OTP BANKA d.d.

ANNUAL REPORT
FOR THE YEAR ENDED
31 DECEMBER 2020

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

The event that left a distinctive mark on the economic activity worldwide in 2020 was the onset of Covid-19 pandemic. By and large, the countries elected a very conservative approach in the fight against the pandemic, which brought most economic activities to a standstill. The global economy suddenly faced three key problems: insecurity and impossibility to estimate the duration of the pandemic, inability to generate positive effects of fiscal and monetary policy caused by freezing of the economic activities, and the general economic shock equally manifesting around the world.

Already in the first quarter, it became clear that most of the world economies were headed for a plunge in 2020, and the Croatian economy was no exception. Moreover, being highly dependent on tourism, the economy of the Republic of Croatia took an extreme hit by the economic lockdown measures imposed with the objective of containing the Corona virus pandemic.

After the period of economic growth from 2015 to 2019, when the growth rate of the real GDP averaged +2.9%, already in the first quarter of 2020 Croatia recorded substantially slower (+0.2%) growth of the economic activity compared to the same period in 2019. This was followed by an unprecedented plunge of GDP of as much as -15.4% as a consequence of almost two-month long ban on, or restrictions of, activities of economic entities in that period. The service sector was the hardest-hit sector, and given that it is one of the most significant contributors to the total economic output, adverse scenarios predicting downturn of the Croatian economy in 2020 were inevitable, especially considering the unknown variables such as the duration of the pandemic and the restrictive measures that could have had an extremely adverse effect on the tourist sector. However, as the numbers of the infected persons fell down and the epidemiologic measures gradually relaxed to the point that the ban was lifted off the economy at the end of May, the tourist season recorded rather satisfactory figures, given the circumstances. According to the data published by the Croatian Tourist Board, the recorded arrivals reached 36%, and tourist nights 45% of the previous year's figures, whilst in the peak season the figures equalled 52% of the previous year's arrivals and 59% of the previous year's tourist nights, respectively. Still, this partial recovery in the third quarter (and growth of 6.9% compared to the previous quarter) could not compensate for the substantial decline of 10.0% compared to the year 2019, which added up to a result 8% lower than the one recorded for the first nine months of 2019.

As evident from available indicators, in the fourth quarter of 2020 the economic activities dropped by 7% compared to the same period of the previous year, which was predominantly a consequence of the lockdown or the significant restrictions imposed on certain segments of the economy at the end of November and throughout December as a response to unfavourable epidemic trends. Comparing year-over-year data, in 2020 the gross domestic product of the Republic of Croatia declined by 8.4%. This downward economic trend could continue at the beginning of 2021. A gradual recovery of the Croatian economic activities could start in the second quarter, subject to recovery of the economies of our key foreign trade partners, administration of efficient vaccines, and relatively successful containment of the pandemic. According to forecasts, such developments would make the annual GDP growth rate of around 5% in 2021 rather feasible. Better availability of the EU funds intended for financing significant new investments as a part of reconstruction of the areas hit by the earthquakes could prompt the growth of the economic activity in 2021.

Given the restrictions imposed on a number of economic activities for the reason of cutting back on social contacts and thus containing of the number of persons infected with the Corona virus, the Government of the Republic of Croatia designed support measures as a part of job retention schemes in the real sector, in order to avoid otherwise inevitable adverse effects on the labour market and growth of unemployment rates. The Government measures notwithstanding, the several year-long favourable trend in the labour market in 2020, with the annual drop of 1.5% in the employment rate, and an increase of the Labour Force Survey unemployment rate to 7.5%.

Having reached 0.8% in 2019, the average annual consumer price inflation rate was as low as 0.1% in the observed year due to economic lockdown, oil price correction, and growth of the unemployment rate. In line with the expected economic recovery in 2021, the inflation rate is expected to reach 1.0% on average.

Business environment (continued)

Public finances suffered an especially big blow in 2020. A surge of the unemployment rate caused by the economic lockdown imposed with the aim of containing the pandemic prompted the Government of the Republic of Croatia to initiate the programme and the measures for retaining of jobs in the private sector. On the other hand, the public finances were adversely affected by the drop in the budget income, which resulted in a fall of consumption and, consequently, in a fall of income from value added tax. Following a surplus in the general government budget of 0.4% of GDP in 2019, the data for the year 2020, and then again for the year 2021, suggest that the trend has been overturned, with shortages of 8.0% and 2.9% of GDP, respectively. Simultaneously, the share of debt of the general government in GDP, which equalled 73% in 2019, could reach 89% in 2020, and then shrink to 80% of GDP as the economy recovers in 2021.

Croatia joined ERM II exchange rate mechanism in July 2020, which did not cause changes in the monetary and exchange rate policy. In addition to maintaining of the stability of HRK and EUR exchange rate, CNB pursued its highly expansionary monetary policy in the second half of 2020. Already in March 2020 it cut the mandatory reserve rate from 12% to 9%, thus releasing almost HRK 10 billion of additional liquidity into the system. Such monetary policy facilitated favourable domestic lending conditions as the most interest rates have been at an all times low, similar to those before the onset of the pandemic. The Croatian National Bank is expected to retain its role in 2021, that is, it is expected to continue supporting and providing liquidity for the Croatian economy so as to accelerate its recovery, keeping the fluctuations of the Croatian kuna within the range of ± 15% of the central parity set at HRK 7.5345 for one euro.

Despite the uncertainty surrounding the Corona virus pandemic, and the expected bad economic outlook in terms of the drop of the gross domestic product, the banking sector proved resilient to stress in 2020 owing to high liquidity and capitalisation levels. The Croatian National Bank made temporary adjustments to the regulations providing for the classification of non-performing loans, simultaneously imposing a ban on the pay-out of profits earned in the preceding year. Subsequently, the commercial banks reported to the Croatian National Bank on the sum total of the loans in respect of which applications for moratorium had been submitted. The moratorium on repayment was granted for about 65.6% out of the total amount of loans for which applications for moratorium had been submitted (HRK 41.8 billion). The interest payable on credit facilities practically remained unaltered throughout the year, and although the onset of Covid-19 pandemic resulted in stricter loan approval conditions, compared to the beginning of the year the interest grew in volume in the corporate segment and the retail housing segment alike, by +5.4% and by +8.2%, respectively, whilst in the segment of cash loans a drop of -1.3% was recorded. According to the unaudited data supplied by the Croatian National Bank, in 2020 the gross profit of the banking sector in the Republic of Croatia was by 53.1% lower than in the comparable period of the year before.

Operations and activities of OTP banka in 2020

OTP banka d.d. is the fourth largest credit institution in terms of assets in the Republic of Croatia. In December 2020, the total assets of the Bank equalled HRK 45.1 billion, which was an increase of 2.6% compared to the year 2019. At the end of 2020, loans and receivables from customers equalled HRK 29.6 billion which was an increase of 8%, compared to 2019. Client's deposits are still the main source of financing and on 31 December 2020 amounts to HRK 34.1 billion, which was an increase of 1.6% compared to 31 December 2019.

Last year, the Bank succeeded in maintaining its strong market position and remained competitive in a way that its market share in retail loans increased to 13%, whilst its share in retail deposits exceeded 10%. As for lending to corporate customers, the Bank's market share was just above 10%, with the share of around 8% of the overall corporate deposits.

The total profit after tax in 2020 equalled HRK 251 million, which was 56.7% less than in 2019. This decrease is largely due to the allocation of new provisions to cover credit risks caused by the COVID crisis. Profit before value adjustment and operating expenses amount to 1.7 billion which was for HRK 99 million higher compared to the previous year, i.e. an increase of 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, which recorded a total decrease of 3.3% and amount to HRK 1.2 billion. Net fee income equalled to HRK 329 million which was an decrase of 13% compared to 2019, mostly as a result of reduced income from card transactions and commissions from merchants due to a lower tourist season. Net gains from trading and other income equalled HRK 258 million which was increase of 263% compared to 2019.

The total operating expenses equalled HRK 948 million which was HRK 502 million less than in 2019 (9.5%). The cost increase caused by the COVID 19 pandemic has been offset by savings on other cost items. Consequently, the cost / income ratio is lower than in 2019 and amounts to 54.5% which proves the bank's commitment to continuous improvement on efficiency.

Profit before value adjustments and provisions for losses amounts to HRK 792 million. The increase of HRK 199 million is the result of the previously described trends in operating revenues and expenses.

Expenses on imperments and provisions for losses amount to HRK 484 million, which is an significant increase compared to 2019. The increase is the result of increased credit risk caused by the negative effects of pandemic control measures (significant reduction in the movement of people and goods due to closure, reduced client activity, lower tourist season, etc.) on the economy.

Profit before tax for 2020 amounts to HRK 308 million which was decrease of 56.9% compared to 2019.

Despite all the challenges of 2020 , all the regulatory requirements were observed regularly in 2020, the liquidity was at a satisfactory level, and the capital adequacy ratio was significantly above the set floor rate, which guarantees Bank's long-term stability and sustainability of business.

