establishment of new ones.

Risk management

The company pays due attention to risk management. The most significant types of financial risks the company is exposed to extend to foreign exchange risk, interest rate risk and credit risk.
The company is allowed to invest in financial instruments and carry out transactions denominated in the currencies other than its functional currency. Consequently, the company runs the risk of seeing the relative relation between its functional currency and other foreign currencies shift, which would have a reverse effect on the value of that part of the assets and liabilities of the company that happens to be denominated in a foreign currency.
At the date of the balance sheet the company did not have a significant exposure to foreign exchange risk.
Apart from the funds held in the account with the Bank, the company has no other interest-earning financial assets. However, interest accrues on the company's financial liabilities. Even though financial liabilities are subject to a variable interest rate, due to their short-term nature and the fact that they were approved within the Group, the company did not have a significant exposure to credit risk at the date of the balance sheet.

Credit risk is the risk that the counterparty, with which the company concluded a transaction, will fail to repay its liabilities or contingent liabilities. At the date of the balance sheet the company's credit risk originated from the company's exposure to the Bank, which happens to be the majority owner of the company, from the funds held in its transaction accounts, claims and, to a small extent, also from the funds held in accounts with other banks.
The company's current assets exceeded the company's current liabilities at the date of the balance sheet, and according to the company, there was no risk of the company failing to settle its current liabilities.

OTP Nekretnine d.o.o. and Cresco d.o.o.

The company OTP Nekretnine d.o.o. engages in real estate rental and management activities, appraisal of real and movable property, real estate brokerage and project development, as well as consulting. OTP Nekretnine fully owns the company Cresco d.o.o., a special purpose vehicle that engages in the takeover of real estate in enforcement and insolvency proceedings, and their sale afterwards, as well as in real estate brokerage.

Business operations and activities of the company in 2021

At 31 December 2021 the total consolidated assets of the company equalled HRK 294 million, whereas the total equity amounted to HRK 285 million.

In 2021 the company reported consolidated profit after taxation, in the amount of HRK 5.2 million. The total operating revenue amounted to HRK 33.5 million in 2021, of which HRK 17.5 million (52%) accounted for the rental income, HRK 10.4 million (31%) pertained to the income earned from the appraisal of real and movable property, whereas HRK 4.6 million (14%) related to the net income from the sale of foreclosed properties.

In 2021 the company’s operations remained stable. Compared to the preceding year, the company's revenue recorded the largest rise in the segment of real and movable property appraisals for 20%, and ind the segment of the sale of foreclosed properties for 27%.

There are no significant deviations on the cost side compared to 2020, with maintenance and overheads accounting for the largest portion of the operating expenses, together with depreciation. They are followed by appraisers' costs.

In 2021, OTP Nekretnine continued the development of two greenfield investments that began in 2020.

The company Cresco d.o.o. continued its successful operation in 2021. Apart from selling the properties in its own portfolio, it is now oriented also to the takeover of the real properties sold at auctions.

Plans for the year 2022

In 2022, a stable continuation of the operations of OTP Nekretnine and Cresco is expected, with further growth in revenues related to all activities of both companies.

Continuously investing in the quality of service, both in the segment of appraisals and lease, as well as in regard to all other services, in 2022 OTP Nekretnine plans to continue with two already started investments that will be in focus in the next mid-term period.

Risk management

The company pays due attention to risk management. Foreign exchange risk and credit risk are the most significant types of risks to which the company is exposed.

Foreign exchange risk is the risk of having a financial instrument change its value due to a shift in foreign currencies' exchange rate. The company is mostly exposed to changes in the HRK/EUR exchange rate as the claims and income from the operating lease are denominated in those currencies.

Credit risk is the risk of failure of a counterparty to meet its liabilities under a financial instrument, which may cause loss for the other party. The company is exposed to credit risk arising from the claims from its leasees. Credit risk is managed by having one keep track of concentration by individual customers, regions and economic sectors. The structure of the leasees in terms of the size of the leased out space is mixed and well balanced. Large companies, IT companies and law firms account for the half of the total leased out space, whereas the other half is rented out by the companies that individually occupy less space, which in turn minimises the risk and optimises revenue in stable market circumstances.

Georg d.o.o.

Georg d.o.o. ("Company") is a company founded in Zagreb in 1992. The Bank became the majority owner when it bought the controlling interest of 76% in 2021.
The basic activities of the Company are advisory services regarding grants awarded by the European Union.
In 2021, the Company made a profit of HRK 0.9 million.
In 2022, the Company plans to grow its business, which includes the provision of services to the Bank's clients and the entire Group in the Republic of Croatia.

I would like to take this opportunity, on my own behalf and on behalf of the Board and the entire OTP Group, to extend thanks to our customers and business partners for the trust shown. Our employees once again showed that they truly share the values advocated by OTP Group. They deserve special thanks for their efforts, understanding and courage to face all the changes that we witnessed over the past year.

Yours faithfully,

Balázs Pál Békeffy
President of the Management Board

Responsibility of the Management for the preparation of annual consolidated financial statements

The Management Board of the Bank is required to prepare consolidated financial statements for each financial year, to give a true and fair view of the financial position of the Bank and its subsidiaries („Group"), and of the results of its operations and cash flows, in accordance with statutory accounting requirements for banks in the Republic of Croatia, and is responsible for maintaining proper accounting records to enable the preparation of such financial statements at any time. The Management Board has a general responsibility for taking such steps as are reasonably available to it, to safeguard the assets of the Group and to prevent and detect fraud and other irregularities.

The Management Board is responsible for selecting suitable accounting policies to conform with applicable accounting standards and then apply them consistently; making judgements and estimates that are reasonable and prudent; and preparing the financial statements on a going concern basis unless it is inappropriate to presume that the Group will continue in business.

The Management Board is responsible for the submission of the Bank's consolidated annual report, which includes the annual consolidated financial statements, for acceptance to the Supervisory Board. If the Supervisory Board approves the annual consolidated financial statements, they are deemed confirmed by both, the Management Board and the Supervisory Board.

The Management Board is responsible for the preparation and content of the Management Report and the rest of other information, in accordance with the provisions of the Accounting Act (Official Gazette 78/2015, 134/2015, 120/2016, 116/2018, 42/2020, 47/2020).

Consolidated financial statements, as well as the Schedules prepared in accordance with the Decision of the Croatian National Bank on the Structure and Content of the Annual Financial Statements of Credit Institutions (Official Gazette 42/2018, 122/2020 and 119/2021), were authorised by the Management Board on 25 March 2022 and submitted to the Supervisory Board for acceptance. To confirm this, the consolidated financial statements have been signed by authorized persons, as follows.

For and on behalf of OTP Group:

Balázs Pál Békeffy
President of the Management Board

Nikola Mikša
Member of the Management Board

Slaven Celić
Member of the Management Board

Zvonimir Akrap
Member of the Management Board

Bruno Biuk
Member of the Management Board

Ivan Šimičević
Member of the Management Board

Building a better working world

Ernst & Young d.o.o.
Radnička cesta 50, 10 000 Zagreb
Hrvatska / Croatia
MBS: 080435407
OIB: 58960122779
PDV br. / VAT no.: HR58960122779

Tel: +385 1 5800 800
Fax: +385 1 5800 888
www.ey.com/hr

Banka / Bank:
Erste & Steiermärkische Bank d.d.
Jadranski trg 3A, 51000 Rijeka
Hrvatska / Croatia
IBAN: HR3324020061100280716
SWIFT: ESBCHR22

Independent auditor's report

To the Shareholder of OTP banka d.d.

Report on the audit of the consolidated financial statements

Opinion

We have audited the consolidated financial statements of OTP banka d.d. (the Bank) and its subsidiaries (together - the Group), which comprise the consolidated statement of financial position as at 31 December 2021, consolidated income statement and the consolidated statement of other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2021 and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with statutory accounting regulation as applicable for banks in Republic of Croatia.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the consolidated financial statements section of our report.

We are independent of the Bank and the Group in accordance with the International Ethics Standards Board of Accountants' (IESBA) International Code of Ethics for Professional Accountants, including International Independence Standards (IESBA Code), and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the Auditor's responsibilities for the audit of the consolidated financial statements section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the consolidated financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying consolidated financial statements.

Building a better working world

Key Audit Matter	How we addressed Key Audit Matter
Determination of expected credit losses **See Note 15 Loans and advances to customers and Note 2.13 Financial risk management policies** Determination of expected credit losses represent management's best estimate of the expected credit losses within the loan portfolios at the reporting date. Assessment of appropriate staging of exposures depends mostly on triggers ("trigger events") identified by management as indicators of significant increase in credit risk of customers and impairment respectively. These triggers are subject to high level of judgement of the Management. Impairment provisions for expected credit losses require use of complex models (depending on the elements of the information system) and significant judgment of the Management Board and include high degree of subjectivity in estimating future cash-flows and timing of recoverability. COVID-19 pandemic also affects the estimates due to significant volume of given moratoriums as well as uncertain economic outlook, which resulted in more complex assessment of this effect onto expected credit losses. Additionally, regulator and market are focusing on exposures as they represent core business of the group and provisioning of the loans is significantly affecting the result of the group. This area is determined to be a key audit matter as the determination of the appropriate amount of impairment losses requires application of significant judgement and use of subjective and complex assumptions by management.	We obtained an understanding of the control environment and internal controls established by management in the process of measuring impairment provisions for expected credit losses. With the assistance of IT specialists, we assessed the design and tested the operating effectiveness of the controls, including the quality of underlying data and systems. We evaluated the design of controls over the calculation of individual impairments and tested the operational effectiveness of controls over the calculation of individual impairments of the Group's portfolios, including the quality of the source data and the system. With the assistance of credit risk specialists, we assessed the methodology developed to calculate loan loss provisions under IFRS 9, concentrating on such aspects as factors for determining a "significant increase in credit risk", allocating loans to stages, appropriateness of models used for calculation of Stage 1 (A1) and Stage 2 (A2) allowances and portion of Stage 3 (B) allowances calculated on models (exposures below HRK 3 million) and estimation of key provisioning parameters. We evaluated matrices used in the calculation of probability of default ("PD") and loss given default ("LGD"). Additionally, with respect to models, we understood and assessed how the current macroeconomic expectations are incorporated in the model as part of forward- looking information. We examined a sample of exposures and performed procedures to evaluate the adequacy of classification of exposures in stages (including but not limited to assessing the creditworthiness of clients, review of input parameters such as probability of default, testing of reported days past due, assessing adequacy of Early warning signals ("EWS") and watch list status).

	Our audit procedures for individually significant exposures focused on measuring the impairment of individually significant credit exposures, including assessing whether historical experience is appropriate for estimating the amount of credit losses in the portfolio. On a sample of individually impaired credit exposures within a portfolio of individually significant exposures, we tested the assumptions used in identifying impairment and quantification including estimates of future cash flows, estimates of related collaterals and estimates of recovery on default and assessed whether the specific Croatian National Bank ("CNB") provisioning requirements were reflected in the calculation. This also included taking into consideration the impact of forbearance. We also assessed adequacy of the disclosures in Note 15 Loans and advances to customers and Note 2.13 Financial risk management policies in the financial statements and if these are in line with the requirements of statutory accounting regulation as applicable for banks in Republic of Croatia.
Assessment of provisions for CHF litigation **See Note 27 Provisions for liabilities and charges** As of 31 December 2021, the Group recorded provisions for litigation cases related to loans originally issued or indexed to Swiss Francs ("CHF"). The provision for litigation cases relates to loans that have been converted and to loans that have not been converted and are still denominated in CHF, including requests for nullifying loan agreements in full and requests for nullifying specific clauses of loan agreements. We focused on this area because there are considerable judgements and estimates in applying the relevant requirements to estimating both timing and size of outflows of economic resources required to settle the Group's obligations resulting from these specific litigation claims, given their inherent uncertainty and volume. Therefore, due to the significant judgment involved and considering total amount of provisions we consider this area as a key audit matter.	We obtained an understanding of the control environment and internal controls established by management in the process of assessment of provisions for CHF litigation. Also, we have inquired management in order to gain an understanding of the assumptions considered in determining the need to recognize and measure provisions for CHF litigation. We obtained an overview of the litigation claims against the Group and the provisions recognized for these cases. We reconciled this information to the information provided in the financial statements and to the information received from independent legal advisers used by management. We obtained and reviewed the opinions and statements of independent legal advisers used by management and compared them to the information received from management in relation to the litigation claims.

	We obtained and reviewed the calculation of provisions for litigation and assessed whether the assumptions, on which the measurement of provisions is based, are based on relevant and available information from independent parties and the market. We also assessed adequacy of the disclosures in Note 27 Provisions for liabilities and charges in the financial statements and if these are in line with the requirements of statutory accounting regulation as applicable for banks in Republic of Croatia.

Other matter

Financial statements of the Group for the year ended 31 December 2020 were audited by another auditor who expressed an unmodified opinion on those statements on 31 March 2021.

Other information included in the Group's Annual Report for year 2021

Management is responsible for the other information. Other information consists of the information included in the Group's Annual Report which includes the Management report other than the consolidated financial statements and our auditor's report thereon. Our opinion on the consolidated financial statements does not cover the Other information including the Management report.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.
With respect to the Management Report, we also performed procedures required by the Accounting Act. Those procedures include considering whether the Management Report includes the disclosures required by Article 21 of the Accounting Act.

Based on the procedures undertaken, to the extent we are able to assess it, we report that:

1. the information given in the enclosed Management report for the 2021 financial year are consistent, in all material respects, with the enclosed consolidated financial statements;

2.the enclosed Management report for 2021 financial year is prepared in accordance with requirements of Article 21 of the Accounting Act;

In addition, in the light of the knowledge and understanding of the Group and its environment obtained in the course of the audit, we are also required to report if we have identified material misstatements in the Management Report and Group's Annual report. We have nothing to report in this respect.

Responsibilities of management and Audit Committee for the consolidated financial statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with statutory accounting regulation as applicable for banks in Republic of Croatia, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Responsibilities of management and Audit Committee for the consolidated financial statements (continued)

In preparing the consolidated financial statements, management is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Audit Committee is responsible for overseeing the Group's financial reporting process.

Auditor's responsibilities for the audit of the consolidated financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

Auditor's responsibilities for the audit of the consolidated financial statements (continued)

We communicate with Audit Committee regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide Audit Committee with a statement that we have complied with relevant ethical requirements regarding independence and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, actions taken to eliminate threats or safeguards applied.

From the matters communicated with Audit Committee, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on Other Legal and Regulatory Requirements

In compliance with Article 10(2) of Regulation (EU) No. 537/2014 of the European Parliament and the Council, we provide the following information in our independent auditor's report, which is required in addition to the requirements of ISAs:

Appointment of Auditor and Period of Engagement

We were initially appointed as auditors of the Bank on 31 March 2021, representing a total period of uninterrupted engagement appointment of 1 year.

Consistence with Additional Report to Audit Committee

We confirm that our audit opinion on the consolidated financial statements expressed herein is consistent with the additional report to the Audit Committee of the Bank, which we issued on 11 March 2022 in accordance with Article 11 of Regulation (EU) No. 537/2014 of the European Parliament and the Council.

Provision of Non-audit Services

We declare that no prohibited non-audit services referred to in Article 5(1) of Regulation (EU) No. 537/2014 of the European Parliament and the Council were provided by us to the Bank and its controlled undertakings within the European Union. In addition, there are no other non-audit services which were provided by us to the Bank and its controlled undertakings and which have not been disclosed in the consolidated financial statements.

Report on Regulatory requirements

In accordance with the Bylaw on the structure and content of the annual financial statements of credit institutions (National Gazette no 42/18) (hereinafter "the Bylaw") the Bank's management has prepared forms which are presented on pages 160 to 171, and which contain a consolidated statement of financial position as at 31 December 2021, consolidated income statement, consolidated statement on other comprehensive income, consolidated statement of changes in equity and consolidated cash flow statement for the year then ended together with reconciliation with the consolidated financial statements of the Bank ("financial information"). This financial information is the responsibility of the Bank's management and is, pursuant to statutory accounting regulation as applicable to banks in Croatia, not a required part of the financial statements but is required by the Bylaw.

Building a better working world

Report on Other Legal and Regulatory Requirements (continued)

Report on Regulatory requirements (continued)

Our responsibility with respect to this financial information is to perform the procedures we consider appropriate to conclude whether this financial information have been properly derived from the audited consolidated financial statements. In our opinion based on the procedures performed the financial information presented in the forms has been properly derived, in all material respects, from the audited consolidated financial statements of the Bank which were prepared in accordance with statutory accounting regulation as applicable for banks in Croatia as presented on pages 160 to 171 and are based on underlying accounting records of the Bank.

The partner in charge of the audit resulting in this independent auditor's report is Zvonimir Madunić.

Zvonimir Madunić
Certified auditor and Board member

Ernst & Young d.o.o.
Radnička cesta 50
10000 Zagreb, Republic of Croatia
25 March 2022

Consolidated financial statement of profit or loss

For the year ended 31 December 2021

(All amounts are expressed in millions of HRK)

	Note	2021	2020
Continuing operations			
Interest income	4	1,289	1,300
Interest expense	4	(38)	(57)
Net interest income		**1,251**	**1,243**
Fee and commission income	5	505	429
Fee and commission expense	5	(123)	(97)
Net fee and commission income		**382**	**332**
Net gains/(losses) from valuation of financial instruments at fair value through profit or loss	6a	88	(27)
Net (losses)/gains on financial instruments at fair value through other comprehensive income	6b	(9)	8
Net gains from trading and converting monetary assets and liabilities	6c	94	237
Other operating income	7	135	132
Net trading and other income		**308**	**350**
Profit before value adjustment and operating expenses		**1,941**	**1,925**
Other operating expenses	8	(376)	(387)
Depreciation expenses	8a	(215)	(236)
Personnel expenses	9	(477)	(462)
Net (losses) from loss allowance and provisions	10	(43)	(499)
Profit before tax		**830**	**341**
Income tax	11	(159)	(64)
Profit for the year from continuing operations		**671**	**277**
Discontinued operations			
Profit for the year from discontinued operations	33	2	4
Profit for the year		**673**	**281**
Attributable to:			
Equity holders of the Bank		655	268
Non-controlling interests		18	13
		673	**281**

The significant accounting policies and notes form an integral part of these financial statements.

Consolidated financial statement of other comprehensive income

For the year ended 31 December 2021

(All amounts are expressed in millions of HRK)

	Note	2021	2020
Profit for the year		**673**	**281**
Other comprehensive income:			
Items not reclassified subsequently to profit or loss:			
Net fair value changes of financial asset measured through other comprehensive income - equity instruments	29	4	(31)
Total		4	(31)
Items transferred or transferable subsequently to profit or loss:			
Net fair value changes of financial asset measured through other comprehensive income - debt securities	29	(34)	(33)
Net changes in allowance for expected credit losses of financial asset measured through other comprehensive income - financial assets	10,16	(7)	13
Total		(41)	(20)
Deferred tax	11	5	12
Total other comprehensive income from continuing operations		**(32)**	**(39)**
Total comprehensive income from continuing operations		**641**	**242**
Other comprehensive income from discontinued operations	32	**-**	**(1)**
Total comprehensive income		**641**	**241**
Attributable to:			
Equity holders of the Bank		623	228
Non-controlling interests		18	13
		641	**241**
The total comprehensive income attributable to the equity holders of the Bank arises from:			
Continuing operations		**639**	**238**
Discontinued operations		**2**	**3**

The significant accounting policies and notes form an integral part of these financial statements.

(All amounts are expressed in millions of HRK)

	Note	31/12/2021	31/12/2020
ASSETS			
Cash and balances with Croatian National Bank	12	9,320	7,465
Loans and receivables from banks	13	35	334
Financial assets at fair value through profit or loss	14	426	477
Loans and receivables from customers	15	34,690	31,797
Equity instruments at fair value through other comprehensive income	16a	92	87
Debt securities at fair value through other comprehensive income	16b	5,818	5,526
Financial asset measured at amortised cost	17	352	236
Property and equipment	18	673	762
Right-of-use assets	19	110	105
Investment property	20	141	106
Intangible assets	21	105	130
Goodwill		4	-
Deferred tax assets	11	67	96
Income tax receivables	11	-	7
Other Assets	22	219	299
Non-current assets held for sale	23	10	35
		52,062	**47,462**
Assets from discontinued operations	32	-	125
TOTAL ASSETS		**52,062**	**47,587**

The significant accounting policies and notes form an integral part of these financial statements

(All amounts are expressed in millions of HRK)

	Note	31/12/2021	31/12/2020
LIABILITIES			
Amounts due to other banks	24	816	2,520
Amounts due to customers	25	39,273	33,921
Other borrowed funds	26	3,844	3,357
Financial liabilities at fair value through profit or loss	14	80	122
Provisions for liabilities and charges	27	478	501
Income tax payable	11	2	-
Lease liabilities classified under IFRS 16	19	111	107
Other liabilities	28	523	411
		45,127	**40,939**
Liabilities from discontinued operations	32	-	113
Total liabilities		**45,127**	**41,052**
SHAREHOLDERS' EQUITY AND RESERVES	29		
Share capital		3,994	3,994
Share premium		171	171
Statutory and legal reserves		505	401
Fair value reserves		141	173
Other reserves		3	109
Retained earnings		2,022	1,606
Total equity attributable to equity holders of the Bank	29	**6,836**	**6,454**
Non-controlling interests		99	81
Total shareholders' equity and reserves		**6,935**	**6,535**
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY AND RESERVES		**52,062**	**47,587**

The significant accounting policies and notes form an integral part of these financial statements

Consolidated financial statement of changes in shareholders' equity

For the year ended 31 December 2021

(All amounts are expressed in millions of HRK)

	Share capital	Share premium	Legal and statutory reserves	Fair value reserves	Other reserves	Retained earnings	Minority shares	Total
Balance at 1 January 2020	**3,994**	**171**	**401**	**213**	**109**	**1,329**	**68**	**6,285**
Changes in equity in 2020								
Other comprehensive income								
- Debt securities (Note 29)	-	-	-	(28)	-	-	-	(28)
- Equity instruments (Note 29)	-	-	-	(25)	-	9	-	(16)
Expected credit losses of FVTOCI financial assets (Notes 16 and 29)	-	-	-	13	-	-	-	13
Profit for the year	-	-	-	-	-	268	13	281
Total comprehensive income	**-**	**-**	**-**	**(40)**	**-**	**277**	**13**	**250**
Transfer of profit to reserves	-	-	-	-	-	-	-	-
Dividends	-	-	-	-	-	-	-	-
Impact of majority ownership acquisition	**-**	**-**	**-**	**(40)**	**-**	**277**	**13**	**250**
Balance at 31 December 2020	**3,994**	**171**	**401**	**173**	**109**	**1,606**	**81**	**6,535**
Changes in equity in 2021								
Other comprehensive income								
- Debt securities (Note 29)	-	-	-	(28)	-	2	-	(26)
- Equity instruments (Note 29)	-	-	-	3	-	1	-	4
- Expected credit losses of FVTOCI financial assets (Notes 16 and 29)	-	-	-	(7)	-	-	-	(7)
Profit for the year	-	-	-		-	653	18	671
Total comprehensive income	**-**	**-**	**-**	**(32)**	**-**	**656**	**18**	**642**
Transfer of profit to reserves	-	-	106	-	(106)		-	-
Dividends	-	-		-		(251)	-	(251)
Change in controlling interest	-	-	(2)	-		2	-	-
Realization of intercompany transactions from previous years	-	-	-	-	-	9	-	9
Balance at 31 December 2021	**3,994**	**171**	**505**	**141**	**3**	**2,022**	**99**	**6,935**

Disclosures regarding discontinued operations are presented in Note 32 *Discontinued operations*, in accordance with IFRS 5 requirements.

The significant accounting policies and notes form an integral part of these financial statements

Consolidated financial statement of cash flows

For the year ended 31 December 2021

(All amounts are expressed in millions of HRK)

	Note	2021	2020
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		832	346
Adjustments to reconcile profit before taxes to net cash from operating activities			
Net (gains)/losses on impairment of financial assets	10	(2)	452
Net (gains)/ losses on financial assets measured at fair value through profit or loss	6a	(88)	27
Net (gains)/losses on financial assets measured at fair value through other comprehensive income	6b	9	(8)
Impairment of tangible assets, asset taken in lieu and assets held for sale	8	5	5
Provisions for legal actions and off-balance sheet items	10	47	47
Other provisions	9	(2)	-
Depreciation and amortisation	8a,32	215	237
(Gains) on disposal and write-off of property and equipment	7, 8	(7)	(7)
Interest income	4, 7	(1,294)	(1,306)
Interest expense	4	38	57
Revenue from reversal of accrued expenses	7	(1)	(7)
(Gains) form sale of assets held for sale	7	(6)	-
Losses from sale of other assets	7	4	-
Receivables write-off	8	5	1
Other non-cash items, other income and expenses	7, 8	29	(3)
Exchange rate differences	6,32	46	(127)
Operating income before changes in operating assets and liabilities		**(170)**	**(286)**
(Increase)/decrease in operating assets:			
Obligatory reserves with the CNB		(292)	580
Loans and receivables from banks		(17)	(32)
Loans and receivables from customers		(2,786)	(2,771)
Other assets		70	(71)
Increase/(decrease) in operating liabilities:			
Amounts due to other banks		(1,687)	674
Amounts due to customers		5.152	632
Other liabilities		80	(111)
Payments from provisions for liabilities and charges		(66)	(44)
Technical provisions from insurance		-	(2)
Net cash flow from operating activities before interest and income taxes paid		**284**	**(1,431)**
Income taxes paid		(116)	(252)
Interest received		1,187	1,277
Interest paid		(42)	(79)
Net cash from operating activities		**1,313**	**(485)**

The significant accounting policies and notes form an integral part of these financial statements

(All amounts are expressed in millions of HRK)

	Note	2021	2020
CASH FLOWS FROM INVESTING ACTIVITIES			
Gains from financial assets and liabilities measured at fair value through profit or loss		128	47
Gains / (losses) from securities measured at fair value through other comprehensive income		(311)	568
(Increase) for the purchase of tangible and intangible assets		(168)	(126)
Proceeds for the purchase of tangible and intangible assets		54	72
(Increase) for assets held for sale		(2)	-
Proceeds from the sale of assets held for sale		33	-
(Increase) from Investment property		(2)	-
Proceeds from the sale of Investment property		7	-
(Increase)/proceeds of investments at amortised cost		(121)	(9)
Proceeds from the sale of discontinued operations	32	66	-
(Increase) of investment in subsidiaries	1	(3)	-
Net cash from investing activities		**(319)**	**552**

	Note	2021	2020
CASH FLOWS FROM FINANCING ACTIVITIES			
Repayment of lease liabilities (IFRS 16)		(28)	(33)
Decrease/(increses) of other borrowed funds		490	(468)
Dividends paid		(251)	-
Net cash from financing activities		**211**	**(501)**
Net (decrease) / increase in cash and cash equivalents		**1,205**	**(434)**
Cash and cash equivalents at the beginning of the year		**5,859**	**6,281**
Effect of foreign exchange rate changes on cash and cash equivalents		57	12
Cash and cash equivalents at the end of the year	**31**	**7,121**	**5,859**

Disclosures regarding discontinued operations are presented in Note 32 *Discontinued operation*, in accordance with IFRS 5 requirements.

The significant accounting policies and notes form an integral part of these financial statements

1. GENERAL INFORMATION

The registered seat of the Bank is in Split, Domovinskog rata 61. The Bank is incorporated in the Republic of Croatia as a joint stock company and provides retail and corporate banking services. The Bank is registered at the Commercial Court in Split, with the registered share capital in the amount of HRK 3,993,754,800 as at 31 December 2021 (31 December 2020: HRK 3,993,754,800).

OTP banka d.d. (the Bank) is an authorized commercial bank operating in the Republic of Croatia and is the parent company of the Group OTP banka (the Group) in the Republic of Croatia which consist of following companies: OTP Invest d.o.o., OTP Leasing d.d., SB leasing d.o.o. in liquidation, OTP Osiguranje d.d. (until 31 August 2021.), OTP Nekretnine d.o.o., Cresco d.o.o. and Georg d.o.o..

The Bank provides a full range of banking services.
Group OTP banka is a group that provides a wide range of financial services that include insurance, leasing, fund management and other services, the most important of which are real estate management services.

The Bank's main areas of operation are as follows:
1. Acceptance of all types of deposits
2. Approval of loans to customers
3. Repurchase of receivables
4. Financial lease
5. Issuing guarantees
6. Trading for own account or client's account
7. Payment services
8. Services related to lending activities
9. Issuing and managing other payment instruments
10. Rental of safes
11. Mediation on the money market
12. Issue of electronic money
13. Conducting business related to the sale of insurance policies
14. Consulting legal entities on the structure of capital, business strategy, and provision of services related to business combinations and acquisition of shares and business interests
15. Investment related services and activities

Corporate governance code

OTP banka d.d. as a credit institution is well aware of the importance of a responsible and ethics-based conduct of corporate entities as an essential prerequisite for developing high-quality relations and loyal competition between business partners as well as for efficient functioning of the market. So, the Bank is developing its business activities and acting in accordance with the good corporate management practice. Moreover, it is trying, by way of its business strategy, business policy, key internal acts and business practice, to contribute to transparent and efficient business activities and better-quality relations with its business environment.

Bank's adequate corporate management includes:
- clear organisational structure with well defined authorisations and responsibilities;
- efficient activities for establishing, measuring and monitoring of the risks the Bank is or may be exposed to as well as related reporting activities;
- adequate internal controls mechanisms which also involve prudent administrative and accounting procedures, the strategies and the procedures for a constant assessment and review of the figures, the structure and the distribution of the internal capital required as coverage for current and future risks;
- fulfilment of general transparency requirements
- meeting the obligations and the responsibilities towards the shareholders, the employees and other interested parties;
- safe and stable business activities in accordance with law and regulations

The Corporate Governance Code is published on the Bank's official website and is available at the following link: https://www.otpbanka.hr/sites/default/files/doc/Kodeks%20korporativnog%20upravljanja.pdf

(All amounts are expressed in millions of HRK)

1. GENERAL INFORMATION (CONTINUED)

Governance and Management - Bank

Shareholders' Assembly as at 31 December 2021:
Annus Szabolcs, President

Shareholders' Assembly as at 31 December 2020:
Annus Szabolcs, President

Supervisory Board as at 31 December 2021:

Péter Csányi	President from 1 April 2020
László Kecskés	Vice president from 1 April 2020;
Zlatko Mateša	Member from 15 October 2019
Ibolya Rajmonné Veres	Member from 1 April 2020
Zsolt Ardó	Member from 18 February 2020

Supervisory Board as at 31 December 2020 and changes during financial year 2020:

Péter Csányi	President from 1 April 2020 Vice president from 5 February 2019 until 31 March 2020 Member from 30 May 2018 until 4 February 2019
Antal Lászlo Pongracz	President from 31 March 2017 until 31 March 2020
László Kecskés	Vice president from 1 April 2020; Member from 29 March 2007 until 31 March 2020
Zlatko Mateša	Member from 15 October 2019
Ibolya Rajmonné Veres	Member from 1 April 2020
Zsolt Ardó	Member from 18 February 2020

(All amounts are expressed in millions of HRK)

1. GENERAL INFORMATION (CONTINUED)

Governance and Management - Bank

Management Board as at 31 December 2021 and changes during financial year 2021:

Balázs Pál Békeffy	President form 6 October 2011
Slaven Celić	Member 1 December 2018
Zvonimir Akrap	Member 1 December 2018
Bruno Biuk	Member 1 December 2018
Nikola Mikša	Member 5 September 2019
Ivan Šimičević	Member 15 March 2021 Procurator from 1 June 2019 until 14 March 2021

Management Board as at 31 December 2020:

Balázs Pál Békeffy	President form 6 October 2011
Slaven Celić	Member 1 December 2018
Zvonimir Akrap	Member 1 December 2018
Bruno Biuk	Member 1 December 2018
Nikola Mikša	Member 5 September 2019
Ivan Šimičević	Procurator from 1 June 2019

Audit Committee as at 31 December 2021:

László Kecskés	President from 16 April 2012
Zlatko Mateša	Member from 15 October 2019
Zsolt Ardó	Member from 1 April 2020

Audit Committee as at 31 December 2020 and changes during 2020:

László Kecskés	President from 16 April 2012
Zlatko Mateša	Member from 15 October 2019
Zsolt Ardó	Member from 1 April 2020
Péter Csányi	Member from 6 May 2019 until 31 March 2020

(All amounts are expressed in millions of HRK)

1. GENERAL INFORMATION (CONTINUED)

Ownership structure

The ownership structure and shareholders of the Bank are specified below:

	31 December 2021		31 December 2020	
	Share capital	**Ownership interest in %**	**Share capital**	**Ownership interest in %**
OTP bank Nyrt Hungary	3,994	100.00	3,994	100.00
Total	**3,994**	**100.00**	**3,994**	**100.00**

Consolidated subsidiaries
Investments in subsidiaries are presented in following tables:

31.12.2021	**Headquarter**	**Percentage of ownership**	**Industry**	**Investment (acquisition cost after impairment)**
OTP Nekretnine d.o.o.	Zagreb	100%	Organization of project implementation for buildings	260
OTP Invest d.o.o.	Zagreb	81,7%	Fund management activities	5
OTP Leasing d.d.	Zagreb	60%	Finance and operating lease	48
Georg d.o.o.	Zagreb	76%	Business and other management consultancy activities	5
				318

31.12.2020	**Headquarter**	**Percentage of ownership**	**Industry**	**Investment (acquisition cost after impairment)**
OTP Nekretnine d.o.o.	Zagreb	100%	Organization of project implementation for buildings	260
OTP Invest d.o.o.	Zagreb	81.7%	Fund management activities	5
OTP Leasing d.d.	Zagreb	60%	Finance and operating lease	48
Total subsidiaries:				**313**

1. GENERAL INFORMATION (CONTINUED)

Cresco d.o.o. (Real estate business) is 100% owned by OTP Nekretnine d.o.o.
SB Leasing d.o.o. in liquidation (Finance and operating leasing business) is 100% owned by OTP Leasing d.d.

In February 2021, the Bank conducted agreement for purchase of majority shares in consulting company Georg d.o.o. The transaction was finalized on 1 July after receipt of the regulatory approval from the Croatian National Bank and the Bank acquire the majority stake of 76% ownership which was confirmed by the entry in the register of the Commercial Court on 13 July 2021.

In September 2020, the Bank conducted recapitalization of company OTP Invest d.o.o. in amount of HRK 1,7 million so the Bank increased its share in the company OTP Invest d.o.o. to 81.7%. Capital increase of OTP Invest d.o.o. is confirmed by the Decision of the Commercial Court in Zagreb on 23 September 2020.

In December 2020, the Bank signed a contract for the sale of 100% of shares in OTP osiguranje d.d. In 2020, the condition that the investment in OTP Osiguranje d.d. can be classified as Discontinued operations is met by conducting the agreement, thus the respective investment is presented in Note 32 Discontinued operation. The Agreement is completed on the 31 August 2021 after obtaining regulatory approvals from HANFA.

The Commercial Court has adopted a decision on the merger of OTP Savjetovanje d.o.o. with OTP Invest d.o.o. and this merger was registered in the Court Register on 16 November 2020.

The Management Board of the Bank d.d. issued a decision on 3 September 2019 to initiate the liquidation of the company OTP Aventin d.o.o. The Commercial Court in Zadar adopted a decision on the liquidation and a decision on the name change to Aventin d.o.o. in liquidation on 25 October 2019. The Commercial Court in Zadar adopted a decision on opening and closing bankruptcy proceedings of Aventin d.o.o. in liquidation on 26 August 2020. The decision become final and executory on 14 September 2020 thus the Company Aventin d.o.o. was removed from the Court registry.

2. ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of these financial statements are summarised below.

2.1 Statement of compliance

These consolidated financial statements are compiled in accordance with the legal requirements for accounting for banks in the Republic of Croatia.

These consolidated financial statements represent the annual financial statements of the Bank, the parent company of OTP Banka d.d. group ("Group") consisting of the Bank and its subsidiaries (Note 1).

The unconsolidated financial statements of OTP Banka d.d. are compiled in accordance with the legal requirements for accounting for banks in the Republic of Croatia and published on 11 March 2022.

Banks in Croatia are required to apply International Financial Reporting Standards adopted by the European Union ("IFRS") according to the accounting laws. In that sense, the legal accounting requirements of banks are based on IFRS and as prescribed by the Accounting Act (OG 78/2015, 134/2015, 120/2016, 116/2018, 42/2020 and 47/2020), together with the following regulations:

1. Credit Institutions Act (OG 159/2013, 19/2015, 102/2015, 15/2018, 70/2019 and 47/2020);
2. Croatian National Bank (CNB) subordinate legislation, which for 2020 period include, but are not limited to:
   - Decision on the classification of exposures into risk categories and the method of determining credit losses (OG 114/2017 and 110/2018);
   - Decision on the obligation to make provisions for litigations conducted against a credit institution (OG 1/2009, 75/2009 and 2/2010).

The Group has applied the legal accounting requirements to all the years presented in these financial statements.

As of 1 January 2021, the requirement for maintaining a minimum of 0.8% of the total impairment for exposures that are not in default status (Status 1 and 2) as prescribed in the transitional and final provisions of the Decision the classification of exposures into risk categories and the method of determining credit losses (OG 114/2017 and 110/2018) is abolished. Please refer to Note 10, *Net gains/(losses) from impairment and provisions charges* which presents the financial effect of the termination of the above requirement as the most significant change in the legal accounting requirements in regard to previous periods. In addition, Note 10 presents the impact on losses from expected credit losses on the basis of other minimum prescribed amounts in accordance with the aforementioned CNB Decision.

Based the Group's assessment, the closing balances on 31 December 2021 as presented in the Financial Statements have been prepared in accordance with the legal requirements for accounting of banks in the Republic of Croatia. Those legal requirements are aligned with the accounting principles set out in IFRS standards.

The underlying accounting policies, applied in the preparation of these financial statements, are summarised below.
In those accounting areas where specific accounting policies are aligned with the accounting bases prescribed by IFRS, it is possible to refer to individual Standards describing the Group's accounting policy, and the amounts are adequately disclosed.

2. ACCOUNTING POLICIES (CONTINUED)

2.2 Basis of preparation

The financial statements are prepared on the amortised or historical cost basis, except for those financial instruments that are carried at fair value. Historical cost is generally based on the fair value of the consideration given in exchange for assets.

In preparing the financial statements Group management makes judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, the disclosure of commitments and contingencies at the reporting date, as well as the amounts of income and expenses for the period. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances and the information available as of the date of preparation of the financial statements, the results of which form the basis for making the judgments about the carrying amounts of assets and liabilities that are not readily apparent from other sources. Actual results may differ from those estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period or in the period of revision and future periods if the revision affects both the current and future periods. Judgments made by management in the application of appropriate standards that have a significant effect on the financial statements and estimates with a significant risk of material adjustment in the next year are described in Note 3.

The accounting policies outlined below, including changes resulting from the entry into force of new standards and amendments to the existing and interpretations that came into force (and adopted by the European Union), were applied to the periods in which they were in force.

2.2.1 Effective standards, amendments to the existing standards and implementations

The Bank has adopted the following new standards and amendments to existing standards and new interpretations published by the International Accounting Standards Board ("IASB") and adopted in the European Union and which have become effective for annual periods beginning on or after 1 January 2021.

- **Interest Rate Benchmark Reform—Phase 2—Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 (Amendments)**
  In August 2020, the IASB published Interest Rate Benchmark Reform – Phase 2, Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16, completing its work in response to IBOR reform. The amendments provide temporary reliefs which address the financial reporting effects when an interbank offered rate (IBOR) is replaced with an alternative nearly risk-free interest rate (RFR). In particular, the amendments provide for a practical expedient when accounting for changes in the basis for determining the contractual cash flows of financial assets and liabilities, to require the effective interest rate to be adjusted, equivalent to a movement in a market rate of interest. Also, the amendments introduce reliefs from discontinuing hedge relationships including a temporary relief from having to meet the separately identifiable requirement when an RFR instrument is designated as a hedge of a risk component. There are also amendments to IFRS 7 Financial Instruments: Disclosures to enable users of financial statements to understand the effect of interest rate benchmark reform on an entity's financial instruments and risk management strategy. While application is retrospective, an entity is not required to restate prior periods. All these amendments did not have an impact on the Group's financial statements.

2. ACCOUNTING POLICIES (CONTINUED)

2.2 Basis of preparation (continued)

2.2.1 Effective standards, amendments to the existing standards and (continued)

- **IFRS 16 Leases: Covid-19-Related Rent Concessions (amendments)**
  The amendment applies, retrospectively, to annual reporting periods beginning on or after 1 June 2020. Earlier application is permitted, including in financial statements not yet authorized for issue at 28 May 2020. IASB amended the standard to provide relief to lessees from applying IFRS 16 guidance on lease modification accounting for rent concessions arising as a direct consequence of the covid-19 pandemic. The amendment provides a practical expedient for the lessee to account for any change in lease payments resulting from the covid-19 related rent concession the same way it would account for the change under IFRS 16, if the change was not a lease modification, only if all of the following conditions are met:
    - The change in lease payments results in revised consideration for the lease that is substantially the same as, or less than, the consideration for the lease immediately preceding the change.
    - Any reduction in lease payments affects only payments originally due on or before 30 June 2021.
    - There is no substantive change to other terms and conditions of the lease

  All these amendments did not have an impact on the Group's financial statements

2.2.2 Standards, amendments to existing standards and interpretations issued but not yet effective

- **Amendments to IFRS 10 Consolidated Financial Statements and IAS 28 Interests in Associates and Joint Ventures: Sale or contribution of assets between an investor and its associate or joint venture**
  The amendments address an acknowledged inconsistency between the requirements in IFRS 10 and those in IAS 28, in dealing with the sale or contribution of assets between an investor and its associate or joint venture. The main consequence of the amendments is that a full gain or loss is recognized when a transaction involves a business (whether it is housed in a subsidiary or not). A partial gain or loss is recognized when a transaction involves assets that do not constitute a business, even if these assets are housed in a subsidiary. In December 2015 the IASB postponed the effective date of this amendment indefinitely pending the outcome of its research project on the equity method of accounting. The amendments have not yet been endorsed by the EU.
  The Management Board has assessed that the amendments will not lead to significant changes in the Group's financial statements in the period of the first application of the standards.

2. ACCOUNTING POLICIES (CONTINUED)

2.2 Basis of preparation (continued)

2.2.2. Standards, amendments to existing standards and interpretations issued but not yet effective (continued)

- **IAS 1 Presentation of Financial Statements: Classification of Short-Term and Long-Term Liabilities (Amendments)**

  The amendments were initially effective for annual reporting periods beginning on or after January 1, 2022 with earlier application permitted. However, in response to the covid-19 pandemic, the Board has deferred the effective date by one year, i.e. 1 January 2023, to provide companies with more time to implement any classification changes resulting from the amendments.

  The amendments aim to promote consistency in applying the requirements by helping companies determine whether, in the statement of financial position, debt and other liabilities with an uncertain settlement date should be classified as current or non-current. The amendments affect the presentation of liabilities in the statement of financial position and do not change existing requirements around measurement or timing of recognition of any asset, liability, income or expenses, nor the information that entities disclose about those items. Also, the amendments clarify the classification requirements for debt which may be settled by the company issuing own equity instruments.

  In November 2021, the Board issued an exposure draft (ED), which clarifies how to treat liabilities that are subject to covenants to be complied with, at a date subsequent to the reporting period. In particular, the Board proposes narrow scope amendments to IAS 1 which effectively reverse the 2020 amendments requiring entities to classify as current, liabilities subject to covenants that must only be complied with within the next twelve months after the reporting period, if those covenants are not met at the end of the reporting period. Instead, the proposals would require entities to present separately all non-current liabilities subject to covenants to be complied with only within twelve months after the reporting period. Furthermore, if entities do not comply with such future covenants at the end of the reporting period, additional disclosures will be required. The proposals will become effective for annual reporting periods beginning on or after 1 January 2024 and will need be applied retrospectively in accordance with IAS 8, while early adoption is permitted. The Board has also proposed to delay the effective date of the 2020 amendments accordingly, such that entities will not be required to change current practice before the proposed amendments come into effect. These Amendments, including ED proposals, have not yet been endorsed by the EU.

  The Management Board estimated that the changes in the standards will not lead to significant changes in the financial statements of the Group in the period of the first application of the standards.

- **IFRS 3 Business Combinations; IAS 16 Property, Plant and Equipment; IAS 37 Provisions, Contingent Liabilities and Contingent Assets as well as Annual Improvements 2018-2020 (Amendments)**

  The amendments are effective for annual periods beginning on or after 1 January 2022 with earlier application permitted. The IASB has issued narrow-scope amendments to the IFRS Standards as follows:

  - **IFRS 3 Business Combinations (Amendments)** update a reference in IFRS 3 to the Conceptual Framework for Financial Reporting without changing the accounting requirements for business combinations.
  - **IAS 16 Property, Plant and Equipment (Amendments)** prohibit a company from deducting from the cost of property, plant and equipment amounts received from selling items produced while the company is preparing the asset for its intended use. Instead, a company will recognise such sales proceeds and related cost in profit or loss.
  - **IAS 37 Provisions, Contingent Liabilities and Contingent Assets (Amendments)** specify which costs a company includes in determining the cost of fulfilling a contract for the purpose of assessing whether a contract is onerous.
  - **Annual improvements 2018-2020** make minor amendments to IFRS 1 First-time Adoption of International Financial Reporting Standards, IFRS 9 Financial Instruments, IAS 41 Agriculture and the Illustrative Examples accompanying IFRS 16 Leases.

  The Management Board estimated that the changes in the standards will not lead to significant changes in the financial statements of the Group in the period of the first application of the standards.

2. ACCOUNTING POLICIES (CONTINUED)

2.2 Basis of preparation (continued)

2.2.2 Standards, amendments to existing standards and interpretations issued but not yet effective (continued)

- **IFRS 16 Leases - COVID-19 Lease Facility after 30 June 2021 (Amendments)**
  The Amendment applies to annual reporting periods beginning on or after 1 April 2021, with earlier application permitted, including in financial statements not yet authorized for issue at the date the amendment is issued. In March 2021, the Board amended the conditions of the practical expedient in IFRS 16 that provides relief to lessees from applying the IFRS 16 guidance on lease modifications to rent concessions arising as a direct consequence of the covid-19 pandemic. Following the amendment, the practical expedient now applies to rent concessions for which any reduction in lease payments affects only payments originally due on or before 30 June 2022, provided the other conditions for applying the practical expedient are met.
  The Management Board estimated that the changes in the standards will not lead to significant changes in the financial statements of the Group in the period of the first application of the standards.

- **IAS 1 Presentation of Financial Statements and IFRS Guideline 2: Disclosure of Accounting Policies (Amendments)**
  The Amendments are effective for annual periods beginning on or after January 1, 2023 with earlier application permitted. The amendments provide guidance on the application of materiality judgements to accounting policy disclosures. In particular, the amendments to IAS 1 replace the requirement to disclose 'significant' accounting policies with a requirement to disclose 'material' accounting policies. Also, guidance and illustrative examples are added in the Practice Statement to assist in the application of the materiality concept when making judgements about accounting policy disclosures. The Amendments have not yet been endorsed by the EU.
  The Management Board estimated that the changes in the standards will not lead to significant changes in the financial statements of the Group in the period of the first application of the standards.

- **IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors: Definition of Accounting Estimates (Amendments)**
  The amendments become effective for annual reporting periods beginning on or after January 1, 2023 with earlier application permitted and apply to changes in accounting policies and changes in accounting estimates that occur on or after the start of that period. The amendments introduce a new definition of accounting estimates, defined as monetary amounts in financial statements that are subject to measurement uncertainty. Also, the amendments clarify what changes in accounting estimates are and how these differ from changes in accounting policies and corrections of errors. The Amendments have not yet been endorsed by the EU.
  The Management Board estimated that the changes in the standards will not lead to significant changes in the financial statements of the Group in the period of the first application of the standards.

- **IAS 12 Income Taxes: Deferred Tax on Assets and Liabilities Arising from a Single Transaction (Amendments)**

  The amendments are effective for annual periods beginning on or after January 1, 2023 with earlier application permitted. In May 2021, the Board issued amendments to IAS 12, which narrow the scope of the initial recognition exception under IAS 12 and specify how companies should account for deferred tax on transactions such as leases and decommissioning obligations. Under the amendments, the initial recognition exception does not apply to transactions that, on initial recognition, give rise to equal taxable and deductible temporary differences. It only applies if the recognition of a lease asset and lease liability (or decommissioning liability and decommissioning asset component) give rise to taxable and deductible temporary differences that are not equal. The Amendments have not yet been endorsed by the EU.
  The Management Board estimated that the changes in the standards will not lead to significant changes in the financial statements of the Group in the period of the first application of the standards.

2. ACCOUNTING POLICIES (CONTINUED)

2.3 Business combinations

Business combinations are accounted for using the acquisition method as at the acquisition date, which is the date on which control is transferred to the Bank. The Bank controls an entity if it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. In reassessing its control conclusion, the Bank has taken into consideration the structured entities and entities with receivables in default for which it reassessed whether the key decisions are made by the Bank and whether the Bank is exposed to variability of returns from those entities.

Business combinations under common control are not within the scope of IFRS 3 are accounted for based on carrying values, with any effects directly recognised in equity. The merger is carried out in such a way that all positions of assets and liabilities are transferred directly to the receiving company, and all positions of income and expenses and profit are transferred directly to the capital of the receiving company.

As at 1 April 2010, the Group applies International Financial Reporting Standard 3: Business Combinations (“IFRS 3”). Business combinations are accounted for using the acquisition method at the acquisition date, i.e. the date on which the Group acquires control.

Consolidation

The consolidated financial statements include the financial statements of the Bank and companies under the Bank's direct and indirect control (“Group”). The structure of the Group is presented in Note 1 *General information*.

The Group controls another company when it has the right to a variable return from involvement in the company and has the ability to affect those returns through its power over the company.
The Group reassesses whether it has control when one or more control elements change. This includes circumstances in which the Group's protective rights (for example, those arising from credit activities) become significant and result in the Group having power over the entity.

The Group measures goodwill at the acquisition date as:
- the fair value of the consideration transferred; plus
- the recognised amount of any non-controlling interests in the acquiree; plus
- if the business combination is achieved in stages, the fair value of the pre-existing equity interest in the acquiree; less
- the net recognised amount (generally fair value) of the identifiable assets acquired and liabilities assumed.

When the total is negative, a bargain purchase gain is recognised immediately in profit or loss. The consideration transferred does not include amounts related to the settlement of pre-existing relationships. Such amounts are generally recognised in profit or loss and other comprehensive income.

Transaction costs related to the acquisition, other than those associated with the issue of debt or equity securities, that the Group incurs in connection with a business combination are expensed as incurred. Any contingent consideration payable is recognised at fair value at the acquisition date. If the contingent consideration is classified as equity, it is not remeasured and settlement is accounted for within equity.

2. ACCOUNTING POLICIES (CONTINUED)

2.3 Business combinations (continued)

Otherwise, subsequent changes to the fair value of the contingent consideration are recognised in profit or loss and other comprehensive income.

For acquisitions prior to 1 April 2010, goodwill represents the excess of the cost of the acquisition over the Group's interest in the recognised amount (generally fair value) of the identifiable assets, liabilities and contingent liabilities of the acquiree. When the excess was negative, a bargain purchase gain was recognised immediately in the income statement. Transaction costs, other than those associated with the issue of debt or equity securities, that the Group incurred in connection with business combinations were capitalised as part of the cost of the acquisitions.

Subsidiaries
Subsidiaries are all entities over which the Bank has control. Subsidiaries are consolidated from the date on which effective control is transferred to the Group and are de-consolidated from the date that control ceases. Where necessary, the accounting policies used by subsidiaries have been changed to ensure consistency with the policies adopted by the Group. Losses applicable to the non-controlling interests in a subsidiary are allocated to the non-controlling interests even if doing so causes the non-controlling interests to have a deficit balance. In the Bank's separate financial statements, investments in subsidiaries are accounted for at cost less impairment. Investments in subsidiaries are consolidated using the full consolidation method in the consolidated financial statements of the Group.

Associates
Associates are entities over which the Group has significant influence but no control. The Group does not have associates.

Non-controlling interests
Non-controlling interests in the net assets (excluding goodwill) of the consolidated subsidiaries are identified separately from the Group's equity therein. For each business combination, the Group elects to measure any non-controlling interests in the acquiree either at fair value or at their proportionate share of the acquiree's identifiable net assets, which are generally at fair value.

Changes in investments in subsidiaries that do not result in loss of control are accounted for as transactions with shareholders with owner status and such adjustments do not affect goodwill or are recognized in profit or loss in the income statement. Adjustments to non-controlling interests are based on the proportionate amount of the subsidiary's net assets

Changes in the Groups ownership interests in existing subsidiaries
Changes in the Group's ownership interests in subsidiaries that do not result in the Group losing control over the subsidiaries are accounted for as equity transactions. The carrying amounts of the Group's interests and the non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiaries. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognise to the Bank's owners.

Loss of control
Upon the loss of control, the Group derecognises the assets and liabilities of the subsidiary, any non-controlling interest and other components of equity related to the subsidiary. Any surplus or deficit arising on the loss of control is recognised in the profit and loss and is calculated as the difference between

(i) the total fair value of the consideration received and the fair value of any retained interests; and
(ii) previous carrying amounts of assets (including goodwill) and liabilities of subsidiaries and non-controlling interests.

All amounts previously recognized within other comprehensive income that relate to that subsidiary are stated as if the Group directly sold the related assets or liabilities of the subsidiary (i.e. transfers to profit or loss or to another position of equity and reserves as is specified / permitted by applicable IFRS). If the Group retains any interest in the previous subsidiary, then such interest is measured at fair value at the date that control is lost. Subsequently it is accounted for as an equity-accounted investee or in accordance with the Group's accounting policy for financial instruments (refer to accounting policy 2.12 Financial instruments) depending on the level of influence retained.

(All amounts are expressed in millions of HRK)

2. ACCOUNTING POLICIES (CONTINUED)

2.3 Business combinations (continued)

Non-controlling interests

For each business combination, at the acquisition date, the Group measures components of non-controlling interests (NCIs) at either fair value; or the present ownership instruments' proportionate share in the recognised amounts of the acquiree's identifiable net assets.

Transactions eliminated on consolidation
Intra-group balances, and income and expenses (except for foreign currency transaction gains or losses) arising from intra-group transactions, are eliminated in preparing the consolidated financial statements. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

Fund management
The Group manages and administers assets held in mutual funds on behalf of investors. The financial statements of these entities are not included in these consolidated financial statements except when the Group controls the entity (there were no such cases at the reporting date).

2.4 Functional and presentation currency

Items included in the financial statements are presented in the currency of the primary economic environment in which the Group operates (its functional currency). The financial statements are presented in the Croatian kuna, which is both the functional and reporting currency of the Group. The amounts are rounded to the nearest thousand (unless otherwise stated).
The principal exchange rates set by the Croatian National Bank and used in the conversion of the Group's monetary assets and liabilities at the date of the statement of financial position were as follows:

31 December 2021	1 EUR = 7.517174 HRK	1 CHF = 7.248263 HRK	1 USD = 6.643548 HRK
31 December 2020	1 EUR = 7.536898 HRK	1 CHF = 6.948371 HRK	1 USD = 6.139039 HRK

2.5 Foreign currency translation

Transactions in foreign currencies are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the retranslation of monetary assets and liabilities denominated in foreign currencies at the year-end rates are recognised in profit and loss. Foreign currency denominated non-monetary assets and items that are measured in terms of historical cost are translated at the exchange rates in effect on the transaction dates and are not retranslated at the reporting date. Changes in fair value of debt securities denominated in a foreign currency, which are, in line with IFRS 9, measured at fair value through other comprehensive income are recognised through other comprehensive income. Foreign exchange differences and expected credit losses for these securities are recognised through profit or loss. Changes in fair value and foreign exchange differences of equity securities denominated in a foreign currency are recognised through other comprehensive income – option of fair value through other comprehensive income.

2. ACCOUNTING POLICIES (CONTINUED)

2.6 Leases

Lease
At inception of a contract, the Group assesses whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration

Group as a lessor
The Group, as a lessor, classifies each lease as an operating lease or a finance lease. A lease is classified as a finance lease if the lease transfers substantially all of the risks and rewards incidental to ownership of the underlying asset. All other leases are classified as operating leases.

The Group reports assets under finance leases at the beginning of the lease in its statement of financial position as a receivable equal to the net investment in the lease. It recognizes finance income over the lease term in a manner that reflects a constant periodic rate of return on the net investment in the lease.
Initial direct costs are included in the initial measurement of the net investment in the lease and reduce the amount of revenue recognized over the term of the lease.
The Group applies derecognition and impairment requirements under IFRS 9 to its net investment in the lease.
Lease payments arising from operating leases are recognized in profit or loss on a straight-line basis over the term of the lease.
Initial costs incurred in negotiating and acquiring an operating lease are added to the carrying amount of the leased asset and recognized as an expense during the lease term on the same basis as the lease income.
Expenses, including depreciation, incurred in generating rental income are recognized as an expense by the Group.

Group as lessee
Following the adoption of IFRS 16 Leases, the Group for all leases previously classified as "operating leases" recognizes rights- to-use assets and lease liabilities at the beginning of the lease term in its statement of financial position.

a) Recognition of a lease liability

Following the adoption of IFRS 16, the Group recognizes lease liabilities that relate to „operating" leases. These liabilities are measured at the present value of the lease payments receivable as at the date of commencement of the application of IFRS 16. Lease payments are discounted at the interest rate implicit in the lease or, if that rate can not be readily determined, the incremental borrowing rate. At the date of initial recognition, lease payments included in the measurement of the lease liability include the following types of payments for the right to use the underlying asset for the life of the lease:

- fixed lease payments less all lease incentives,
- variable lease payments which are dependent on market indices,
- amounts expected to be payable by the lessee under residual value guarantees,
- the exercise price of the purchase option, if it is reasonably certain that the option will be exercised, and
- payment of contractual penalties for terminating the lease, if the lease period reflects that the lessee used the option of terminating the lease.

b) Recognition of right-of-use assets
Right-of-use assets are initially measured at cost.
The cost of a right-of-use asset comprises:

- the initial estimate of lease liabilities (excluding VAT),
- all lease payments paid at the commencement date or earlier, less any lease incentives receivable, initial costs directly incurred by the lessee as a result of entering into a lease agreement,
- estimates of costs which are to be incurred by the lessee as a result of an obligation to disassemble and remove an underlying asset or to carry out renovation/restoration.

2. ACCOUNTING POLICIES (CONTINUED)

2.6 Leases (continued)

The Group uses expedients related to short-term leases (less than 12 months) as well as in the case of leases where the related assets are of low value (less than USD 5.000 converted to the functional currency at the middle exchange rate on the contract date), for which no financial liabilities nor the right-of-use assets will be recognized. These types of payments will be recognized as expenses using the linear method over the life of the lease.

The value added tax cost under all lease contracts in accordance with IFRS 16 is recognized directly in administrative expenses and is presented in Note 8.

2.7 Interest income and expense

Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount.
Interest income includes coupons earned on fixed income investments and securities as well as accrued discount and premium on treasury bills and other discounted instruments.
One-off loan origination fees for loans which are probable of being drawn down, are deferred (together with related direct costs) and recognized as an adjustment to the effective yield of the loan and as such adjust the interest income.
Interest income on financial assets classified as Stage 3 financial asset is recognized in the statement of profit or loss when collected.
Penalty interests for financial assets and financial liabilities are recognised in other operating income or other operating costs.

2.8 Fee and commission income and expense

The fees and commissions calculated and charged to clients by the Bank for the provision of financial services consist mainly of fees for domestic and foreign payment services and credit guarantee services, account management services, card services, asset management services and other similar financial services provided by the Bank in accordance with the registration. Fees included in the calculation of the effective interest rate are recognized as interest income and expense. Fee and commission income and expense are recognized in the profit and loss account under the service contract in question at the time the particular service is provided. Fees and commissions that are paid and charged in advance are deferred over the period of providing the service for services provided continuously over a longer period of time.

2. ACCOUNTING POLICIES (CONTINUED)

2.9 Employee benefits

Short-term benefits
Obligations for contributions to defined contribution pension plans and other short-term benefits are recognised as an expense in the statement of comprehensive income for the period in which they are incurred.

Bonuses
A liability is recognised for the amount expected to be paid under short-term cash bonus plans if the Group has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

Retirement benefits
The Group awards one-time compensation to employees whose retirement is legally required. The amount of the liability is estimated annually by an independent qualified assessor. Actuarial gains and losses arising from changes in actuarial assumptions are debited or credited to equity in other comprehensive income in the period in which they arise. Past service cost is recognized in the profit and loss account. The amount of the liability is shown in the Provisions for liabilities and charges.

Jubilee awards
The Group awards jubilee awards to employees. The amount of the liability is estimated annually by an independent qualified assessor. The amount of the liability is recognized in the profit and loss account. The liability is shown in the Provisions for liabilities and charges.

2.10 Taxation

Income tax expense is based on taxable income for the year and represents the sum of the tax currently payable and deferred tax.

Current tax

The tax currently payable is based on taxable profit for the year. Taxable profit differs from the profit reported in the statement of comprehensive income because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Bank's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

2. ACCOUNTING POLICIES (CONTINUED)

2.10 Taxation (continued)

Deferred tax

Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences, and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Deferred tax assets and liabilities are not recognised if the temporary difference arises from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognised for all taxable temporary differences associated with investments in subsidiaries and associates, and interests in joint ventures, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments and interests are only recognised to the extent that it is probable that there will be sufficient taxable profits that will allow the utilisation of the benefits arising from the temporary differences and the temporary differences are expected to reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or a part of the tax assets to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset realised, based on tax rates and tax laws that have been enacted or substantively enacted by the end of the reporting period. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

Current and deferred tax for the period

Current and deferred taxes are recognised as an expense or income in profit or loss, except when they relate to items presented directly in equity, in which case the tax is also recognised in equity, or where they arise from the initial accounting for a business combination, in which case the tax effect is taken into account in accounting for the business combination.

2. ACCOUNTING POLICIES (CONTINUED)

2.11 Cash and cash equivalents

For the purpose of reporting cash flows, cash and cash equivalents comprise cash, balances with the Croatian National Bank (CNB), accounts with other banks and term deposits with other banks with contractual maturities of up to three months.
Cash and cash equivalents exclude the obligatory reserves with the CNB, as these funds are not available for the Bank's day-to-day operations.

2.12 Financial instruments

Classification

The Group recognizes financial assets at purchase and sale on the settlement date besides derivative financial assets that are recognized on the trade date.The Group applies IFRS 9 and, depending on business model for management of financial assets and contractual cash flow characteristics, classifies financial assets into following measurement categories: financial assets at amortised cost; financial assets at fair value through other comprehensive income (FVTOCI); financial assets designated at fair value through other comprehensive income (FVTOCI option); financial assets at fair value through profit or loss (FVTPL).

Financial assets at amortised cost
Financial asset is measured at amortised cost if both of following conditions are met:
(a) the financial asset is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows and
(b) the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Financial assets at fair value through other comprehensive income
Financial asset is measured at fair value through other comprehensive income if both of following conditions are met:
(a) the financial asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets and
(b) the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Financial assets designated at fair value through other comprehensive income (option)
For investments in equity instruments that are not held for trading, the Group may make an irrevocable election to present in other comprehensive income subsequent changes in the fair value.
If Group chooses this option (fair value measurement), it is valid until maturity date of instrument.
Gain/loss on disposal of equity instruments designated at fair value through other comprehensive income is never recycled to profit and loss account; unrealised gains/losses are recognized within other comprehensive income. Only dividends are recognized within profit and loss account.

Financial assets at fair value through profit or loss
Financial asset is measured at fair value through profit or loss, if not classified held to collect or held to collect and sell, unless irrevocable choice has been elected and in cases of SPPI test fail.

Derivatives, units in investment funds and securities held for trading are examples of instruments that shall be classified in this category since payments do not represent solely payments of principal and interest on unpaid principal.

The Group reclassifies investments in debt instruments only if the business model for managing those assets changes.

2. ACCOUNTING POLICIES (CONTINUED)

2.12 Financial instruments (continued)

Classification (continued)

Business model assessment

Business model is based on activities conducted by the Group to achieve objectives in accordance with Group's strategy and how Group manages its' financial assets with aim of generating profits.
Types of business models considering cash flow generation are described in following paragraphs:

- Business model held to collect

Objective of this model is to hold assets in order to collect contractual cash flows. Sale is not integral part of this business model within assets are measured at amortised cost, but sales could be consistent with this business model provided: a) sale is frequent, but insignificant (not more than 5% assets within homogeneous group occurred in observed period), b) sale is infrequent, but significant, c) sale is close to maturity or d) sale due to increase in credit risk (e.g. interest rate increase, sale of NPL portfolio). Sale in stress liquidity situations could also be classified within this model.
During 2020 and 2021, the Group sold several individual NPL portfolios that did not lead to a breach of the business model, but were sold due to the deterioration of the credit risk of individual clients.

- Business model held to collect and sell

Objective is achieved by collecting contractual cash flows and by sale of financial assets. It is not required to observe frequency, value and reason of sale, but typically this business model involves greater frequency and value of sales.

- Other models (other strategies)

Objective is to achieve short term profit on disposal of financial assets and this business model includes assets held for trading. All other business models are allocated in measurement category fair value through profit or loss.

Business model is determined by Group’s key management personnel. Key management personnel includes Group’s Management Board. Every Management Board member has an authority to determine business model for financial assets portfolio within his competence.

Reclassification

If and only if the Group changes its business model for managing financial assets, it shall reclassify all affected financial assets. Such changes must be determined by the Bank’s senior management as a result of external and internal changes which must be significant to the Bank's operations and there must be relevant evidence in order to support reclassification.

The Group may not reclassify financial liabilities. The Group reclassifies investments in debt instruments only if the business model for managing those assets changes.
The following events are not considered reclassifications:

- an item that was previously a specific and effective instrument for hedging cash flows from risk or hedging net investments from risk has ceased to qualify for such classification;
- the item has become a specific and effective instrument for hedging cash flow from risk or hedging net investments from risk

The following are not considered to be changes in business model:

- a change in intention related to particular financial assets (even in circumstances of significant changes in market conditions);
- a temporary disappearance of a particular market for financial assets; or
- a transfer of financial assets between parts of the Group with different business models.

2. ACCOUNTING POLICIES (CONTINUED)

2.12 Financial instruments (continued)

Reclassification (continued)

If the financial assets should be reclassified, the Group shall apply the reclassification prospectively from the reclassification date. The Group shall not restate the previously recognised gains or losses (including ones relating to loss allowance) and interest.

Reclassification "into FVTPL"

If the Group reclassifies financial asset out of amortized cost category into fair value through profit or loss ("FVTPL"), its fair value is determined at the reclassification date. Any gain or loss arising on the difference between the amortized cost of a financial asset and its fair value is recognized in profit or loss.

If the Group reclassifies financial assets out of the fair value through other comprehensive income ("FVOCI") into FVTPL, the financial asset continues to be measured at fair value. Cumulative gain or loss previously recognized in other comprehensive income is reclassified from equity to profit or loss as a reclassification adjustment at the reclassification date.

Reclassification "into FVOCI"

If the Group reclassifies financial assets out of FVTPL category into the FVOCI category, the financial asset continues to be measured at fair value.

If the Group reclassifies a financial asset out of amortized cost category into the FVOCI category, its fair value is determined at the reclassification date. Any gain or loss arising on the difference between the amortized cost of financial assets and fair value is recognized in the OCI. The effective interest rate and the measurement of expected credit losses are not adjusted in this case.

For the FVOCI measurement category, the determination of the effective interest rate on initial recognition is required, as well as the application of relevant directive on loss allowance.

When the Group reclassifies financial assets out of FVOCI category to the amortized cost category:
- The Group uses the same effective interest rate, the recognition of interest income will not change,
- The measurement of expected credit losses will not change.

If a financial asset is reclassified to the FVOCI category from the amortized cost category, loss allowance would be derecognized (and therefore would no longer recognized as an adjustment to gross carrying amount), but instead would be recognized as the amount of accumulated loss allowance (in the same amount) in other comprehensive income ("OCI") and would be disclosed from the date of reclassification.

Reclassification "into amortized cost"

If the Group reclassifies a financial asset out of the FVTPL category into the amortized cost category, its fair value at the reclassification date becomes its new gross carrying amount.
If the Group reclassifies a financial asset out of FVOCI category to the amortized cost category, the financial asset is reclassified at its fair value at the date of reclassification. Cumulative gains or losses previously recognized in OCI are removed from equity and adjusted against the fair value of the financial asset at the date of reclassification. This adjustment affects the OCI but does not affect profit or loss and is therefore not a reclassification adjustment. The effective interest rate and the measurement of expected credit losses are not adjusted for reclassification.

For the measurement category at amortized cost, the determination of the effective interest rate on initial recognition is required, as well as the application of loss allowance requirements.

2. ACCOUNTING POLICIES (CONTINUED)

2.12 Financial instruments (continued)

Reclassification (continued)

When the Group reclassifies financial assets out of the FVOCI category to the amortized cost category:

- The Group uses the same effective interest rate, the recognition of interest income will not change,
- The measurement of expected credit losses will not change.

However, if a financial asset is reclassified from the FVOCI category to an amortized cost category, the provision for expected credit losses is recognized as an adjustment to gross carrying amount of the financial asset from the reclassification date.

SPPI test (Solely Payment of Principal and Interest)

SPPI test is conducted to assess contractual cash flow characteristics of particular financial instruments, i.e. to assess if contractual cash flows represent solely payments of principal and interest on unpaid principal in accordance with basic lending arrangement (without specific modifications related to prepayment fee, index linked payments, mismatch between interest rate and reference interest rate etc.).
For the purpose of this test, principal is defined as fair value of financial assets at initial recognition. Interest consists of consideration for the time value of money, for the credit risk associated with the principal amount outstanding during a particular period of time and for other basic lending risks and costs, as well as a profit margin.
In cases where the SPPI test indicates the existence of modification of the time value of money, an additional assessment is conducted to determine whether the modification is significant (the benchmark test). Benchmark test is conducted by comparing undiscounted contractual cash flows and undiscounted cash flows that would arise if the time value of money element was not modified (reference or benchmark cash flows).
Relevant comparable benchmark instrument is instrument with identical contractual terms and the identical credit risk, either existing or hypothetical instrument (it is not required for instrument to exist on the market).

If based on conducted assessments, result is significant difference between contractual cash flows and reference/benchmark cash flows, financial asset fails SPPI test and shall be allocated to measurement category fair value through profit or loss.

OTP Group Nyrt has defined an SPPI test (questionnaire) that is conducted at the level of a product portfolio with the same or similar characteristics, the so-called homogeneous product groups. In specific cases of financing that cannot be attributed to a specific homogeneous product group, the SPPI test is conducted on an individual basis. This test was applied at the initial application of IFRS 9 (transition from IAS 39 to IFRS 9).

2. ACCOUNTING POLICIES (CONTINUED)

2.12 Financial instruments (continued)

SPPI test (Solely Payment of Principal and Interest) (continued)

Below are listed the basic homogeneous groups of products for which the SPPI test was conducted. The Group further elaborates listed homogeneous groups taking into account the currency, interest rate type, certain types of funding programs, and other specific features and characteristics of the product.