With the aim of protecting the health and safety of our employees and clients, the Bank has very successfully implemented the business continuity plan and all services have been provided to clients without interruption throughout the observed period.

Corporate social responsibility

OTP banka d.d. operates on the principles of corporate social responsibility, as evident in its accountability and transparency of its business operations; from loan approval to savings and risk management, not to mention the projects designed to contribute to the development of local communities it operates in, as a nod to its uniquely regional character.

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 11 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 and Biograd na Moru, the municipalities of Župa dubrovačka, Bilje, Jakšić, Bale, Barban and Pićan, the University of Zadar, and the charity of the Dubrovnik Diocese, which means that the Bank, as a partner, has 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.

Wishing to foster excellence in sports at the Croatian universities, OTP banka d.d. 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. Over the last eleven years the Bank set aside over seven million kunas for this programme.

Upholding another tradition for the ninth 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 nine years OTP banka d.d. has awarded just short of four million kunas and helped in the implementation of almost 400 quality projects critical for the development of the related communities and the society as a whole.

As an environmentally conscious organisation, OTP banka d.d. supports the projects aimed at development and use of renewable energy sources and cutting back on the ecological footprint, and with its donation to the diving club organised by of Homeland War veterans it went an extra mile in helping to clean the sea bed along the Adriatic Coast.

Due to the onset of the pandemic in 2020, all the business entities encountered the challenges that had not been fathomable thus far, demanding not only an efficient business continuity planning, but also focus on employees' and clients' health, paying exceptional attention to the vulnerable members of the society.

Taking into consideration the unprecedented business environment, and wishing to recognise financial institutions and companies that excelled in responding to the global crisis in its new programme, the Global Finance Magazine presented OTP banka d.d., as one of the institutions that went above and beyond to assist their customers, protect their employees and provide critical support to society at large during the Corona virus crisis, the Outstanding Crisis Leadership 2020 Award.

OTP banka d.d. swiftly responded to the needs of its corporate and retail clients in a way that it granted moratorium on loan repayment requesting minimum paperwork for corporate clients, and was the first bank in Croatia to enable its retail clients to submit applications for loan moratorium online, without the need to visit a branch and without the need to have legality and contents of annexes to loan agreements confirmed by notaries public, thus sparing the clients of additional costs. It was exceptionally fast and efficient in adjusting its business operations to protect the health of its employees and clients to the highest degree possible. To this end, plexiglass screens were set up in branches, and all employees whose jobs permitted work from home were enabled to work from home. After the devastating earthquakes in Zagreb and Banovina, all the clients with damaged real properties were automatically eligible for loan repayment moratorium. In addition, the Bank provided financial aid to its employees whose homes were damaged in the earthquakes, and it donated as much as HRK 4.9 million to hospitals in Zagreb and to the Sisak General Hospital, which were damaged in the earthquake, as well as to 7 local hospitals nationwide to help them in their fight against the Corona virus pandemic.

Corporate social responsibility (continued)

In addition, with its partner MasterCard, OTP banka d.d. initiated one of the most significant donation schemes for public health institutions intended to help two Croatian hospitals in procuring necessary equipment for children's wards each year. This will help the little ones bravely battling their health problems by providing better diagnostics, care and more a pleasant stay in hospital.

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. Upon launch of this donation programme, OTP banka and MasterCard jointly credited HRK 1,000,000 to this donation account.

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"), and they each were donated HRK 527,000 at the end of 2020.

On top of all that, by initiating the "Green light to the helping hand" campaign the Bank made donations to 26 associations that provide help to the most vulnerable groups in local communities across Croatia: from securing rides to hospitals during the lockdown, to providing food to homeless and the elderly living alone, to children's sports clubs organising online training sessions and psychological support in difficult situations.

Exercising responsibility in its business operations, and undertaking various activities, OTP banka d.d. contributes to the development of affirmative values in the society in the best interest of the domicile communities.

Repurchase of own shares

OTP banka d.d. is 100% owned by OTP bank Bank Nyrt and did not repurchase its own shares in 2020.

Subsidiaries of OTP Banka d.d.

Several companies in full or partial ownership of OTP banka d.d. were established in the Republic of Croatia.
In cooperation with subsidiaries, the Bank develops and provides all groups of services and products that can support banking operations with individuals and legal entities.

OTP Leasing d.d.

OTP Leasing d.d. („Company") was established in 2006 by Merkantil bank from Budapest, which specialises in lease operations within the OTP Group and is the strongest lease company in Hungary.
Since its incorporation, the Bank has had a minority stake of 10%, on 1 April 2019, the Bank became the majority shareholder of OTP Leasing d.d. with a share of 60%.
The Company provides operational and financial lease.
OTP Leasing operates a widespread network of branch offices (Zadar, Split, Pula, Rijeka, Zagreb, Varaždin, Slavonski Brod, Osijek) and our clients may also arrange a lease through OTP Bank's network of branches. This ensures a high level of availability to our clients.
SB Leasing d.o.o. in liquidation (Finance and operating leasing business) is 100% owned by OTP Leasing d.d. SB Leasing d.o.o. was established in 2007 and is currently in the process of liquidation.

OTP invest d.o.o.

OTP Invest d.o.o. ("Company") is a fund management company established in 1997 in Zagreb. OTP Banka holds a stake of 81.7% and OTP Alapkezelő Zártkörűen Működő Részvénytársaság. from Hungary holds 18.3%.The basic activity of OTP Invest is establishment and management of UCITS funds and alternative investment funds.

OTP Invest currently manages open-end investment funds with public offerings as following: OTP start Fund, OTP e-start Fund, OTP short-term bond Fund, OTP Absolute Fund, OTP Balanced Fund, OTP Meridian 20 Fund, OTP Index Fund, OTP Multi 2 Fund and OTP Multi USD Fund.

Subsidiaries of OTP Banka d.d. (continued)

OTP invest d.o.o. (continued)

During 2020, due to the COVID 19 epidemic, there was a decrease of assets under management of the Company, which had a negative impact on the Company's business results. In 2020, the Bank conducted docapitalization of company OTP Invest d.o.o. in amount of HRK 1.7 million. Through a set of activities based on technological improvements (such as support for assessing the suitability of investors / clients through mobile channels), and process optimization (increasing the number of licensed employees, additional training), a better result is expected in the coming period.

OTP Nekretnine d.o.o.

OTP Nekretnine d.o.o. („Company") was established in 2000 in Zadar and its is owned by OTP banka d.d.
OTP Nekretnine is a company specialising in real estate and movable property business, real estate appraisal, real estate brokerage and project development and consulting. The company is engaged in the activities of renting and managing real estate, valuation of real estate and movables, mediation in the sale of real estate and project development.
The company operates through its five branches (Dubrovnik, Pula, Split, Zadar and Zagreb).
OTP Nekretnine d.o.o. has 100% ownership of Cresco d.o.o., a special purpose company founded in 2008. The main activities of Cresco d.o.o. are the business of taking over real estate at auctions in enforcement and bankruptcy proceedings and the sale of the same, as well as the business of mediation in the purchase and sale of real estate.

OTP osiguranje d.d.

OTP osiguranje d.d. ("Company") was established in March 2009 and is 100% owned by the Bank. The main activity of the company is performing life insurance activities.
The Company provides life insurance services related to loans, bank accounts, deposits and life insurance products with elements of savings, as well as other products suitable for expanding the range of products and services of the bank. The bank, as the sole owner, is in the process of selling OTP osiguranje d.d.

Risk management

During 2020, the Bank 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. In order to establish an adequate risk management process, the Bank also adopts in writing strategies, policies, guidelines, procedures, i.e. establishes a risk management framework, which are updated and whose implementation is monitored.

In this way, the Bank defines the risks to which it is exposed and, using certain methods and processes, analyzes all types of risks, measures and reduces existing risks, and manages and controls those risks in a quality manner. For detailed disclosure of risk management please see note 33, 34, 35, 36 and 37 of this Annual Report.

Risk management (continued)

Credit risk
The Bank 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 Bank 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 Bank 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 Bank is exposed to credit risk on off-balance-sheet items, which include undrawn commitments to extend credit, issued guarantees and letters of credit.

The Bank 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 Bank'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 Bank.

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

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

Plans for 2021

In some aspects, the year 2021 will definitely bring the same challenges as the last year, but provided the trends of containing the virus are positive, we can expect economic recovery in the second half of the year. Our business focus will remain on a stable growth of the portfolio across all business segments

In 2021 the Retail Banking Division will keep its focus on increasing client satisfaction through all available channels, further improvement of its credit products and the digital transformation of products and services rendered to our clients who demonstrated significant changes in their behaviour and habits when doing business with the Bank in 2020. Namely, in the wake of new pandemic circumstances, the clients swiftly embraced digital banking. Having said that, during 2021 we will continue optimising our branch network where a number of the branches will be refurbished and will boast new, more functional design introduced to raise the bar in service quality, whilst the existing network of ATMs, BNAs and night safe deposit boxes will be improved. All these activities will contribute to the achievement of the Bank's strategic goal, which is to continue the trend of strengthening the market position.