1. Corporate clients´ products:

- Investment loans with administrative interest rate
- Investment loans with fixed interest rate
- Investment loans with variable interest rate
- Working capital loans with administrative interest rate
- Working capital loans with fixed interest rate
- Working capital loans with variable interest rate
- Other loans with administrative interest rate
- Other loans with fixed interest rate
- Other loans with variable interest rate
- Overdrafts on gyro account
- Refinancing loans with administrative interest rate
- Refinancing loans with fixed interest rate
- Refinancing loans with variable interest rate
- Guarantees
- Syndicated loans

2. Small corporate clients´ products:

- Long-term loan with a fixed interest rate
- Long-term loan with a variable interest rate
- Long-term loan with administrative interest rate
- Long-term loan with a fixed interest rate for residential buildings
- Agro loan for pre-financing with a fixed interest rate
- Short-term loan with a fixed interest rate
- Short-term loan with administrative interest rate
- Overdrafts on a giro account with a fixed interest rate
- Overdrafts on a giro account with a variable interest rate
- Revolving loan with a fixed interest rate
- Revolving loan with a variable interest rate
- Revolving loan with administrative interest rate
- Subsidized loans with a fixed interest rate
- Subsidized loans with variable interest rate

3. Retail clients´ products:

- Housing loans with fixed interest rate
- Housing loans with variable interest rate
- Housing loans with combination of fixed and variable interest rate
- Subsidized housing loans
- Cash loans with fixed interest rate
- Cash loans with variable interest rate
- Lombard loans
- Express loans

2. ACCOUNTING POLICIES (CONTINUED)

2.12 Financial instruments (continued)

SPPI test (Solely Payment of Principal and Interest) (continued)

3. Retail clients´ products:

- Mortgage loans
- Tourism loans
- Car loans
- Housing loans without mortgage
- Overdraft loans with fixed interest rate
- Credit card loans - revolving
- Credit card loans - charge
- Credit card loans - instalment

Modifications
The modification applies to all financial assets and liabilities within the scope of IFRS 9. Any change in a contractual provision is considered a modification. The Group defines the significance of the modification. In case of significant modification, the Group derecognizes the existing instrument and carries out initial recognition of the new instrument. Upon initial recognition of a new instrument, the Group implements all necessary requirements defined in IFRS 9 for the initial recognition of financial assets. If the modification is insignificant, the Group continues to recognize the existing instrument and calculates the modification differences using the effective interest rate. Modification gains and losses are recognized as gains or losses in the statement of comprehensive income.
The most common form of modification relates to restructuring, where in almost all cases the Group derecognizes an existing instrument and recognizes a new instrument. Payment delays (so-called placement moratoriums) and other exposure restructuring measures implemented as a result of the COVID-19 pandemic are also treated by the Group as modifications, therefore it calculates modification losses / gains. Also, insignificant modification differences result in continued recognition of the existing instrument, while in cases of significant modification differences the Group derecognises the existing instrument and recognizes a new one, which is subject to all requirements of IFRS 9 on initial recognition of financial assets..

Recognition and derecognition
Financial assets and liabilities are initially recognized at fair value, increased or decreased by transaction costs that are directly attributable to the acquisition or issue of the financial asset or financial liability. The fair value of a financial instrument on initial recognition is usually the purchase price of the transaction.

After initial measurement, the Group measures financial assets at amortized cost or at fair value (through other comprehensive income or at fair value through profit or loss), depending on the Group's financial asset management model and contractual cash flow characteristics.

Write-offs
The Group writes off financial assets in cases where it is not possible to collect, or when all payment possibilities have been exhausted, or when the collection costs exceed the amount of possible collection.
The Group writes off financial assets that are completely impaired or whose fair value is equal or approximately zero.
The Group primarily seeks to sell such financial assets in the market. If there is no market demand for financial assets, they are written off and transferred to off-balance sheet records.
In case of financial assets recorded in off-balance sheet records, for which certain collection procedures of mostly formal nature have not yet been completed, the Group continues to monitor them and collect wherever possible. These exposures are finally written off only when there is no longer any reason for the Group to continue collection, or when there is no possibility of partial collection in the future.

2. ACCOUNTING POLICIES (CONTINUED)

2.12 Financial instruments (continued)

Write-offs (continued)
Discharge of debt is done by the Bank in case of sale of receivables or if the receivables are written off in line with court decisions in accordance with applicable legal regulations or in other specific cases defined in the Bank's internal policies.
In case of exposures that are not fully written off, the remaining assets are not recognised as an existing instrument at the time of writing-off, and a new instruments is recognised in accordance with IFRS 9.

Gains and losses
Gains and losses from financial assets and financial liabilities measured at fair value through profit or loss are recognized in profit and loss account.

Gains or losses from financial assets measured at amortised cost and is not part of a hedging relationship shall be recognised in profit or loss when the financial asset is derecognised or reclassified through the amortisation process or in order to recognise impairment gains or losses.

For debt instruments measured at fair value through other comprehensive income, gain or loss arising from change in fair value is recognized in other comprehensive income. Foreign exchange gain or loss is recognized through profit or loss in profit and loss account. When the financial asset is derecognised the cumulative gain or loss previously recognised in other comprehensive income is reclassified from equity to profit or loss as a reclassification adjustment. Interest calculated using the effective interest method is recognised in profit or loss.

Gains or losses arising from change in fair value and foreign exchange gain or loss for equity instruments designated at fair value through other comprehensive income are presented in other comprehensive income. Gain/loss resulting from disposal of equity instruments classified as fair value through other comprehensive income option is never presented within profit and loss account; accumulated gains/losses are recognized in other comprehensive income. Only dividends are recognized as gain in relevant reporting period.

Fair value measurement principles

The fair values of quoted securities are based on current closing bid prices. If the market for a financial asset is not active (and for unlisted securities), or if, for any other reason, the fair value cannot be reliably measured by market price, the Group determines the fair value using valuation techniques. These include the use of prices achieved in recent arm's length transactions between knowledgeable and willing parties, reference to other instruments that are substantially the same, discounted cash flow analysis, and option pricing models, making maximum use of market inputs and relying as little as possible on entity-specific inputs. Where discounted cash flow techniques are used, estimated future cash flows are based on management's best estimates and the discount rate used is a market rate. The fair value of non-traded derivatives is estimated at the amount that the Group would receive or pay to terminate the contract at the statement of financial position date, taking into account current market conditions and the current creditworthiness of the counterparties.

Valuation techniques and assumptions for the purposes of measuring fair value

The fair values of financial assets and financial liabilities are determined as follows:
- The fair values of financial assets and financial liabilities with standard terms and conditions and traded on active liquid markets are determined by reference to quoted market prices (includes listed redeemable notes, bills of exchange, debentures and perpetual notes).
- The fair values of other financial assets and financial liabilities (excluding derivative instruments) are determined in accordance with generally accepted pricing models based on discounted cash flow analysis using prices from observable current market transactions and dealer quotes for similar instruments;

2. ACCOUNTING POLICIES (CONTINUED)

2.12 Financial instruments (continued)

Valuation techniques and assumptions for the purposes of measuring fair value (continued)

- The fair values of derivative instruments are calculated using quoted prices. Where such prices are not available, a discounted cash flow analysis is performed using the applicable yield curve for the duration of the instruments for non-optional derivatives, and option pricing models for optional derivatives. Foreign currency forward contracts are measured using quoted forward exchange rates and yield curves derived from quoted interest rates matching maturities of the contracts. Interest rate swaps are measured at the present value of future cash flows estimated and discounted based on the applicable yield curves derived from quoted interest rates.

Expected credit loss calculation methodology depends on type of portfolio and risk stage of portfolio subject to assessment. Portfolio classified into lower risk stages (Stage 1 and Stage 2) is assessed collectively.

2.13 Impairment of financial assets

Impairment of financial assets measured at amortised cost

Definition and calculation method of expected credit losses for each stage

Expected credit loss calculation methodology depends on type of portfolio and risk stage of portfolio subject to assessment. Portfolio classified into lower risk stages (Stage 1 and Stage 2) is assessed collectively.

The Bank also recognizes expected credit losses on a monthly basis for exposures subject to loss allowance requirements in amounts equal to:
1) 12 month expected credit loss for Stage 1 risk subcategory;
2) lifetime expected credit loss for Stage 2 and Stage 3 risk subcategory

Portfolio classified into Stage 3 is assessed collectively with lifetime expected credit loss recognized in cases of retail portfolio and individually in cases of corporate portfolio. Exceptionally, in case of corporate portfolio, for clients with group exposure below HRK 3,000,000 collective assessment is applied in expected credit loss calculation.

For individual method, expected credit losses are calculated as difference between gross carrying amount of individual exposure and present value of expected future cash flows discounted at effective interest rate. At least two scenarios are projected for expected cash flow assessment. Weights are applied to each scenario based on probability of occurrence. The present value calculated as the weighted average of the individual scenarios is used to calculate the transaction of loss allowance. In calculation of individual expected credit losses the following information is taken into account: expected operating cash flow, expected cash from the sale of collateral (real estate), the effective interest rate, and the estimated collateral realisation period.

In case of collective assessment, the Bank uses internal model in accordance with IFRS 9 for calculation of expected credit losses, applying PD (probability of default), LGD (loss given default) and EAD (exposure at default; for off-balance exposures CCF of 100% is applied) as parameters for loss allowance calculation. Bank also applies 5 different macroeconomic scenarios that reflect forecasts. Macroeconomic scenarios and its probabilities are based on regional macroeconomic forecasts. Expected loss (EL) is calculated separately for each scenario and final expected loss (EL) assessment is weighted average of expected loss in cases of multiple scenarios. Model calculation is performed monthly.
Basic assumption in the model is credit segmentation based on client type (sovereign, banks, corporate, retail). Retail segment is further subdivided by product type into the sub-segment of housing, mortgage, cash, car and other loans and the sub-segments of overdrafts and credit cards. Each segment is further elaborated according to the time when the receivable was recorded in the system (book criterion), and according to the calculating provisions class (provisioning bucket) which is defined according to the number of days past due in combination with stage where necessary.

2. ACCOUNTING POLICIES (CONTINUED)

2.13 Loss allowance of financial assets

Loss allowance of financial assets measured at amortised cost

Definition and calculation method of expected credit losses for each stage

The classes are as follows:
Stage 1: DPD 0-30
Stage 2: DPD 0-30 when there is no delay but the claim is stage 2 according to another criterion
DPD 31-60, DPD 61-90
Stage 3: DPD 0-90 - when the claim is in default even though there is no delay over 90 days
DPD 91-120, DPD 121-150, DPD 151-180, DPD 181-360, DPD above 360
Restructured exposure with a delay of up to 30 days over a 2-year follow-up period (FP_PE)

For the purposes of capturing the LGD parameter, the ECL calculation model also uses a breakdown of secured and unsecured exposures, currencies, and number of quarters since entering the default status.
The Group uses the aggregate method to calculate the expected credit loss of exposures classified in Stage 3 in the case of Retail portfolio (included in Note 15 *Loans and receivables from customers*), and to calculate the expected credit loss of exposures classified in Stage 1 and Stage 2, and for assets carried at amortized cost which is included in notes 12 *Cash and balances with Croatian National Bank*, 13 *Loans and receivables from banks,* 15 *Loans and receivables from customers*, 16 *Financial assets at fair value through other comprehensive income*, 17 *Financial assets measured at amortized cost*, 22 *Other financial assets subject to impairment* and 30 *Contingent liabilities and commitments*.

After initial recognition financial assets are allocated into one of three stages:
1) Stage 1 - performing,
2) Stage 2 - performing, but for which significant increase in credit risk was observed since initial recognition,
3) Stage 3 - default and other non performing exposures

Tangible assets (Stage 1) include all financial assets for which the events and conditions applicable to Stage 2 and Stage 3 do not exist at the reporting date.
A financial asset shows significant increase in credit risk (Stage 2), if in respect of which any of the following triggers exist on the reporting date, without fulfilling any of the conditions for the allocation to the default stage (Stage 3):

- the payment delay 31 to 90 (by introducing materially significant delays this trigger now works on both payment delay counter and the economic counter)
- it is classified as performing forborne,
- based on individual decision, its currency suffered a significant "shock" since the disbursement of the loan and no hedge position exists in respect thereof (CHF) (valid only for retail placements),
- the loan-to-value ratio (LTV) exceeds a predefined rate (at present 125% for secured Retail loans)
- placements where the behavioral score indicates that there are signs of deterioration, ie unidentified Stage 2 (Housing - rating 7, 8 and 9, Cash and Corporate - 8 and 9). If it is not possible to calculate the rating for placements for which a model has been developed, they are automatically classified in Phase 2. When a rating-based approach is not possible (rating is not available because the model is not developed), days of delay in the past 6 months (if 10 days have passed) are observed.
- all placements of a client whose at least one placement is classified in Stage 3 (if placements in Stage 3 are in the status of default due to objective criteria, and their balance sheet exposure exceeds 20% of the total balance sheet exposure of the client, then all other placements are in Stage 3)
- exposure is marked as a watch-list (non retail)
- In case of a threefold increase in the PD on the reporting date compared to the initially calculated PD, for housing and cash loans the exposure must be classified in phase 2. The rule applies only if the rating on the reporting date is > 5
- In case it is determined in the post-controls of approved loans that there was no adequate credit capabilities, the exposure can be considered as increased credit risk, which is why it is classified in phase 2.

2. ACCOUNTING POLICIES (CONTINUED)

2.13 Impairment of financial assets (continued)

Impairment of financial assets measured at amortised cost (continued)

Definition and calculation method of expected credit losses for each stage (continued)

A financial asset is default (stage 3) if following conditions for allocation of exposure into default are met:
- objective criterion: consecutive DPD 90+,
- probability criterion: the analysis of the probability that the obligor getting unable to pay its credit obligations in full (criteria of “unlikely to pay”, i.e. UTP)
- distressed restructuring and forborne exposure classified as NPL (there is existence of UTP criteria, or upon the restructuring measure there is a significant NPV loss (1%) compared to the original cash flows

Purchased or originated credit impaired asset (POCI) assessment
Purchased or originated credit impaired asset is credit impaired at initial recognition.
At every reporting date, Group recognizes cumulative change in lifetime expected credit losses as impairment gain or loss in profit and loss account. If credit loss for POCI asset decreases after initial recognition, Group recognizes impairment gain. If credit loss for POCI asset increases after initial recognition, Group recognizes impairment loss.

Impairment of financial asset measured at fair value through other comprehensive income

At each reporting date, the Bank reassesses all financial instruments in the scope of impairment to determine if objective evidence of impairment exists. Expected credit loss definition per each stage, significant increase in credit risk identification and expected credit loss calculation methodology is identical to rules implemented for portfolio of financial assets measured at amortised cost.

Impairment of financial assets reclassified from off-balance sheet records

In the ordinary course of business, the Group assumes contingent liabilities related to guarantees, letters of credit and undrawn loan commitments. Contingent liabilities are subject to the calculation of expected credit losses in accordance with the requirement of IFRS 9. When these assets become payable, they are reclassified to assets carried at amortized cost and the calculation of expected credit losses, identification of significant credit risk and impairment is carried out according to the rules for assets carried at amortized cost.

Impairment of financial assets not covered by IFRS 16 and IFRS 15

All financial assets within the scope of IFRS 15 (assets) and IFRS 16 (leases), which are not subject to impairment under IFRS 16 and IFRS 15, are subject to impairment according to IFRS 9 requirements.

2. ACCOUNTING POLICIES (CONTINUED)

2.14 Derivative financial instruments

The Group uses derivative financial instruments to hedge economically its exposure to foreign exchange and interest rate risks arising from its operational, financing and investing activities.

In accordance with its treasury policy, the Group does not hold or issue derivative financial instruments for speculative trading purposes. Derivatives are classified within financial instruments that are carried at fair value through profit or loss as financial instruments held for trading or as derivatives that are preferred for the risk management purposes.

Derivative financial instruments, including foreign exchange contracts, currency forward agreements and cross-currency swaps, are recognised initially in the statement of financial position and subsequently re-measured at their fair value. The fair values are obtained from quoted market prices or discounted cash flow models as appropriate. All derivatives are recognized as assets if their fair value is positive, i.e. as liabilities if their fair value is negative. Changes in fair value of derivatives that are held for trading are recognized through profit or loss. Changes in the fair value of derivatives that are held as a hedging instrument are recognized through profit or loss together with the change in fair value of the instrument being hedged.

2.15 Hedge accounting

The Group provides operating lease services denominated in euro. Operating lease assets are refinanced with loans advanced in euros. Due to the fact that in its books the Group keeps operating lease as tangible assets, rather than as financial assets, there is a discrepancy between the actual economic position of the company and the financial statements, as the unrealised gain/loss, which arises due to re-valuation of the loans in order to finance operating lease, is naturally protected with future repayments towards the principle of the operating lease.

The Group avails of hedge accounting in order to protect itself against foreign exchange risk arising from the commercial lease agreements denominated in euros, as hedged items, in relation to interest-earning loans as hedging instruments used for refinancing of these agreements.

Based on the strategy for managing the risk of exposure to foreign exchange rate shifts, which arise from operating lease agreements, with rental fees denominated in euros (i.e. there is a foreign currency clause), hedge accounting shall apply to refinancing of advanced loans, in accordance with the application of IFRS 9.

Loans denominated in euros, as non-derivative financial instruments, are a hedge accounting instrument. The claims for future cash flow from operating lease, which are arranged with customers and do not include remainder of value, are hedged items.

The hedge accounting ratio has been set on the day of start of hedge accounting in the amount of 40%, and it is based on the financial lease and commercial lease ratio as at the day of start of hedge accounting.

Hedge accounting is considered efficient as both cash flows (agreed receivables under operating lease and loan liabilities) are exposed to the same changes in the EUR/HRK exchange rate. The mid exchange rate of the Croatian National Bank applies to the liabilities under loans for financing operating lease, whereas the agreed rate (sale rate of OTP banka) applies to the receivables derived from agreed cash flows from operating lease.

2. ACCOUNTING POLICIES (CONTINUED)

2.15 Hedge accounting (continued)

Risk protection in the form of hedge accounting is acceptable only if all of the below criteria have been met:

a) Hedging against risk consists only of acceptable hedge instruments and acceptable hedged items
b) At the start of hedging, the hedging relationship is defined and documented, as well as the objectives and strategy of managing the risk of the entity for hedge accounting purposes.

Such documenting should extend to the identification of the hedge instrument, hedged item, nature of the risk against which hedge is applied and the method of the entity determining whether the hedge relationship meets the hedge effectiveness requirements (including its analysis of the source of inefficiency of hedging and the method for determining the hedge ratio).

c) Relationship of hedging against risk meets all the mentioned hedge effectiveness requirements:
   (i) there is an economic relationship between the hedged item and the hedging instrument
   (ii) the impact of credit risk is not crucial for the changes in the value derived from that economic relationship
   (iii) the hedge ratio of the hedging relationship is equal to the one derived from the size of the hedged item that the entity is actually protecting and the size of the hedging instrument the entity is actually using for the protection of that particular size of the hedged item.

The Group checks the hedge effectiveness rules at the end of the each reporting period (at the end of the month) measuring again all the identified, previously documented items, based on the data available at the end of the reporting period. Future payments under operating lease agreements are calculated monthly, where a group of cash flows (accumulated monthly) is defined as the hedged item which falls due after the loan advanced for refinancing purposes matures.

The results of the fair value of hedge accounting, i.e. the changes in the fair value (of future lease payments and refinancing loans) brought on by the exchange rate upon application of the foreign currency clause, are shown in the Profit and Loss Report (as exchange gains or losses).

The Group should discontinue the application of hedge accounting only where the hedging relationship (or part of it) no longer meets the relevant criteria. This extends to cases where the hedging instrument is about to expire or has been sold or executed. In that sense, a replacement or a transfer of the hedging instrument to another hedging instrument is a part of, and in accordance with the documented objectives of managing the risk of the Group.

Discontinuance of application of hedge accounting may either refer to the hedging relationship in whole or only to the part of it (in which case hedge accounting will continue to apply to the remaining part of the hedging relationship).

2.16 Sale and repurchase agreements

A financial asset sold under an agreement to repurchase it at a fixed price or at the sale price plus a lender's return or if it is loaned under an agreement to return it to the transferor, it is not derecognised, as the Group retains substantially all the risks and rewards of ownership.

Securities sold under sale and repurchase agreements ('repos') are included in the statement of financial position as assets as originally classified or the Group reclassifies the asset on its statement of financial position as a repurchase receivable if the transferee obtains the right to sell or pledge the asset. The corresponding liability towards the counterparty is included in amounts due to banks or amounts due to customers as appropriate.

Securities purchased under agreements to purchase and resell ('reverse repos') are recorded as assets due from banks or as loans and receivables as appropriate.

The difference between the sale and repurchase price is treated as interest and accrued over the life of the repo agreement using the effective interest method.

(All amounts are expressed in millions of HRK)

2. ACCOUNTING POLICIES (CONTINUED)

2.17 Tangible and intangible assets

Tangible and intangible assets are stated at cost less accumulated depreciation/amortisation and impairment loss, if any. Land and assets under development are not depreciated.
Depreciation and amortisation are provided for all assets, except for land and assets under construction, under the straight line method at rates estimated to write down the cost of each asset to its residual value over the estimated useful life, which is as follows:

	2021	2020
Tangible assets		
Buildings	33-40 years	33-40 years
Computers	4-5 yeras	4-5 years
Furniture and equipment	2,5-10 years	2,5-10 years
Motor vehicles	4-5 years	4-5 years
Intangible assets		
Investment in leased assets	according to the years of rent	according to the years of rent
Software	3-5 years	3-5 years
Contracts with customers	5 yeras	5 years

The Group depreciates buildings for which the value cannot be divided into components at a uniform rate, because it is not possible to estimate the value of each individual component.

The residual value of the asset, the depreciation method and estimated useful lives are reviewed at each reporting date and adjusted if necessary. Where the carrying amount of an asset exceeds its estimated recoverable amount, it is written down to the recoverable amount.
Gains and losses on the sale of property and equipment are determined as the difference between the amount charged and the carrying amount and are included in the statement of profit or loss. In the carrying amount of property and equipment the Group includes the cost of replacing the part of an item when such cost arises if it is probable that the Group will have future economic benefits contained in that item and if the purchase value of such item can be reliably estimated. All other repair and maintenance costs are recognized as incurred.

2. ACCOUNTING POLICIES (CONTINUED)

2.18 Impairment of tangible and intangible assets

Assets that have an indefinite useful life, such as goodwill, are not subject to amortisation and are tested for impairment at least annually. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. Intangible assets that are not yet available for use are assessed at each reporting date. Impairment losses are recognised whenever the carrying amount of an asset exceeds the asset's recoverable amount. Impairment losses are recognised in the statement of comprehensive income. An impairment loss is recognized in all cases where the carrying amount of an asset is greater than its recoverable amount.

The recoverable amount of property and equipment and of intangible assets is the higher of an asset’s fair value less costs to sell and value in use. For the purpose of assessing impairment, assets are grouped at the lowest level for which there is separately identifiable cash inflows (cash-generating units). In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset or cash-generating unit.

Non-financial assets that have suffered an impairment loss are reviewed for possible reversal of the loss at each reporting date. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset’s carrying amount does not exceed the carrying amount that would have been determined, net of accumulated depreciation or amortisation, if no impairment loss had been recognised.

2.19 Investment property

Investments into property are carried at cost less accumulated depreciation and impairment losses. These investments include those investments held for the purpose of earning rent or increasing their market value, but not those held for sale. Investments are depreciated on a straight-line basis at prescribed rates, which write off the acquisition cost over the estimated useful life. The useful life and the residual value are checked and adjusted as necessary at each reporting date. Transfers to and from real estate investments are made when a change of property occurs, which is manifested upon termination or commencement of use by the owner. Investments are derecognized upon disposal or upon final retirement or when no future benefits are expected from disposal. Gains or losses on withdrawal or disposal are recognized in the profit and loss account in the period of withdrawal or disposal.

2.20 Non-current assets held for sale

Assets that are expected to be offset primarily by sale rather than continued use are classified as held for sale. The following conditions must be fulfilled:
the property must be available for sale in its existing condition; its sale must be highly probable; as expected and planned sale must occur within one year from the date of classification.
Prior to being classified as held for sale, assets are measured in accordance with the accounting policies of the Group, after which they are measured at the lower of cost or fair value less costs to sell, whichever is lower. Non-current assets classified as held for sale are not depreciated. At the time of reclassification, when a change of intention or when the conditions required by IFRS 5 are no longer met, the Group does not restate the comparative information in the Statement of financial position. In the case of reclassification, the valuation is adjusted in accordance with the relevant standards, as if no reclassification had taken place.

2. ACCOUNTING POLICIES (CONTINUED)

2.21 Assets acquired in lieu of uncollected receivables

Occasionally, the Group forecloses properties and other assets to recover the outstanding loans and advances to customers. Such properties and other assets are recognised at the lower of the net realisable value and current fair value. The Group seeks to sell the foreclosed assets and only exceptionally makes them available for its own use. Such properties are presented in Note 22 Other assets.

After initial recognition, the assets taken are measured in accordance with the relevant accounting standards, depending on the intention to hold the asset. The Group measures the assets under IAS 2 *Inventories* except in rare cases when the asset is put into use.

Gains and losses on the sale of such assets are recognised in the statement of profit or loss.

2.22 Current accounts and deposits from banks and customers

Current accounts and deposits are measured initially at fair value plus transaction costs and subsequently at amortised cost using the effective interest method.

The definition of the calculation of expected credit losses for each stage, the identification of significant credit risk, and the manner of determining the impairment are consistent with the rules for the portfolio of financial assets carried at amortized cost.

2.23 Other financial liabilities

Other financial liabilities include other borrowed funds (interest-bearing loans) that are initially recognized at fair value, decreased for the relating transaction costs incurred. Subsequent measurement is carried at amortized cost and any difference between the proceeds (decreased for transaction costs) and the amount payable on maturity is recognized in the income statement over the loan period using the effective interest method.

Other financial liabilities include all financial liabilities that are not held for trading or are not predetermined to be stated at fair value through profit or loss. Other financial liabilities include liabilities to other banks, liabilities to customers and other borrowed funds.

2.24 Provisions

The Group recognises a provision when it has a present legal or constructive obligation as a result of a past event and it is probable that an outflow of resources will be required to settle the obligation. The Management Board determines the adequacy of the provision based by analysing individual items, past loss experience, considering the current economic conditions, the risk characteristics of the various categories of transactions and other pertinent factors at the reporting date. Provisions are discounted to present value where the effect is material.

Restructuring provision are recognized if the Group has made formal restructuring plan and if initiation of the plan or publishing their main features among those affected with the plan has initiated reasonable expectation that restructuring will be performed. Only direct restructuring costs are included in determining the amount of restructuring provisions, and these are costs that are necessarily related to the restructuring but are not related to the entity's current operations.

2. ACCOUNTING POLICIES (CONTINUED)

2.25 Off-balance sheet commitments

In the ordinary course of business, the Group enters into credit related commitments which are recorded in off-balance sheet records and primarily include guarantees, letters of credit and undrawn loan commitments. Such financial commitments are included in the Group's statement of financial position if and when they become payable.

The definition of the calculation of expected credit losses for each stage, the identification of significant credit risk, and the manner of determining the impairment are consistent with the rules for the portfolio of financial assets that are carried at amortized cost. In the aggregate method, the Group uses an internal IFRS 9 model to calculate expected credit losses using PD (probability of default), LGD (loss given default) and EAD (exposure at default; 100% credit conversion factor applies to off-balance sheet contingent liabilities) impairment parameters. Please see Note 2.13 *Impairment of financial assets* for more details.

2.26 Asset managed on behalf of third parties

Assets and income arising thereon, together with related undertakings to return such assets to customers, are excluded from these financial statements when the Group acts in a fiduciary capacity such as a nominee, trustee or agent. Fees for such services are recognised as income when earned.

2.27 Share capital

Share capital represents the nominal value of paid-in ordinary shares classified as equity and is denominated in Croatian kunas.

Dividends are recognised as a liability in the period in which they are declared.

2.28 Retained earnings

Any profit for the year retained after appropriations is transferred to reserves.

2.29 Earnings per share

For the purposes of calculating earnings per share, earnings are determined as the profit for the current period intended for Group's ordinary shareholders. The Group has published all necessary disclosures on earnings per share, and in accordance with the requirements of IAS 33: *Earnings per share*, on separate financial statements of OTP banka d.d., published on 11 March 2022.

2.30 Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale.

Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

All other borrowing costs are charged to the profit or loss for the period in which they are incurred.
The Group did not have assets that met the criteria for capitalization of borrowing costs.

(All amounts are expressed in millions of HRK)

2. ACCOUNTING POLICIES (CONTINUED)

2.31 Reclassification of comparative periods

In 2021, the Group made reclassifications in its financial statements in accordance with the policies of OTP Bank Nyrt:

- reclassification from Intangible Assets to Property and Equipment relates to the Bank's investments in leased assets - reconstruction and interior design/adaptation of business premises (see Notes 18 and 21)

- reclassification from Other Liabilities to Provisions for liabilities and charges relates to provisions for unused vacations (see Notes 27 and 28).

The reclassifications carried out have no impact on the Income statement.

	Note	Report for 2020	Reclassification	Revised report for 2020
Property and equipment	18	741	21	762
Intangible assets	21	151	(21)	130
Other liabilities	28	424	(13)	411
Provisions for liabilities and charges	27	488	13	501
		1,804	**-**	**1,804**

3. ACCOUNTING ESTIMATES AND JUDGEMENTS IN APPLYING ACCOUNTING POLICIES

The Group makes certain judgments and estimates about uncertain events, including estimates and judgments concerning the future. Such accounting estimates and judgments are regularly reviewed and are based on past experience and other factors, such as the reasonably expected course of future events under given circumstances, but which nevertheless represent sources of uncertainty. The estimation of impairment losses in the Group's credit risk portfolio represents the most significant source of estimation uncertainty. The risk as well as other key sources of estimation uncertainty with a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are described below.

Loss allowance for expected credit losses on financial assets that is subject to impairment including requirements in accordance with the Decision on the classification of exposures into risk groups and the method of determining credit losses (OG 114/2017 and 110/2018) and IFRS 9

Group continuously monitors credit worthiness of its customers. In accordance with regulation, impairment of on-balance and off-balance exposures to credit risk is assessed at least quarterly.
Expected credit loss are recognized as a decrease of the net book value of:
current accounts with banks (presented in Note 12), loans and receivables from banks and other customers (presented in notes 13 and 15), impairment for financial assets measured at amortised cost (presented in note 17), receivables from other financial assets measured at amortized cost (presented in note 22), impairment losses for assets measured at fair value through other comprehensive income (presented in note 16). Loss allowance for risks and costs resulting from potential liabilities, loan commitments, mostly in form of granted unused credit lines, guarantees, letters of credit and unused credit card limits (presented in note 30) are recognized as a provision (presented in Note 27).

The estimate of expected credit losses represents the best estimate of the risk of default and expected credit losses (ECL) on financial assets, and all off-balance sheet exposures, on the reporting date, and as a part of this, the fair value estimation of collateral in real estate is the main source of estimation uncertainty. This and other key sources of estimation uncertainty have a significant risk of causing possible significant adjustments to the carrying amounts of assets and liabilities in the next financial year.

Expected credit loss is present value of difference between contractual cash flows that are due to an entity in accordance with the contract and all the cash flows that the entity expects to receive. For lifetime expected credit losses, an entity shall estimate the risk of a default occurring on the financial instrument during its expected life. 12-month expected credit losses are a portion of the lifetime expected credit losses and represent the lifetime cash shortfalls that will result if a default occurs in the 12 months after the reporting date (or a shorter period if the expected life of a financial instrument is less than 12 months), weighted by the probability of that default occurring.

For calculation of expected credit losses Group uses internal model in accordance with IFRS 9 applying PD (probability of default), LGD (loss given default) and EAD (exposure at default) as impairment parameters. Risk parameters also depend on macroeconomic scenarios. Expected loss (EL) is calculated separately for each scenario and final expected loss (EL) assessment is weighted average of expected loss in cases of multiple scenarios. Model calculation is performed monthly. Basic assumption in the model is credit segmentation based on client type (sovereign, banks, corporate, retail). These parameters for calculating expected credit losses are usually estimated once a year.

When determining expected credit losses that are known to exist on reporting date, but that are not separately identified, Group uses internal model in accordance with IFRS 9.

3. ACCOUNTING ESTIMATES AND JUDGEMENTS IN APPLYING ACCOUNTING POLICIES (CONTINUED)

Taxation
The Group determines its tax liabilities in accordance with the tax legislation of the Republic of Croatia. Tax returns are subject to the approval of the Tax Administration, which may perform subsequent tax audits of taxpayers' records. The tax calculation and estimates are presented in Note 11.

Regulatory requirements
The CNB is responsible for performing prudential oversight over the Group's operations and may require from the Group to revise the carrying amounts of its assets and liabilities in accordance with applicable regulations.

Litigation and restructuring costs
The Group makes provisions for litigation and restructuring costs in accordance with IAS 37. Provisions are recognized when the Group has a present obligation as a result of past events and for which the Group is aware that they have been incurred, and if it is probable that an outflow of resources containing economic benefits will be required to settle the liabilities and if the amount of the liabilities can be measured reliably. Provisions are reduced only for those expenses for which provisions are initially recognized. If an outflow of economic benefits to settle the obligation is no longer probable, provisions are reversed.
When forming provisions for litigation, the Group also takes into account all the criteria laid down in the Decision of the Croatian National Bank on the obligation to make provisions for litigation conducted against a credit institution.

In the ordinary course of business, several lawsuits and complaints have been filed against the Group, the outcome of which is uncertain.
According to the Management's estimate, the provisions formed are sufficient to cover the costs of active litigation and restructuring costs.
Estimates for litigation and restructuring costs are disclosed in Note 27 *Provisions for liabilities and charges*.

Impairment of non-financial assets

The residual value, the depreciation method and the useful life of an assets are reviewed at least at each financial year-end and adjusted if appropriate. The net carrying amount of a non-financial asset is reduced to its recoverable amount if the asset's net carrying amount is greater than its estimated recoverable amount.
For details see accounting policies Notes 2.18 to 2.21.

Fair value measurement

The fair values of quoted securities are based on current closing bid prices. If the market for a financial asset is not active (and for unlisted securities), or if, for any other reason, the fair value cannot be reliably measured by market price, the Group determines the fair value using valuation techniques. These include the use of prices achieved in recent arm's length transactions between knowledgeable and willing parties, reference to other instruments that are substantially the same, discounted cash flow analysis, and option pricing models, making maximum use of market inputs and relying as little as possible on entity-specific inputs. Where discounted cash flow techniques are used, estimated future cash flows are based on management's best estimates and the discount rate used is a market rate.

The fair value of non-traded derivatives is estimated at the amount that the Group would receive or pay to terminate the contract at the statement of financial position date, taking into account current market conditions and the current creditworthiness of the counterparties. For details please accounting policies Note 2.12 *Financial instruments.*

The fair value of investment property is measured using appraisals performed by an external independent appraiser.

(All amounts are expressed in millions of HRK)

4. NET INTEREST INCOME

	2021	2020
Interest income		
Retail loans	821	859
Corporate loans	380	356
Debt securities	73	81
Cash reserves and amounts due from other banks	15	4
	1,289	**1,300**
Interest expenses		
Other borrowed funds and amounts owed to banks	23	33
Current accounts and deposits from individuals	9	14
Current accounts and corporate deposits	5	9
Interest expenses IFRS 16	1	1
	38	**57**

Included in various items within interest income for the year ended 31 December 2021, a total of HRK 100 million (2020: HRK 58 million) refers to the interest income charged on the assets which were previously impaired as Stage 3.
Deferred interest loan origination fees are recognized in interest income as an adjustment to the effective interest income. The total amount of these fees in interest income in 2021 is HRK 44 million (2020: HRK 46 million).
Penalty interest calculated on loans and receivables from customers is shown in other operating income (Note 7).

Revenue recognized in accordance with IFRS 15 amounts to HRK 1,289 million (2020: HRK 1,300 million) and is recognized as a point in time.

5. NET FEE AND COMMISSION INCOME

a) Net fee and commission income – analysis by source

	2021	2020
Fee and commission income		
Retail customers	242	233
Corporate customers	189	143
Banks	74	53
	505	**429**
Fee and commission expense		
Banks	72	53
Corporate customers	51	44
	123	**97**

(All amounts are expressed in millions of HRK)

5. NET FEE AND COMMISSION INCOME (CONTINUED)

b) Net fee and commission income – analysis by fee type

	2021	2020
Fee and commission income		
Domestic payment transaction related fees and commissions	117	107
Package fees charged to individuals	100	100
Card-related fees and commissions	80	64
Merchant fees for card business	65	42
Asset management fees	23	22
Account maintenance fees	20	20
Fees for other services related to client accounts	18	16
Loan-related fees and commissions	16	14
Foreign payment transaction related fees and commissions	16	12
Guarantee-related fees and commissions	14	13
Sale of insurance policies	11	2
Brokerage and consultancy service fees	6	4
Exchange office business – commission	2	2
Interest swap fees	-	-
Other fees and commissions received	17	11
	505	**429**
Fee and commission expense		
Card-related fees and commissions	69	51
Domestic payment transaction related fees and commissions	27	22
Foreign payment transaction related fees and commissions	8	6
Asset management fees	5	4
Other fees and commissions paid	14	14
	123	**97**

Revenue recognized in accordance with IFRS 15 amounts to HRK 505 million (2020: HRK 429 million) and is recognized as a point in time.

(All amounts are expressed in millions of HRK)

6. NET GAINS FROM TRADING AND VALUATION OF FINANCIAL INSTRUMENTS

a) Net (losses)/gains from trading and valuation of financial instruments at fair value through profit or loss

	2021	2020
Net gains/(losses) on derivatives	41	(93)
Net gain on financial asset at fair value through profit or loss	47	33
Net gain on reclassification of financial assets at fair value through other comprehensive income into financial assets at fair value through profit or loss	-	33
	88	**(27)**

Financial assets measured through profit or loss, to which these net (losses) / gains relate, are included in Note 14. The reclassification of financial assets relates to the preferred share of VISA International Series C (details in Note 14).

b) Net gains from trading and valuation of financial instruments at fair value through other comprehensive income

	2021	2020
Realised gains / (loss) on securities at fair value through other comprehensive income	(9)	8
	(9)	**8**

Financial assets measured through other comprehensive income, to which these net (losses) / gains relate, are included in Note 16. The amount of HRK 10 million refers to the adjustment on the basis of realized securities acquired during the acquisition of the former Splitska banka d.d.

c) Net gains from trading and converting monetary assets and liabilities

	2021	2020
Net gains from currency sale and purchase	140	111
Net (losses) / gains from conversion of monetary assets and liabilities denominated in foreign currencies and foreign currency clause	(46)	126
	94	**237**

(All amounts are expressed in millions of HRK)

7. OTHER OPERATING INCOME

	2021	2020
Operative leasing	79	83
Amounts recovered through court actions	11	7
Leases	10	10
Sale of real estate and equipment	8	9
Default interest on loans and receivables from customers	4	4
Collection of written-off receivables from previous years	4	2
Inventory income	4	1
Sale of OTP Osiguranje d.d.	2	-
Sale of foreclosed property	2	-
Income from real estate appraisals	2	2
Reverse of accrued costs	1	9
Dividends received (VISA shares)	1	1
Collected costs of court fees	1	1
Lease modifications IFRS 16	-	2
Other income	6	1
	135	**132**

During 2021, several lawsuits were settled in which the Group made a profit of HRK 11 million.

On 31 August 2021, the Bank sold a 100% stake of OTP Osiguranje d.d. which in 2020 was classified as Discontinued operations and generated revenue of HRK 2 million.

Revenues from rents are mostly related to revenues from properties rental, out of which HRK 8 million (2020: HRK 6 million) is related to revenues from properties which are fully leased, while the rest is related to properties which are used by the Bank, and whose insignificant part is leased, as well as revenues from rent which are paid by telecoms for lease of premises at the top of buildings for their antennas and other communication devices.

Gains from the sale of property and equipment relate to the sale of the building with the associated land, ATMs and vehicles, details are provided in Note 18.

(All amounts are expressed in millions of HRK)

8. OTHER OPERATING EXPENSES

	2021	2020
Professional services and cost of material	237	223
Savings deposit insurance premiums	39	33
Administrative expenses	31	35
Marketing costs	19	14
Remediation contribution	17	59
Other taxes and contributions	8	5
Receivables write-off	7	1
Tangible and Intangible assets write-off	5	5
Impairment of tangible assets, asset taken in lieu and asset held for sale	3	4
Supervision fee	2	1
Inventory write-offs	1	2
Other costs	7	5
	376	**387**

In 2021, the external auditor provided validation-related services: audit of quarterly and annual financial statements, audit of the reporting package to OTP Bank Nyrt Hungary, other agreed procedures to verify compliance with financial, accounting or regulatory matters, statutory engagement, and assessment of compliance of general information system controls. In accordance with EU Regulation 537/2014, services provided during the year are services that are allowed. The cost of mentioned services amounts to HRK 3.9 million for 2021 (2020: HRK 4.4 million). The costs of auditing are shown under the position Professional services and cost of materials.
Property and equipment (Note 20) and Investment property (Note 21) are adjusted to fair value. The loss from the value adjustment of these assets amounts to HRK 3 million, of which HRK 2.6 million relates to Real Estate and Equipment and the remaining HRK 0.4 million to Real Estate Investments.

8a DEPRECIATION EXSPENSES

	2021	2020
Depreciation of tangible assets (Note 18)	130	144
Depreciation of intangible assets (Note 21)	51	58
Assets classified under IFRS 16 (Note 19)	31	31
Depreciation of property investment (Note 20)	3	3
	215	**236**

(All amounts are expressed in millions of HRK)

9. PERSONNEL EXPENSES

	2021	2020
Gross salaries	363	348
- net salaries	*261*	*248*
- taxes, surtaxes and contributions	*102*	*100*
Contributions on salaries	53	53
Accrued expenses for bonuses and other employee expenses	61	61
	477	**462**

At year-end, the Group had 2,549 employees (2020: 2,481). This information includes all employees who have concluded an Employment Contract with the Bank as at 31 December 2021.

10. NET GAINS / (LOSSES) FROM IMPAIRMENT AND PROVISION CHARGES

	Note	2021	2020
(Decreases) of expected credit loss of loans and receivables from banks	12	(6)	-
Decreases/(increases) of expected credit loss of loans and receivables from customers	15	17	(430)
(Increases) of expected credit loss of financial assets measured at amortized cost	17	(10)	(1)
Decreases/(increases) of expected credit loss of investments measured through other comprehensive income	16	7	(14)
(Increases) of expected credit loss of other asset	22	(6)	(7)
(Increases) of Litigation provisions	27	(75)	(54)
Decreases of expected credit loss of contingent liabilities and commitments	30	28	7
Decreases in provisions for other liabilities	27	2	-
		(43)	**(499)**

The loss allowance for expected credit losses classified in Stage 1 and Stage 2, from the total loss allowance for expected credit losses, amounts to HRK 78 million (2020: HRK 191 million). Loss related to Stage 3 amounts to HRK 53 million (2020: loss of HRK 248 million).
In accordance with the transition Decision of the CNB, as of 1 January 2020 the requirement to maintain the minimum of 0.8% total expected credit loss for exposures classified in Stage 1 and Stage 2 was abolished.
This abolishment resulted in a release of HRK 106 million. However, as loss allowance for expected credit loss increased due to a recalibration of risk parameters, resulting in an increase by HRK 222 million.

The Group still recognizes additional 5% of loss allowance for expected credit losses for every 180 days past due for default exposures, in accordance with the CNB's Decision. Quantitative effect of the overlay described above in 2021 amounts to HRK 7.3 million (2020: HRK 4 million).

Total increase of impairment allowance for expected credit losses on loans and receivables from customers in 2020 include collected written-off receivables from previous years related to receivables from Fortenova Group (former Agrokor), which were collected from Societe Generale, France in accordance with the Agreement on the purchase of the former Splitska banka d.d. in the amount of HRK 75 million.

(All amounts are expressed in millions of HRK)

11. TAXATION

(a) Income tax expense recognised in profit or loss

	2021	2020
Current income tax	125	96
Net deferred tax (credit)/charge	34	(32)
	159	**64**

(b) Tax calculated at the legally prescribed rate of 18%

	2021	2020
Profit before tax	**830**	**341**
Tax at the statutory rate of 18%	**153**	**60**
Non-taxable income, net of expenses not recognised for tax purposes	17	13
Non-deductible tax expense - VISA	-	(2)
Expenses not tax deductible until realization	44	85
Utilisation of tax losses from previous years	(89)	(60)
Current income tax	**125**	**96**
Deferred tax on expenses not tax deductible until realization	(44)	(85)
Deferred tax on utilisation of tax losses from previous years that were not tax deductible	89	60
Deferred tax at fair value from integration with Splitska banka	(11)	(7)
Deferred tax	**34**	**(32)**
Current year income tax recognised in profit and loss	**159**	**64**
Effective tax rate	19.20%	18.77%

Deferred tax related to the reclassification of VISA shares for the portion of fair value for which deferred tax was formed in the former Splitska banka amounts to HRK 2 million. In 2020, this deferred tax was reclassified from deferred tax liability to current tax liability.

Current tax liabilities amount to HRK 125 million (2020: HRK 100 million), and advance payments of HRK 116 million were paid in 2021, and an additional payments from 2020 in the amount of HRK 7 million was used in 2021 (in 2020: HRK 252 million which contains total advances paid in the amount of HRK 107 million and the payment of taxes from 2019 in the amount of HRK 145 million), whereby the income tax liability as at 31 December 2021 amounts to HRK 2 million (2020: HRK 7 million).

(All amounts are expressed in millions of HRK)

11. TAXATION (CONTINUED)

	Deferred loan origination fees	Provision according to Note 27	Negative fair values at financial assets measured at fair value through profit or loss	Impairment of investments in subsidiaries and impairment of tangible assets held for sale	Unrealised gains/(losses) on securities at OCI	Unrealized gains / (losses) at fair value from integration with Splitska banka	Other	Total
Balance at 31 December 2020	**12**	**40**	**61**	**3**	**(34)**	**(23)**	**37**	**96**
Through profit or loss	-	(1)	(48)	1	-	11	3	(34)
Through other comprehensive income	-	-	-	-	5	-	-	5
Through retained earnings (tax on gain from bargain purchase)	-	-	-	-	-	-	-	-
Balance at 31 December 2021	**12**	**39**	**13**	**4**	**(29)**	**(12)**	**40**	**67**

The amounts under Other consist of deferred tax assets of HRK 12 million based on provisions for severance and employee retention and HRK 12 million based on expenses for which the Group has not received invoices by the reporting date and HRK 16 million on the basis of impairment of receivables in the leasing company.

(All amounts are expressed in millions of HRK)

11. TAXATION (CONTINUED)

	Deferred loan origination fees	Provision according to Note 27	Negative fair values at financial assets measured at fair value through profit or loss	Impairment of investments in subsidiaries and impairment of tangible assets held for sale	Unrealised gains/(losses) on securities at OCI	Unrealized gains / (losses) at fair value from integration with Splitska banka	Other	Total
Balance at 31 December 2019	**12**	**42**	**42**	**3**	**(51)**	**(30)**	**29**	**47**
Through profit or loss	-	(2)	19	-	-	7	8	32
Through other comprehensive income	-	-	-	-	12	-	-	12
Through retained earnings (tax on gain from bargain purchase)	-	-	-	-	5	-	-	5
Balance at 31 December 2020	**12**	**40**	**61**	**3**	**(34)**	**(23)**	**37**	**96**

The amounts under Other consist of deferred tax assets of HRK 11 million based on provisions for severance and employee retention and HRK 13 million based on expenses for which the Group has not received invoices by the reporting date and HRK 13 million on the basis of impairment of receivables in the leasing company.

(All amounts are expressed in millions of HRK)

12. CASH, CURRENT ACCOUNTS WITH BANKS AND BALANCES WITH CROATIAN NATIONAL BANK

	31/12/2021	31/12/2020
Cash in hand	730	663
Current account balance	4,536	2,128
FX settlement account with the CNB	5	53
Current accounts with foreign banks	1,816	2,583
Current accounts with domestic banks	34	132
Assets included in cash and cash equivalents (Note 31)	7,121	5,559
Obligatory reserve at the Croatian National Bank	2,205	1,906
	9,326	**7,465**
Impairment on expected credit losses	(6)	**-**
	9,320	**7,465**

Foreign currency settlement account with the CNB is an account the Bank has opened for the purpose of settlement of national and cross-border payment transactions in euro in real time via TARGET2. The TARGET2-HR national component commenced production on 1 February 2016 in accordance with the National Migration Plan to SEPA. By including the component, TARGET2-HR becomes the twenty-fifth component of the TARGET2 payment system. Participants in the TARGET2-HR component are the Croatian National Bank and credit institutions that have signed a participation agreement. The Croatian National Bank accrues interest on the PM account in the TARGET2-HR system, which is 0.25% higher than the reference ECB deposit interest rate on excess foreign currency liquidity in excess of its foreign currency reserve obligation.

Due to the nature of the receivables, on assets with the CNB Bank does not allocate impairment on expected credit loss since expected credit loss is insignificant.

(All amounts are expressed in millions of HRK)

12. CASH, CURRENT ACCOUNTS WITH BANKS AND BALANCES WITH CROATIAN NATIONAL BANK (CONTINUED)

2021.

Movement in gross carrying amount:

	Stage 1	Stage 2	Stage 3	POCI	Total
Balance at 31 December 2020	**7,465**	**-**	**-**	**-**	**7,465**
Net new approvals	1,861	-	-	-	1,861
Balance at 31 December 2021	**9,326**	**-**	**-**	**-**	**9,326**

Movement in provisions for impairment:

	Stage 1	Stage 2	Stage 3	POCI	Total
Balance at 31 December 2020	**-**	**-**	**-**	**-**	-
Net increase	6	-	-	-	6
Balance at 31 December 2021	**6**	**-**	**-**	**-**	**6**

(All amounts are expressed in millions of HRK)

13. LOANS AND RECEIVABLES FROM BANKS

	31/12/2021	31/12/2020
Short-term placements with other banks	35	336
Impairment on expected credit losses	-	(2)
	35	**334**

Loans and receivables from other banks are measured at amortised cost.

2021
Movement in gross carrying amount:

	Stage 1	Stage 2	Stage 3	POCI	Total
Balance at 31 December 2020	**334**	**-**	**2**	**-**	**336**
Net (derecognition)	(299)	-	(2)	-	(301)
Balance at 31 December 2021	**35**	**-**	**-**	**-**	**35**

Movement in loss allowance for expected credit losses:

	Stage 1	Stage 2	Stage 3	POCI	Total
Balance at 31 December 2020	**-**	**-**	**2**	**-**	**2**
Net (derecognition)	-	-	-	-	-
Write of			(2)	-	(2)
Balance at 31 December 2021	**-**	**-**	**-**	**-**	**-**

2020
Movement in gross carrying amount:

	Stage 1	Stage 2	Stage 3	POCI	Total
Balance at 31 December 2019	**855**	**-**	**2**	**-**	**857**
Net (decrease)	(516)	-	-	-	(516)
Discontinued operations	(5)	-	-	-	(5)
Balance at 31 December 2020	**334**	**-**	**2**	**-**	**336**
				-	

Movement in loss allowance for expected credit losses:

	Stage 1	Stage 2	Stage 3	POCI	Total
Balance at 31 December 2019	**-**	**-**	**2**	**-**	**2**
Net (decrease)	-	-	-	-	-
Balance at 31 December 2020	**-**	**-**	**2**	**-**	**2**

(All amounts are expressed in millions of HRK)

14. FINANCIAL ASSET AND LIABILITIES AT FAIR VALUE THROUGH PROFIT OR LOSS

	31/12/2021	31/12/2020
Units in open-end investment funds managed by affiliated persons	160	157
Bonds issued by the Republic of Croatia, listed on the market	129	95
Other securities measured at fair value through profit or loss	-	92
Derivative financial assets	92	70
VISA International Series C preferred stock	39	37
Hedge Accounting	-	3
Loans	6	23
	426	**477**
Financial liabilities		
Derivative financial liabilities	80	122
	80	**122**

During 2016, the Group acquired VISA International Series C preference shares and classified them as available-for-sale financial instruments in accordance with IAS 39.
In accordance with IFRS 9, from 1 January 2018, the Group measures the respective shares at fair value through other comprehensive income and accordingly they are presented in the financial statements in Note 16.
In accordance with the nature and characteristics of the preferred share of VISA International Series C, and the variability in the conversion factor, which changed compared to the comparable period, the Group reviewed the classification of mentioned share in 2020 and identified that the preferred shares of VISA International Series C due to changes in variability in the conversion factor no longer meets the previous requirements for classification in accordance with IAS 32 - Presentation.
The change of classification was executed in accordance with IAS 8 (Accounting Policies, Changes in Accounting Estimates and Errors) as of 30 June 2020, when a preferred share of VISA International Series C was classified as a security that must be measured at fair value through profit or loss.
Financial assets measured at fair value through profit or loss amounts to:
- Total effect through other comprehensive income (Note 29) - a decrease of HRK 33 million
- Effect shown through profit or loss (Note 6a) - an increase of HRK 33 million
- The effect shown through retained earnings (Note 29) - an increase of HRK 5 million
- Current and deferred tax liability – a decrease of HRK 6 million

Visa Inc. is obliged to partially convert the preferred share of Visa International Series C into Visa tradeable shares. In this context, on 24 September 2020, VISA Inc. reduced the conversion factor for Visa Series C preferred shares from 13,722 to 6,861, while each holder of a share of preferred stock will receive a number of shares of Series A preferred stock equal to the applicable conversion adjustment divided by 100. The Group classified the Series A preferred stock as Financial assets at fair value through other comprehensive income (Note 16).

During 2021, there were no status changes for the preferred share of Visa International Series C.

Other securities measured at fair value through profit or loss relate to Fortenova's securities acquired in the process of restructuring the Agrokor Group which were sold for HRK 135 million in June 2021. The effect of sales is presented in Note 6 a).

(All amounts are expressed in millions of HRK)

14. FINANCIAL ASSET AND LIABILITIES AT FAIR VALUE THROUGH PROFIT OR LOSS (CONTINUED)

(a) Derivative financial asset and liabilities

			2021			**2020**
	Asset	**Liabilities**	**Contracted amount**	**Asset**	**Liabilities**	**Contracted amount**
Derivatives held for trading						
FX Swap and Forwards	66	54	6,802	44	96	5,772
Interest rate swap	26	20	803	26	20	896
Derivatives – fair value hedge						
Interest rate swap	-	4	38	-	6	38
Derivatives used to hedge cash flow						
Option	-	2	2	-	-	-
	92	**80**	**7,645**	**70**	**122**	**6,706**

Derivative financial instruments held for trading allow the Group and its clients to transfer, modify or reduce the currency and / or interest rate risk. In addition to standard currency derivatives (primarily forwards) used to manage currency risk, the Group also contracts interest rate swaps to minimize the risk of interest rate fluctuations. The Group does not use hedge accounting other than for individual derivatives disclosed in this note. All derivatives have been agreed on the OTC market.

(All amounts are expressed in millions of HRK)

15. LOANS AND RECEIVABLES FROM CUSTOMERS

Analysis by type of product

	31/12/2021	**31/12/2020**
Kuna-denominated		
Retail customers	20,224	18,025
Corporate customers	13,597	13,307
Foreign-currency denominated		
Retail customers	71	96
Corporate customers	3,241	2,998
Total gross loans and receivables	**37,133**	**34,426**
Impairment for expected credit losses	(2,443)	(2,629)
	34,690	**31,797**

Included in the loans and receivables from customers are loans incorporating a currency clause, linked to euro (EUR), Swiss franc (CHF) and US dollar (USD), which amount to HRK 16,491 million (2020: HRK 14,908 million). Repayments of principal and interest are determined in the foreign currency and paid in the kuna-equivalent amount translated at the foreign exchange rate applicable on the date of payment.
Deferred loan origination fees included in the gross loan balance amount to HRK 39 million (2020: HRK 46 million).

2021
Movement in gross carrying amount:

	Stage 1	**Stage 2**	**Stage 3**	**POCI**	**Total**
Balance as at 31 December 2020	**26,275**	**4,616**	**2,818**	**717**	**34,426**
Net new approvals / (termination) of recognition	3,861	(411)	(364)	(193)	2,893
Transfer to Stage 1	1,215	(1,185)	(30)	-	-
Transfer to Stage 2	(1,550)	1,687	(137)	-	-
Transfer to Stage 3	(198)	(255)	453	-	-
Sale of receivables*	-	-	(96)	(13)	(109)
Written off	-	-	(77)	-	(77)
Balance as at 31 December 2021	**29,603**	**4,452**	**2,567**	**511**	**37,133**

**The amounts are shown in the gross amount of the sale on the date of payment of the purchase price*

(All amounts are expressed in millions of HRK)

15. LOANS AND RECEIVABLES FROM CUSTOMERS (CONTINUED)

Movement in impairment for expected credit losses:

	Stage 1	Stage 2	Stage 3	POCI	Total
Balance as at 31 December 2020	**217**	**275**	**1,529**	**608**	**2,629**
Net new approvals / (termination) of recognition	(28)	5	156	(144)	(11)
Transfer to Stage 1	63	(56)	(7)	-	-
Transfer to Stage 2	(15)	52	(37)	-	-
Transfer to Stage 3	(2)	(24)	26	-	-
Exchange differences	-	-	(1)	-	(1)
Increase due to change of parameters (COVID)	(71)	9	39	-	(23)
Moratorium extension (COVID)	-	-	17	-	17
Sale of receivables*	-	-	(82)	(13)	(95)
Written off	-	-	(73)	-	(73)
Balance as at 31 December 2021	**164**	**261**	**1,567**	**451**	**2,443**

** Amounts are shown in gross sales amount on the date of payment of the purchase price*

2020

Movement in gross carrying amount:

	Stage 1	Stage 2	Stage 3	POCI	Total
Balance as at 31 December 2019	**25,705**	**3,159**	**1,737**	**815**	**31,416**
Net new approvals / (termination) of recognition	2,921	251	(2)	(61)	3,109
Transfer to Stage 1	1,085	(1,043)	(42)	-	-
Transfer to Stage 2*	(2,656)	2,737	(81)	-	-
Transfer to Stage 3	(780)	(488)	1,268	-	-
Sale of receivables**	-	-	(18)	(15)	(33)
Written off	-	-	(44)	(22)	(66)
Balance as at 31 December 2020	**26,275**	**4,616**	**2,818**	**717**	**34,426**

** HRK 469 million transferred from Stage 1 to Stage 2 refers to loans to households with financial difficulties with the earthquake-stricken area*
***The amounts are shown in the gross amount of the sale on the date of payment of the purchase price*

(All amounts are expressed in millions of HRK)

15. LOANS AND RECEIVABLES FROM CUSTOMERS (CONTINUED)

Movement in impairment for expected credit losses:

	Stage 1	Stage 2	Stage 3	POCI	Total
Balance as at 31 December 2019	**215**	**109**	**1,146**	**719**	**2,189**
Net new approvals / (termination) of recognition	(74)	69	251	(75)	171
Transfer to Stage 1	38	(26)	(12)	-	-
Transfer to Stage 2**	(37)	55	(18)	-	-
Transfer to Stage 3	(6)	(29)	35	-	-
Exchange differences	1	1	7	-	9
Increase due to change of parameters (COVID)	80	96	34	-	210
Moratorium extension (COVID)	-	-	112	-	112
Implementation of a new definition of default	-	-	30	-	30
Sale of receivables*	-	-	(17)	(14)	(31)
Written off	-	-	(39)	(22)	(61)
Balance as at 31 December 2020	**217**	**275**	**1,529**	**608**	**2,629**

***** *Amounts are shown in gross sales amount on the date of payment of the purchase price*
*** HRK 20 million transferred from Stage 1 to Stage 2 refers to loans to households with financial difficulties with the earthquake-stricken area*

(All amounts are expressed in millions of HRK)

15. LOANS AND RECEIVABLES FROM CUSTOMERS (CONTINUED)

Concentration of loans and receivables from customers by industry:

	31/12/2021	**31/12/2020**
Public administration and defence	3,133	3,337
Construction	2,388	2,176
Manufacturing industries	2,320	2,471
Wholesale and retail trade, repair of motor vehicles and motorcycles	1,967	1,976
Accommodation and food service activities	1,521	1,451
Transport and storage	1,208	1,239
Electricity, gas, steam and air conditioning supply	776	289
Administrative and support service activities	697	713
Agriculture, forestry and fisheries	622	506
Professional, scientific and technical activities	521	627
Information and communication	399	223
Water supply; wastewater disposal; waste management and environmental remediation activities	285	319
Health and social work activities	249	251
Real estate activities	245	321
Financial and insurance activities	235	131
Other services	123	114
Mining and quarrying	74	74
Arts, entertainment and recreation	42	52
Education	33	35
Total corporate loans	16,838	16,305
Retail customers	20,295	18,121
	37,133	**34,426**
Impairment allowance	(2,443)	(2,629)
	34,690	**31,797**

Industry sectors are defined according to the structure of the FINREP report.

(All amounts are expressed in millions of HRK)

16. FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

	31/12/2021	31/12/2020
Equity securities	92	87
Debt securities	5,818	5,526
	5,910	**5,613**

(a) Equity securities

	31/12/2021	31/12/2020
Listed	88	83
Unlisted	4	4
	92	**87**

This note includes equity securities that are not held for trading nor are acquired through acquisitions to which IFRS 3 applies. In accordance with OTP Bank Nyrt policies, they are held at fair value through other comprehensive income – the option of fair value through other comprehensive income.

Unlisted equity securities are recorded at investment cost and their fair value amount to HRK 4 million (2020: HRK 4 million). In 2021, the Group introduced an internal model for calculating the fair value of unlisted equity securities that are not quoted on the financial market and for which there is no market or price disclosure. Given the portfolio that the Bank has and the motive for its presence in the Bank's balance sheet, the most appropriate valuation method (internal model) is the residual income method.
Residual income is recognized as net income less opportunity costs incurred, in this case, by owning a stake in a particular economic entity. From the position of the economic entity (the company) it is the residual, part of the income after the calculation of the cost of capital of the company.

Other listed equity securities for which fair value can be measured reliably are held at fair value through other comprehensive income – the option of fair value through other comprehensive income. The equity shares valuation method is explained in Note 40.

The impact of changes in fair value through other comprehensive income is disclosed in Note 29 and 17b.

During June 2020, the Bank reclassified the preferred share of VISA International Series C out of financial assets at fair value through other comprehensive income (Note 17) to financial assets at fair value through profit or loss (Note 14). A more detailed description is given in Note 14.

The Group received dividends of HRK 771 thousand from VISA International in 2021 (2020: HRK 720 thousand). The equity ownership in VISA International is listed.

For other equity securities shown in Note 17, the Group received a dividend in the amount of HRK 4 thousand in 2021 (2020: HRK 8 thousand).

16. FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME (CONTINUED)

Overview of the Group's investments in equity securities with a breakdown of listed and unlisted securities on 31 December 2021 and 2020 is given below.

Company name	Type of investment	Listed/unlisted
VISA International (Series A)	Preferential share	listed
VISA International (Series C)	Ordinary share	listed
Zagrebačka burza d.d.	Ordinary share	listed
Hrvatski nogometni klub Hajduk Split š.d.d.	Ordinary share	unlisted
Hrvatski registar obveza po kreditima d.o.o.	Investment in ltd.	unlisted
Istarska autocesta d.o.o.	Investment in ltd.	unlisted
Središnje klirinško depozitarno društvo d.d.	Ordinary share	unlisted
SWIFT-Fortis Bank	Preferential share	unlisted
Tržište novca d.d.	Ordinary share	unlisted

During 2021, Tržište novca d.d. was liquidated. The amount of HRK 1.3 million was paid to the Group from the Company's liquidation assets, the Group's nominal contribution to the Company was HRK 0.7 million and the Group made a net profit of HRK 0.6 million during the Company's liquidation which is included in other comprehensive income.

(All amounts are expressed in millions of HRK)

16. FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME (CONTINUED)

(b) Debt securities

	31/12/2021	31/12/2020
Bonds of the Croatian Ministry of Finance	3,314	3,550
Foreign government bonds	536	603
Total listed securities	**3,850**	**4,153**
Treasury bills of the Croatian Ministry of Finance	1,053	1,373
Treasury bills of the National Bank of Hungary	915	-
Total unlisted securities	**1,968**	**1,373**
	5,818	**5,526**

The Group classifies debt securities that it intends to hold for collection or sale, and which have met the requirements of the SPPI test, in financial assets measured at fair value through other comprehensive income. The SPPI test is performed on homogeneous groups of securities.
Treasury bills of the Republic of Croatia include short-term HRK and foreign currency long-term bills. In December 2021, the Group purchased short-term treasury bills of the National Bank of Hungary.
Bonds of the Republic of Croatia include long-term HRK, currency and bonds in a currency clause.
In 2021 foreign government bonds include the long-term currency bonds Hungary and Romania (in 2020 the long-term currency bonds of Hungary and Romania).

2021
Movement of gross carrying amount of debt securities:

	Stage 1	Stage 2	Stage 3	POCI	Total
Balance at 31 December 2020	**5,526**	**-**	**-**	**-**	**5,526**
Net new approvals / (termination of recognition)	292	-	-	-	292
Balance at 31 December 2021	**5,818**	**-**	**-**	**-**	**5,818**

Movement of impairment for expected credit losses through other capital reserves (Note 29):

	Stage 1	Stage 2	Stage 3	POCI	Total
Balance at 31 December 2020	**19**	**-**	**-**	**-**	**19**
Net new approvals / (termination of recognition)	(8)	-	-	-	(8)
Increase due to parameter change (COVID)	1	-	-	-	1
Balance at 31 December 2021	**12**	**-**	**-**	**-**	**12**

(All amounts are expressed in millions of HRK)

16. FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME (CONTINUED)

2020

Movement of gross carrying amount of debt securities:

	Stage 1	Stage 2	Stage 3	POCI	Total
Balance at 31 December 2019	**6,187**	**-**	**-**	**-**	**6,187**
Net new approvals / (termination of recognition)	(591)	-	-	-	(591)
Discontinued operations	(70)				(70)
Balance at 31 December 2020	**5,526**	**-**	**-**	**-**	**5,526**

Movement of impairment for expected credit losses through other capital reserves (Note 29):

	Stage 1	Stage 2	Stage 3	POCI	Total
Balance at 31 December 2019	**6**	**-**	**-**	**-**	**6**
Net new approvals / (termination of recognition)	12	-	-	-	12
Increase due to parameter change (COVID)	1	-	-	-	1
Balance at 31 December 2020	**19**	**-**	**-**	**-**	**19**

(All amounts are expressed in millions of HRK)

17. FINANCIAL ASSETS MEASURED AT AMORTISED COST

	31/12/2021	31/12/2020
Receivables for unissued bonds of the Republic of Croatia	-	17
Corporate Bonds	363	237
Corporate bills of exchange	2	2
	365	**256**
Impairment for expected credit losses	(13)	(20)
	352	**236**

In financial assets measured at amortized cost, the Group classifies debt securities that it intends to hold for collection, and which have met the requirements of the SPPI test.

The SPPI test is performed on homogeneous groups of securities.

Receivables for unissued Bonds of the Republic of Croatia at 31 December 2020 refer to receivables arising from the purchase of socially-owned apartments for which the Republic of Croatia has never officially issued bonds, and accordingly the Group made a 100% loss allowance for the entire amount of receivables. In 2021, the Group wrote off the entire amount of impairment receivables based on the Supreme Court Decision No. Rev 2842/13-2.

(All amounts are expressed in millions of HRK)

17. FINANCIAL ASSETS MEASURED AT AMORTISED COST (CONTINUED)

2021

Movement in gross carrying amount:

	Stage 1	Stage 2	Stage 3	POCI	Total
Balance at 31 December 2020	**238**	**-**	**18**	**-**	**256**
Net new approvals/(derecognition)	126	-	-	-	126
Transfer to Stage 1	-	-	-	-	-
Transfer to Stage 2	(152)	152	-	-	-
Transfer to Stage 3	-	-	-	-	-
Write off	-	-	(17)	-	(17)
Balance at 31 December 2021	**212**	**152**	**1**	**-**	**365**

Movement in impairment for expected credit losses:

	Stage 1	Stage 2	Stage 3	POCI	Total
Balance at 31 December 2020	**3**	**-**	**17**	**-**	**20**
Net new approvals/(derecognition)	1	18	-	-	19
Transfer to Stage 1	-	-	-	-	-
Transfer to Stage 2	(2)	2	-	-	-
Transfer to Stage 3	-	-	-	-	-
Increase/(decrease) due to parameter change (COVID)	-	(9)	-	-	(9)
Write off	-	-	(17)	-	(17)
Balance at 31 December 2021	**2**	**11**	**-**	**-**	**13**

(All amounts are expressed in millions of HRK)

17. FINANCIAL ASSETS MEASURED AT AMORTISED COST (CONTINUED)

2020

Movement in gross carrying amount:

	Stage 1	Stage 2	Stage 3	POCI	Total
Balance at 31 December 2019	**257**	**-**	**16**	**-**	**273**
Net new approvals / (termination of recognition)	4	-	-	-	4
Discontinued operations	(21)				(21)
Transfer to Stage 1	-	-	-	-	-
Transfer to Stage 2	-	-	-	-	-
Transfer to Stage 3	(2)	-	2	-	-
Balance at 31 December 2020	**238**	**-**	**18**	**-**	**256**

Movement in impairment for expected credit losses:

	Stage 1	Stage 2	Stage 3	POCI	Total
Balance at 31 December 2019	**3**	**-**	**16**	**-**	**19**
Net new approvals / (termination of recognition)	-	-	1	-	1
Transfer to Stage 1	-	-	-	-	-
Transfer to Stage 2	-	-	-	-	-
Transfer to Stage 3	-	-	-	-	-
Balance at 31 December 2020	**3**	**-**	**17**	**-**	**20**

(All amounts are expressed in millions of HRK)

18. PROPERTY AND EQUIPMENT

Assets recorded in accordance with IAS 16

	Land and buildings	Computers	Furniture and equipment	Motor vehicles and other	Assets under construction	Total
Cost						
Balance at 1 January 2020	**717**	**168**	**221**	**541**	**48**	**1,695**
Transfer from assets under construction	14	24	8	2	(48)	-
Increases	2	1	2	71	38	114
Reclassification in Investment property	(15)	-	-	-	-	(15)
Reclassification in Asset under construction	(28)	-	-	-	-	(28)
Transfer to inventory (Note 22)	-	-	-	(65)	-	(65)
Transfer to finance lease (Note 15)	-	-	-	(5)	-	(5)
Decrease due to sale	(18)	-	(9)	(120)	(1)	(148)
Decrease due to write-off	(1)	(8)	(11)	-	-	(20)
Discontinued operations	-	(2)	-	-	-	(2)
Balance at 31 December 2020	**671**	**183**	**211**	**424**	**37**	**1,526**
Balance at 1 January 2021	**671**	**183**	**211**	**424**	**37**	**1,526**
Transfer from assets under construction	15	26	7	0	(48)	-
Increases	1	1	-	97	43	142
Reclassification in Investment property	(65)	-	-	-	-	(65)
Reclassification in Asset under construction	(4)	-	-	-	-	(4)
Transfer to inventory (Note 22)	-	-	-	(1)	-	(1)
Transfer to finance lease (Note 15)	-	-	-	(9)	-	(9)
Decrease due to sale	-	-	(6)	(122)	-	(128)
Decrease due to write-off	(8)	(3)	(12)	-	-	(23)
Discontinued operations	-	-	-	-	-	-
Balance at 31 December 2021	**610**	**207**	**200**	**389**	**32**	**1,438**

(All amounts are expressed in millions of HRK)

18. PROPERTY AND EQUIPMENT (CONTINUED)

Assets recorded in accordance with IAS 16 (continued)

	Land and buildings	Computers	Furniture and equipment	Motor vehicles and other	Assets under construction	Total
Value adjustment and impairment						
Balance at 1 January 2020	**295**	**106**	**160**	**219**	**-**	**780**
Depreciation expense for the current year	26	29	21	68	-	144
Impairment	1	-	(3)	-	-	(2)
Reclassification in Investment property	(1)	-	-	-	-	(1)
Transfer to inventory (Note 22	-	-	-	(38)	-	(38)
Transfer to finance lease (Note 15)	-	-	-	(1)	-	(1)
Decrease due to sale	(17)	-	(5)	(75)	-	(97)
Decrease due to write-off	(1)	(8)	(11)	-	-	(20)
Discontinued operations	-	(1)	-	-	-	(1)
Balance at 31 December 2020	**303**	**126**	**162**	**173**	**-**	**764**
Balance at 1 January 2021	**303**	**126**	**162**	**173**	**-**	**764**
Depreciation expense for the current year	26	30	18	56	-	130
Impairment	7	-	(2)	(2)	-	3
Reclassification in Investment property	(24)	-	-	-	-	(24)
Transfer to inventory (Note 22)	-	-	-	(1)	-	(1)
Transfer to finance lease (Note 15)	-	-	-	(5)	-	(5)
Reclassification in Assets held for sale	(2)	-	-	-	-	(2)
Decrease due to sale	-	-	(4)	(73)	-	(77)
Decrease due to write-off	(8)	(3)	(12)	-	-	(23)
Balance at 31 December 2021	**302**	**153**	**162**	**148**	**-**	**765**
Net carrying amount						
Balance at 31 December 2020	**368**	**57**	**49**	**251**	**37**	**762**
Balance at 31 December 2021	**308**	**54**	**38**	**241**	**32**	**673**

The Group did not pledge any property as collateral for borrowings.