The Corporate Banking will also focus on client satisfaction, fast response to clients' requests, and the quality of the business relationship that will facilitate timely identification of their needs and wishes, whilst fostering digitalisation in all key segments of the business process, and enhancing the offer.

All these activities focued at strengthening internal efficiency, monitoring customer needs by providing new products and services will contribute to the planned growth of operating revenues in 2021 on basis of the planned credit growth as well as further optimization of financing. New products and the strengthening of the market position will contribute to the growth of net fee income. Additional profit growth will be generated by lower allocations for credit risks, as well as a reduction in operating costs. The premise of the plan is the normalization of business operations and mobility of the population.

Research and development

Taking into account the requirements of product research and development, the activities of OTP banka d.d. are primarily related to the research of the financial market and the design of attractive and competitive bank products and solutions maximally tailored to the clients needs in accordance with the nature of business. This will continue to be an area of increasing importance for which OTP banka d.d. will allocate evan more funds in order to provide highest quality services in accordance with 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

I would like to take this opportunity, on my own behalf and on behalf of the Management 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 banka d.d.. 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 Békeffy
President of the Management Board

Responsibility of the Management for the preparation of annual financial statements

The Management Board of the Bank is required to prepare financial statements for each financial year, to give a true and fair view of the financial position of the Bank 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 Bank 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 Bank will continue in business.

The Management Board is responsible for the submission of the Bank's annual report, which includes the annual financial statements, for acceptance to the Supervisory Board. If the Supervisory Board approves the annual 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 78/15, 134/15, 120/16, 116/18, 42/20, 47/20)

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 42/18, 122/20), were authorised by the Management Board on 15 March 2021 and submitted to the Supervisory Board for acceptance. To confirm this, the financial statements have been signed by authorized persons, as follows.

For and on behalf of OTP banka d.d.:

Balazs Pal Bekeffy
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

Iván Šimičević
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INDEPENDENT AUDITOR'S REPORT

To the Shareholder of OTP banka d.d.

Report on the Audit of the Financial Statements

Opinion

We have audited the unconsolidated financial statements of OTP banka d.d. ("the Bank") which comprise unconsolidated statement of financial position as at 31 December 2020, unconsolidated statement of profit or loss, unconsolidated statement of other comprehensive income, unconsolidated statement of changes in shareholders' equity and unconsolidated statement of cash flow for the year then ended, including a summary of significant accounting policies and other explanatory information ("the financial statements").

In our opinion, the accompanying unconsolidated financial statements present fairly, in all material respects, the Bank's unconsolidated financial position as at 31 December 2020, and its unconsolidated financial performances and its unconsolidated cash flow for the year then ended in accordance with statutory accounting requirements for banks in the Republic of Croatia.

Basis for Opinion

We conducted our audit in accordance with the Audit Act and International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Bank and the Group in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) and we have fulfilled our ethical responsibilities in accordance with the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Emphasis of Matter

We draw attention to the Note 2.1 *Statement of compliance* to the financial statements, stating that the consolidated financial statements, which comprise the Bank and its subsidiaries ("Group OTP banka d.d."), have not been issued yet. The consolidated financial statements will be prepared in accordance with statutory accounting requirements for banks in the Republic of Croatia and will be issued within the statutory deadline. Users should read the consolidated financial statements together with these financial statements for a better understanding of the Group OTP banka d.d. as a whole. Our opinion is not modified in respect of this matter.

Key Audit Matters

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

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.

Deloitte.

INDEPENDENT AUDITOR'S REPORT (continued)

Report on the Audit of the Financial Statements (continued)

Key Audit Matters (continued)

<table>
<tr><th>Loss allowances for expected credit losses on loans and receivables from customers</th><th>How the matter was addressed in our audit</th></tr>
<tr><td colspan="2">For the accounting framework refer to Note 2, for accounting policies see Significant accounting policies Note 2.11 and 2.12, and Accounting estimates and judgements in applying accounting policies see Note 3. For the additional information regarding identified key audit matter, refer to Note 10, 16 and 34 to the financial statements.</td></tr>
<tr><td>Credit risk represents one of the most important types of financial risks to which the Bank is exposed to. Determining appropriate methods and models by the Management to measure and manage credit risk is therefore one of the most important areas in safeguarding the Bank's capital. As part of the credit risk management process, determining appropriate methods and models for measuring and managing loss allowance for expected credit losses represents one of the key considerations for the Management.

In determining both the timing and the amount of loss allowances for expected credit losses on loans and receivables from customers, the Management exercises significant judgement in relation to the following areas:
• Use of historical data in the process of determining risk parameters;
• Estimation of the credit risk related to the credit exposure;
• Assessment of stage allocation;
• Assessment of the significance of subsequent changes in credit risk of an exposure for the purposes of identifying whether a significant increase in credit risk has occurred, leading to changes in stage allocation, and the required measurement of lifetime expected credit losses;
• Assessment of forward-looking information, including the impact of the COVID-19 pandemic;
• Expected future cash flows from operations;
• Valuation of collateral and assessment of realization period.</td><td>In order to address the risks associated with loss allowances for expected credit losses on loans and receivables from customers, identified as key audit matter, we have designed audit procedures that allowed us to obtain sufficient appropriate audit evidence for our conclusion.

We performed the following audit procedures with respect to the area of loans and receivables from customers:
• Reviewing the Bank`s methodology for recognizing loss allowances for expected credit losses and comparing the reviewed methodology against the requirements of International Financial Reporting Standards 9: Financial instruments within the statutory reporting framework;
• Obtaining understanding of the control environment and internal controls implemented by the Management within the process of measuring loss allowance for expected credit losses, including utilized applications and information technology tools;
• Evaluating design and inspecting implementation of identified internal controls relevant to the process of measuring loss allowance for expected credit losses;
• Testing identified relevant controls for operating effectiveness;
• Assessing quality of historical data used in determination of risk parameters and evaluating the appropriateness of IT elements and data processing;
• Disaggregating loans and receivables from customers account balance based on stage allocation and relevant segments for the purposes of sample selection - for Stage 3, individually assessed loans and receivables, the criteria for selection included, but was not limited to, client's credit risk assessment, industry risk, days past due, etc.;</td></tr>
</table>

INDEPENDENT AUDITOR'S REPORT (continued)

Report on the Audit of the Financial Statements (continued)

Key Audit Matters (continued)

Since determination of appropriate loss allowances for expected credit losses on loans and receivables requires use of complex models (generally dependent on IT elements) and a significant judgement from the Management, the process of measuring expected credit losses may be exposed to management bias. This has led to the determination of loss allowances for expected credit losses on loans and receivables from customers, recognized in accordance with the statutory reporting framework for banks in the Republic of Croatia, being identified as a key audit matter in our audit of the financial statements for the year ended 31 December 2020.	• Performing substantive tests over recognition and measurement of loss allowance for expected credit losses on sample of loans and receivables allocated to Stage 1, Stage 2 and those in Stage 3 of credit risk that are collectively assessed, focusing on: i. Models applied in stage allocation and transitions between stages; ii. Assumptions used by the Management in the expected credit loss measurement models; iii. Criteria used for determination of significant increase in credit risk, including the impact of COVID-19; iv. Assumptions applied to calculate probability of default; v. Methods applied to calculate loss given default; vi. Methods applied to incorporate forward-looking information, including the impact of COVID-19; vii. Recalculation of expected credit losses on a selected sample. • Performing substantive tests over recognition and measurement of loss allowance for expected credit losses on sample of individually assessed non-performing loans and receivables allocated to Stage 3, which included: i. Assessment of borrower's financial position and performance following the latest credit reports and available information; ii. Assessment of judgements and assumptions applied in the calculation and measurement of expected future cash flows from operations, considering the borrower's financial status and performance in the current economic environment affected by COVID-19; iii. Reviewing and assessing expected future cash flows from collateral and estimated realization period; • Analysis of exposures with granted moratoria and the eligibility thereof, considering regulatory conveyance; • Assessment of appropriateness of staging transition and allocation of exposures with granted moratoria.

INDEPENDENT AUDITOR'S REPORT (continued)

Report on the Audit of the Financial Statements (continued)

Key Audit Matters (continued)

<table>
<tr><th>Litigation provisions</th><th>How the matter was addressed in our audit</th></tr>
<tr><td colspan="2">For the accounting policies refer to Accounting estimates and judgements in applying accounting policies (Note 3). For the additional information regarding identified key audit matter, refer to Note 10 and 28 to the financial statements.</td></tr>
<tr><td>Banks are often exposed to various litigations or court cases, results of which may have adverse effects on their financial performance.

In order to adequately reflect potential adverse effects, the Bank assesses the requirement for provisions in accordance with IAS 37: Provisions, Contingent Liabilities and Contingent Assets (IAS 37).

The provision is recognized if, and only if a present, legal or constructive, obligation exist as a result of past events, if it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and if a reliable estimate of the obligation is determined.

Due to the complexity involved in these litigation matters, Management's judgment regarding recognition and measurement of provisions for these legal proceedings is inherently uncertain and might change over time when the outcomes of the legal cases are determined and concluded.