The Group's assets and equipment include assets leased under a net carrying amount of HRK 219 million (2020: HRK 250 million).

(All amounts are expressed in millions of HRK)

19. ASSETS AND LIABILITIES CLASSIFIED IN ACCORDANCE WITH IFRS 16

Right-to-use assets

	Land and buildings	Furniture and equipment	Motor vehicles and other	Total
Balance at 1 January 2020	**123**	**5**	**3**	**131**
New contracts	39	-	1	40
Contract modifications	(5)	(5)	-	(10)
Expired contracts	(4)	-	-	(4)
Discontinued operations	(2)	-	-	(2)
Balance at 31 December 2020	**151**	**-**	**4**	**155**
Balance at 1 January 2021	**151**	**-**	**4**	**155**
New contracts	21	-	1	22
Contract modifications	10	-	-	10
Expired contracts	(3)	-	-	(3)
Balance at 31 December 2021	**179**	**-**	**5**	**184**
Balance at 1 January 2020	**26**	**2**	**1**	**29**
Depreciation expense for the current year	30	-	1	31
Contract modifications	(3)	(2)	-	(5)
Expired contracts	(4)	-	-	(4)
Discontinued operations	(1)	-	-	(1)
Balance at 31 December 2020	**48**	**-**	**2**	**50**
Balance at 1 January 2021	**48**	**-**	**2**	**50**
Depreciation expense for the current year	30	-	1	31
Contract modifications	(3)	-	(1)	(4)
Expired contracts	(3)	-	-	(3)
Balance at 31 December 2021	**72**	**-**	**2**	**74**
Net carrying amount				
Balance at 31 December 2020	**103**	**-**	**2**	**105**
Balance at 31 December 2021	**107**	**-**	**3**	**110**

The table below present an overview of expenses related to payments which are not included in the measurement of the lease liability in accordance with IFRS 16 but are included and disclosed in Note 8 *Other operating expenses*, position *Professional services and material costs*

	31/12/2021	31/12/2020
Short-term leases	1	1
Variable leases payments	1	2
Total	**2**	**3**

(All amounts are expressed in millions of HRK)

19. ASSETS AND LIABILITIES CLASSIFIED IN ACCORDANCE WITH IFRS 16 (CONTINUED)

a) Lease liabilities classified under IFRS 16

At 31 December 2021, lease liabilities amounted to HRK 111 million (2020: HRK 107 million). The opening balance as of 1 January 2020 amounted to HRK 105 million.

Lease liabilities IFRS 16 - residual maturity (undiscounted amount):

2021	**Up to 1 month**	**1 to 3 months**	**3 months to 1 year**	**1 to 3 years**	**Over 3 years**	**Total**
Total lease liabilities	3	7	19	57	28	**114**
2020	**Up to 1 month**	**1 to 3 months**	**3 months to 1 year**	**1 to 3 years**	**Over 3 years**	**Total**
Total lease liabilities	1	8	18	54	31	**112**

(All amounts are expressed in millions of HRK)

20. INVESTMENT PROPERTY

Cost	
Balance at 1 January 2020	**123**
Reclassification from property under IAS 16 (Note 18)	15
Reclassification in property under IAS 16 (Note 23)	(4)
Write off	-
Balance at 31 December 2020	**134**
Balance at 1 January 2021	**134**
Increase	2
Reclassification from property under IAS 16 (Note 18)	65
Reclassification in property under IAS 16 (Note 23)	-
Decrease due to sale	(5)
Balance at 31 December 2021	**196**
Impairment	
Balance at 1 January 2020	**24**
Reclassification from property under IAS 16 (Note 18)	1
Depreciation expense for the current year	3
Disposals and retirements	-
Balance at 31 December 2020	**28**
Balance at 1 January 2021	**28**
Reclassification from property under IAS 16 (Note 18)	24
Depreciation expense for the current year	3
Disposals and retirements	-
Balance at 31 December 2021	**55**
Net carrying amount	
Balance at 31 December 2020	**106**
Balance at 31 December 2021	**141**

Investment property includes real estate not used by the Group for operational purposes, but assets intended for sale or lease. The Group shall reclassify the assets it intends to sell in accordance with IFRS 5 when all of the requirements prescribed by said IFRS are met. Assets held for sale are presented in Note 23. The total fair value of investment property is HRK 166 million (2020: HRK 112 million). Fair value is measured by independent up-to-date assessments of external appraisers.

(All amounts are expressed in millions of HRK)

21. INTANGIBLE ASSETS

	Software	Contracts with clients	Asset acquired but not brought into use	Total
Cost				
Balance at 1 January 2020	**379**	**283**	**12**	**674**
Transfer from assets under development	25	-	(25)	-
Increases	1	-	22	23
Decrease due to the write-off	(8)	-	-	(8)
Discontinued operations	(3)	-	-	(3)
Balance at 31 December 2020	**394**	**283**	**9**	**686**
Balance at 1 January 2021	**394**	**283**	**9**	**686**
Transfer from assets under development	19	-	(19)	-
Increases	2	-	26	28
Decrease due to the write-off	(29)	-	(2)	(31)
Balance at 31 December 2021	**386**	**283**	**14**	**683**
Impairment and amortization				
Balance at 1 January 2020	**333**	**175**	**-**	**508**
Amortization expense for the current year	18	40	-	58
Decrease due to the write-off	(8)	-	-	(8)
Discontinued operations	(2)	-	-	(2)
Balance at 31 December 2020	**341**	**215**	**-**	**556**
Balance at 1 January 2021	**341**	**215**	**-**	**556**
Amortization expense for the current year	22	29	-	51
Decrease due to the write-off	(29)	-	-	(29)
Balance at 31 December 2021	**334**	**244**	**-**	**578**
Net carrying amount				
Balance at 31 December 2020	**53**	**68**	**9**	**130**
Balance at 31 December 2021	**52**	**39**	**14**	**105**

For 2020, the stocks Investments in other people's assets were reclassified from the note Intangible assets (note 21) to the note Property and equipment (note 18), the effects of which are presented in more detail in note 2.31.

(All amounts are expressed in millions of HRK)

22. OTHER ASSETS

	31/12/2021	31/12/2020
Other financial assets		
Accounts receivable	91	124
Accrued fees and commissions	54	54
Receivables in respect of credit card operations	54	65
Operating lease receivables	19	27
Receivables for advances given under financial leasing	18	24
Value added tax receivables	-	31
Other assets subject to impairment in accordance with IFRS 9	**236**	**325**
Impairment for expected credit losses:	(57)	(57)
Net other assets after impairment	**179**	**268**
Other non-financial assets		
Asset taken in lieu for uncollected receivables	1	1
Prepaid expenses	24	18
Other	15	12
Other non-financial assets (not subject to impairment in accordance with IFRS 9)	**40**	**31**
	219	**299**

In 2020 the significant part of the Assets taken over in exchange for uncollected receivables is in the process of sale. For these assets, the conditions for classification as assets held for sale were met and, accordingly, in 2020 it was reclassified from Note 22 *Other non-financial assets* to Note 23 *Assets held for sale*. All sales of assets that were classified as Assets held for sale were realized during 2021.

(All amounts are expressed in millions of HRK)

22. OTHER ASSETS (CONTINUED)

2021

Movement in gross carrying amount:

	Stage 1	Stage 2	Stage 3	POCI	Total
Balance at 31 December 2020	**264**	**4**	**57**	**-**	**325**
Net new approvals / (termination of recognition)	(88)	-	8	-	(80)
Transfer to Stage 1	4	(3)	(1)	-	-
Transfer to Stage 2	(3)	3	-	-	-
Transfer to Stage 3	(2)	-	2	-	-
Write off	-	-	(9)	-	(9)
Balance at 31 December 2021	**175**	**4**	**57**	**-**	**236**

Impairment for expected credit losses of other financial assets:

	Stage 1	Stage 2	Stage 3	POCI	Total
Balance at 31 December 2020	**2**	**-**	**55**	**-**	**57**
Net increase / (decrease)	(2)	-	8	-	6
Transfer to Stage 1	1	-	(1)	-	-
Transfer to Stage 2	-	-	-	-	-
Transfer to Stage 3	-	-	-	-	-
Write off	-	-	(6)	-	(6)
Balance at 31 December 2021	**1**	**-**	**56**	**-**	**57**

2020

Movement in gross carrying amount:

	Stage 1	Stage 2	Stage 3	POCI	Total
Balance at 31 December 2019	**208**	**-**	**58**	**-**	**266**
Net new approvals / (termination of recognition)	49	12	3	-	64
Discontinued operations	(1)				(1)
Transfer to Stage 1	12	(10)	(2)	-	-
Transfer to Stage 2	(3)	3	-	-	-
Transfer to Stage 3	(1)	(1)	2	-	-
Write off	-	-	(4)	-	(4)
Balance at 31 December 2020	**264**	**4**	**57**	**-**	**325**

(All amounts are expressed in millions of HRK)

22. OTHER ASSETS (CONTINUED)

Impairment for expected credit losses of other financial assets:

	Stage 1	Stage 2	Stage 3	POCI	Total
Balance at 31 December 2019	**3**	**-**	**52**	**-**	**55**
Net increase / (decrease)	(2)	-	9	-	7
Transfer to Stage 1	1	-	(1)	-	-
Transfer to Stage 2	-	-	-	-	-
Transfer to Stage 3	-	-	-	-	-
Write off	-	-	(5)	-	(5)
Balance at 31 December 2020	**2**	**-**	**55**	**-**	**57**

23. ASSETS HELD FOR SALE

The Group reclassifies assets acquired in the course of collection to assets held for sale in accordance with IFRS 5 Non-current Assets Held for Sale and Discontinued Operations.

	31/12/2021	31/12/2020
Real estate in the process of sale	10	5
Assets taken in exchange for uncollected receivables	-	30
Total assets held for sale	**10**	**35**

Real estate in the process of sale includes real estate owned by the Group that was used by the Group for operational purposes, and during 2020, these assets meet all the requirements for classification as assets held for sale. Accordingly, the assets were reclassified from Property and equipment (Note 18) to Assets held for sale (Note 23).

The significant part of the Assets taken over in exchange for uncollected receivables is in the process of sale in 2021. For these assets, the conditions for classification into assets held for sale were met and accordingly reclassified from *Other non-financial assets* (Note 22) to *Assets held for sale* (Note 23).

Changes in non-current assets held for sale:

	2021	2020
Balance at 1 January	35	1
Increase	2	34
Decrease	(27)	-
Value adjustment	-	-
Balance at 31 December	**10**	**35**

(All amounts are expressed in millions of HRK)

24. AMOUNTS DUE TO OTHER BANKS

	31/12/2021	31/12/2020
Demand deposits		
Kuna-denominated	128	145
Foreign-currency denominated	11	15
Term deposits		
Kuna-denominated	-	80
Foreign-currency denominated	677	2.280
	816	**2,520**

25. AMOUNTS DUE TO CUSTOMERS

	31/12/2021	31/12/2020
Retail customers		
Demand deposits		
Kuna-denominated	8,539	6,912
Foreign-currency denominated	12,099	10,129
Term deposits		
Kuna-denominated	1,513	1,581
Foreign-currency denominated	4,937	5,318
	27,088	**23,940**
Corporate customers		
Demand deposits		
Kuna-denominated	8,182	6,692
Foreign-currency denominated	3,195	2,158
Term deposits		
Kuna-denominated	616	405
Foreign-currency denominated	192	726
	12,185	**9,981**
	39,273	**33,921**

(All amounts are expressed in millions of HRK)

26. OTHER BORROWED FUNDS

	31/12/2021	31/12/2020
OTP Financing Malta	3,278	2,301
HBOR (Croatian Bank for Reconstruction and Development)	564	1,038
Ministry of Finance	-	3
Other domestic banks	-	14
Others	2	1
	3,844	**3,357**

Liabilities to OTP Financing Malta include funds borrowed for the purpose of maintaining the minimum Requirement for regulatory capital and liabilities (MREL) in accordance with EU regulations and liabilities for financing leasing operations.

Liabilities to the Croatian Bank for Reconstruction and Development (HBOR) include funds borrowed from HBOR are designated for approving loans to end-beneficiaries – corporate and retail customers – under the programmes supported by HBOR.

Other borrowed fund relates to the commitment to the Fund for financing employment growth in economically inadequately developed and highly migrant areas of the SFRY (former Yugoslavia) to finance employment growth in economically underdeveloped areas. The funds were intended for the establishment of private entities for the returnee from temporary work from the Federal Republic of Germany. These funds were transferred to banks, which were granted to individuals with the irrevocable guarantee of the Fund.

(All amounts are expressed in millions of HRK)

27. PROVISIONS FOR LIABILITIES AND CHARGES

	31/12/2021	31/12/2020
Litigation provision	329	292
Provision for severance and retention payments	55	83
Provision for unused vacations	11	13
Provisions for overpayments and conversion of CHF loans	8	10
	403	**398**
Provisions for off-balance sheet items (note 30)	75	103
	478	**501**

Litigation provision related to legal actions against the Group, i.e. where the Group is the defendant, amount to HRK 329 million (2020: HRK 292 million).
Provisions for litigation are calculated in accordance with IAS 37.
When forming provisions for litigation, the Group also takes into account all criteria prescribed by the CNB's Decision on the obligation to make provisions for litigations conducted against a credit institution (Note 2.24 and Note 3).

Provisions for legal cases for loans in Swiss francs:

Provisions for legal cases regarding the CHF loans are presented within the litigation provisions and amount to HRK 117 million (2020: HRK 82 million). The increase in provisions compared to 2021 is the result of increased number of lawsuits against the Bank received during 2021. The Group estimates each CHF loan lawsuit on an individual basis.

In relation to CHF cases, the Group acts in a way that provisions for the sued unconverted cases are allocated according to the sued amount (VPS) upon receipt of the lawsuit, including legal penalty interest and costs in total amount, while converted CHF cases are not reserved, except in in the case of a negative court decision for the Bank when provisions are allocated for these cases in accordance with the court decision.

The provisions recognised in the financial statements are measured using all currently available information and represent the best estimate of the obligations in light of significant uncertainties related to their timing and amount.

Events related to loans in Swiss francs
In September 2019 the Supreme Court of the Republic of Croatia made a ruling, which to a large extent confirms the earlier ruling of the High Commercial Court of the Republic of Croatia dated June 2018 in the case of protection of collective interest and rights of the consumers who had taken loans with principals indexed to Swiss franc (Ruling No. Rev- 2221/2018- 11 of the Supreme Court of the Republic of Croatia, hereinafter referred to as “the Ruling”).

In February 2021 the Constitutional Court rejected the lawsuits of seven Croatian banks filed against the judgments of the Supreme Court of the Republic of Croatia and High Commercial Court of the Republic of Croatia in a collective dispute initiated by the Consumers Association over unfair provisions related to the Swiss francs.

In that sense, since the Supreme Court decisions, as well as the decisions of the lower courts are final and implemented by courts, there has been no increase in consumer rights (CHF loan client) or increase in liabilities on bank’s side. The Group is of the opinion that the decision of the Constitutional Court does not affect the positions of the parties involved in individual disputes that consumers have against banks. Group's possible liabilities arising from decisions of competent courts related to such individual consumer lawsuits are considered as unpredictable liabilities.

(All amounts are expressed in millions of HRK)

27. PROVISIONS FOR LIABILITIES AND CHARGES (CONTINUED)

Provisions for legal cases for loans in Swiss francs (continued):

In accordance with the provisions of paragraph 92 of IAS 37, additional information on unpredictable liabilities has not been disclosed as their disclosure may seriously prejudge the outcome of the aforementioned legal proceedings and the Group's position in them.

Litigation provision

	2021	2020
Balance at 1 January	**292**	**254**
Paid out	(38)	(16)
Net charge to statement of profit or loss (Note 10)	75	54
Balance at 31 December	**329**	**292**

Provision for severance and retention payments

	2021	2020
Balance at 1 January	**83**	**110**
Paid out	(29)	(27)
Net charge to statement of profit or loss (Note 9)	1	-
Balance at 31 December	**55**	**83**

Provisions for severance and retention payments in the amount of HRK 55 million (2020: HRK 83 million) include provisions for:
- liabilities for employees based on restructuring HRK 44 million (2020: HRK 72 million)
- liabilities for severance and jubilee awards HRK 11 million (2020: HRK 11 million)

The cost of provisions in the amount of HRK 44 million were formed in accordance with IAS 37 on the basis of the restructuring plan which includes a detailed list of employees included in the plan, expenses to be incurred for each employee and implementation date. Provisions will be used during 2022 and 2023 until the final completion of the restructuring process. The Group regularly on an annual basis monitors the plan implementation and, in accordance with the current situation, defines the future use of the reserved amount.

Provisions for severance and jubilee awards are formed in accordance with IAS 19. The costs of provisions under IAS 19 are presented in Note 9 Employee costs.

Provisions for other liabilities

	2021	2020
Balance as at 1 January	10	10
Net charge to profit or loss (Note 10)	(2)	-
Paid out	-	-
Balance as at 31 December	**8**	**10**

(All amounts are expressed in millions of HRK)

28. OTHER LIABILITIES

	31/12/2021	31/12/2020
Liabilities in respect of opening of accounts (escrow accounts)	129	12
Liabilities in respect of credit card operations	122	113
Accrued expenses for bonuses and other employee benefits	70	63
Accrued expenses – uninvoiced	42	55
Salaries and contributions payable	34	32
Liabilities towards suppliers	28	20
Advances received	22	29
Accrued expenses for saving deposits insurance	17	15
Accured income	15	15
Funds in the calculation	14	27
Liability for payments of deposits previously credited to income	12	11
Value added tax payable	5	4
Liabilities for fees	1	-
Other liabilities	12	15
	523	**411**

(All amounts are expressed in millions of HRK)

29. SHAREHOLDERS' EQUITY AND RESERVES

SHARE CAPITAL

As of 31 December 2021 the share capital of the Group consisted of 19,968,774 ordinary shares of Bank (2020: 19,968,774 ordinary shares), with a nominal value of HRK 200 each, which represents HRK 3,993,755 thousand of equity capital of the Bank (2020: HRK 3,993,755 thousand). All ordinary shares provide equal rights and carry one vote per share.
In 2021 the Group has paid dividend for 2020 in amount HRK 251 million. The Bank's subsidiaries in the Republic of Croatia did not have any dividend payments during 2021 to the Bank.

SHARE PREMIUM

The premium on issued shares consists of premiums arising from the issuance of new ordinary shares from previous years in the amount of HRK 167 million and from the premiums arising from the purchase of own ordinary shares from previous years in the amount of HRK 4 million.

RESERVES

Other reserves

	31/12/2021	**31/12/2020**
Statutory reserves	305	201
Legal reserves	200	200
	505	**401**

The legal reserve has been formed in accordance with Croatian law, which requires 5% of the profit for the year to be transferred to this reserve until it reaches 5% of the issued share capital. The legal reserve, in the amount of up to 5% of the issued share capital, can be utilised to cover current and prior year losses. In addition, in accordance with the Group’s Statute, an additional reserve equivalent to the legal reserve has been created in an amount of up to 5% of the share capital for the purpose of covering impairment losses and for the same purposes as the legal reserve. Changes in other reserves are reflected in the Statement of changes in shareholders’ equity.

Fair value reserves

	31/12/2021	**31/12/2020**
Reserve for measuring fair value of financial asset at fair value through other comprehensive income – equity instruments	38	35
Reserve for measuring fair value of financial asset at fair value through other comprehensive income – debt instruments	91	119
Expected credit losses on financial asset at fair value through other comprehensive income (Note 16)	12	19
Total fair value reserves:	**141**	**173**

(All amounts are expressed in millions of HRK)

29. SHAREHOLDERS' EQUITY AND RESERVES (CONTINUED)

Fair value reserves (continued)

Fair value reserve comprises unrealized gains and losses from the change in the fair value of financial assets through other comprehensive income.
Movement in the fair value reserves is as following:

Equity instruments

	2021	2020
Balance as of 1 January	**35**	**60**
(Decrease) / Increase in reserves	4	(31)
Tax	(1)	6
Balance as of 31 December of the current year	**38**	**35**

Debt instruments

	2021	2020
Balance as of 1 January	**119**	**147**
(Decrease) / Increase in reserves	(32)	(33)
Tax	6	6
(Decrease) in reseves from discontinued operations	(2)	(1)
Balance as of 31 December of the current year	**91**	**119**

Other reserves

	31/12/2021	31/12/2020
General banking risks reserves	-	106
Other reserves	3	3
Total other reserves	**3**	**109**

According to earlier CNB regulations, the Group had to create reserves for general banking risks if the increase in balance sheet and off-balance sheet exposures exceeded 15% of the corresponding balance sheet and off-balance sheet exposures of the previous year.

The general banking risk reserve was not transferable to retained earnings or other reserves, or otherwise distributable until the expiry of a consecutive three-year period from the period in which the Group reported an annual growth over 15%. As the three-year period expired in 2011, the reserve was available to be utilised by the Group as the Group's retained earnings. Accordingly, by the decision of the General Meeting, the Group transferred the reserves for general banking risks in the amount of HRK 106 million to the legal reserves of the Bank.

Other reserves
Other reserves of the Group refer to the funds collected on the bonds of the Republic of Croatia (Big Bonds from 2004).

(All amounts are expressed in millions of HRK)

29. SHAREHOLDERS' EQUITY AND RESERVES (CONTINUED)

Retained earnings

Retained earnings refer to the cumulative gains of the Group retained in previous years adjusted for the dividend paid in 2021. In 2021 the Group has paid dividend in amount HRK 251 million. Movement of retained earnings is presented in Statement of changes in shareholders' equity.

30. CONTINGENT LIABILITIES AND COMMITMENTS

	31/12/2021	31/12/2020
Guarantees	1,910	1,792
Letters of credit	73	33
Approved unused facilities and global lines	9,208	7,610
Factoring	838	204
Binding letters of intent	9	30
Contingent and assumed liabilities under leasing operations	4	2
	12,042	**9,671**
Impairment provisions for contingent liabilities and commitments	(75)	(103)
	11,967	**9,568**

(All amounts are expressed in millions of HRK)

30. CONTINGENT LIABILITIES AND COMMITMENTS (CONTINUED)

2020

Movement of gross carrying amount:

	Stage 1	Stage 2	Stage 3	POCI	Total
Balance as of 31 December 2020	**9,130**	**499**	**42**	**-**	**9,671**
Net new approvals / (termination of recognition)	2,289	88	(7)	1	2,371
Transfer to Stage 1	-	-	-	-	-
Transfer to Stage 2	-	-	-	-	-
Transfer to Stage 3	-	-	-	-	-
Balance as of 31 December 2021	**11,419**	**587**	**35**	**1**	**12,042**

Movement in impairment allowance:

	Stage 1	Stage 2	Stage 3	POCI	Total
Balance as of 31 December 2020	**55**	**29**	**19**	**-**	**103**
Net new approvals / (termination of recognition)	15	(2)	(8)	-	5
Transfer to Stage 1	-	-	-	-	-
Transfer to Stage 2	-	-	-	-	-
Transfer to Stage 3	-	-	-	-	-
(Decerase)/Increase due to change of risk parameters (COVID)	(19)	(14)	-	-	(33)
Balance as of 31 December 2021	**51**	**13**	**11**	**-**	**75**

(All amounts are expressed in millions of HRK)

30. CONTINGENT LIABILITIES AND COMMITMENTS (CONTINUED)

2020

Movement of gross carrying amount:

	Stage 1	Stage 2	Stage 3	POCI	Total
Balance as of 31 December 2019	**7,889**	**-**	**64**	**-**	**7,953**
Net new approvals / (termination of recognition)	1,345	395	(22)	-	1,718
Transfer to Stage 1	-	-	-	-	-
Transfer to Stage 2*	(104)	104	-	-	-
Transfer to Stage 3	-	-	-	-	-
Balance as of 31 December 2020	**9,130**	**499**	**42**	**-**	**9,671**

**HRK 104 million transferred from Stage 1 to Stage 2 refers to loans to households with financial difficulties with the earthquake-stricken area*

Movement in impairment allowance:

	Stage 1	Stage 2	Stage 3	POCI	Total
Balance as of 31 December 2019	**74**	**-**	**37**	**-**	**111**
Net new approvals / (termination of recognition)	(43)	8	(18)	-	(53)
Transfer to Stage 1	-	-	-	-	-
Transfer to Stage 2*	(5)	5	-	-	-
Transfer to Stage 3	-	-	-	-	-
Increase due to change of risk parameters (COVID)	29	16	-	-	45
Balance as of 31 December 2020	**55**	**29**	**19**	**-**	**103**

**HRK 5 million transferred from Stage 1 to Stage 2 refers to loans to households with financial difficulties with the earthquake-stricken area*

(All amounts are expressed in millions of HRK)

31. CASH AND CASH EQUIVALENTS

For the purposes of cash flow statements, cash and cash equivalent comprise the following balances with original maturities of up to 90 days:

	31/12/2021	**31/12/2020**
Cash and balances with Croatian National Bank (*Note 12*)	7,121	5,559
Loans and receivables from banks *(Note 13*)	-	300
	7,121	**5,859**

Changes in liabilities arising from financing activities:

2021.

	Lease liabilities IFRS 16	**Other borrowed funds**
Opening balance	107	3,357
Cash flow	(28)	490
Non-monetary items:		
Interest	-	(3)
Exchange differences	-	-
Increase in liabilities	32	-
Closing balance	**111**	**3,844**

2020.

	Lease liabilities IFRS 16	**Other borrowed funds**
Opening balance	105	3,815
Cash flow	(33)	(468)
Non-monetary items:		
Interest	-	3
Exchange differences	2	7
Increase in liabilities	33	-
Closing balance	**107**	**3,357**

(All amounts are expressed in millions of HRK)

32. DISCONTINUED OPERATIONS

a) Description of the discontinued operations

In December 2020, the Bank signed an Agreement on the sale of a 100% share of OTP Osiguranje d.d. (now Groupama Osiguranje d.d.), as a result of which in the financial statements for 2020 the assets and liabilities of the company are presented as intended for sale or as discontinued operations.

On 26 August 2021, the Croatian Financial Services Supervisory Agency issued an approval to close the sale, which was realized on 31 August 2021 with effect from 1 September 2021.

Relevant information on discontinued operations for the period up to the date of derecognition is presented below.

b) Effect of disposal on comprehensive income and cash flows of the Group

The data below on comprehensive income and cash flow for 2021 refer to the period up to 31 August and for 2020 refer to the whole year 2020.

	2021	**2020**
Income	12	22
Expenses	(10)	(17)
Profit before tax	**2**	**5**
Profit tax	-	(1)
Profit from the sale of the subsidiary	-	-
Profit for the year from discontinued operations	**2**	**4**
Net change in the fair value of financial assets at fair value through other comprehensive income - debt securities	-	(1)
Other comprehensive income from discontinued operations	**-**	**(1)**
Total comprehensive income from discontinued operations	**2**	**3**

	2021	**2020**
Net cash from operating activities	6	4
Net cash from investing activities (include income form sale of subsidiary)	66	19
Net cash from financing activities	-	-
Net increase / (decrease) in cash and cash equivalents from discontinued operations	**72**	**23**

(All amounts are expressed in millions of HRK)

32. DISCONTINUED OPERATIONS (CONTINUED)

c) Effect of disposal on the financial position of the Group

	2021	2020
Total purchase fee	66	-
Net carrying value of assets sold	66	-
Profit from sale before reclassification of profit recognized in other comprehensive income	**-**	**-**
Reclassification of gains recognized in other comprehensive income	2	-
Profit from sale	**2**	-

Net carrying amount of subsidiary assets and liabilities at the date of sale (31 August 2021):

	31/08/2021
Assets	
Cash	53
Loans and receivables from banks	-
Financial assets measured at fair value through profit or loss	-
Loans and receivables from customers	13
Debt securities at fair value through other comprehensive income	88
Financial assets measured at amortized cost	21
Property and equipment	1
Right-of-use assets	1
Intangible assets	1
Other assets	2
TOTAL ASSETS	**180**
Liabilities	
Provision from insurance contracts	108
Lease liabilities classified under IFRS 16	2
Other liabilities	4
TOTAL LIABILITIES	**114**
NET ASSETS	**66**

(All amounts are expressed in millions of HRK)

32. DISCONTINUED OPERATIONS (CONTINUED)

d) Assets and liabilities of the disposal group classified as discontinued operations

The following assets and liabilities were reclassified as discontinued as at 31 December 2020:

	31/12/2021	31/12/2020
Assets		
Loans and receivables from banks	-	5
Financial assets measured at fair value through profit or loss	-	25
Debt securities at fair value through other comprehensive income	-	70
Financial assets measured at amortized cost	-	21
Property and equipment	-	1
Right-of-use assets	-	1
Intangible assets	-	1
Other assets	-	1
TOTAL ASSETS	**-**	**125**
Liabilities		
Provision from insurance contracts	-	107
Lease liabilities classified under IFRS 16	-	1
Other liabilities	-	5
TOTAL LIABILITIES	**-**	**113**
NET ASSETS	**-**	**12**

33. CAPITAL RISK MANAGEMENT

The Croatian National Bank ("the CNB"), as the Group's principal regulator, determines and supervises the capital requirements of the Group as a whole. The amount of capital allocated to individual operations is based primarily on regulatory requirements. The allocation of capital to specific activities is performed independent of individuals in charge of those activities. Although the maximisation of return on the risk-weighted capital is the key basis used in determining the allocation of capital to the Group's individual activities, it is not the only basis in the decision-making process. Synergies with other activities, availability of the Management Board and other resources, as well as the alignment of the activities with the Group's long-term strategic goals are also considered. The directors review the Group's capital management and allocation policies regularly.
The capital adequacy ratio is determined as the ratio of the regulatory capital to the risk-weighted assets, risk exposures, the overall uncovered exposures, foreign exchange risk and operational risk.
The Group's regulatory capital amounts to HRK 6,599 million (2020: HRK 6,352 millions) and is composed entirely of the Common Equity Tier capital. The capital adequacy ratio is 19.74% (2020: 19.72%).

The OTP Bank Group for the purposes of prudential consolidation consists of:

- As at 31 December 2021, OTP banka d.d.; OTP Leasing d.d.; SB Leasing d.o.o in liquidation; OTP Nekretnine d.o.o.
- As at 31 December 2020, OTP banka d.d., OTP Leasing d.d.; SB Leasing d.o.o in liquidation; OTP Nekretnine d.o.o.

During 2021, the Group met and complied with all of the regulatory requirements defining the maintenance of a sufficient level of capital to cover all risks and required capital buffers. The Group confirmed its strong and stable capital position.
In accordance with Article 92 of Regulation (EU) No. 575/2013, the prescribed minimum capital ratios are the following:

- ✓ ordinary share capital rate in the amount of 4.5% of total risk exposure,
- ✓ share capital rate in the amount of 6% of total risk exposure,
- ✓ total capital rate in the amount of 8% of total risk exposure.

In addition to the minimum capital rates, the Group is on an individual basis, in accordance with Articles 117, 118 and 130 of the Credit Institutions Act and Articles 129, 130 and 133 of the Directive 2013/36/EU, also obliged to comply with the following protective layers of ordinary share capital:

- ✓ a buffer for capital safeguarding in the amount of 2.5% of total risk exposure,
- ✓ a buffer for structural systemic risk in the amount of 1.5% of total risk exposure,
- ✓ a buffer for other systemic important institutions in the amount of 1% of the total risk exposure,
- ✓ an institution-specific countercyclical capital buffer.

Credit institutions are required to maintain an institution-specific countercyclical capital buffer equivalent to their total exposure amount calculated in accordance with Article 92 (3) of Regulation (EU) No. 575/2013, multiplied by the weighted average of the countercyclical buffer rates calculated in accordance with Article 140 of the Directive 2013/36/EU. Based on an analytical assessment of the evolution of systemic risks of a cyclical nature, the CNB has determined that the rate of the countercyclical capital buffer is 0%.

Based on the CNB Decision, the Group has been identified as Other Systemically Important Credit Institution (OSI Credit Institution) on a consolidated and individual basis. Consequently, the Group is also obliged to maintain a buffer rate for the OSI Credit Institution amounting to 1% of the total amount of risk exposure in the form of ordinary share capital on an individual and consolidated basis. However, as the Bank's parent credit institution is regarded as an OSI Credit Institution which is the EU's parent credit institution and to which the buffer layer for the OSI Credit Institution is applied on a consolidated basis, and the buffer rate that the Bank must maintain is 1%. The stated buffer rate for the Bank is the sum of the buffer rate applied to the group on a consolidated basis (0%) and 1% of the total amount of risk exposure.

The Group's regulatory capital and capital rate have been calculated in accordance with the requirements of the European Banking Authority (hereinafter: EBA) and the national discretion of the CNB and are presented in the table below.

(All amounts are expressed in millions of HRK)

33. CAPITAL RISK MANAGEMENT (CONTINUED)

Regulatory capital

	31/12/2021	31/12/2020
Share capital	3,994	3,994
Share premium	171	171
Retained earnings	1,753	1,404
Other reserves	649	679
Transitional adjustments to ordinary share capital*	129	206
Deductions under EBA requirements*	(97)	(102)
Common Equity Tier 1 capital*	**6,599**	**6,352**
Core capital*	**6,599**	**6,352**
Regulatory capital*	**6,599**	**6,352**
Risk-weighted assets and other risk components*	**33,428**	**32,207**
Common Equity Tier 1 capital ratio*	19,74%	19.72%
Core capital ratio*	19,74%	19.72%
Total capital ratio*	19,74%	19.72%

***data for 2021 are unaudited, and for 2020 audited**

(All amounts are expressed in millions of HRK)

34. CREDIT RISK

The Group is exposed to credit risk, which is the risk that the counterparty will not be able to settle in full the amounts owed as they fall due. The Group structures the levels of credit risk it undertakes by placing limits on the amount of risk accepted in relation to a single borrower, or a group of borrowers and industry segments. The Group monitors the risks and reviews them on an annual or more frequent basis. The exposure to credit risk for all assets is limited by the carrying amount of each asset reported in the statement of financial position. The exposure to credit risk of derivatives which relate to foreign currencies is equal to the sum of the positive current market value of the underlying contract and the potential exposure to the counterparty risk. Additionally, the Group is exposed to credit risk on off-balance-sheet items, which include undrawn commitments to extend credit, issued guarantees and letters of credit.
The Group manages its exposure to credit risk by regularly analysing the ability of the borrowers and potential borrowers to repay interest and principal and by revising the credit limits, where necessary, or obtaining collateral, corporate or personal guarantees.
As the year 2020 was marked by COVID 19 pandemic and devastating earthquakes, the Group was acted in accordance with EBA guidelines by approving moratoriums and other types of restructuring using the appropriate classification, both upon approval and in ex-post evaluation. During 2021, regular monitoring of the moratorium and regularity in repayment after the expiration in the segment of legal entities and citizens continued.

	Note	31/12/2021		31/12/2020	
		Gross exposure	Net exposure	Gross exposure	Net exposure
ASSETS					
Cash and balances with the Croatian National Bank	12	8,595	8,590	6,802	6,802
Loans and receivables from banks	13	35	35	341	334
Financial assets at fair value through profit or loss	14	92	92	73	73
Loans and receivables from customers	15	37,133	34,690	34,426	31,797
Debt securities at fair value through other comprehensive income	16b	5,818	5,818	5,526	5,526
Financial assets measured at amortized cost	17	365	352	256	236
Other financial assets	22	236	179	325	268
		52,274	**49,756**	**47,749**	**45,036**

Credit risk exposure in net of loss allowance is gross exposure for expected credit losses, without taking into account pledges and other collateral instruments.

The (gross) credit risk exposure for contingent liabilities and commitments (Note 30) is as follows:

	31/12/2021	31/12/2020
Guarantees and letters of credit	1,983	1,825
Approved unused facilities and other liabilities	10,055	7,844
Contingent liabilities and commitments for leasing transactions	4	2
	12,042	**9,671**

(All amounts are expressed in millions of HRK)

34. CREDIT RISK (CONTINUED)

An overview of macroeconomic factors:

Variable	ECL-scenario	Weight	2021	2022	2023	2024	2025	Long-term rate
BDP	Forecast	50%	7.6%	4.5%	3.3%	2.5%	2.5%	2.4%
	Mild stress	30%	7.6%	2.8%	1.6%	1.5%	1.5%	2.4%
	Severe stress	20%	7.6%	-5.4%	-1.2%	2.5%	2.5%	2.4%
Export	Forecast	50%	17.1%	7.9%	5.7%	4.2%	4.2%	4.0%
	Mild stress	30%	17.1%	4.7%	2.6%	2.4%	2.4%	4.0%
	Severe stress	20%	17.1%	-9.4%	-1.9%	4.2%	4.2%	4.0%
Consumption	Forecast	50%	8.4%	4.7%	3.5%	2.5%	2.5%	2.4%
	Mild stress	30%	8.4%	3.1%	1.6%	1.4%	1.4%	2.4%
	Severe stress	20%	8.4%	-5.3%	-2.0%	2.4%	2.5%	2.4%
Investment	Forecast	50%	9.6%	12.4%	9.2%	5.0%	4.7%	4.4%
	Mild stress	30%	9.6%	11.6%	4.3%	2.5%	2.5%	4.4%
	Severe stress	20%	9.6%	6.1%	-12.7%	3.0%	4.7%	4.4%
Real estate prices (nominal)	Forecast	50%	6.9%	8.1%	6.4%	3.8%	3.0%	2.7%
	Mild stress	30%	6.9%	7.1%	3.2%	1.4%	1.1%	2.7%
	Severe stress	20%	6.9%	0.9%	-5.7%	0.0%	2.8%	2.7%
Employment	Forecast	50%	0.0%	5.0%	2.9%	1.9%	1.1%	0.9%
	Mild stress	30%	0.0%	4.7%	1.4%	0.2%	0.0%	0.9%
	Severe stress	20%	0.0%	2.8%	-3.8%	-2.1%	0.9%	0.9%
Unemployment (change of rate)	Forecast	50%	-10.3%	-22.0%	-18.1%	-13.8%	-12.5%	-12.1%
	Mild stress	30%	-10.3%	-20.5%	-12.0%	-8.9%	-8.6%	-12.1%
	Severe stress	20%	-10.3%	-7.6%	15.4%	-6.0%	-12.3%	-12.1%
Wages (nominal)	Forecast	50%	3.4%	6.4%	4.4%	3.3%	3.1%	3.1%
	Mild stress	30%	3.4%	6.3%	3.1%	2.6%	2.6%	3.1%
	Severe stress	20%	3.4%	5.4%	-0.7%	2.4%	3.1%	3.1%

The table below includes Stage 2 and 3 assets that were transferred to forborne status during the period:

OTP banka d.d.

	2021	2020
Total principal	347	946
ECL	93	361

(All amounts are expressed in millions of HRK)

34. CREDIT RISK (CONTINUED)

OTP Leasing d.o.o.

	2021	2020
Total principal	42	22
ECL	11	9

The table of movements inside forborne portfolio:

OTP banka d.d.

	31.12.2021 Principal exposure	31.12.2021 ECL	31.12.2020 Principal exposure	31.12.2020 ECL
Facilities that have cured since modification (transfer from Stage 3 to Stage 2)	61	10	26	4
Reverted to Stage 3	8	4	16	6

At OTP Leasing d.d. there were no changes within 2020 and 2021.

The following tables provide a summary of forborne assets:

31/12/2021

OTP banka d.d.

	Forborne Stock			ECL				
Portfolio	Performing principal	Non-performing principal	Total principal	Stage 2	Stage 3	Total forborne	Forbearance ratio	Coverage
Corporate	46	579	625	4	365	368	4.2%	58.9%
MSE	12	13	25	1	11	11	2.5%	45.3%
Retail Consumer	120	279	400	21	153	174	4.2%	43.5%
Retail Housing	15	370	385	1	114	115	4.2%	30.0%
Total	**193**	**1,241**	**1,435**	**27**	**643**	**668**	**4.2%**	**46.6%**

OTP Leasing d.d.

	Forborne Stock			ECL				
Portfolio	Performing principal	Non-performing principal	Total principal	Stage 2	Stage 3	Total forborne	Forbearance ratio	Coverage
Corporate	11	29	40	1	11	13	2.8%	31.4%
MSE	5	11	16	-	4	4	1.9%	26.1%
Ukupno	**16**	**40**	**56**	**1**	**15**	**17**	**2.2%**	**29.9%**

(All amounts are expressed in millions of HRK)

34. CREDIT RISK (CONTINUED)

31/12/2020

OTP banka d.d.

Portfolio	Forborne Stock			ECL				
	Performing principal	Non-performing principal	Total principal	Stage 2	Stage 3	Total forborne	Forbearance ratio	Coverage
Corporate	-	647	647	-	407	407	4.5%	62.9%
MSE	1	12	13	-	11	11	1.4%	83.5%
Retail Consumer	84	302	386	13	166	179	4.2%	46.3%
Retail Housing	10	361	370	1	83	84	4.9%	22.6%
Total	**95**	**1,322**	**1,416**	**14**	**667**	**681**	**4.4%**	**48.1%**

OTP Leasing d.d.

Portfolio	Forborne Stock			ECL				
	Performing principal	Non-performing principal	Total principal	Stage 2	Stage 3	Total forborne	Forbearance ratio	Coverage
Corporate	-	13	13	-	6	6	1.0%	46.7%
MSE	-	8	8	-	3	3	1.0%	38.2%
Ukupno	**-**	**21**	**21**	**-**	**9**	**9**	**1.0%**	**43.5%**

Collateral and other forms of credit risk insurance

The Group in its internal policies defines conditions under which certain collaterals, which serve to reduce credit risk, are acceptable, and methods of their initial and subsequent regular valuation.

The basic types of acceptable collaterals that are accepted with value are:

- for corporate lending: cash, state guarantees, bank guarantees, real estate, movable property, transfers of state claims, insurance policies.
- for lending to private persons: cash, real estate, insurance policies.

The Group also accepts corporate guarantees and interests in corporations that are accepted with value only under certain conditions and letters of comfort from parent companies for loans granted to subsidiaries, shares in companies and operational security instruments such as debentures and bills of exchange, which are not accepted with value.

As of 31 December 2021, the total value of collateral held by the Group as collateral for loans and advances and contingent liabilities and commitments amounts to HRK 41,080 million (2020: HRK 37,408 million).

Total allocated value of collaterals as of 31 December 2021 amounts to HRK 21,659 million (2020: HRK 18,637 million).

The tables below present maximum exposure to credit risk by category of financial assets, total market value of collateral allocated, the remaining collateral available (to the extent to which the total market value of the collateral is greater than the exposure to which it refers) and the maximum exposure after deducting the allocated collateral value.

(All amounts are expressed in millions of HRK)

34. CREDIT RISK (CONTINUED)

2021

	Maximum credit risk exposure (gross exposure)	Total allocated market value of collateral	Deposits	Real estate	Guarantees	Object of financial leasing	Other	Maximum exposure after deducting the market value of collateral	Available collateral value (above gross exposure)
Cash and balances with the Croatian National Bank	8,595	-	-	-	-	-	-	8,595	-
Loans and receivables from banks	35	-	-	-	-	-	-	35	-
Financial assets at fair value through profit or loss	92	-	-	-	-	-	-	92	-
Loans and receivables from customers	37,133	20,422	142	14,575	2,490	2,452	763	16,711	18,432
Financial assets that are valued through other comprehensive income	5,818	-	-	-	-	-	-	5,818	-
Financial assets measured at amortized cost	365	-	-	-	-	-	-	365	-
Other financial assets	236	-	-	-	-	-	-	236	-
Total credit risk exposure of balance sheet items	**52,274**	**20,422**	**142**	**14,575**	**2,490**	**2,452**	**763**	**31,852**	**18,432**
Guarantees and letters of credit	1,983	443	17	417	-	-	9	1,540	879
Approved unused facilities and global lines	10,059	794	16	407	244	-	127	9,265	110
Total credit risk exposure of off-balance sheet items	**12,042**	**1,237**	**33**	**824**	**244**	**-**	**136**	**10,805**	**989**
Total credit risk exposure	**64,316**	**21,659**	**175**	**15,399**	**2,734**	**2,452**	**899**	**42,657**	**19,421**

(All amounts are expressed in millions of HRK)

34. CREDIT RISK (CONTINUED)

2020

	Maximum credit risk exposure (gross exposure)	Total allocated market value of collateral	Deposits	Real estate	Guarantees	Object of financial leasing	Other	Maximum exposure after deducting the market value of collateral	Available collateral value (above gross exposure)
Cash and balances with the Croatian National Bank	6,802	-	-	-	-	-	-	6,802	-
Loans and receivables from banks	341	-	-	-	-	-	-	341	-
Financial assets at fair value through profit or loss	73	-	-	-	-	-	-	73	-
Loans and receivables from customers	34,426	17,969	153	13,230	1,877	2,258	451	16,457	18,234
Financial assets that are valued through other comprehensive income	5,526	-	-	-	-	-	-	5,526	-
Financial assets measured at amortized cost	256	-	-	-	-	-	-	256	-
Other financial assets	325	-	-	-	-	-	-	325	-
Total credit risk exposure of balance sheet items	**47,749**	**17,969**	**153**	**13,230**	**1,877**	**2,258**	**451**	**29,780**	**18,234**
Guarantees and letters of credit	1,825	338	15	317	-	-	6	1,487	459
Approved unused facilities and global lines	7,846	330	20	294	11	-	5	7,516	78
Total credit risk exposure of off-balance sheet items	**9,671**	**668**	**35**	**611**	**11**	**-**	**11**	**9,003**	**537**
Total credit risk exposure	**57,420**	**18,637**	**188**	**13,841**	**1,888**	**2,258**	**462**	**38,783**	**18,771**

34. CREDIT RISK (CONTINUED)

Allocated value of collaterals for balance sheet and off-balance sheet asset items is presented as the market value net of previous liabilities without applying haircut, in such a way that it is spread up to the maximum amount of exposure of an individual placement. If the value of the collateral at the level of placement is greater than the total exposure of the placement, the excess, that is, the value of the collateral above the gross exposure is summarized (all types of collateral) in a separate column. If a single placement is covered by multiple types of collateral with a value, and one type of collateral is sufficient to cover the entire gross exposure of the placement, the allocated value of that single collateral is shown, and the value of other collateral in that placement is shown in the item above the gross exposure amount. The allocation priority by type of collateral is determined as follows:

- Deposits
- Real estate
- Guarantees
- Other

Deposits
A deposit (term deposit or blocked amount in the Bank's transaction account) as a collateral is a special type of pledged assets from which the Group is entitled to settle their claims in the event of the debtor defaulting, whereby the Group shall collect their debt directly, without the enforcement procedure. If the deposit does not meet all the necessary conditions, the financial pledge can be seized through court proceedings or in other (out-of-court) procedures, which are not deemed as direct collection. When the liability ceases to exist, the control over the deposit shall be restored to the debtor or the collateral issuer.

Real estate
Real estate taken as collateral by the Group may be residential or non-residential. Residential real estate: real estate (share in property) for residential purposes entered or to be entered in the real estate register as residential houses or apartments, together with associated land, provided that the relevant building permit is issued or, in case of simple structures, only an official certificate of construction, which is or will be occupied or rented by the owner. All other real estate belongs to the category of non-residential real estate. Real estate can only be pledged by mortgaging. The mortgage can be entered in the land registers for the real estate as a whole or in case of real estate in regulated co-ownership parts for the entire portion belonging to a co-owner.

When granting standard housing loans, particular emphasis is placed on limiting production based on the LTV (Loan to value) indicator, which represents the ratio between the exposure and the market value of the mortgaged real estate. Eligible LTVs can be up to 100%, where a maximum of 45% of total placements can be with an LTV ratio of over 80%, only for the best locations in Croatia that are determined based on the economic strength statistics, tourism potential and real estate sales in individual cities and municipalities. In addition, production is limited to 5% of loans with an LTV of more than 90% and 2% of loans with an LTV of more than 95%.

Furthermore, it is also important to note that the value of real estate in the pledged portfolio is regularly monitored and updated in the collateral system on basis of statistics data for all types of real estate where application is possible such as apartments, family houses, apartments, offices, shops, etc. OTP real estate experts checks the value for other types of real estate where the application of statistical data is not possible. When applying statistics, the value correction can only be performed to lower, never to higher.
Loans with a foreign currency clause can only be approved for loans with LTV rates of up to 90%, except for clients with a currency of receipt equivalent to the loan currency.

Furthermore, since they are non-purpose, mortgage loans have additional restrictions on the amount, term and LTV indicator of maximum up to 62.5% in the best (Prime 1 and 2), and a maximum of 43.5% in worse locations (Non prime and Sub prime).

34. CREDIT RISK (CONTINUED)

Guarantees
The Group accepts the following guarantees to secure its claims, each of which may be absolute (unconditional) or contingent (conditional):

- ✓ Bank guarantee/confirmed letter of credit
- ✓ Company guarantee
- ✓ Personal guarantee (guarantors)/joint guarantee (co-debt).
- ✓ Special forms of guarantee
    - Guarantee by the Croatian Agency for SMEs, Innovations and Investments (HAMAG)
    - Guarantee by the Government of the Republic of Croatia and the Croatian National Bank
    - Guarantee by OECD member states, their central banks
    - Guarantee of local self-government units of the Republic of Croatia
    - Guarantee by HBOR (including insurance policy) and international development banks.

The guarantee must, as a rule, be unconditional and irrevocable (written guarantee statement/guarantee agreement, with “on first demand” and “no objection” clauses, without additional conditions). An exception is the HAMAG guarantee, where conditional guarantees, up to the amount of the guarantee, also have collateral value.

Object of financial leasing
The object financed by financial leasing is also considered as collateral, which arises from the fact that the Group (leasing company) is the owner of the leasing object during the entire contractual relationship. This fact arises from the definition of leasing prescribed by IFRS 16 "Leases", and from the definition of "Leasing activities" prescribed by the Leasing Act (Article 4, paragraph 2) according to which the leasing business is a legal transaction in which, based on a purchase agreement with the vendor, the lessor acquires the right to ownership of the leased asset and assigns a right to the lessee to temporarily use the leased asset, for a specified fee.

Other
The Group also accepts the following types of collateral for its claims:

- ✓ machines
- ✓ equipment
- ✓ personal and commercial vehicles
- ✓ stocks
- ✓ airplanes
- ✓ naval vessels, floating and stationary coastal structures, yachts and boats, inland navigation vessels
- ✓ other movable property (patents, trademarks, and similar)
- ✓ securities
- ✓ cessions

With these types of collateral, particular attention is paid to checking whether the pledger owns the lien or not. With the exception of floating objects and civil aircraft whose ownership is recorded in official registers, the lienor must in any case provide credible proof of the origin of the lien (original invoice, customs documents, supporting documents, comparison of the markings on these documents with the marking on the property, etc.).

(All amounts are expressed in millions of HRK)

34. CREDIT RISK (CONTINUED)

Concentration of assets and liabilities relating to a group of related parties - Republic of Croatia

	Note	31/12/2021	31/12/2020
Current account with the Croatian National Bank	12	4,541	2,180
Obligatory reserve with the Croatian National Bank	12	2,205	1,906
Treasury bills of the Ministry of Finance	16	1,053	1,373
Bonds of the Ministry of Finance	16	3,314	3,550
Bonds of the Ministry of Finance	17	-	38
Loans and receivables from customers	15	4,303	2,703
Total asset:		**15,416**	**11,750**
Other borrowed funds	26	564	1,040
Total liabilities:		**564**	**1,040**

Concentration of assets and liabilities* with respect to territorial division

As at 31 December 2021	Croatia	Hungary	Other	Total
Assets	46,372	1,410	1,974	49,756
Contingent liabilities	11,899	19	49	11,967
	58,271	**1,429**	**2,023**	**61,723**

As at 31 December 2020	Croatia	Hungary	Other	Total
Assets	41,429	550	3,057	45,036
Contingent liabilities	9,280	251	37	9,568
	50,709	**801**	**3,094**	**54,604**

*includes net exposure (gross exposure net of impairment allowance)

35. MARKET RISK

MARKET RISK IN TRADING BOOK

Market risk is the effect of external influences on the value of positions in the Group's portfolio due to changes in prices or fluctuations in the financial markets. Market risk, by that definition, consists of:
- Currency risk
- Interest rate risk and
- Price risk

The basic objective of market risk management in the Trading Book is to make profit by taking advantage of fluctuations in exchange rates and interest rates, which means limiting losses that may result from their adverse fluctuations so as not to endanger the profitability and operation of the Group.

The market risks in the Trading Book to which the Group is exposed are managed by an organizational unit named Treasury Department which has the status of an active Treasury and thus can leave open positions in the Trading Book, which are the result of the Grouping activity itself, and further engage in speculative trading in order to realize a positive financial result.

The products included in the Trading Book are as follows:
- FX spot
- FX forward
- FX swap
- Money market transactions (loans and deposits)
- Bonds (Republic of Croatia)
- Interest rate swaps (IRS)

The Market Risk Department is responsible for daily monitoring and reporting of market risk exposures in the Trading Book, control of all positions for which there is market risk exposure and compliance with the limits adopted by the Management Board, at the proposal of the Assets and Liabilities Committee of OTP Group Nyrt. The limits are revised and approved on an annual basis, the amount of which is determined by the Group's business policy and market conditions, as well as by the policy of the OTP Group Nyrt as a whole.

The Asset and Liability Management Department is responsible for managing the Group's remaining foreign exchange position, which is the difference between the Group's total foreign exchange position (as measured by the regulatory report - currency risk) and the open foreign exchange positions of the Treasury Department. Due to the fact that, in accordance with the internal rules, the Asset and Liability Management Department has no limit for foreign currency risk exposure, the subject position is closed daily.

Value at Risk (VaR)
VaR is an estimate of the maximum amount that a portfolio, with a defined level of confidence and for a defined period, can lose from its value.

VaR is calculated for a holding period of one day and with a confidence level of 99%, using a historical simulation method based on a 252-day observation period.

Defining the VaR limit provides a risk measurement tool designed to limit potential losses of the Group and in case of turbulent market conditions in a way that encourages closing of positions amid increased market uncertainty.

In 2020 due to the change in the structure of the limit, the calculated VaR values for FI (Fixed Income) and MM (Money Market) desk were monitored separately.

(All amounts are expressed in millions of HRK)

35. MARKET RISK (CONTINUED)

Value at Risk (VaR) (continued)

Fluctuations of VaR indicator

	Minimum	**Average**	**Maximum**	**End of year**
2021				
Interest rate risk				
FI	0.06	0.19	0.35	0.16
MM	0.01	0.14	0.50	0.01
Currency risk	0.00	0.10	0.43	0.01
Total VaR	**0.19**	**0.71**	**1.45**	**0.33**
2020				
Interest rate risk				
FI	0.00	0.13	0.75	0.12
MM	0.10	0.13	1.87	0.17
Currency risk	0.00	0.10	0.50	0.01
Total VaR	**0.01**	**0.22**	**1.86**	**0.19**

(All amounts are expressed in millions of HRK)

35. MARKET RISK (CONTINUED)

FOREIGN EXCHANGE (FX) RISK IN TRADING BOOK

FX risk is the risk that arises from changes in the exchange rate and causes fluctuations in a particular financial instrument and is continuously monitored through an open FX position (daily and intra-daily) in each currency managed by the organizational unit of the Treasury Department. Exposure to the FX risk or open FX position is the difference between assets and liabilities expressed in foreign currency or linked to the foreign currency. Open FX position can be long or short, depending on whether the FX risk exposure is greater on asset (long position) or liabilities (short position).

The Group's internal rules set the maximum allowed open position in individual currencies and open FX position limit on global level. Position limit is maximum allowed exposure of individual position that can be held or traded. <fNet open position is sum of individual open positions (difference between long and short position), while gross positon is absolute sum of individual open positions.

Fluctuations of open foreign exchange position by major currencies (in HRK million)

	Minimum	**Average**	**Maximum**	**End of year**
2021				
EUR	0.2	56.8	377.1	1.9
USD	0.0	0.3	1.8	0.1
CHF	0.0	0.2	0.7	0.0
Global foreign exchange position	1.7	58.5	378.5	2.7
2020				
EUR	0.6	40.1	166.9	4.7
USD	0.0	0.2	0.6	0.0
CHF	0.0	0.1	0.7	0.1
Global foreign exchange position	1.0	41.1	167.7	5.5

The Asset and Liability Management Department is responsible for managing the Group's remaining foreign exchange position, which is the difference between the Group's total foreign exchange position (as measured by the regulatory VR report) and the Treasury Department's open foreign exchange position. Due to the fact that in accordance with internal rules, Asset and Liability Management Department has no limit for foreign currency risk exposure, the subject position is closed daily.

The currency structure of total assets and liabilities is shown in the tables below.

(All amounts are expressed in millions of HRK)

35. MARKET RISK (CONTINUED)
TOTAL FOREIGN EXCHANGE (FX) RISK

	EUR*	USD*	HRK	Other currencies*	Total
As at 31 December 2021					
Assets					
Cash and balances with the Croatian National Bank	439	438	7,365	1,078	**9,320**
Loans and receivables from other banks	23	12	-	-	**35**
Financial assets at fair value through profit or loss	213	39	174	-	**426**
Loans and receivables from customers	19,533	140	15,008	9	**34,690**
Equity securities at fair value through other comprehensive income	-	86	6	-	**92**
Debt securities at fair value through other comprehensive income	1,471	415	3,017	915	**5,818**
Investment at amortized cost	-	67	285	-	**352**
Property and equipment	-	-	673	-	**673**
Right-of-use assets	-	-	110	-	**110**
Investment property	-	-	141	-	**141**
Intangible asset	-	-	105	-	**105**
Goodwill	-	-	4	-	**4**
Deferred tax assets	-	-	67	-	**67**
Income tax receivables	-	-	-	-	**-**
Other assets	12	-	207	-	**219**
Assets held for sale	-	-	10	-	**10**
Total assets	**21,691**	**1,197**	**27,172**	**2,002**	**52,062**
Liabilities					
Amounts due to other banks	684	-	128	4	**816**
Amounts due to customers	17,035	2,621	18,835	782	**39,273**
Other borrowed funds	2,877	1	966	-	**3,844**
Financial liabilities at fair value through profit or loss	24	-	56	-	**80**
Provisions	22	7	449	-	**478**
Deferred tax liabilities	-	-	-	-	-
Income tax liability	-	-	2	-	**2**
Lease liabilities classified under IFRS 16	85	-	26	-	**111**
Other Liabilities	23	1	498	1	**523**
Total Liabilities	**20,750**	**2,630**	**20,960**	**787**	**45,127**
Net foreign exchange position	**941**	**(1,433)**	**6,212**	**1,215**	**6,935**

*** currency clause in the stated currency is included**

(All amounts are expressed in millions of HRK)

35. MARKET RISK (CONTINUED)
TOTAL FOREIGN EXCHANGE (FX) RISK (CONTINUED)

	EUR*	USD*	HRK	Other currencies*	Total
As at 31 December 2020					
Assets					
Cash and balances with the Croatian National Bank	1,449	19	4,603	1,394	7,465
Loans and receivables from other banks	22	312	-	-	334
Financial assets at fair value through profit or loss	285	51	141	-	477
Loans and receivables from customers	15,189	293	16,305	10	31,797
Equity securities at fair value through other comprehensive income	-	81	6	-	87
Debt securities at fair value through other comprehensive income	1,487	479	3,560	-	5,526
Investment at amortized cost	-	62	174	-	236
Investment in subsidiaries	-	-	-	-	-
Property and equipment	-	-	741	-	741
Right-of-use assets	-	-	105	-	105
Investment property	-	-	106	-	106
Intangible asset	-	-	151	-	151
Deferred tax assets	-	-	96	-	96
Income tax receivables	-	-	7	-	7
Other assets	1	-	298	-	299
Assets held for sale	-	-	35	-	35
Total assets	**18,433**	**1,297**	**26,328**	**1,404**	**47,462**
Liabilities					
Amounts due to other banks	2,045	246	225	4	2,520
Amounts due to customers	15,801	1,907	15,561	652	33,921
Other borrowed funds	2,810	-	547	-	3,357
Financial liabilities at fair value through profit or loss	26	-	96	-	122
Provisions	29	4	455	-	488
Provision of insurance contracts	-	-	-	-	-
Deferred tax liabilities	-	-	-	-	-
Current liability for income tax	-	-	-	-	-
Lease liabilities classified under IFRS 16	-	-	107	-	107
Other Liabilities	21	-	399	4	424
Total Liabilities	**20,732**	**2,157**	**17,390**	**660**	**40,939**
Net foreign exchange position	**(2,299)**	**(860)**	**8,938**	**744**	**6,523**

*** currency clause in the stated currency is included**

35. MARKET RISK (CONTINUED)

MARKET RISK MANAGEMENT - GROUP

Since the Bank's subsidiaries that are part of the consolidation (Group) independently manage market risks, below is an overview of market risk management policies for the subsidiary. Group members are exposed to interest rate risk, currency risk and price risk.

OTP LEASING D.D.

Interest rate risk
The marginal mismatch is determined in individual time periods and is expressed as a percentage and cumulatively for a period of up to one year, in such a way that the mismatch is related to total assets sensitive to changes in interest rates for each type of interest and in total for all balance sheet items sensitive to changes in interest rates.
Interest rate risk management is complemented by monitoring the sensitivity of future net interest income to changes in weighted average variable interest rates on overdue variable and finance lease receivables with variable interest rates and interest-bearing loans with variable interest rates by one percentage point. An increase in average weighted variable interest rates by one percentage point would result in an increase in net interest income in the amount of HRK 1,007 thousand (2020: increase in net interest income in the amount of HRK 1,383 thousand).

Currency risk
In accordance with legal requirements, the Company must record all its transactions in HRK. However, although the Company's operating income is settled in HRK, it is linked to the euro and Swiss francs and is financed from borrowings denominated in euro and Swiss francs to ensure a significant level of matching cash flows from the sale of assets and financing. The Company operates in the domestic Croatian market where it is common for the transaction (including financial and operating leases) to be linked to the euro. The Company's management believes that the kuna is a functional currency. The 10% rate is used in internal currency risk sensitivity reports submitted to general managers and represents the best possible assessment of management on realistically possible changes in exchange rates. The sensitivity analysis covers all monetary items denominated in foreign currency and adjusts their value converted into kuna at the end of the year based on a 10% change in the exchange rates of the mentioned foreign currencies. An increase in the exchange rate of the kuna against the respective currencies by 10% would have a positive effect in the amount of HRK 12,916 thousand (2020: HRK 9.9 thousand) while a weakening of the kuna against the respective currencies by 10% would have the same but opposite effect on profit and principal, and the amounts would be negative.
In 2021, the Company started the project of introducing the euro in accordance with the National Plan for the Exchange of the Croatian Kuna with the Euro and the Euro Act. Given that the Company's exposure to changes in the kuna exchange rate against the Swiss franc (CHF) is not material, the introduction of the euro will eliminate most currency risk.

OTP INVEST d.o.o.

Interest rate risk
Given that the Company has relatively small interest-bearing liabilities, the Management Board considers that the exposure to interest expenses is not significant.

Currency risk
At the balance sheet date, the Company was not exposed to significant currency risk.

Price risk
The Company was not significantly exposed to price risk at the balance sheet date.

Other subsidiaries that enter into consolidation due to their size and structure of assets and liabilities are not significantly exposed to any of the above market risks.

(All amounts are expressed in millions of HRK)

35. MARKET RISK (CONTINUED)

INTEREST RATE RISK IN TRADING BOOK

Interest rate risk is the risk of changes in the fair value of a financial instrument due to changes in market interest rates. The Bank is allowed to trade / hold only those interest rate risk instruments for which there is valid approval of the Management Board, at the proposal of the Asset and Liability Management Committee of OTP Bank Nyrt, and if there are valid and sufficient limits.
Interest rate risk limits limit the Treasury's exposure to bonds, interest rate swaps (IRSs), Forward rate agreements (FRAs), repo deals and other derivative transactions containing interest rate risk.

Risk is measured by calculating the change in the net present value of the portfolio in the event of a shift in the reference interest rate curve by 1 basis point and is limited by the BPV (Basis Point Value) limits.

The tables below show the sensitivity to change in interest rate where the increase in the net present value of all future cash flows is shown as a positive number and a decrease as a negative number.

In 2020, in order to better monitor interest rate risk by type of transaction, the limit structure was changed and BPV values were monitored and calculated separately (below is the view for MM and FI desk)

Overview of sensitivity to changes in interest rates of 1 basis point per currency (in HRK thousand)

MM desk 31/12/2021	**1W-1Y**	**1Y-10Y**	**10Y-15Y**	**Total**
EUR	(5.33)	0.00	0.00	(5.33)
HRK	5.72	0.00	0.00	5.72
USD	(0.39)	0.00	0.00	(0.39)
Other	0.02	0.00	0.00	0.02
Total	**0.01**	**0.00**	**0.00**	**0.01**

FI desk 31/12/2021	**1W-1Y**	**1Y-10Y**	**10Y-15Y**	**Total**
EUR	0.38	32.18	0.00	32.57
HRK	0.31	10.00	0.00	10.31
USD	0.00	0.00	0.00	0.00
Other	0.00	0.00	0.00	0.00
Total	**0.69**	**42.19**	**0.00**	**42.88**

MM desk 31/12/2020	**1W-1Y**	**1Y-10Y**	**10Y-15Y**	**Total**
EUR	18.44	(0.02)	0.00	18.53
HRK	29.39	0.01	0.00	29.37
USD	(49.65)	0.00	0.00	(49.69)
Other	0.00	0.00	0.00	0.00
Total	**(1.82)**	**(0.01)**	**0.00**	**(1.79)**

FI desk 31/12/2020	**1W-1Y**	**1Y-10Y**	**10Y-15Y**	**Total**
EUR	0.63	24.54	0.00	25.35
HRK	0.07	9.38	0.00	9.46
USD	(0.12)	3.13	0.00	2.93
Other	0.00	0.00	0.00	0.00
Total	**0.58**	**37.05**	**0.00**	**37.74**

35. MARKET RISK (CONTINUED)

INTEREST RATE RISK IN BANKING BOOK

Interest rate sensitivity of assets and liabilities

Interest rate risk represents the exposure of Group to unexpected or unfavourable fluctuations of market interest rates in the future. Interest rate risk has an impact both on the profit and loss account and on future cash flows and the market value of the Group's assets, liabilities and off-balance sheet instruments.

The purpose of interest rate risk management is to protect the Group from unacceptably high interest rate risk exposure, but acceptable exposure to interest rate risk is defined by the amount of individual limits that the Group establishes through the ratio of the amount of potential loss and regulatory capital, as well as based on the ability and desire of OTP Group to take interest rate risk.

Establishing an adequate interest rate risk management process is the individual responsibility of each member of the Group, while consolidated interest rate risk management is the responsibility of OTP bank Nyrt Hungary.

OTP banka d.d. as the largest member of the Group in Croatia manages the interest rate risk arising from the trading book items from the interest rate risk arising from the following transactions included in the banking book:

- commercial business (loans and deposits from clients);
- own account transactions (which include instruments of financial assets measured at fair value through other comprehensive income and a portfolio of financial assets measured at amortized cost);
- interbank transactions;
- derivatives concluded for the purpose of banking book (e.g. interest rate swaps);
- other transactions that affect the interest rate risk in the banking book.

The management of structural interest rate risk arising from items in the banking book is the responsibility of the Asset and Liability Management Department, which is part of the Bank's Financial Sector.

The methods used to measure interest rate risk exposure are as follows:

- Net interest income (NII)
  The evolution of net interest income is modelled over a particular time horizon (1 year in case of ICAAP) considering at least the interest rate shock scenarios predefined by EBA (described in later paragraphs), assuming a going-concern perspective and constant balance sheet. The effects of both automatic and behavioural options are taken into account.
  In calculation of the total impact on NII up to 1 year, the positive effects are weighted by 50%.

- Economic value of equity (EVE)
  The present value of equity, and the change in the present value of equity between the base scenario and the interest rate shock scenarios are determined on the basis of transaction level cash flows discounted by the risk-free yield curve for each currency. Cash flows of on- and off- interest bearing assets (with the exclusion of non-performing loans) and liabilities are projected without commercial margin. Contractual repricing characteristics are modified according to the behavioural assumptions, taking into account the restriction on the average duration of retail, corporate and municipal non-maturing deposits being a maximum of 5 years.

  When calculating the total impact on EVE, the positive effects are weighted by 50%. For each currency, the lower limit of the post-shock interest rate is applied, depending on the maturity, starting from –100 basis points for current maturities. This lower limit increases by 5 basis points per year and eventually reaches 0% for maturities of 20 years and over.

35. MARKET RISK (CONTINUED)

INTEREST RATE RISK IN BANKING BOOK (CONTINUED)

The Bank is required to apply six interest rate shock scenarios to cover parallel and non-parallel gap risks to the economic value of equity (EVE):

1. Parallel up
2. Parallel down
3. Steepener (short rates down and long rates up)
4. Flattener (short rates up and long rates down)
5. Short rates up
6. Short rates down

In accordance with the Decision on Supervisory Reports of Credit Institutions, the Assets and Liabilities Management Department prepares the following reports on a quarterly basis:

- Change in the economic value of the credit institution's capital - contracted cash flows - fixed interest rates (EVK UNT FKS),
- Change in the economic value of the credit institution's capital - contracted cash flows - variable interest rates (EVK UNT PKS),
- Change in the economic value of the credit institution's capital - baseline scenario - fixed interest rates (EVK OS FKS),
- Change in the economic value of the credit institution's capital - baseline scenario - variable interest rates (EVK OS PKS),
- Change in the economic value of the credit institution's capital - net discounted positions by scenarios (EVK NDPS),
- Aggregate change in the economic value of the credit institution's capital (EVK ZBR) i
- Impact of interest rate risk in the book of non-traded positions on net interest income (NIR).

These reports are prepared separately for each significant currency, on an individual and consolidated basis.
The Group calculates the aggregate change in EVE for each interest rate shock scenario where the amount in a currency that gives a positive change in EVE is weighted at a weight of 50%.
In accordance with the Decision on the Supervisory Reports of Credit Institutions, the Group shall immediately inform the Croatian National Bank:

- If the drop in EVE per regulatory shock (+/- 200 bb) is greater than 20% of regulatory capital,
- If the EVE decline is greater than 15% of share capital under any of the six additional interest rate shock scenarios.

In 2020 the Group applied the methodology for calculating the impact of interest rate risk on the economic value of capital defined by the Decision on interest rate risk management in the Bank's Book (OG 120/2016 and 14/2017). From 2021, the Group has harmonized its methodology for calculating and monitoring interest rate risk with the new regulatory framework defined by the Decision on Supervisory Reports of Credit Institutions (OG 41A / 2014, 127/2014, 67/2015, 119/2015, 7/2017, 44/2017, 120/2017, 85/2018, 47/2019, 14/2020, 59/2020 and 122/2020). The regulatory framework was amended to implement the EBA Guidelines on the Management of interest rate risk arising from transactions in the non-trading book activities.

(All amounts are expressed in millions of HRK)

35. MARKET RISK (CONTINUED)

INTEREST RATE RISK IN BANKING BOOK (CONTINUED)

An overview of the Group's sensitivity to interest rate fluctuations measured in accordance with regulatory reporting requirements at 31 December 2021 is indicated in the table below*:

Scenarios	EVE
Regulatory +200 bp	**(430)**
Regulatory -200 bp	81
Parallel shock growth	**(486)**
Parallel shock falls	81
Mowing shock	(188)
Compensation shock	43
Shock of short-term interest rate growth	(126)
Shock of falling short-term interest rates	98
Regulatory capital	6,599
(CHANGE IN ECONOMIC VALUE - regulatory shock / REGULATORY CAPITAL) * 100	**6.52%**
Share capital	6,599
(CHANGE IN ECONOMIC VALUE - 6 additional shocks / SHARE CAPITAL) * 100	**7.36%**

** data for 2021 are unaudited*

Pursuant to the Decision on managing banking-book interest rate risk, which was in force for reporting date 31 December 2020, the Group is obliged to apply the higher level of:
1) standard interest-rate shock represented by a parallel positive or negative shift in interest rates by 200 basis points, applying the lower level of rate of 0%, except for the cases in which there is negative interest rate or
2) internally calculated changes of economic value calculated as 1st and 99th percentile attributable daily changes of interest rates during the period of 5 years scaled to a year that lasts 240 days.