Therefore, the judgement over the existence of present obligation, the probability of a payment being required to settle the court cases' obligation, and a reliable estimate of such amount requires the Management to consider risks and uncertainties that inevitably surround legal proceedings in order to ensure appropriate recording and disclosures in the financial statements.

The recent legal developments in Croatia and specific and recent rulings of Croatian courts in 2020, has led to the determination of provisions for litigations being identified as a key audit matter in our audit of the financial statements for the year ended 31 December 2020.</td><td>In order to address the risks associated with provisions for court cases, identified as another key audit matter, we designed audit procedures that allowed us to obtain sufficient appropriate audit evidence for our conclusion.

Our audit procedures included, among others, the following:

• Discussion with the Management to obtain understanding of the assumptions considered when determining the requirement for recognition and measurement of provisions for litigations;
• Obtaining and reviewing opinions and representations of external legal advisors in order to assess whether they sufficiently support the Management's judgement over the assumptions considered and the amounts of provision recognized;
• Reconciling opinions and representations of external legal advisors on initiated legal cases to the accounting records;
• Obtaining and reviewing the calculation of the provisions for litigations and assessing whether the assumptions underpinning the valuation of these provisions are based on appropriate and available internal and external information, thus representing the Management's best estimate of the provision amount;
• Evaluating the appropriateness of related disclosures in accordance with IAS 37.</td></tr>
</table>

INDEPENDENT AUDITOR'S REPORT (continued)

Report on the Audit of the Financial Statements (continued)

Other Information

Management is responsible for the other information. The other information comprises the information included in the Annual Report, but does not include the financial statements and our auditor's report.

Our opinion on the financial statements does not cover the other information.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. With respect to the Management Report which is included in the Annual Report, we have also performed the procedures prescribed by the Accounting Act. These procedures include examination of whether the Management Report includes required disclosures as set out in the Articles 21 of the Accounting Act.

Based on the procedures performed during our audit, to the extent we are able to assess it, we report that:

1) Information included in the other information is, in all material respects, consistent with the attached financial statements of the Bank.
2) Management Report for the year 2020 has been prepared, in all material respects, in accordance with the Articles 21 of the Accounting Act.

Based on the knowledge and understanding of the Bank and its environment, which we gained during our audit of the financial statements, we have not identified material misstatements in the other information.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

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

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

Those charged with governance are responsible for overseeing the Bank's financial reporting process.

INDEPENDENT AUDITOR'S REPORT (continued)

Report on the Audit of the Financial Statements (continued)

Auditor's Responsibilities for the Audit of the Financial Statements

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

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Bank's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by Management.
- Conclude on the appropriateness of Management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Bank's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Bank to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

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

Deloitte.

INDEPENDENT AUDITOR'S REPORT (continued)

Report on Other Legal and Regulatory Requirements

We were appointed as the statutory auditor of the Bank by the shareholders on General Shareholders' Meeting held on 27 March 2020 to perform audit of accompanying financial statements. Our total uninterrupted engagement has lasted 5 years and covers period 1 January 2016 to 31 December 2020.

We confirm that:

- our audit opinion on the accompanying financial statements is consistent with the additional report issued to the Audit Committee of the Bank on 15 March 2021 in accordance with the Article 11 of Regulation (EU) No. 537/2014 of the European Parliament and the Council;
- no prohibited non-audit services referred to in the Article 5(1) of Regulation (EU) No. 537/2014 of the European Parliament and the Council were provided.

There are no services, in addition to the statutory audit, which we provided to the Bank, and which have not been disclosed in the Annual Report.

Pursuant to the Decision of the Croatian National Bank (hereinafter: "CNB") on the structure and Content of Annual Financial Statements of Banks (Official Gazette No. 42/18, 122/20; hereinafter: "the Decision"), Management has prepared the Supplementary schedules for CNB, as presented in the Appendix to these financial statements, which comprise Bank statement of financial position as at 31 December 2020, Bank statement of profit or loss, Bank statement of other comprehensive income, Bank statement of changes in equity and Bank statement of cash flows for the year then ended, as well as the reconciliation to the accompanying financial statements. These forms and the reconciliation to the accompanying financial statements are the responsibility of the Management and do not represent components of the accompanying financial statements prepared in accordance with statutory accounting requirements for banks in the Republic of Croatia, but rather a requirement specified by the Decision. The financial information provided in those forms has been derived from the accompanying financial statements.

Domagoj Vuković
Direktor i ovlašteni revizor

For signatures, please refer to the original Croatian auditor`s report, which prevails.

15 March 2021

Deloitte d.o.o.
Radnička cesta 80,
10 000 Zagreb,
Croatia

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.

Unconsolidated statement of profit or loss

For the year ended 31 December 2020

(All amounts are expressed in millions of HRK)

	Note	2020	2019
Interest income	4	1,198	1,265
Interest expense	4	(45)	(73)
Net interest income		**1,153**	**1,192**
Fee and commission income	5	426	493
Fee and commission expense	5	(97)	(115)
Net fee and commission income		**329**	**378**
Net losses from valuation of financial instruments at fair value through profit or loss	6a	(25)	(131)
Net gains on financial instruments at fair value through other comprehensive income	6b	8	-
Net gains from trading and converting monetary assets and liabilities	6c	239	156
Other operating income	7	36	46
Net trading and other income		**258**	**71**
Profit before value adjustment and operating expenses		**1,740**	**1,641**
Other operating expenses	8	(369)	(461)
Depreciation expenses	8a	(159)	(171)
Personnel expenses	9	(420)	(416)
Net (losses)/gains from loss allowance and provisions	10	(484)	121
Profit before tax		**308**	**714**
Income tax	11a	(57)	(135)
Profit for the year		**251**	**579**
Basic and diluted earnings per share	12	12.56	29.01

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

(All amounts are expressed in millions of HRK)

	Note	2020	2019
Profit for the year		**251**	**579**
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	30	(30)	34
Total		(30)	34
Items reclassified subsequently to profit or loss:			
Net fair value changes of financial asset measured through other comprehensive income - debt securities	30	(34)	97
Net changes in allowance for expected credit losses of financial asset measured through other comprehensive income - financial assets		13	(5)
Total		(21)	92
Deferred tax	11c	12	(24)
Total other comprehensive income		**(39)**	**102**
Total comprehensive income		**212**	**681**

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

(All amounts are expressed in millions of HRK)

	Note	31/12/2020	31/12/2019
ASSETS			
Cash and balances with Croatian National Bank	13	7,465	7,935
Loans and receivables from banks	14	334	851
Financial assets at fair value through profit or loss	15	448	420
Loans and receivables from customers	16	29,622	26,971
Equity instruments at fair value through other comprehensive income	17a	87	111
Debt securities at fair value through other comprehensive income	17b	5,526	6,094
Financial asset measured at amortised cost	18	236	237
Investments in subsidiaries	19	313	365
Property and equipment	20	335	394
Right-of-use assets	20a	174	175
Investment property	21	63	63
Intangible assets	22	147	182
Deferred tax assets	11c	75	29
Income tax receivables	11b	10	-
Other Assets	23	207	136
Non-current assets held for sale	24	84	1
TOTAL ASSETS		**45,126**	**43,964**

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

(All amounts are expressed in millions of HRK)

	Note	31/12/2020	31/12/2019
LIABILITIES			
Amounts due to other banks	25	2,520	1,809
Amounts due to customers	26	34,070	33,551
Other borrowed funds	27	979	1,112
Financial liabilities at fair value through profit or loss	15	122	31
Provisions for liabilities and charges	28	486	484
Income tax payable	11b	-	145
Lease liabilities classified under IFRS 16	20a	180	179
Other liabilities	29	352	456
Total liabilities		**38,709**	**37,767**
SHAREHOLDERS' EQUITY AND RESERVES			
Share capital		3,994	3,994
Share premium		171	171
Statutory and legal reserves		399	399
Fair Value Reserves		171	210
Other reserves		109	109
Retained earnings		1,573	1,314
Total shareholders' equity and reserves	30	**6,417**	**6,197**
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY AND RESERVES		**45,126**	**43,964**

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

Unconsolidated statement of changes in shareholders' equity

For the year ended 31 December 2020

(All amounts are expressed in millions of HRK)