An overview of the Group's sensitivity to interest rate fluctuations measured in accordance with the statutory reporting requirements as at 31 December 2020 is indicated in the table below:

Change in the economic value of the banking book_parallel shift in interest rates by +/- 200 bp

	Up to 1 year	1 to 3 years	3 to 5 years	5 to 7 years	7 to 10 years	over 10 years	Total
Gap in HRK	821	3,437	1,704	(168)	(46)	19	5,767
Gap in EUR	(2,407)	1,906	681	21	(242)	47	6
Gap in other currencies	(651)	179	216	2	(1)	1	(254)
Total	**(2,237)**	**5,522**	**2,601**	**(145)**	**(289)**	**67**	**5,519**
Net weighted position by currency_HRK				291			
Net weighted position by currency_EUR				93			
Net weighted position by currency_other currencies				1			
Change in economic value				**385**			
Regulatory capital				6,273			
(Change in economic value / Regulatory capital)*100				**6.1%**			

(All amounts are expressed in millions of HRK)

35. MARKET RISK (CONTINUED)

INTEREST RATE RISK IN BANKING BOOK (CONTINUED)

The table below shows the average effective interest rates for interest-bearing financial assets and financial liabilities:

	Interest rate 2021 %	Interest rate 2020 %
Cash and balances with the Croatian National Bank	0.0	0.0
Loans and receivables from other banks	(0.5)	0.0
Loans and receivables from customers	3.4	3.7
Debt securities at fair value through other comprehensive income	1.9	1.4
Investments at amortized cost	3.1	4.3
Amounts due to other banks	(0.4)	(0.2)
Amounts due to customers	0.0	0.1
Other borrowed funds	1.0	1.2

PRICE RISK IN TRADING BOOK

Price risk is the risk of change in the value of an instrument as a result of changes in market prices, and the Bank invests primarily in high quality government instruments, therefore the Bank considers the price risk to be low.

36. LIQUIDITY RISK

Liquidity risk management

Cash flow management policy aimed at maintaining a balance between cash receipts and expenses is part of the Group's wider asset and liability management policy. To ensure a satisfactory level of liquidity reserves, the Group consistently implements the cash flow monitoring and planning process and anticipates future liquidity needs taking into account changes in the Group's economic, legislative and other circumstances. This planning involves identifying known, expected and potential cash outflows and developing strategies to meet the Group's liquidity requirements in certain currencies. It is important to emphasize that the Group, when managing its liquidity risk, seeks to ensure the currency matching of the liquid assets' portfolio with the currency distribution of its net liquidity outflows.

The operational management of the Group's foreign exchange liquidity is centralized and managed according to the concept of Parent Company's Liquidity pool. Under this framework, OTP Bank Nyrt Hungary retains a liquidity buffer in the event of a liquidity shock (deposit shock or business-related shock) and for the purpose of financing the ordinary activities of each company within the Group. Unlike foreign exchange liquidity, the operational management of kuna liquidity is the responsibility of each individual member.

Given the specifics of each individual member within the Group, there are no consolidated liquidity indicators but they are monitored individually in accordance with regulatory regulations and internal policies.

OTP banka d.d. as the only credit institution within the Group in Croatia, it has the most regulated liquidity framework, the overview of which is presented below.

Bank's liquidity risk management is the responsibility of the Asset and Liability Management Division in the Financial Sector. The Asset and Liability Committee (ALCO) determines the Bank's liquidity risk tolerance, regularly reviews and approves the liquidity risk management strategy and ensures the effective management of liquidity risk by the Asset and Liability Department. The Asset and Liability Department also proposes a liquidity risk management strategy and establishes a framework for managing these risks to ensure that the Bank has sufficient liquidity and regularly reports to ALCO. In addition, the Asset and Liability Department manages liquidity and reserve requirements with the CNB on a daily basis, maintains liquidity reserves in order to meet prescribed requirements and internal limits, and, in addition, implements the ALCO-approved liquidity risk strategy and ensures that appropriate controls, procedures and information flows are in place. In addition to short-term liquidity, the Asset and Liability Department is also responsible for managing medium and long-term liquidity, and adopts operational decisions based on information provided to them by various Bank departments related to operations that affect liquidity.

In order to ensure liquidity stress resilience, the Group maintains an adequate reserve of high-quality assets that can be sold or pledged to obtain funds under stress conditions.
Highly liquid financial assets include:

- liquid assets on accounts with the Croatian National Bank (balance of assets on the giro account and foreign currency settlement account with the CNB minus the obligatory reserve requirement);
- liquid assets placed with banks;
- liquid assets placed in securities that are measured at fair value through other comprehensive income

In addition to the aforementioned, the short-term and long-term financing lines offered by the Parent Company in foreign currency, which, together with customer deposits, represent the Group's sole sources of financing should be taken into account in the liquidity buffer.

(All amounts are expressed in millions of HRK)

36. LIQUIDITY RISK (CONTINUED)

Review of the fluctuations of liquid assets as at 31 December 2021 and 31 December 2020 is indicated in the table below:

	31/12/2021	31/12/2020
Giro account	4,536	2,128
Mandatory maintenance of the HRK mandatory reserve with the CNB	(945)	(817)
Foreign currency settlement account with the Croatian National Bank	5	53
Mandatory maintenance of the foreign currency mandatory reserve with the CNB	(9)	(8)
Liquid assets on accounts with the Croatian National Bank	**3,587**	**1,356**
Current accounts with foreign banks	1,816	2,583
Current accounts with domestic banks	34	132
Short-term placements with other banks	35	314
Liquid assets placed with banks	**1,885**	**3,029**
Bonds of the Republic of Croatia	3,314	3,549
Foreign country bonds	536	603
Treasury bills of the Republic of Croatia	1,053	1,373
Treasury bills of the National Bank of Hungary	915	-
Total liquid assets placed in securities that are measured at fair value through other comprehensive income	**5,818**	**5,525**
Total liquid assets	**11,290**	**9,910**

All indicated liquid assets are either due or marketable or liable for a period of up to one month.

(All amounts are expressed in millions of HRK)

36. LIQUIDITY RISK (CONTINUED)

Maturity structure of securities representing the Bank's liquidity reserve as at 31 December 2021 and 31 December 2020 is indicated in the tables below:

31/12/2021

	Total	Up to 1 year	1 to 3 years	3 to 5 years	Over 5 years
Bonds of the Republic of Croatia	3,314	424	1,144	1,108	638
Foreign government bonds	536	-	536	-	-
Treasury bills of the Republic of Croatia	1,053	1,053	-	-	-
Treasury bills of the National Bank of Hungary	915	915	-	-	-
Liquid assets placed in securities	**5,818**	**2,392**	**1,680**	**1,108**	**638**

31/12/2020

	Total	Up to 1 year	1 to 3 years	3 to 5 years	Over 5 years
Bonds of the Republic of Croatia	3,549	544	1,286	875	844
Foreign government bonds	603	76	527	-	-
Treasury bills of the Republic of Croatia	1,373	1,373	-	-	-
Liquid assets placed in securities	**5,525**	**1,993**	**1,813**	**875**	**844**

Bank assets are considered encumbered if they are pledged or subject to any form of contract to secure, hedge or enhance the lending of any balance sheet or off-balance sheet transactions from which they cannot be freely withdrawn (for example, to pledge for funding sources). Pledged assets subject to withdrawal restrictions, such as assets requiring prior approval prior to withdrawal or replacement with other assets, are considered encumbered. As at 31 December 2021, the Bank had no impaired asset burden other than the mandatory reserve of HRK 2,205 million (2020: EUR 1,904 million). Existing sources of financing were sufficient to cover the Bank's liquidity needs.

Liquidity risk measures

In order to comply with the legal and internal regulations and decisions, establish the principle of safety and stability and achieve the planned profitability of operations, the Bank applies a system of measuring and limiting liquidity risk and reporting of the subject risk. In accordance with the market practices, exposure to liquidity risk is determined through:

- regulatory limits
- internal limits

OTP banka d.d. is the only member of the Group that has the obligation to maintain the following regulatory liquidity indicators:

- mandatory reserve
- percentage coverage of foreign currency liabilities with short-term foreign currency claims
- liquidity coverage ratio
- requirement related to stable sources of funding

Mandatory reserve
CNB prescribes to banks the obligation to allocate and maintain mandatory reserves, in the form of deposits with the CNB, as well as other liquid claims.
As at 31 December 2021, the mandatory reserve rate was 9% of the prescribed basis and remained unchanged compared to 31 December 2020. The basis of the calculation is the average monthly balance of current accounts and deposits, loans and repo transactions received, debt securities issued, and hybrid and subordinated instruments.

(All amounts are expressed in millions of HRK)

36. LIQUIDITY RISK (CONTINUED)

Pursuant to regulatory provisions, the allocation of the HRK mandatory reserve component amounted to 70%, while the allocation of the foreign currency mandatory reserve component amounted to 0%. In addition to the prescribed 70% of the mandatory reserve requirement in HRK on the account of the CNB, banks are obliged to maintain the remaining 30% through the average daily balance on settlement accounts and on accounts for coverage of negative balances on settlement accounts in the National Clearing System. This includes 75% of the foreign currency mandatory reserve required to be held by the Bank in HRK and added to the HRK mandatory reserve.

The decision of the CNB of 15 December 2015 ended the obligation to allocate the foreign currency mandatory reserve, i.e. enabled the banks to maintain the total foreign currency mandatory reserve with an average daily balance:

- of the liquid foreign currency claims from OECD member states and credit institutions in OECD countries with the lowest ratings by Standard Poor's and Fitch Ratings of: AA-, respectively by Moody's: Aa3,
- of the funds in the own euro settlement accounts with the Croatian National Bank; and
- of the foreign cash and checks denominated in foreign currency.

With the same decision, the CNB introduces an obligation for all banks, except savings banks, to maintain at least 2% (of the total foreign currency portion of the mandatory reserve requirement) in their own foreign currency euro settlement account with the CNB, or own PM account within the TARGET2-HR system.

The Croatian National Bank does not pay a fee on HRK mandatory reserves. Interest rate applied to the special account for a portion of the foreign currency reserve requirement that the Bank is obliged to maintain (PM account within the TARGET2-HR system) is the reference interest rate of the European Central Bank.

Percentage coverage of foreign currency liabilities with short-term foreign currency claims

Pursuant to the Decision on minimum required foreign currency claims, the Bank is required to maintain the prescribed ratio between certain short-term foreign currency receivables and foreign currency liabilities on a daily basis.

Since March 2011, the minimum prescribed ratio between short-term foreign currency receivables and foreign currency liabilities is 17%.

The maintenance of the stated ratio as at 31 December 2021 and 31 December 2020 for the Bank is indicated in the table below:

	31/12/2021	**31/12/2020**
Short-term foreign currency claims	**4,420**	**4,680**
Foreign currency liabilities	**21,917**	**20,661**
Rate of foreign currency claims (%)	**20.17%**	**22.65%**
Regulatory limit	17.00%	17.00%
Internal minimum	17.25%	17.25%
Internal optimum	17.75%	17.75%

(All amounts are expressed in millions of HRK)

36. LIQUIDITY RISK (CONTINUED)

Liquidity coverage ratio

In accordance with the Regulation 575/2013 of the European Parliament and the Delegated Commission Regulation (EU) No. 2015/61, the Bank is required to maintain the prescribed ratio of liquid assets and net liquid outflows (LCR) to a minimum of 100% since January 2018.

The liquidity coverage ratio (LCR) request as at 31 December 2021 and 31 December 2020 for the Bank is indicated in the table below:

	31/12/2021		31/12/2020	
	Amount	Weighted amount	Amount	Weighted amount
Liquidity buffer (HQLA)	**9,329**	**9.300**	**7,634**	**7,607**
Cash and reserves with the Central Bank	4,216	4.216	1,924	1,924
Total 1st and 2nd degree assets	5,113	5.084	5,710	5,683
Total net liquidity outflows	**43,521**	**5.136**	**37,022**	**3,620**
Inflows	**4,045**	**3.314**	**3,872**	**3,356**
Cash receivables from non-financial clients	1,403	735	955	508
Cash receivables from financial clients	1,558	1.558	2,734	2,734
Other inflows	1,084	1.021	183	114
Outflows	**47,566**	**8.450**	**40,895**	**6,977**
Retail deposits	29,922	2.405	26,389	2,124
Non-operational deposits	8,551	4.460	7,459	3,988
Other liabilities	9,093	1.585	7,047	865
Liquidity coverage ratio (%)_LCR	**181%**		**210%**	
Regulatory limit	100%		100%	
Internal minimum	110%		110%	
Internal optimum	120%		120%	

(All amounts are expressed in millions of HRK)

36. LIQUIDITY RISK (CONTINUED)

When managing a liquidity buffer in terms of a Liquidity Coverage Ratio requirement (LCR), and in order to ensure the security, liquidity and adequate diversification of its own investments, the Bank is guided by the requirements set out in Delegated Commission Regulation (EU) No. 2015/61 as well as by the provisions of the Bank's Liquidity Risk Management Procedure regarding the investment portfolio management. Accordingly, the management of the liquid assets portfolio recognized in the liquidity buffer includes:

- minimizing credit risk or loss risk due to default of the security issuer (or guarantor) by (i) pre-determining and constantly monitoring the issuers whose securities have already been purchased or can be purchased and (ii) diversifying the portfolio and limiting the investment by issuer so that the potential losses of individual securities are minimized,
- minimizing the risk of the market value of the securities in the portfolio decreasing due to changes in general interest rates, taking into account (i) that the portfolio is structured so that the securities mature in order to meet the cash requirements for current operations, avoiding the need to sell securities on the open market before maturity with a high transaction cost and (ii) investing operating assets primarily in short-term securities (limiting the maximum maturity or duration of the portfolio),
- not opening currency risks related to the portfolio of liquid foreign currency assets,
- achieving a competitive rate of return, given the constraints on credit, interest rate and currency risk mitigation and liquidity goals,
- portfolio diversification to reduce the risk of loss resulting from the concentration of assets in a particular type, currency, country or economic sector,
- assessing the marketability of the portfolio primarily through the possibility of collateralizing with the Croatian National Bank or the European Central Bank and then by examining the market situation of professional services at the Bank.

Requirement for stable sources of funding

Regulation (EU) 2019/876 of 20 May 2019 amending Regulation (EU) no. 575/2013 regarding the leverage ratio, the ratio of net stable sources of financing, regulatory capital requirements and eligible liabilities, counterparty credit risk, market risk, exposure to central counterparties, exposure to collective investment undertakings, large exposures, requirements for reporting and disclosure, prescribes the bank's obligation to report on stable sources of financing (NSFR) whose minimum level is 100%.

Changes in net stable funding ratio requirements (NSFR) as at 31 December 2021 and 31 December 2020 for the Bank is indicated in the table below:

	31/12/2021	**31/12/2020**
Items providing stable funding sources	**38,545**	**34,417**
Items requiring stable funding sources	**27,912**	**26,403**
Net stable funding ratio requirements (%)_NSFR	**138%**	**130%**
Regulatory limit	100%	100%
Internal minimum	110%	110%
Internal optimum	120%	120%

** data for 2021 are unaudited*

In addition to the regulatory liquidity ratios indicated above, the Bank also uses a number of other internal indicators to help monitor short-term and long-term liquidity risk exposures based on the balance sheet structure (such as the net loan-to-deposit ratio, the share of liquid assets in total assets, the concentration of deposits received from an individual client and twenty largest depositors, and projected funding needs).
The aforementioned internal liquidity indicators are monitored through ALCO and daily reports in accordance with the defined reporting dynamics.

36. LIQUIDITY RISK (CONTINUED)

Stress testing
In order to meet the expected and unexpected cash needs, the liquidity management strategy includes planning for contingencies (local and global crises). Namely, the planned activities are continuously adjusted to the market situation, taking into account the structure of assets and liabilities and the maximum level of liquidity reserves.

The Bank prescribes and carries out stress tests of its liquidity, taking into account the factors specific for the Bank (crisis of the institution) as well as market factors (market crisis). Tests are conducted for shorter and longer periods of stressful circumstances with varying intensity of stressful circumstances: from normal (predictable or normal) circumstances to unusual (extreme) circumstances.

On a monthly basis, the Bank performs liquidity stress testing to determine and quantify its exposure to potential liquidity stress, analyzing potential effects on its liquidity position.

Stress tests consist of applying assumptions of development inside and outside the budget to inflows and outflows of client funds (with particular attention being paid to the concentration of deposits) and determining the net outflows of client funds under stress, which are compared to the liquid assets that can be obtained using the liquidity reserve and alternative sources of financing.

In addition to regular stress tests, the Bank conducts general liquidity stress tests at least once a year as part of the ICAAP process at the consolidated level.

(All amounts are expressed in millions of HRK)

36. LIQUIDITY RISK (CONTINUED)

The table below represent the maturity analysis of discounted assets and liabilities as at 31 December 2021.

As at 31 December 2021	Up to 1 month	1 to 3 months	3 months to 1 year	1 to 3 years	Over 3 years	Undefined	Total
Assets							
Cash and balances with Croatian National Bank	9,320	-	-	-	-	-	9,320
Loans and receivables from banks	35	-	-	-	-	-	35
Financial assets at fair value through profit or loss	28	12	40	27	120	199	426
Loans and receivables from customers	2,342	1,289	4,619	9,308	17,132	-	34,690
Equity instruments at fair value through other comprehensive income	-	-	-	-	-	92	92
Debt securities at fair value through other comprehensive income	915	304	1,173	1,680	1,746	-	5,818
Financial asset measured at amortised cost	-	1	67	146	138	-	352
Property and equipment	-	-	-	-	-	678	678
Right-of-use assets	3	7	17	55	28	-	110
Investment property	-	-	-	-	-	141	141
Intangible assets	-	-	-	-	-	105	105
Goodwill	-	-	-	-	-	4	4
Deferred tax assets	-	-	-	-	-	67	67
Other Assets	219	-	-	-	-	-	219
Non-current assets held for sale	-	-	10	-	-	-	10
Total assets	**12,862**	**1,613**	**5,926**	**11,216**	**19,164**	**1,286**	**52,067**

(All amounts are expressed in millions of HRK)

36. LIQUIDITY RISK (CONTINUED)

As at 31 December 2021	Up to 1 month	1 to 3 months	3 months to 1 year	1 to 3 years	Over 3 years	Undefined	Total
Liabilities							
Amounts due to other banks	139	677	-	-	-	-	816
Amounts due to customers	33,248	1,856	3,454	521	194	-	39,273
Other borrowed funds	9	24	871	1,616	1,324	-	3,844
Financial liabilities at fair value through profit or loss	11	12	32	2	23	-	80
Provisions for liabilities and charges	8	31	91	20	9	319	478
Lease liabilities classified under IFRS 16	3	7	18	55	28	-	111
Other liabilities	523	-	-	-	-	-	523
Total liabilities	**33,941**	**2,607**	**4,466**	**2,214**	**1,578**	**319**	**45,125**
Net liquidity gap	**(21,079)**	**(994)**	**1,460**	**9,002**	**17,586**	**967**	**6,942**

(All amounts are expressed in millions of HRK)

36. LIQUIDITY RISK (CONTINUED)

The table below represent the maturity analysis of discounted assets and liabilities as at 31 December 2020.

As at 31 December 2020	Up to 1 month	1 to 3 months	3 months to 1 year	1 to 3 years	Over 3 years	Undefined	Total
Assets							
Cash and balances with Croatian National Bank	7,465	-	-	-	-	-	7,465
Loans and receivables from banks	334	-	-	-	-	-	334
Financial assets at fair value through profit or loss	477	-	-	-	-	-	477
Loans and receivables from customers	2,176	1,236	3,945	6,759	17,681	-	31,797
Equity instruments at fair value through other comprehensive income	-	-	-	-	-	87	87
Debt securities at fair value through other comprehensive income	-	76	1,917	1,441	2,092	-	5,526
Financial asset measured at amortised cost	-	-	1	216	19	-	236
Property and equipment	-	-	-	-	-	741	741
Right-of-use assets	1	7	17	51	29	-	105
Investment property	-	-	-	-	-	106	106
Intangible assets	-	-	-	-	-	151	151
Deferred tax assets	-	-	-	-	-	96	96
Income tax receivables	-	-	7	-	-	-	7
Other Assets	299	-	-	-	-	-	299
Non-current assets held for sale	-	-	35	-	-	-	35
Total assets	**10,752**	**1,319**	**5,922**	**8,467**	**19,821**	**1,181**	**47,462**

(All amounts are expressed in millions of HRK)

36. LIQUIDITY RISK (CONTINUED)

As at 31 December 2020	**Up to 1 month**	**1 to 3 months**	**3 months to 1 year**	**1 to 3 years**	**Over 3 years**	**Undefined**	**Total**
Liabilities							
Amounts due to other banks	240	2,280	-	-	-	-	2,520
Amounts due to customers	27,544	1,475	4,088	581	233	-	33,921
Other borrowed funds	84	471	442	1,388	972	-	3,357
Financial liabilities at fair value through profit or loss	6	54	34	2	26	-	122
Provisions for liabilities and charges	12	40	70	72	20	274	488
Lease liabilities classified under IFRS 16	1	7	17	52	30	-	107
Other liabilities	424	-	-	-	-	-	424
Total liabilities	**28,311**	**4,327**	**4,651**	**2,095**	**1,281**	**274**	**40,939**
Net liquidity gap	**(17,559)**	**(3,008)**	**1,271**	**6,372**	**18,540**	**907**	**6,523**

(All amounts are expressed in millions of HRK)

36. LIQUIDITY RISK (CONTINUED)

Table below present undiscounted cash flows for financial liabilities.

	Up to 1 month	1 to 3 months	3 months to 1 year	1 to 3 years	Over 3 years	Total
As at 31 December 2021						
Liabilities						
Amounts due to other banks	139	677	-	-	-	816
Amounts due to customers	33,248	1,857	3,456	525	197	39,283
Other borrowed funds	9	26	885	1,637	1,354	3,911
Financial liabilities at fair value through profit or loss	11	12	32	2	23	80
Other liabilities	523	-	-	-	-	523
Total Liabilities	**33,930**	**2,572**	**4,373**	**2,164**	**1,574**	**44,613**
As at 31 December 2020						
Liabilities						
Amounts due to other banks	240	2,280	-	-	-	2,520
Amounts due to customers	27,544	1,475	4,091	584	235	33,929
Other borrowed funds	85	476	458	1,404	1,005	3,428
Financial liabilities at fair value through profit or loss	6	54	34	2	26	122
Other liabilities	424	-	-	-	-	424
Total Liabilities	**28,299**	**4,285**	**4,583**	**1,990**	**1,266**	**40,423**

Remaining maturity is related to period between reporting date and expected date of payment for receivables or liabilities.

37. OPERATIONAL RISK

Bank

Operational risk is the risk of loss resulting from inadequately defined or improperly executed business process, human error, inappropriate system operation or as a result of external factors, including legal risk.

The Bank's activities in the area of managing operational risk are in line with the applicable regulations and good operational risk management practice, and are regularly revised to reflect any changes therein. Framework for managing operational risk at the Bank is provided by the Operational Risk Management Rules, the Operational Risk Collection Procedure as well as the Procedure for Managing Key Risk Indicators, Procedure for conducting risk self-assessment and control mechanisms, Procedure for listing model risks, Procedure for conducting scenario analysis.

The Bank defined the business continuity management strategy: Business Continuity Plan, as well as the Crisis Communication Handbook, that define the system supporting the continuity of operations in cases where they become temporarily discontinued as a result of an exceptional event.

Operational risks are managed in a decentralised manner so that the responsibility for managing operational risks rests with the managers and staff in charge of those organisational units in which operational risks are inherent to the activities performed by those units. They best understand, control and monitor the processes taking place in their organisational units and their duty is to ensure that the processes they manage follow appropriate procedures and are safe from the aspect of incurrence of operational risks. Operational risk management activities that are a joint responsibility of all the Bank's organisational units include the following: identification, measurement, assessment and analysis, as well as monitoring operational risks.

Department for Operational Risks and Business Continuity Management operates as an independent unit within the Risk Management Sector, Department for Operational Risk Management. Department for Operational Risks and Business Continuity Management is responsible for: suggesting the set-up of the operational risk management environment and the rules governing this area, for collecting data about losses caused by operational risks, conducting analysis, documenting and preparing reports on operational risk events and providing assistance and support to all organizational units of the Bank in understanding the structured approach to managing operational risks.

In line with the decentralised operational risk management methodology, process owners are responsible for consistent identification and assessment of operational risks, followed by the establishment and implementation of measures for managing risks identified in the respective areas and processes for which they are responsible.

In order to obtain a full view of the Bank's exposure to the risk, an Operational Risk Management Committee has been established.

The year 2021 was marked by the continuation of COVID-19 pandemic. The Bank monitored the development of the COVID-19 pandemic and updated, in accordance with the development of the pandemic, the Business Continuity Plan for the pandemic scenario. In 2021, the Crisis Committee continued to manage the crisis. The "remote work" model remained the primary recovery scenario and a regular way of working. The Bank also regularly monitored the financial impact of COVID-19 pandemic operational risk events and regularly reported to management through the Operational Risk Committee.

The Bank applies a simple approach to the calculation of the regulatory capital requirement for operational risk.

Group

Operational risk is the risk of loss resulting from inadequately defined or improperly executed business process, human error, inappropriate system operation or as a result of external factors, including legal risk.
The Group's activities in the area of managing operational risk are in line with the applicable regulations and good operational risk management practice, and are regularly revised to reflect any changes therein. Framework for managing operational risk at the Bank is provided by the Operational Risk Management Rules, the Operational Risk Collection Procedure as well as the Procedure for Managing Key Risk Indicators, Procedure for conducting risk self-assessment and control mechanisms, Procedure for listing model risks, Procedure for conducting scenario analysis.

38. OPERATIONAL RISK (CONTINUED)

The Bank defined the business continuity management strategy: Business Continuity Plan, as well as the Crisis Communication Handbook, that define the system supporting the continuity of operations in cases where they become temporarily discontinued as a result of an exceptional event.

Operational risks are managed in a decentralised manner so that the responsibility for managing operational risks rests with the managers and staff in charge of those organisational units in which operational risks are inherent to the activities performed by those units. They best understand, control and monitor the processes taking place in their organisational units and their duty is to ensure that the processes they manage follow appropriate procedures and are safe from the aspect of incurrence of operational risks. Operational risk management activities that are a joint responsibility of all the Bank's organisational units include the following: identification, measurement, assessment and analysis, as well as monitoring operational risks.

Department for Operational Risks and Business Continuity Management operates as an independent unit within the Risk Management Sector, Department for Operational Risk Management. Department for Operational Risks and Business Continuity Management is responsible for: suggesting the set-up of the operational risk management environment and the rules governing this area, for collecting data about losses caused by operational risks, conducting analysis, documenting and preparing reports on operational risk events and providing assistance and support to all organizational units of the Bank in understanding the structured approach to managing operational risks.

In line with the decentralised operational risk management methodology, process owners are responsible for consistent identification and assessment of operational risks, followed by the establishment and implementation of measures for managing risks identified in the respective areas and processes for which they are responsible.

In 2021, the harmonization of internal acts on operational risk management at the level of the entire Group was carried out. In 2021, the reports of the General Risk Control Department towards the Operational Risk Committee also include reporting on significant operational risk events for the Group.

The year 2021 was marked by the continuation of the COVID-19 pandemic. In response to the pandemic, the Bank implemented a separate Business Continuity Plan for the pandemic scenario and activated the Bank's Crisis Staff, which includes representatives of affiliates, to effectively manage the crisis. Circumstances and business models have changed in line with the requirements imposed by the COVID-19 pandemic. The “work from home” model has become the primary recovery scenario and a regular way of working for the Bank and its affiliates. Measures have been implemented to mitigate the risks posed by the COVID-19 pandemic. The Bank coordinated the work of crisis management of the Bank and its affiliates.

To calculate the regulatory capital requirement for operational risk, the Bank applies a simple approach on a consolidated and non-consolidated basis.

(All amounts are expressed in millions of HRK)

38. RELATED PARTY TRANSACTIONS

The Bank is the parent of the OTP Bank Group in Croatia. The Group considers to be immediately related to its key shareholders and their subsidiaries; its subsidiaries and associates; the investment funds managed by one of its subsidiaries, OTP invest d.o.o.; Supervisory Board members, Management Board members; key management personnel, close family members of the Management Board members; and entities controlled, jointly controlled or significantly influenced by members of the Supervisory Board, Management Bord, key management personnel and their close family members, in accordance with the definition contained in International Accounting Standard 24 *"Related Party Disclosures"* (IAS 24).

Balances and transactions between the Bank and its subsidiaries, which are related parties, are eliminated in the consolidation and are not disclosed in this note.

The balances and transactions of the Group with related parties were as follows:

	31/12/2021		**31/12/2020**	
	Receivables	**Liabilities**	**Receivables**	**Liabilities**
OTP Bank Nyrt Hungary	81	753	70	2,411
OTP Bank Romania S.A.	1	-	-	-
SKB Banka	267	21	13	19
OTP Financing Malta Company LTD	-	3,278	-	2,299
Merkantil bank Zrt	-	-	-	-
Zelena nekretnina	-	1	-	25
Crnogorska komercijalna banka	15	-	-	-
DSK Bank	-	7	-	-
Supervisory Board, Management Bord and Key Management of the Bank and subsidiaries*	12	31	10	4
	376	**4,091**	**93**	**4,758**

*Amounts include receivables and liabilities for loans, deposits and interest.

(All amounts are expressed in millions of HRK)

38. RELATED PARTY TRANSACTIONS

	2021		2020	
	Income	**Expenses**	**Income**	**Expenses**
OTP Bank Nyrt Hungary	101	109	83	163
OTP Financing Malta Company LTD	-	10	-	12
SKB Banka	1	1	-	1
DSK Bank	-	-	8	-
Other related parties in Hungary	-	-	-	1
Supervisory Board, Management Bord and Key Management of the Bank and subsidiaries*	-	34	-	32
	102	**146**	**91**	**202**

* includes income and expenses on loans, deposits, salary compensations and other contracted income

Remuneration paid to key management of the Group for 2021 amounted to HRK 33 million (2020: HRK 31 million) and are comprised of short-term benefits in amount of HRK 29 million (2020: HRK 27 million) and long-term benefits in cash in amount of HRK 4 million (2020: HRK 4 million). As at 31 December 2021, the amount of deferred compensation liabilities to key managers from previous years amounts to HRK 10 million (2020: HRK 12 million). Included in key management personnel are Management Board members of the Bank and Senior management of the Bank.

Remuneration paid to Supervisory Board members for 2021 amounted to HRK 1 million (2020: HRK 1 million).

(All amounts are expressed in millions of HRK)

39. FUNDS MANAGED ON BEHALF OF THIRD PARTIES

The Group manages funds on behalf of third parties, which consist mainly of custody services and loans provided by one legal person to another through the Group as agent. These assets are accounted for separately from those of the Group, and the Group has no liability in connection with these transactions. The Group charges a fee for these services.

At 31 December 2021, funds managed by the Group on behalf of third parties amounted to HRK 182 million (2020: HRK 180 million). As at 31 December 2021, the total portfolio of securities of domestic and foreign clients the Group has under custody, including domestic pension and investment funds, amounted to HRK 77,341 million (2020: HRK 68,093 million), of which HRK 5,124 million refers to Bank's subsidiaries (2020: HRK 4,624 million).

	31/12/2021	**31/12/2020**
OTP Bank Nyrt Hungary	3,994	3,994
OTP Invest d.o.o.	1,130	527
OTP banka Srbija	-	12
OTP Osiguranje d.d.	-	91
	5,124	**4,624**

40. FAIR VALUE OF FINANCIAL ASSETS AND LIABILITIES

The fair value of financial instruments is the amount for which an asset could be exchanged or a liability settled, between knowledgeable willing parties in an arm's-length transaction. Where available, fair value is based on quoted market prices. However, market prices for a significant portion of financial instruments of the Bank are not readily available. In circumstances where quoted market prices are not readily available, fair value is estimated using alternative techniques or financial assets are measured at cost, amortised cost or indexed cost.

Valuation techniques and assumptions for the purposes of measuring fair value

The fair values of financial assets and financial liabilities are determined as follows:

- fair values of financial assets and financial liabilities with standard terms and conditions and traded on active liquid markets are determined by reference to quoted market prices (includes listed redeemable notes, bills of exchange, debentures and perpetual notes);

- fair values of other financial assets and financial liabilities (excluding derivative instruments) are determined in accordance with generally accepted pricing models based on discounted cash flow analysis using prices from observable current market transactions and dealer quotes for similar instruments;

- fair values of derivative instruments are calculated using quoted prices; where such prices are not available, a discounted cash flow analysis is performed using the applicable yield curve for the duration of the instruments for non-optional derivatives;

- interest rate swaps are measured at the present value of future cash flows estimated and discounted based on the applicable yield curves derived from quoted interest rates.

Financial instruments that are measured subsequent to initial recognition at fair value are grouped into three levels based on the degree to which the fair value is observable:

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities.

- Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from the prices).

- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

(All amounts are expressed in millions of HRK)

40. FAIR VALUE OF FINANCIAL ASSETS AND LIABILITIES (CONTINUED)

2021

	Level 1	Level 2	Level 3	Total
Financial asset at fair value through profit or loss (Note 14)				
Units in open-end investment funds	-	160	-	160
Bonds of Republic of Croatia (listed)	129	-	-	129
VISA International preferred stock	-	-	39	39
Currency swaps and forward contracts	-	66	-	66
Interest rate swaps	-	26	-	26
Loans	-	-	6	6
	129	**252**	**45**	**426**
Financial asset at fair value through other comprehensive income (Note 16)				
Listed investments				
Debt securities of Republic of Croatia	3,315	-	-	3,315
Debt securities of Foreign countries	536	-	-	536
Equity securities	41	-	47	88
Unlisted investments				
Treasury bills of Republic of Croatia	-	1,053	-	1,053
Treasury bills of National Bank of Hungary	-	915	-	915
Equity securities	-	-	4	4
	3,892	**1,968**	**51**	**5,911**
	4,021	**2,220**	**96**	**6,337**
Financial liabilities at fair value through profit or loss				
Currency swaps and forward contracts	-	54	-	54
Interest rate swaps	-	24	-	24
Option	-	2	-	2
	-	**80**	**-**	**80**
	4,021	**2,140**	**96**	**6,257**

(All amounts are expressed in millions of HRK)

40. FAIR VALUE OF FINANCIAL ASSETS AND LIABILITIES (CONTINUED)

2020

	Level 1	**Level 2**	**Level 3**	**Total**
Financial asset at fair value through profit or loss (Note 14)				
Units in open-end investment funds	-	157	-	157
Bonds of Republic of Croatia (listed)	95	-	-	95
VISA International preferred stock	-	-	37	37
Currency swaps and forward contracts	-	44	-	44
Interest rate swaps	-	29	-	29
Other securities at fair value through profit or loss	-	-	92	92
Loans	-	-	23	23
	95	**230**	**152**	**477**
Financial asset at fair value through other comprehensive income (Note 16)				
Listed investments				
Debt securities of Republic of Croatia	3,550	-	-	3,550
Debt securities of Foreign countries	603	-	-	603
Equity securities	39	-	44	83
Corporate bonds	-	-	-	-
Unlisted investments				
Treasury bills of Republic of Croatia	-	1,373	-	1,373
Equity securities	-	-	4	4
	4,192	**1,373**	**48**	**5,613**
	4,287	**1,603**	**200**	**6,090**
Financial liabilities at fair value through profit or loss				
Currency swaps and forward contracts	-	96	-	96
Interest rate swaps	-	26	-	26
	-	**122**	**-**	**122**
	4,287	**1,481**	**200**	**5,968**

Fair value of financial assets and financial liabilities of the Bank measured at fair value

Some of the Bank’s financial assets are measured at fair value at the end of each reporting period. The table below provides the information about the fair value measurement of financial assets and liabilities (valuation techniques and the inputs to the techniques used).