	Share capital	Share premium	Legal and statutory reserves	Fair value reserves	Other reserves	Retained earnings	Total
Balance at 1 January 2019	**3,994**	**171**	**87**	**108**	**109**	**1,466**	**5,935**
Changes in equity in 2019							
Other comprehensive income	-	-	-	-	-	-	-
- Debt securities (Note 30)	-	-	-	79	-	-	79
- Equity instruments (Note 30)	-	-	-	28	-	-	28
Expected credit losses for FVTOCI financial assets (Notes 17b and 30)	-	-	-	(5)	-	-	(5)
Profit for the year	-	-	-	-	-	579	579
Total comprehensive income	**-**	**-**	**-**	**102**	**-**	**579**	**681**
Transfer of profit to reserves	-	-	312	-	-	(312)	-
Dividends	-	-	-	-	-	(491)	(491)
Reversal of tax effect of Splitska banka merger (Note 11c)	-	-	-	-	-	72	72
Balance at 31 December 2019	**3,994**	**171**	**399**	**210**	**109**	**1,314**	**6,197**
Balance at 31 December 2020	**3,994**	**171**	**399**	**210**	**109**	**1,314**	**6,197**
Changes in equity in 2020							
Other comprehensive income	-	-	-	-	-	-	-
- Debt securities (Note 30)	-	-	-	(28)	-	-	(28)
- Equity instruments (Note 30)	-	-	-	(24)	-	8	(16)
- Expected credit losses for FVTOCI financial assets (Notes 17b and 30)	-	-	-	13	-	-	13
Profit for the year	-	-	-	-	-	251	251
Total comprehensive income	**-**	**-**	**-**	**(39)**	**-**	**259**	**220**
Transfer of profit to reserves	-	-	-	-	-	-	-
Dividends	-	-	-	-	-	-	-
Balance at 31 December 2020	**3,994**	**171**	**399**	**171**	**109**	**1,573**	**6,417**

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

Unconsolidated statement of cash flows

For the year ended 31 December 2020

(All amounts are expressed in millions of HRK)

	Note	2020	2019
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		308	714
Adjustments to reconcile profit before taxes to net cash from operating activities			
Losses/(gains) on loss allowance	10	439	(168)
Net losses on financial assets measured at fair value through profit or loss	6a	25	131
Net (gains) on financial assets measured at fair value through other comprehensive income	6b	(8)	-
Impairment of investments in subsidiaries	8	-	8
Impairment of tangible assets, asset taken in lieu and assets held for sale	8	5	23
Provisions for legal actions and off-balance sheet items	10	45	47
Other provisions	9	-	4
Depreciation and amortisation	8a	159	171
(Gains) on disposal and write-off of property and equipment	7	(8)	-
Interest income	4, 7	(1,200)	(1,277)
Interest expense	4	45	78
Revenue from reversal of accrued expenses	7,8	(7)	(14)
Other non-cash items, other income and expenses	7, 8	-	5
Exchange rate differences	6	(128)	23
Operating income before changes in operating assets and liabilities		**(325)**	**(255)**
(Increase)/decrease in operating assets:			
Obligatory reserves with the CNB		580	(5)
Loans and receivables from banks		(32)	-
Loans and receivables from customers		(2,838)	(1,477)
Other assets		(83)	(43)
Increase/(decrease) in operating liabilities:			
Amounts due to other banks		674	1,156
Amounts due to customers		507	378
Other liabilities		(102)	40
Payments from provisions for liabilities and charges		(43)	(106)
Net cash flow from operating activities before interest and income taxes paid		**(1,662)**	**(312)**
Income taxes paid		(245)	(40)
Interest received		1,161	1,290
Interest paid		(63)	(102)
Net cash from operating activities		**(809)**	**836**
CASH FLOWS FROM INVESTING ACTIVITIES			
Financial assets and liabilities at fair value through profit or loss		56	90
Securities at fair value through other comprehensive income		549	(714)
Purchases of tangible and intangible assets		(61)	(101)
Proceeds from sale of tangible and intangible assets		11	-
Proceeds from sale of repossessed real estate		-	3
(Increase) of investments in subsidiaries		(2)	(51)
(Increase)/decrease of investments at amortised cost		(4)	16
Net cash from investing activities		**549**	**(757)**

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

Unconsolidated statement of cash flows (continued)

For the year ended 31 December 2020

(All amounts are expressed in millions of HRK)

	Note	2020	2019
CASH FLOWS FROM FINANCING ACTIVITIES			
Repayment of lease liabilities (IFRS 16)		(37)	(31)
Decrease of other borrowed funds		(142)	(221)
Dividends paid		-	(491)
Net cash from financing activities		**(179)**	**(743)**
Net (decrease) in cash and cash equivalents		**(439)**	**(664)**
Cash and cash equivalents at the beginning of the year		**6,281**	**6,896**
Effect of foreign exchange rate changes on cash and cash equivalents		12	49
Cash and cash equivalents at the end of the year	**32**	**5,854**	**6,281**

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

(All amounts are expressed in millions of HRK)

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 2020 (31 December 2019: 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 OTP banka Group (the Group) in the Republic of Croatia.
The Bank provides a full range of banking services.
OTP banka Group 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

Governance and Management

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

Shareholders' Assembly as at 31 December 2019:
Annus Szabolcs, President

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 31 March 2017 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)

Supervisory Board as at 31 December 2019 and changes during 2019:

Antal Lászlo Pongracz	President from 31 March 2017
Anna Mitkova Florova	Vice president from 1 January 2019 until 5 February 2019 Member from March 2017 until 31 March 2017
Péter Csányi	Vice president from 5 February 2019 Member from 30 May 2018 until 04 Februay 2019
Zlatko Mateša	Member from 15 October 2019
Zsolt Barna	Member 5 February 2019 until 31 December 2019
László Kecskés	Member 31 March 2017
Branko Mikša	Member from 31 March 2017 until 5 September 2019
Balázs Létay	Member from 25 January 2017 until 1 April 2019

Management Board as at 31 December 2020:

Balazs Pal Bekeffy	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

Management Board as at 31 December 2019 and changes during 2019:

Balazs Pal Bekeffy	President from 6 October 2011
Slaven Celić	Member from 1 December 2018
Zvonimir Akrap	Member from 1 December 2018
Bruno Biuk	Member from 1 December 2018
Nikola Mikša	Member from 5 September 2019
Ivan Šimićević	Procurator from 1 June 2019
Nera Šunjić	Member from 1 Decemeber 2018 until 1 June 2019
Zorislav Vidović	Member from 16 December 2017 until 4 September 2019

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

Audit Committee as at 31 December 2019 and changes during 2019:

László Kecskés	President from 16 April 2012
Péter Csányi	Member from 6 May 2019
Zlatko Mateša	Member from 15 October 2019
Branko Mikša	Member from 31 March 2017 until 5 September 2019

(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 2020		31 December 2019	
	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**

(All amounts are expressed in millions of HRK)

1. GENERAL INFORMATION (CONTINUED)

Consolidated subsidiaries
Investments in subsidiaries are presented in Note 19 and 24.

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 Osiguranje d.d.	Zagreb	100%	Life insurance	54
OTP Leasing d.d.	Zagreb	60%	Finance and operating lease	48
Total subsidiaries:				**367**

31/12/2019	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	74.33%	Fund management activities	1
Aventin d.o.o. in liquidation	Zadar	100%	Renting and operating of own or leased real estate (leasing)	-
OTP Savjetovanje d.o.o.	Zagreb	100%	Business and management consultancy	2
OTP Osiguranje d.d.	Zagreb	100%	Life insurance	54
OTP Leasing d.d.	Zagreb	60%	Finance and operating lease	48
Total subsidiaries:				**365**

1. GENERAL INFORMATION (CONTINUED)

Consolidated subsidiaries (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 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 do.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. The Agreement is expected to be completed during the 1st half of 2021 after obtaining regulatory approvals from HANFA. The condition that the investment in OTP Osiguranje d.d. can be classified as Assets held for sale is met by conducting the agreement, thus the respective investment is presented in Note 24 Assets held for sale.

In February 2019, the Bank conducted the capital increase of OTP Savjetovanje d.o.o. in the amount of HRK 3 million.
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.

On 1 April 2019, the Bank became the majority shareholder of OTP Leasing d.d. with a share of 60%.

The Management Board of the Bank d.d. issued a decision on 5 November 2019 to merge SB Zgrada d.o.o. with OTP Nekretnine d.o.o. The Commercial Court in Zagreb has adopted a decision on the merger of SB Zgrada d.o.o. with OTP Nekretnine and this merger was registered in the Court Register on 23 December 2019. The merger was carried out as a restructuring within the Group in the Republic of Croatia at book value.

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

These unconsolidated 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 19). Consolidated financial statements, which include the Bank and its subsidiaries (Note 19), will be prepared in accordance with the legal requirements for accounting for banks in the Republic of Croatia and have not yet been published. Consolidated financial statements will be published within the legal deadline. Note 1. *General information*, this note and Note 2.19 *Investments in subsidiaries* describe accounting policy of recognition and measurement and other disclosures concerning unconsolidated subsidiaries.

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 Acconting 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 Bank has applied the legal accounting requirements to all the years presented in these financial statements.

As of 1 January 2020, the requirement for maintaining a minimum of 0.8% of the total loss allowance for expected credit loss for exposures that are not in default status (Stage 1 and Stage 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 loss allowance from expected credit losses and provision*, 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.The impact on losses from expected credit losses on the basis of other minimum prescribed amounts in accordance with the aforementioned CNB Decision is also presented in Note 10.

Based on the Bank's assessment, the closing balances on 31 December 2020 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 requiremnets 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 Bank'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 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 – adopted in 2020

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 2020.

The adoption of new standards, amendments to existing standards and interpretations of standards are not material to the Bank's operations and have no material impact on the financial statements.