(All amounts are expressed in millions of HRK)

40. FAIR VALUE OF FINANCIAL ASSETS AND LIABILITIES (CONTINUED)

Fair value of financial assets and financial liabilities of the Bank measured at fair value (continued)

Financial asset / financial liabilities	Fair value as at 2021	Fair value as at 2020	Fair value level	Valuation method and key inputs	Significant unobservable inputs	Unobservable inputs in relation to fair value
1) Share in open-end investment funds (Note 14 and 16)	Which are held for trading: Assets: 160	Which are held for trading: Assets: 157	Level 2	The quoted purchase price by the fund established on the basis of net assets of the funds.	Not applicable	Not applicable
2) Currency swaps and forward contracts (Note 14)	Assets: 66 Liabilities: 54	Assets: 44 Liabilities: 96	Level 2	Discounted cash flow. Future cash flow is estimated by the forward rates available at the end of the reporting period and contracted forward rates, discounted using a rate reflecting the counterparty credit risk.	Not applicable	Not applicable
3) Interest rate swaps (Note 14)	<u>Held for trading</u> Assets: 26 Liabilities: 20 <u>Fair value hedge:</u> Assets: - Liabilities: 4 <u>Cash flow hedge:</u> Assets: - Liabilities: 2	<u>Held for trading</u> Assets: 26 Liabilities: 20 <u>Fair value hedge:</u> Assets: - Liabilities: 6 <u>Cash flow hedge:</u> Assets: - Liabilities: -	Level 2	Discounted cash flow. Future cash flow is estimated by forward rates (from the yield curve available at the end of the reporting period) and contracted interest rates, discounted using a rate that reflects the counterparty credit risk.	Not applicable	Not applicable
4) Debt securities listed (Note 14 and Note 16)	Debt securities held for trading and are quoted in Croatia - issued by the Republic of Croatia: 129	Debt securities held for trading and are quoted in Croatia - issued by the Republic of Croatia: 95	Level 1	Prices quoted on an active market.	Not applicable	Not applicable
	Debt securities that are valued through other comprehensive income - issued by the Republic of Croatia: 3,315 - issued by foreign countries: 536	Debt securities that are valued through other comprehensive income - issued by the Republic of Croatia: 3,550 - issued by foreign countries: 603	Level 1	Prices quoted on an active market.	Not applicable	Not applicable

(All amounts are expressed in millions of HRK)

40. FAIR VALUE OF FINANCIAL ASSETS AND LIABILITIES (CONTINUED)

Fair value of financial assets and financial liabilities of the Bank measured at fair value (continued)

Financial asset / financial liabilities	Fair value as at 2021	Fair value as at 2020	Fair value level	Valuation method and key inputs	Significant unobservable inputs	Unobservable inputs in relation to fair value
5) Equity securities (Note 16)	Listed in Croatia - shares: - Listed abroad - shares: 41	Listed in Croatia - shares: - Listed abroad - shares: 39	Level 1	Prices quoted on an active market.	Not applicable	Not applicable
	Listed in Croatia - shares: 3 Listed abroad: - shares: 44	Listed in Croatia - shares: 3 Listed abroad: - shares: 41	Level 3	Prices quoted on an active market. Quoted ordinary share prices adjusted for conversion factor and estimated risk	Not applicable	Not applicable
	Not quoted: - shares: 4	Not quoted: - shares: 4	Level 3	Internally developed model based on residual income	Not applicable	Not applicable
6) Debt securities that are not quoted (Note 16)	Treasury bills issued by the Republic of Croatia: - Treasury bills issued by the Republic of Croatia: 1,053 Treasury bills of National Bank of Hungary: 915	Treasury bills issued by the Republic of Croatia: - Treasury bills issued by the Republic of Croatia: 1,373	Level 1 Level 2	Discounted cash flow. Discounted by applying a rate that reflects the market interest rate, including the counterparty credit risk.	Not applicable	Not applicable
7) Loans (Note 15)	Loans: -	Loans: -	Level 2	Discounted cash flow. Discounted by applying a rate that reflects the market interest rate, including the counterparty credit risk.	Not applicable	Not applicable
	Loans: 6	Loans: 23	Level 3	Discounted cash flow. Discounted by applying the effective interest rate.	Not applicable	Not applicable

Movement of Level 3 Financial Instruments at Fair Value

The fair value level of financial instruments is determined at the beginning of each reporting period. The following table shows the reconciliation of the opening and closing amounts of Level 3 financial assets and liabilities that are carried at fair value:

Balance as at 1 January 2020	**187**
Total gains and losses recognized in other comprehensive income	37
Total gains and losses recognized in profit and loss	(24)
Balance as at 31 December 2020	**200**
Balance as at 1 January 2021	**200**
Total gains and losses recognized in other comprehensive income	3
Total gains and losses recognized in profit and loss	(107)
Balance as at 31 December 2021	**96**

40. FAIR VALUE OF FINANCIAL ASSETS AND LIABILITIES (CONTINUED)

Financial instruments not measured at fair value

In arriving at the fair value of these financial instruments certain assumptions, estimates and methods were used.
Because of the relatively short period to maturity, the fair values of Loans and receivables from banks and Amounts due to other banks are considered not to differ significantly from their carrying amounts.
For investments measured at amortized cost, corporate bonds with longer maturities are valued at quoted prices on the market or the price is derived by discounting cash flows, while for corporate bills of exchange, due to shorter maturities, it is assumed that the fair value does not differ significantly from their carrying amount.

The fair values of Loans and receivables from customers and Amounts due to customers were estimated using the expected future cash flows using as the discount rate the current average market rate for identical loans and deposits. Partly recoverable and fully irrecoverable loans and receivables were not considered in measuring the fair value because their recoverable amount is assumed to reflect their fair price.
Because of the specific features of the credit lines provided by HBOR and their restricted transferability as well as the standardised terms and conditions HBOR applies to all commercial banks, the carrying amount of the credit lines is assumed to reflect their fair values.

(All amounts are expressed in millions of HRK)

40. FAIR VALUE OF FINANCIAL ASSETS AND LIABILITIES (CONTINUED)

Financial instruments not measured at fair value (continued)

Balance as at 31/12/2021

			Fair value			
	Note	**Carrying amount**	**Level 1**	**Level 2**	**Level 3**	**Total**
Financial asset						
Loans and receivables from banks	13	35	-	-	35	**35**
Loans and receivables from customers	15	34,690	-	-	35,057	**35,057**
Investments at amortization cost	17	352	-	-	371	**371**
Financial liabilities						
Liabilities to other banks	24	816	-	-	816	**816**
Liabilities to customers	25	39,274	-	-	39,273	**39,273**

Balance as at 31/12/2020

			Fair value			
	Note	**Carrying amount**	**Level 1**	**Level 2**	**Level 3**	**Total**
Financial asset						
Loans and receivables from banks	13	339	-	-	339	**339**
Loans and receivables from customers	15	31,797	-	-	32,141	**32,141**
Investments at amortization cost	17	236	-	-	236	**236**
Financial liabilities						
Liabilities to other banks	24	2,520	-	-	2,520	**2,520**
Liabilities to customers	25	33,921	-	-	33,907	**33,907**

41. SUBSEQUENT EVENTS

Geopolitical situation in Europe - War in Ukraine

Given the war situation in Ukraine from the end of February 2022, the Group implemented all sanctions in accordance with the decisions and recommendations of the competent authorities of the European Union and the Group's management increased the level and frequency of monitoring and assessing possible impacts on the Group and bank customers.
Looking at the structure of exposures, the quality of clients and their risk profile, the Group estimates that there is currently no increased risk of deterioration in the quality of the loan portfolio.
The bank does not have an open position in the currencies of countries affected by the war and has suspended all active limits to Russian banks.
The stability and liquidity of reserves and the capital position of the Group are also at a high level, so the new events do not have a material impact on liquidity and the capital position.
Regarding IT risk, the Group does not have direct business relations with countries affected by war conflicts and sanctions, and the Group has strengthened security measures to prevent possible cyber attacks.
Taking into account all the above, the Group's Management estimates that the new geopolitical situation does not have material risks and impact on the Group's operations. Given the recent nature of these events and the uncertainty in which direction they will continue to develop, the Group continuously monitors the geopolitical situation and will take appropriate measures depending on future developments.

Status changes in related companies

On 24 February 2022, the Croatian Financial Services Supervisory Agency issued a decision number UP/I 973-02/21-01/20 to OTP Leasing d.d.(which is 60% owned by OTP banka d.d.) giving approval for the status change of the merger of SB Leasing d.o.o. in liquidation.
The merged company (SB Leasing d.o.o. in liquidation which is 100% owned by OTP Leasing d.d.) transfers the entire property together with all rights and obligations, and after the entry in the Court Register it will stop to exist without liquidation. The company that takes over the entire property of the merged company and after the entry of the merger in the Court Register, becomes their legal successor (OTP Leasing d.d.). The merger will be carried out without increasing the share capital of the acquiring company and without issuing new shares of the merged company.
The acquisition is planned on 1 July 2022.

Pursuant to the Accounting Act of the Republic of Croatia, the Croatian National Bank adopted a Decision on the structure and content of the Annual Financial Statements of credit institutions, Official Gazette 42/2018, 122/2020 and 119/2021.

In the following tables, the financial statements are presented in accordance with the aforementioned Decision.

Consolidated statement of profit or loss – unaudited

In millions HRK	In accordance with Croatian National Bank decision 2021	Accounting standards for banks in Croatia 2021	Difference 2021	In accordance with Croatian National Bank decision 2020	Accounting standards for banks in Croatia 2020	Difference 2020
Interest income	1,322	1,289	33	1,344	1,302	42
(Interest expense)	(64)	(38)	(26)	(74)	(57)	(17)
(Expenses on share capital repayable on demand)	-	-	-	-	-	-
Dividend income	1	-	1	1	-	1
Fee and commission income	505	505	-	429	429	-
(Fee and commission expense)	(123)	(123)	-	(97)	(97)	-
Gains or (-) losses on derecognition of financial assets and liabilities not measured at fair value through profit or loss, net	(9)	(9)	-	8	8	-
Gains or (-) losses on financial assets and liabilities held for trading, net	169	175	(6)	(3)	18	(21)
Gains or (-) losses on non-trading financial assets mandatory at fair value through profit or loss, net	51	53	(2)	69	66	3
Gains or (-) losses on financial assets and liabilities designated at fair value through profit or loss, net	-	-	-	-	-	-
Gains or (-) losses from hedge accounting, net	2	-	2	(3)	-	(3)
Exchange differences [gain or (-) loss], net	(43)	(46)	3	125	127	(2)
Gains or (-) losses on derecognition of investments in subsidiaries, joint ventures and associates, net	-	-	-	-	-	-
Gains or (-) losses on derecognition of non-financial assets, net	-	-	-	-	-	-
Other operating income	158	135	23	147	151	(4)
(Other operating expenses)	(61)	-	(61)	(26)	-	(26)
Total operating income, net	**1,908**	**1,941**	(33)	**1,920**	**1,947**	(27)
(Administrative expenses)	(781)	(853)	72	(768)	(865)	97
(Cash contributions to resolution committees and deposit insurance schemes)	(36)	-	(36)	(73)	-	(73)
(Depreciation)	(215)	(215)	-	(237)	(237)	-
Modification gains or (-) losses, net	-	-	-	-	-	-
(Provisions or (-) reversal of provisions)	(47)	(45)	(2)	(46)	(46)	-
(Impairment or (-) reversal of impairment on financial assets not measured at fair value through profit or loss)	6	2	4	(449)	(453)	4
(Impairment or (-) reversal of impairment of investments in subsidiaries, joint ventures and associates)	-	-	-	-	-	-
(Impairment or (-) reversal of impairment on non-financial assets)	(7)	-	(7)	(1)	-	(1)
Negative goodwill recognised in profit or loss	-	-	-	-	-	-
Share of the profit or (-) loss of investments in subsidiaries, joint ventures and associates accounted for using the equity method	-	-	-	-	-	-
Profit or (-) loss from non-current assets and disposal groups classified as held for sale not qualifying as discontinued operations	-	-	-	-	-	-
Profit or (–) loss before tax from continuing operations	**828**	**830**	(2)	**346**	**346**	-
(Tax expense or (-) income related to profit or loss from continuing operations)	(159)	(159)	-	(65)	(65)	-
Profit or (–) loss after tax from continuing operations	**669**	**671**	(2)	**281**	**281**	-
Profit or (-) loss after tax from discontinued operations	**4**	**2**	2	**-**	**-**	-
Profit or (-) loss before tax from discontinued operations	4	2	2	-	-	-
(Tax expense or (-) income related to discontinued operations)	-	-	-	-	-	-
Profit or (-) loss for the year	**673**	**673**	-	**281**	**281**	-
Attributable to minority interest (non-controlling interests)	18	18	-	13	13	-
Attributable to owners of the parent	655	655	-	268	268	-

Consolidated statement of other comprehensive income – unaudited

In millions HRK	**In accordance with Croatian National Bank decision 2021**	**Accounting standards for banks in Croatia 2021**	**Difference 2021**	**In accordance with Croatian National Bank decision 2020**	**Accounting standards for banks in Croatia 2020**	**Difference 2020**
Profit or (–) loss for the year	**673**	**673**	**-**	**281**	**281**	**-**
Other comprehensive income (3. + 15.)	**(32)**	**(32)**		**(40)**	**(40)**	**-**
Items not to be reclassified to profit or loss (from 4. to 10. + 13. + 14.)	3	3	-	(25)	(25)	-
Tangible assets	-	-	-	-	-	-
Intangible assets	-	-	-	-	-	-
Actuarial gains or (-) losses on defined benefit pension plans	-	-	-	-	-	-
Non-current assets and disposal groups held for sale	-	-	-	-	-	-
Share of other recognised income and expense of entities accounted for using the equity method	-	-	-	-	-	-
Fair value changes of equity instruments measured at fair value through other comprehensive income	4	4	-	(31)	(31)	-
Gains or (-) losses from hedge accounting of equity instruments at fair value through other comprehensive income, net	-	-	-	-	-	-
Fair value changes of equity instruments measured at fair value through other comprehensive income (hedged item)	-	-	-	-	-	-
Fair value changes of equity instruments measured at fair value through other comprehensive income (hedging instrument)	-	-	-	-	-	-
Fair value changes of financial liabilities at fair value through profit or loss attributable to changes in their credit risk	-	-	-	-	-	-
Income tax relating to items that will not be reclassified	(1)	(1)	-	6	6	-
Items that may be reclassified to profit or loss (from 16. to 23.)	**(35)**	**(35)**		**(15)**	**(15)**	**-**
Hedges of net investments in foreign operations (effective portion)	-	-	-	-	-	-
Foreign currency translation	-	-	-	-	-	-
Cash flow hedges (effective portion)	-	-	-	-	-	-
Hedging instruments (not designated elements)	-	-	-	-	-	-
Debt instruments at fair value through other comprehensive income	(41)	(41)	-	(21)	(21)	-
Non-current assets and disposal groups held for sale	-	-	-	-	-	-
Share of other recognised income and expense of investments in subsidiaries, joint ventures and associates	-	-	-	-	-	-
Income tax relating to items that may be reclassifies to profit or (-) loss	6	6	-	6	6	-
Total comprehensive income for the year (1. + 2.; 25. + 26.)	**641**	**641**	**-**	**241**	**241**	**-**
Attributable to minority interest (non-controlling interest)	18	18	-	13	13	-
Attributable to owners of the parent	623	623	-	228	228	-

Presentation of the reconciliation of items presented in the Consolidated statement of profit or loss and Consolidated statement of other comprehensive income presented as part of the Consolidated Annual Report and items presented in accordance with the CNB Decision.

Penalty interest income is presented as part of Interest income position in accordance with the Decision while in the Consolidated Annual Report they are presented as part of Other operating income.

In accordance with the Decision, interest income from financial assets held for trading, interest income from non-traded financial assets that are mandatory measured at fair value through profit or loss, and interest income on derivatives are presented in Interest income position, while in the Consolidated Annual Report they are shown in Gains or losses on non-trading financial assets mandatory at fair value through profit or loss.

In accordance with the Decision, penalty interest expenses are presented in the position interest expenses, while in the Consolidated Annual Report these expenses are presented in the item other operating expenses.

In accordance with the Decision, interest expenses from financial liabilities held for trading and derivatives used as a hedging instrument are presented in Interest expense, while in the Consolidated Report they are presented in the item Gains or losses on financial assets and liabilities held for trading.

In accordance with the Decision, the dividend income included dividend income from equity instruments, which is in the Annual Report presented in the position of other operating income.

Gains / (losses) from hedge accounting are presented as separate position in accordance with the Decision, while in the Consolidated Annual Report they are presented under the position Net (losses) / gains from valuation of financial assets measured through profit or loss.

In the Consolidated Annual Report the exchange differences on financial assets measured at fair value through profit or loss are presented in the position Net (losses) / gains from valuation of financial assets measured through profit or loss, while according to the Decision they are presented within the position profit or loss from exchange differences.

Other operating income position according to the Consolidated Annual Report includes income from collection of written-off receivables, penalty interest income, income from dividend of equity instruments, and includes costs of sold real estate, which according to the Decision are not included in this position.

In accordance with the Decision part of the other expenses is presented as part of the Other operating expenses while in the Consolidated Annual Report all other expenses and operating expenses are shown in the position of Other operating expenses, except for the costs of sold real estate, which are in the Consolidated Annual Report included in other operating income together with income from the sale of real estate.

In accordance with the Decision operating expenses (excluding other operating expenses) and employee expenses are presented in the Administrative expenditure position, while in the Consolidated Annual Report, employee expenditure and other operating expenses are stated in separate positions.

In accordance with the Decision, the costs of cash contributions to resolution committees and deposit insurance systems are presented in a separate item, while in the Consolidated Annual Report they are included in the position other operating costs.

In accordance with the Decision, the costs of value adjustment of tangible and intangible assets are presented in a separate position, while in te Consolidated Annual Report they are included in other operating costs.

The Consolidated statement of profit and loss and the Consolidated statement of other comprehensive income, presented in accordance with the CNB Decision, also include financial data of discontinued operations. Disclosures regarding discontinued operations are presented in Note 32 *Discontinued operations*, in accordance with IFRS 5 requirements.

(All amounts are expressed in millions of HRK)

Consolidated statement of financial position – unaudited

Assets	In accordance with Croatian National Bank decision 2021	Accounting standards for banks in Croatia 2021	Difference 2021	In accordance with Croatian National Bank decision 2020	Accounting standards for banks in Croatia 2020	Difference 2020
Cash, cash balances at central banks and other demand deposits	**7,115**	**9,355**	**(2,240)**	**5,564**	**7,804**	**(2,240)**
Cash on hand	730	730	-	663	663	-
Cash balances at central banks	4,540	6,745	(2,205)	2,180	4,087	(1,907)
Other demand deposits	1,845	1,880	(35)	2,721	3,054	(333)
Financial assets held for trading	**221**	**221**	**-**	**165**	**168**	**(3)**
Derivatives	92	92	-	70	73	(3)
Equity instruments	-	-	-	-	-	-
Debt securities	129	129	-	95	95	-
Loans and advances	-	-	-	-	-	-
Non-trading financial assets mandatory at fair value through profit or loss	**205**	**205**	**-**	**334**	**334**	**-**
Equity instruments	199	199	-	238	238	-
Debt securities	-	-	-	74	74	-
Loans and advances	6	6	-	22	22	-
Financial assets designated at fair value through profit or loss	**-**	**-**	**-**	**-**	**-**	**-**
Debt securities	-	-	-	-	-	-
Loans and advances	-	-	-	-	-	-
Financial assets at fair value through other comprehensive income	**5,910**	**5,910**	**-**	**5,683**	**5,683**	**-**
Equity instruments	92	92	-	87	87	-
Debt securities	5,818	5,818	-	5,596	5,596	-
Loans and advances	-	-	-	-	-	-
Financial assets at amortised cost	**37,528**	**35,042**	**2,486**	**34,541**	**32,054**	**2,487**
Debt securities	352	352	-	257	257	-
Loans and advances	37,176	34,690	2,486	34,284	31,797	2,487
Derivatives – Hedge accounting	-	-	-	3	-	3
Fair value changes of the hedged items in portfolio hedge of interest rate risk	-	-	-	-	-	-
Investments in subsidiaries, joint ventures and associates	-	-	-	-	-	-
Tangible assets	905	924	(19)	984	954	30
Intangible assets	138	109	29	152	152	-
Tax assets	67	67	-	128	103	25
Other assets	42	219	(177)	86	300	(214)
Non-current assets and disposal groups classified as held for sale	-	10	(10)	4	35	(31)
Total assets	**52,131**	**52,062**	**69**	**47,644**	**47,587**	**57**

(All amounts are expressed in millions of HRK)

Consolidated statement of financial position – unaudited (continued)

Liabilities	In accordance with Croatian National Bank decision 2021	Accounting standards for banks in Croatia 2021	Difference 2021	In accordance with Croatian National Bank decision 2020	Accounting standards for banks in Croatia 2020	Difference 2020
Financial liabilities held for trading	**73**	**78**	**(5)**	**114**	**122**	**(8)**
Derivatives	73	78	(5)	114	122	(8)
Short positions	-	-	-	-	-	-
Deposits	-	-	-	-	-	-
Debt securities issued	-	-	-	-	-	-
Other financial liabilities	-	-	-	-	-	-
Financial liabilities designated at fair value through profit or loss	**2**	**2**	**-**	**-**	**-**	**-**
Deposits	-	-	-	-	-	-
Debt securities issued	-	-	-	-	-	-
Other financial liabilities	2	2	-	-	-	-
Financial liabilities measured at amortised cost	**43,954**	**43,933**	**21**	**39,889**	**39,798**	**91**
Deposits	43,842	43,933	(91)	39,707	39,798	(91)
Debt securities issued	-	-	-	-	-	-
Other financial liabilities	112	-	112	182	-	182
Derivatives – Hedge accounting	4	-	4	6	-	6
Fair value changes of the hedged items in portfolio hedge of interest rate risk	-	-	-	-	-	-
Provisions	491	478	13	515	488	27
Tax liabilities	8	2	6	-	-	-
Share capital repayable on demand	-	-	-	-	-	-
Other liabilities	664	634	30	585	644	(59)
Liabilities included in disposal groups classified as held for sale	-	-	-	-	-	-
Total liabilities	**45,196**	**45,127**	**69**	**41,109**	**41,052**	**57**
Equity	3,994	3,994	-	3,994	3,994	-
Share premium	171	171	-	171	171	-
Equity instruments issued other than capital	-	-	-	-	-	-
Other equity	-	-	-	-	-	-
Accumulated other comprehensive income	141	141	-	173	173	-
Retained earnings	1,349	2,022	(673)	1,325	1,606	(281)
Revaluation reserves	-	-	-	-	-	-
Other reserves	508	508	-	510	510	-
(-) Treasury shares	-	-	-	-	-	-
Profit or loss attributable to owners of the parent company	673	-	673	281	-	281
(-) Interim dividends	-	-	-	-	-	-
Minority interests (Non-controlling interests)	99	99	-	81	81	-
Total equity	**6,935**	**6,935**	**-**	**6,535**	**6,535**	**-**
Total liabilities and equity	**52,131**	**52,062**	**69**	**47,644**	**47,587**	**57**

Unaudited presentation of the reconciliation of items presented in the Statement of financial position presented as part of the Consolidated Annual Report and items presented in accordance with the CNB Decision:

Assets
In the Consolidated Annual Report, the CNB's mandatory reserve is presented in the Cash and balances with Croatian National Bank, while loans and receivables from banks are presented separately. In accordance with the Decision these positions are presented as part of Financial assets at amortized cost in Loans and advances.

In accordance with the Decision, the calculation assets by derivatives are presented in Other assets, while in the Consolidated Annual Report they are presented in the position of Financial assets measured at fair value through profit or loss.

In accordance with the Decision, receivables for credit cards together with penalty interest rates for credit cards are presented as part of the Loans and advances at amortized cost, while in the Consolidated Annual Report they are partly presented in the position of Other assets at amortized cost, and partly in Loans and advances at amortized cost.

In accordance with the Decision, liabilities on loan payment accounts are presented as a part of Other liabilities, while in the Consolidated Annual Report they are presented as a part of the Loans and advances at amortized cost.

In accordance with the Decision, receivables from fees and penalty interest fees, paid advances, customer's receivables and other receivables are presented as a part of Loans and advances at amortized cost, while in the Consolidated Annual Report they are partly stated as position Other assets at amortized cost.

In accordance with the Decision, the part of tangible assets for which the conditions for reclassification to assets intended for sale have been met is also stated on the item of tangible assets, and the same is presented in the Consolidated Annual Report.

In accordance with the Decision in the position of intangible assets, investments in other people's assets are also disclosed, while in the Consolidated Annual Report these investments are reclassified to the position of real estate, plant and equipment within tangible assets.

In the position of short-term tax assets in the Annual Report, receivables for income tax advances and income tax liabilities are stated, while according to the Decision, these items are stated within current tax liabilities together with input VAT receivables, VAT liabilities and other tax liabilities.

In accordance with the Decision, the position Other liabilities includes VAT and other tax liabilities, which are presented in the Consolidated Annual Report as a part of Other liabilities, together with input VAT receivables, which are stated in Other assets in the Consolidated Annual Report.

Liabilities
Pursuant to the Decision, derivatives relating to hedge accounting are presented in a separate position, while in the Consolidated Annual Report they are presented under Financial liabilities held for trading.

In accordance with the Decision, bearer deposits are stated in the position of Other Liabilities measured at amortized cost, while in the Consolidated Annual Report they are stated as part of the Liabilities due to customers.

Lease liabilities (IFRS 16) and fee liabilities are recognized in accordance with the Decision in the position of Other financial liabilities, while in the Consolidated Annual Report they are presented under Other liabilities.

In accordance with the Decision, calculation liabilities by derivatives are presented in the position of Other financial liabilities, while in the Consolidated Annual Report are presented within derivative financial liabilities.

In accordance with the Decision, loans received from financial institutions, other short-term and long-term loans and issued subordinated debt instruments are presented in separate positions, while in the Consolidated Annual Report they are presented within the aggregate position of Other liabilities.

In accordance with the Decision, liabilities for the payment of previously written-off deposits and provisions for bonuses and other employee remuneration are presented as part of the Provisions, while in the Consolidated Annual Report they are presented within the positions of Other liabilities.

Equity

In accordance with the Decision, the profit for year is presented in a separate position, while in the Consolidated Annual Report it is presented as part of the Retained earnings.

The Consolidated statement of financial position, presented in accordance with the CNB Decision, also includes financial data of discontinued operations. Disclosures regarding discontinued operations are presented in Note 32 *Discontinued operations*, in accordance with IFRS 5 requirements.

(All amounts are expressed in millions of HRK)

Consolidated statement of changes in equity – unaudited

2021	Capital	Share premium	Equity instruments issued other than Capital	Other equity	Accumulated other comprehensive income	Retained earnings	Revaluation reserves	Other reserves	(-) Treasury shares	Profit or (-) loss attributable to owners of the parent	(-) Interim dividends	Non-controlling interest: Accumulated Other Comprehensive Income	Non-controlling interest: Other items	Total
Opening balance [before restatement]	**3,994**	**171**	**-**	**-**	**173**	**1,338**	**-**	**510**	**-**	**268**	**-**	**-**	**81**	**6,535**
Effects of corrections of errors	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Effects of changes in accounting policies	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Opening balance [current period] (1. + 2. + 3.)	**3,994**	**171**	**-**	**-**	**173**	**1,338**	**-**	**510**	**-**	**268**	**-**	**-**	**81**	**6,535**
Issuance of ordinary shares	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Issuance of preference shares	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Issuance of other equity instruments	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Exercise or expiration of other equity instruments issued	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Conversion of debt to equity	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Capital reduction	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Dividends	-	-	-	-	-	(251)	-	-	-	-	-	-	-	(251)
Purchase of treasury shares	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Sale or cancellation of treasury shares	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Reclassification of financial instruments from equity to liability	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Reclassification of financial instruments from liability to equity	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Transfers among components of equity	-	-	-	-	-	268	-	-	-	(268)	-	-	-	-
Equity increase or (-) decrease resulting from business combinations	-	-	-	-	-	2	-	(2)	-	-	-	-	-	-
Share based payments	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Other increase or (-) decrease in equity	-	-	-	-	-	10	-	-	-	-	-	-	-	10
Total comprehensive income for the year	-	-	-	-	(32)	2	-	-	-	653	-	-	18	641
Closing balance [current period] (from 4. to 20.)	**3,994**	**171**	**-**	**-**	**141**	**1,369**	**-**	**508**	**-**	**653**	**-**	**-**	**99**	**6,935**

(All amounts are expressed in millions of HRK)

Consolidated statement of changes in equity – unaudited (continued)

2020	Capital	Share premium	Equity instruments issued other than Capital	Other equity	Accumulated other comprehensive income	Retained earnings	Revaluation reserves	Other reserves	(-) Treasury shares	Profit or (-) loss attributable to owners of the parent	(-) Interim dividends	Non-controlling interest: Accumulated Other Comprehensive Income	Non-controlling interest: Other items	Total
Opening balance [before restatement]	3,994	171	-	-	213	737	-	510	-	592	-	-	68	6,285
Effects of corrections of errors	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Effects of changes in accounting policies	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Opening balance [current period] (1. + 2. + 3.)	**3,994**	**171**	**-**	**-**	**213**	**737**	**-**	**510**	**-**	**592**	**-**	**-**	**68**	**6,285**
Issuance of ordinary shares	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Issuance of preference shares	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Issuance of other equity instruments	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Exercise or expiration of other equity instruments issued	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Conversion of debt to equity	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Capital reduction	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Dividends	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Purchase of treasury shares	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Sale or cancellation of treasury shares	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Reclassification of financial instruments from equity to liability	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Reclassification of financial instruments from liability to equity	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Transfers among components of equity	-	-	-	-	-	592	-	-	-	(592)	-	-	-	-
Equity increase or (-) decrease resulting from business combinations	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Share based payments	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Other increase or (-) decrease in equity	-	-	-	-	-	9	-	-	-	-	-	-	-	9
Total comprehensive income for the year	-	-	-	-	(40)	-	-	-	-	268	-	-	13	241
Closing balance [current period] (from 4. to 20.)	**3,994**	**171**	**-**	**-**	**173**	**1,338**	**-**	**510**	**-**	**268**	**-**	**-**	**81**	**6,535**

The Consolidated statement of changes in equity, presented in accordance with the CNB Decision, also includes financial data of discontinued operations. Disclosures regarding discontinued operations are presented in Note 32 *Discontinued operations*, in accordance with IFRS 5 requirements

(All amounts are expressed in millions of HRK)

Consolidated statement of cash flows – unaudited

	2021	2020
Operating activities – indirect method		
Profit/(loss) before tax	832	346
Adjustments:		
Impairment and provisions	48	504
Depreciation	215	237
Net unrealised (gains)/losses on financial assets at fair value through statement of profit or loss	(88)	27
Loss/(profit) from the sale of tangible assets	(9)	(7)
Other non-cash items	(1,168)	(1,393)
Changes in assets and liabilities from operating activities		
Deposits with the Croatian National Bank	(292)	580
Deposits with financial institutions and loans to financial institutions	(17)	(32)
Loans and advances to other clients	(2,786)	(2,771)
Securities and other financial instruments at fair value through other comprehensive income	(311)	568
Securities and other financial instruments held for trading	18	54
Securities and other financial instruments at fair value through statement of profit of loss, not traded	(1)	(11)
Securities and other financial instruments at fair value through statement of profit or loss	155	(86)
Securities and other financial instruments at amortized cost	(121)	(9)
Other assets from operating activities	70	(73)
Deposits from financial institutions	(1,715)	861
Transaction accounts of other clients	5,609	1,845
Savings deposits of other clients	264	(343)
Time deposits of other clients	(693)	(1,057)
Derivative financial liabilities and other traded liabilities	(44)	90
Other liabilities from operating activities	14	(155)
Interest received from operating activities [indirect method]	1,187	1,277
Dividends received from operating activities [indirect method]	-	-
Interest paid from operating activities [indirect method]	(42)	(79)
(Income taxes paid)	(116)	(252)
Net cash flow from operating activities	**1,009**	**121**
Investing activities		
Cash receipts from the sale / payments for the purchase of tangible and intangible assets	(78)	(54)
Cash receipts from the sale / payments for the purchase of investments in branches, associates and joint ventures	63	-
Cash receipts from the sale / payments for the purchase of securities and other financial instruments held to maturity	-	-
Dividends received from investing activities	-	-
Other receipts/payments from investing activities	-	-
Net cash flow from investing activities	**(15)**	**(54)**
Financing activities		
Net increase/(decrease) in loans received from financing activities	462	(501)
Net increase/(decrease) of debt securities issued	-	-
Net increase/(decrease) of Tier 2 capital instruments	-	-
Increase of share capital	-	-
(Dividends paid)	(251)	-
Other receipts/(payments) from financing activities	-	-
Net cash flow from financing activities	**211**	**(501)**
Net increase/(decrease) of cash and cash equivalents	**1,205**	**(434)**
Cash and cash equivalents at the beginning of period	**5,859**	**6,281**
Effect of exchange rate fluctuations on cash and cash equivalents	57	12
Cash and cash equivalents at the end of period	**7,121**	**5,859**

Presentation of the reconciliation of items presented in the Consolidated statement of cash flows as part of the Consolidated Annual Report and items presented in accordance with the CNB Decision:

Impairment and provisions position from the Decision, is presented in five separate items in the Consolidated Annual Report: „Losses/(gains) on loss allowance“, „Impairment of investments in subsidiaries“, „Impairment of tangible assets“, assets taken in lieu and assets held for sale“, „Provisions for legal actions and off-balance sheet items“ and „Other provisions“.

The item "Profit / loss from the sale of tangible assets" includes "Gains / losses from the sale and write-off of property and equipment" and "Gains from the sale of assets held for sale" from the Consolidated Annual Report.

In accordance with the Decision, the position „Other non-cash items” includes following items from Consolidated Annual Report: interest income from the position „Interest income”, interest expenses from the position „Interest expense”, inventory write-offs and reversal of estimated costs from the position „Revenue from reversal of accrued expenses”, other operating expenses in the position „Other non-cash items”, other income and expenses, exchange rate differences in the position „Exchange rate differences” and realized loss on the sale of financial assets measured at fair value through other comprehensive income in the position „Net (gains)/losses on financial assets measured at fair value through other comprehensive income”.

The item „Financial assets and liabilities at fair value through profit or loss” as presented in the Consolidated Annual Report is presented in accordance with the Decision as four separate items: „Securities and other financial instruments held for trading”, „Securities and other financial instruments that are not actively traded but are measured at fair value through profit or loss”, „Securities and other financial instruments that are obligatorily carried at fair value through profit or loss” and „Derivative financial liabilities and other liabilities held for trading”.

The position „Other assets" from the report in accordance with the Decision is divided into two items in the Consolidated Annual Report: „Other assets" and „Technical provisions from insurance".

The item „Amounts due to customers“ as presented in the Consolidated Annual Report is presented in accordance with the Decision as three separate items: „Transaction accounts of other clients“, „Savings deposits of other clients“ and „Time deposits of other clients“.

In accordance with the Decision, other banking institutions are presented as part of the „Deposits from financial institutions“, while in the Consolidated Annual Report they are presented as part of „Loans and receivables from customers“ position.

The „Other liabilities“ position in accordance with the Decision is presented in two items in the Consolidated Annual Report: „Other liabilities“ and „Payments from provisions for liabilities and charges“.

The „Cash receipts from the sale / payments for the purchase of tangible and intangible assets” position in accordance with the Decision is presented within 6 position in the Consolidated Annual Report as „Purchases of tangible and intangible assets”, „Proceeds from sale of tangible and intangible assets”, “Purchases of assets held for sale”, “Proceeds from assets held for sale”, “Purchases of investment property” and “Proceeds from investment property”.

The “Cash receipts from the sale / payments for the purchase of investments in branches, associates and joint ventures” position in accordance with the Decision is divided into two positions in Consolidated Annual Report: “Proceeds from the sale of discontinued operations” and “Payments of investments into subsidiaries”.

The item „Net increase / decrease / of loans received from financing activities“ in accordance with the Decision is divided into two items in the Consolidated Annual Report: „Repayment of lease liabilities (IFRS 16)“ and „Increase / (Decrease) of other borrowed funds“.

The Consolidated statement of cash flows, presented in accordance with the CNB Decision, also includes financial data of discontinued operations. Disclosures regarding discontinued operations are presented in Note 32 *Discontinued operations*, in accordance with IFRS 5 requirements.