- **Amendments to IAS 1 "Presentation of Financial Statements" and IAS 8 "Accounting Policies Changes in Accounting Estimates of Errors"** - Definition of significance, adopted in the European Union on 29 November 2019. (effective for annual periods beginning on or after 1 January 2020),

- **Amendments to IFRS 3 "Business Combinations" - Definition of Business**, adopted in the European Union on 21 April 2020 (effective for business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 January 2020 and on the acquisition of assets that occur on or after the start of that period),

- **Amendments to IFRS 9 "Financial Instruments", IAS 39 "Financial Instruments: Recognition and Measurement" and IFRS 7 "Financial Instruments: Disclosure"** - Reform of reference interest rates, adopted in the European Union on 15 January 2020 (effective for annual periods beginning on or after 1 January 2020).

- **IFRS 16: „Leases"** - Covid-19-Related Rent Concessions (adopted in the European Union on 9 October 2020, effective no later than 1 June 2020 for financial years beginning on or after 1 January 2020)

- **Amendments to the Conceptual Framework guidance in IFRSs**, adopted in the European Union on 29 November 2019 (effective for annual periods beginning on or after 1 January 2020).

2. ACCOUNTING POLICIES (CONTINUED)

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

The standards, amendments to existing standards and interpretations that have been published by IASB and adopted by the European Union, but are not yet effective until the date of the financial statements are set out below. Where applicable, the Bank intends to adopt these standards at the time of entry into force. The Bank does not expect that the adoption of standards or interpretations will affect the financial statements or the result of the Bank.

- **Amendments to IFRS 4 "Insurance Contracts" - Extension of the temporary exemption from the application of IFRS 9**, adopted in the European Union on 16 December 2020 (the expiry date of the temporary exemption from the application of IFRS 9 has been moved from 1 January 2021 for annual periods beginning on or after 1 January 2023)

- **Amendments to IFRS 9 "Financial Instruments", IAS 39 "Financial Instruments: Recognition and Measurement" and IFRS 7 "Financial Instruments: Disclosure", IFRS 4 "Insurance Contracts"** and **IFRS 16: Leases** - Reform of reference interest rates - Phase 2, adopted in the European Union on 13 January 2021 (effective for annual periods beginning on or after 1 January 2021).

2.2.3 Standards, amendments to existing standards and interpretations issued but not yet adopted in the European Union

IFRSs currently adopted in the European Union are not significantly different from those adopted by the International Accounting Standards Board (IASB), except for the following standards and amendments to existing standards, the adoption of which has not yet been decided by the European Union (the effective dates set out below apply to IFRSs issued by IASB):

- **IFRS 14 "Regulatory Deferral Accounts"** (effective for annual periods beginning on or after 1 January 2016) - the European Commission has decided to postpone the process of transposing this transitional standard until its final version is published,

- **IFRS 17 "Insurance Contracts**", including amendments to IFRS 17 (effective for annual periods beginning on or after 1 January 2023)

- **Amendments to IAS 1 "Presentation of Financial Statements" -** Classification of short and long term liabilities (effective for annual periods beginning on or after 1 January 2023)

- **Amendments to IAS 16 "Real Estate, Plant and Equipment"** - Proceeds before Intended Use (effective for annual periods beginning on or after 1 January 2022)

- **Amendments to IAS 37 "Provisions, Contingent Liabilities and Contingent Assets"** - Harmful Contracts - Costs of Performing Contractual Obligations (effective for annual periods beginning on or after 1 January 2022)

- **Amendments to IFRS 3 "Business Combinations"** - References to the Conceptual Framework as amended by IFRS 3 (effective for annual periods beginning on or after 1 January 2022)

- **Amendments to IFRS 10 "Consolidated Financial Statements" and IAS 28 "Investments in Associates and Joint Ventures"** - "Sale or deposit of assets between an investor and his associate or joint venture" and further amendments (the original date of entry into the force was postponed until the completion of the research project on the application of the equity method),

- **Amendments to various standards due to „Amendments from the 2018-2020 annual improvements cycle"- r**esulting from the project of annual revision of IFRSs (IFRS 1, IFRS 9, IFRS 16 and IAS 41), primarily in order to eliminate inconsistencies and clarify of the wording (Amendments of IFRS 1, IFRS 9 and IAS 41 are effective for annual periods beginning on or after 1 January 2022. The amendment to IFRS 16 is for illustrative purposes only and therefore does not specify the effective date).

(All amounts are expressed in millions of HRK)

2. ACCOUNTING POLICIES (CONTINUED)

2.2 Basis of preparation (continued)

2.2.3 Standards, amendments to existing standards and interpretations issued but not yet adopted in the European Union (continued)

The Bank expects that the adoption of these new standards and amendments to existing standards will not result in significant changes in the financial statements of the Company in the period of initial application of the standards.

Hedge accounting for a portfolio of financial assets and liabilities whose principles have not yet been adopted by the European Union is still not regulated.

2.3 Functional and presentation currency

Items included in the financial statements are presented in the currency of the primary economic environment in which the Bank operates (its functional currency). The financial statements are presented in the Croatian kuna, which is both the functional and reporting currency of the Bank. 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 Bank's monetary assets and liabilities at the date of the statement of financial position were as follows:

31 December 2020	1 EUR = 7.536898 HRK	1 CHF = 6.948371 HRK	1 USD = 6.139039 HRK
31 December 2019	1 EUR = 7.442580 HRK	1 CHF = 6.838721 HRK	1 USD = 6.649911 HRK

2.4 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.

2.5 Leases

IFRS 16: Leases - The standard is effective for annual periods that began on 1 January 2019. IFRS 16 establishes the principles for the recognition, measurement, presentation and disclosure of leases, for both parties, for the user ("lessee") and for the service provider ("lessor").
It replaces the current IAS 17 standard - Leases, interpretation 4 of the International Financial Reporting Interpretations Committee - Determining whether an Arrangement contains a Lease, interpretation 15 of the Standard Interpretations Committee - Operating leases – Incentives, and interpretation 27 of the Standard Interpretations Committee – Evaluating the Substance of Transactions Involving the Legal Form of a Lease. The purpose of the new standard is to ease the comparability of the financial statements, presenting both financial and operating leases in the statement of financial position, and providing corresponding information to the users of the financial statements about the risks associated with the agreements. The new standard discontinues the differentiation between operating and finance leases in the lessee's books, and requires to recognise a right-of-use asset and lease liability regarding all of the lesses's lease agreements. Pursuant to IFRS 16, an agreement is a lease or contains a lease if it transfers the rights to control the use of an identified asset for a given period in exchange for compensation.

2. ACCOUNTING POLICIES (CONTINUED)

2.5 Leases (continued)

The essential element differentiating the definition of a lease from IAS 17 and from IFRS 16 is the requirement to have control over the used, specific asset, indicated directly or indirectly in the agreement.
Expenses related to the use of lease assets, the majority of which were previously recognised in external services costs, will be currently classified as depreciation/amortisation and interest costs. Usufruct rights are depreciated using a straight line method, while lease liabilities are settled using an effective discount rate.
In the cash flow statement cash flows from the principal of the lease liability are classified as cash flows from financing activities, while lease payments for short-term leases, lease payments for leases of low-value assets and variable lease payments not included in the measurement of the lease liability are classified as cash-flows from operating activities. The interest payments regarding the lease liability are classified according to the IFRS 16. The lessee applies IAS 36 – Impairment of Assets standard to determine whether the right-to-use asset is impaired, and to recognise impairment, if it is necessary.
For the lessors the recognition and measurement requirements of IFRS 16 are similar, as they were stated in IAS 17. The leases shall be classified as finance and operating leases according to IFRS 16 as well. Compared to IAS 17, IFRS 16 requires the lessors to disclose more information about than earlier, however the main characteristics of the accounting treatment is unchanged.

a) Recognition of a lease liability
Following the adoption of IFRS 16, the Bank recognizes lease liabilities that relate to leases previously classified as 'operating leases' in accordance with IAS 17 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 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.

The Bank 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. ACCOUNTING POLICIES (CONTINUED)

2.6 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.

2.7 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.

2.8 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 Bank 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 Bank 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 Bank 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. ACCOUNTING POLICIES (CONTINUED)

2.9 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.

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 Bank 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 Bank 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 Bank 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)

2.10 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.

2.11 Financial instruments

Classification

The Bank 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); 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 Bank may make an irrevocable election to present in other comprehensive income subsequent changes in the fair value.
If Bank 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 an examples of instruments that shall be classified in this category since payments do not represent solely payments of principal and interest on unpaid principal.

2. ACCOUNTING POLICIES (CONTINUED)

2.11 Financial instruments (continued)

Classification (continued)

Business model assessment

Business model is based on activities conducted by the Bank to achieve objectives in accordance with Bank's strategy and how Bank 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, the Bank 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 Bank’s key management personnel. Key management personnel includes Bank’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 Bank 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 Bank may not reclassify financial liabilities. The Bank 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 Bnak with different business models.

2. ACCOUNTING POLICIES (CONTINUED)

2.11 Financial instruments (continued)

Reclassification (continued)

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

Reclassification “into FVTPL"

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

If the Bank 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 Bank reclassifies financial assets out of FVOCI category to the amortized cost category:
• The Bank 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, th 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 Bank 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 Bank 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)

2.11 Financial instruments (continued)

Reclassification (continued)

When the Bank reclassifies financial assets out of the FVOCI category to the amortized cost category:
- The Bank 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 Bank 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)

2.11 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 Bank 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
- 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
- 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
- Cash loans with combination of fixed and variable interest rate
- Lombard loans
- Express loans

2. ACCOUNTING POLICIES (CONTINUED)

2.11 Financial instruments (continued)

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

3. Retail clients products (continued):

- Consumer loans
- Mortgage loans
- Tourism loans
- Car loans
- Housing loans without mortgage
- Overdraft loans
- 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 Bank defines the significance of the modification. In case of significant modification, the Bank derecognizes the existing instrument and carries out initial recognition of the new instrument. Upon initial recognition of a new instrument, the Bank implements all necessary requirements defined in IFRS 9 for the initial recognition of financial assets. If the modification is insignificant, the Bank 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 is restructuring, where in almost all cases the Bank derecognizes an existing instrument and recognizes a new instrument. Payment delays (so-called moratoriums) and other exposure restructuring measures implemented as a result of the COVID-19 pandemic are also treated by the Bank as modifications, therefore the Bank calculates modification losses / gains. Also, insignificant modification differences result in continued recognition of the existing instrument, while in cases of significant modification differences, the Bank 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 Bank 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 Bank's financial asset management model and contractual cash flow characteristics.

Write-offs
The Bank 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 Bank writes off financial assets that are completely impaired or whose fair value is equal or approximately zero.
The Bank 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 Bank continues to monitor them and collect wherever possible. These financial assets are finally written off only when there is no longer any reason for the Bank to continue collection, or when there is no possibility of partial collection in the future.
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 financial assets 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.

2. ACCOUNTING POLICIES (CONTINUED)

2.11 Financial instruments (continued)

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 loss allowance 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 Bank 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 Bank 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;
- 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.

2. ACCOUNTING POLICIES (CONTINUED)

2.12 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

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 also divided according to the years on book criterion and to the categories defined by the number of days past due (0-30 S1, 0-30 S2, 31-60, 61-90, 0-90 S3, 91-120, 121- 150, 151-180, 181-360, above 360, restructured which has a 2-year follow-up period). 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 Bank 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 16 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 13 Cash and balances with Croatian National Bank, 14 Loans and receivables from banks, 16 Loans and receivables from customers, 18 Financial assets measured at amortized cost, and 23 Other financial assets subject to impairment.

2. ACCOUNTING POLICIES (CONTINUED)

2.12 Loss allowance of financial assets (continued)

Loss allowance of financial assets measured at amortised cost (continued)

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

After initial recognition and on every reporting date, 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

Performing 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),
- 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).
  Under pandemic conditions, the regular trigger for the behavioral score is extended for approved moratoriums entering Stage 2 if their rating is> 4. When a rating-based approach is not possible (a rating is not available), days past due in the past 6 months (if they have exceeded 10 days) 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) the temporary measure in 2020 for the legal entities portfolio is based on a combination of the sensitivity of the activity and the expert assessment of the UTP criteria ("low probability of settlement" criterion). Above written does not apply to sovereign exposures or other exposures where it can be reasoned that DPD > 30 is not relevant indicator.

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 where the existence of UTP criteria is identified, or there is a significant NPV loss (1%) compared to the original cash flows subsequent to the restructuring measure

2. ACCOUNTING POLICIES (CONTINUED)

2.12 Loss allowance of financial assets (continued)

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

During 2019, except for existing POCI assets migrated from Splitska banka d.d., Bank has identified exposures to Fortenova Grupa (collateralized portion of exposure carried at amortized cost), which was again recognized by the resolution of the Agrokor settlement, as new POCI assets. These exposures are disclosed in Note 16 – *Loans and receivables from customers*.

Loss allowance 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.

Loss allowance of financial assets reclassified from off-balance sheet records

In the ordinary course of business, the Bank 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 loss allowance is carried out according to the rules for assets carried at amortized cost.

Loss allowance 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.

2.13 Derivative financial instruments

The Bank 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 Bank 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.

(All amounts are expressed in millions of HRK)

2. ACCOUNTING POLICIES (CONTINUED)

2.14 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 Bank 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.

2.15 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:

	2020	**2019**
Tangible assets		
Buildings	33-40 years	33-40 years
Computers	4-5 years	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 years
Contracts with customers	5 years	5 years

The Bank 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 Bank includes the cost of replacing the part of an item when such cost arises if it is probable that the Bank 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)

2.16 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.

2.17 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.

2.18 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 Bank, 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 Bank 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.

2.19 Investment in subsidiaries

Subsidiaries are entities controlled by the Group. Investments in subsidiaries are carried at cost decrease for any impairment losses in the Bank's financial statements.

2. ACCOUNTING POLICIES (CONTINUED)

2.20 Assets acquired in lieu of uncollected receivables

Occasionally, the Bank 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 Bank seeks to sell the foreclosed assets and only exceptionally makes them available for its own use. Such properties are presented in Note 23 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 Bank 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 profit or loss.

2.21 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 loss allowance for expected credit losses are consistent with the rules for the portfolio of financial assets carried at amortized cost.

2.22 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.

2.23 Provisions

The Bank 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 Bank 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)

2.24 Off-balance sheet commitments

In the ordinary course of business, the Bank 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 Bank'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 Bank 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) parameters for loss allowance for expected credit losses. Please see Note 2.12 for more details.

2.25 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 Bank acts in a fiduciary capacity such as a nominee, trustee or agent. Fees for such services are recognised as income when earned.

2.26 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.

2.27 Retained earnings

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

2.28 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 bank 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)

2.29 Reclassification of comparable period

During 2020, the Bank reclassified dana related to the depreciation expense in the statement of profit and loss and several items in cash flow, in order to align the presentation of the financial statements with the Decision on the structure and content of annual financial statements of credit institutions and IFRS requirements. Therefore, the previously disclosed amounts as at 31 December 2019 have been reclassified, as presented below. As there was no change in measurement, these reclassifications had no impact on profit or loss, other comprehensive income and retained earnings.Tables below present all reclassifications done.

	Note	Annual Report 2019	Reclassification	Revised Annual Report 2019
Other operating expenses	8	635	(171)	464
Depreciation expense	8a	-	171	171
		635	**-**	**635**

	Note	Annual Report 2019	Reclassification	Revised Annual Report 2019
Net losses on financial assets measured at fair value through profit or loss	6a	183	(52)	131
Impairment of tangible assets, asset taken in lieu and assets held for sale	8	-	23	23
Losses from sale of tangible assets	8	21	(21)	-
Revenue from reversal of accrued expenses	7,8	(18)	4	(14)
Other non-cash items, other income and expenses	7,8	7	(2)	5
Exchange rate differences	6	20	3	23
Operating income before changes in operating assets and liabilities		**(210)**	**(45)**	**(255)**
Loans and receivables from customers		(1.479)	2	(1.477)
Other assets		(38)	(5)	(43)
Net cash flow from operating activities before interest and income taxes paid	6a	**(264)**	**(48)**	**(312)**
Net cash from operating activities		**884**	**(48)**	**836**
Financial assets and liabilities at fair value through profit or loss		38	52	90
Securities at fair value through other comprehensive income		(711)	(3)	(714)
Proceeds from sale of repossessed real estate		4	(1)	3
Net cash from investing activities		**(805)**	**(48)**	**(757)**

3. ACCOUNTING ESTIMATES AND JUDGEMENTS IN APPLYING ACCOUNTING POLICIES

The Bank 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 loss allowances for expected credit losses in the Bank'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 the requirements in accordance with Decision on the classification of exposures into risk categories and the method of determining credit losses (OG 114/17 and 110/18) and IFRS 9

Bank 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 losses are recognized as a decrease of the net book value of:
loans and receivables from banks and other customers (presented in notes 14 and 16), impairment for financial assets measured at amortised cost (presented in note 18), receivables from other financial assets measured at amortized cost (presented in note 23), impairment losses for assets measured at fair value through other comprehensive income (presented in note 17). 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 31) are recognized as a provision (presented in Note 28).

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 Bank 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. In times of crisis, the assessment can be done more frequently, so in 2020 the Bank assessed the parameters for calculating expected credit losses four times, which reflected the current macroeconomic estimates.

When determining expected credit loss that exists on reporting date, but that is not separately identified, Bank uses internal model in accordance with IFRS 9.

COVID-19

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 Bank 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 Bank derecognises the existing instrument and recognizes a new one, which is subject to all requirements of IFRS 9 on initial recognition of financial assets.

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

Taxation
The Bank 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 Bank's operations and may require from the Bank to revise the carrying amounts of its assets and liabilities in accordance with applicable regulations.

Litigation and restructuring costs
The Bank makes provisions for litigation and restructuring costs in accordance with IAS 37. Provisions are recognized when the Bank has a present obligation as a result of past events and for which the Bank 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. In addition, provisions are allocated, in accordance with legal requirements, for unidentified losses on off-balance sheet credit risk exposures. 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 Bank 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 Bank, 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 28 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 2.16 to 2.20.

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 Bank 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 Bank 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 2.11 *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

	2020	2019
Interest income		
Retail loans	835	864
Corporate loans	277	304
Debt securities	82	88
Cash reserves and amounts due from other banks	4	9
	1,198	**1,265**
Interest expenses		
Current accounts and deposits from individuals	14	29
Other borrowed funds and amounts owed to banks	18	24
Current accounts and corporate deposits	10	16
Interest expenses IFRS 16	3	4
	45	**73**

Included in various items within interest income for the year ended 31 December 2020, a total of HRK 56 million (2019: HRK 74 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 2020 is HRK 39 million (2019: HRK 44 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 1,198 million (2019: HRK 1,265 million) and is recognized as a point in time.

5. NET FEE AND COMMISSION INCOME

a) Net fee and commission income – analysis by source

	2020	2019
Fee and commission income		
Retail customers	233	246
Corporate customers	114	138
Banks	79	109
	426	**493**
Fee and commission expense		
Banks	53	68
Corporate customers	44	47
	97	**115**

(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

	2020	**2019**
Fee and commission income		
Domestic payment transaction related fees and commissions	107	104
Package fees charged to individuals	100	102
Card-related fees and commissions	64	87
Merchant fees for card business	42	54
Account maintenance fees	20	21
Asset management, brokerage and consultancy service fees	20	17
Fees for other services related to client accounts	16	11
Loan-related fees and commissions	14	16
Guarantee-related fees and commissions	13	16
Foreign payment transaction related fees and commissions	12	35
Sale of insurance policies	8	10
Interest rate swap fees	2	3
Exchange office business – commision	-	8
Other fees and commissions received	8	9
	426	**493**
Fee and commission expense		
Card-related fees and commissions	51	64
Domestic payment transaction related fees and commissions	22	21
Foreign payment transaction related fees and commissions	6	11
Other fees and commissions paid	18	19
	97	**115**

Revenue recognized in accordance with IFRS 15 amounts to HRK 426 million (2019: HRK 493 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

	2020	2019
Net (loss)/gains on derivatives	(91)	38
Net gain/(loss) on financial asset at fair value through profit or loss	33	(169)
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	-
	(25)	**(131)**

Financial assets measured through profit or loss, to which these net (losses) / gains relate, are included in Note 15. The reclassification of financial assets relates to the preferred share of VISA International Series C (details in Note 15).

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

	2020	2019
Realised gains on securities at fair value through other comprehensive income	8	-
	8	**-**

Financial assets measured through other comprehensive income, to which these net (losses) / gains relate, are included in Note 17.

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

	2020	2019
Net gains from currency sale and purchase	111	179
Net gain/(loss) from conversion of monetary assets and liabilities denominated in foreign currencies and foreign currency clause	128	(23)
	239	**156**

(All amounts are expressed in millions of HRK)

7. OTHER OPERATING INCOME

	2020	2019
Reverse of accured costs	9	18
Sale of real estate and equipment	8	-
Amounts recovered through court actions	7	4
Leases	3	3
Default interest on loans and receivables from customers	2	4
Collection of written-off receivables from previous years	2	3
Lease modifications IFRS 16	2	-
Dividends received (VISA shares)	1	1
Collected costs of court fees	1	1
Other income	1	1
Reimbursement of costs from VISA and Mastercard for marketing campaigns	-	8
Purchased receivables (floor plan-PSA)	-	3
	36	**46**

Revenues from rents are mostly related to revenues from properties rental, out of which HRK 0.5 million (2019: HRK 0.3 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 20.

(All amounts are expressed in millions of HRK)

8. OTHER OPERATING EXPENSES

	2020	2019
Professional services and cost of material	213	258
Savings deposit insurance premiums	59	58
Administrative expenses	34	37
Marketing costs	31	30
Remediation contribution	14	18
Other taxes and contributions	5	8
Supervision fee	5	-
Impairment of tangible assets, asset taken in lieu and asset held for sale	4	2
Inventory write-offs	2	4
Tangible and Intangible assets write-off	1	21
Impairment of investment in subsidiaries	-	8
Service and materials costs - Mastercard campaign	-	8
Receivables write-off	-	4
Costs associated with the sale of receivables	-	1
Write-off of supplies (cards)	-	3
Other costs	1	1
	369	**461**

In 2020, the external auditor provided services as follows: audit of 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 od mentioned services amounts to HRK 4 million for 2020 (2019: HRK 6 million).
The costs of auditing are shown under the position Professional services and cost of materials.

8a DEPRECIATION EXPENSE

	2020	2019
Depreciation of tangible assets (Note 20)	62	58
Assets classified under IFRS 16 (Note 20a)	36	35
Depreciation of investment property (Note 21)	1	1
Depreciation of intangible assets (Note 22)	60	77
	159	**171**

In the Annual Report for 2019, the depreciation expenses are presented in Note 8. During 2020, the Bank extracted depreciation expenses from category *other operating expenses* in the Income Statement in order to be in line with the IFRS requirements. Therefore, previously presented amounts for 2019 are extracted from Note 8 Other operating expenses in Note 8a Depreciation expense.

In accordance with the Bank's policies in 2020, the estimated useful life of the software was reviewed. For software in the amount of HRK 83 million (purchase value as at 31 December 2019), the estimated useful life has been extended from three to five years. The positive estimate effect on the reduction of depreciation expenses in 2020 amounts to HRK 11.8 million.

(All amounts are expressed in millions of HRK)

9. PERSONNEL EXPENSES

	2020	2019
Gross salaries	319	317
- net salaries	*228*	*225*
- taxes, surtaxes and contributions	*91*	*92*
Contributions on salaries	49	49
Accrued expenses for bonuses and other employee expenses	52	46
Net provision for severance and retention payments (Note 28)	-	4
	420	**416**

The Bank had 2,327 employees (2019: 2,318) at year-end,.

10. NET GAINS / (LOSSES) FROM LOSS ALLOWANCE FOR EXPECTED CREDIT LOSSES AND PROVISION

	Note	2020	2019
Decreases of expected credit loss of loans and receivables from banks	14	-	1
(Increases)/decreases of expected credit loss of loans and receivables from customers	16	(418)	118
(Increases)/decreases of expected credit loss of financial assets measured at amortized cost	18	(1)	64
(Increases)/decreases of expected credit loss of investments measured through other comprehensive income	17	(13)	5
Increases of expected credit loss of other asset	23	(7)	(20)
Increases of Litigation provisions	28	(53)	(45)
Decreases/(increases) of expected credit loss of contingent liabilities and commitments	31	8	(2)
		(484)	**121**

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 192 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 relase 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 Bank 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 2020 amounts to HRK 4 million.

Total increase of impairment allowance for expected credit losses on loans and receivables from customers 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

	2020	2019
Current income tax	86	162
Net deferred tax (credit)/charge	(29)	(27)
	57	**135**

(b) Reconciliation of the accounting profit and income tax expense at the tax rate of 18%

	2020	2019
Profit before tax	**308**	**714**
Tax at the statutory rate of 18%	**55**	**129**
Non-taxable income, net of expenses not recognised for tax purposes	11	12
Non-deductible tax expense – VISA	(2)	-
Expenses not tax deductible until realization	82	60
Utilisation of tax losses from previous years	(60)	(30)
Current income tax	***86***	***171***
Reconciliation of taxes from previous years	-	(9)
Deferred tax on expenses not tax deductible until realization	(82)	(60)
Deferred tax on utilisation of tax losses from previous years that were not tax deductible	60	30
Deferred tax at fair value from integration with Splitska banka	(7)	(7)
Deferred tax - corrections from previous years	-	10
Deferred tax	***(29)***	***(27)***
Current year income tax recognised in profit and loss	**57**	**135**
Effective tax rate	18.51%	18.91%

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. The tax adjustment from previous years refers to the over-calculated tax in previous periods, which was corrected in 2019.

Current tax expense amounts to HRK 86 million (2019: HRK 171 million), tax expense shown through retained earnings is HRK 2 million (2019: HRK 0 million), and advances have been paid in the amount of HRK 98 million (2019: HRK 26 million), whereby income tax liability at 31 December 2020 amounted to HRK 10 million (2019: HRK 145 million).

(All amounts are expressed in millions of HRK)

11. TAXATION (CONTINUED)

(c) Movement in deferred tax assets and liabilities

	Deferred loan origination fees	Provision according to Note 28	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 FVOCI securities	Unrealized gains / (losses) at fair value from integration with Splitska banka	Other	Total
Balance at 31 December 2019	**7**	**42**	**42**	**3**	**(51)**	**(30)**	**16**	**29**
Through profit or loss	-	(2)	19	-	-	7	5	29
Through other comprehensive income	-	-	-	-	(12)	-	-	12
Through retained earnings (tax on gain from bargain purchase)	-	-	-	-	-	5	-	5
Balance at 31 December 2020	**7**	**40**	**61**	**-**	**(39)**	**(18)**	**21**	**75**

The amounts under Other consist of deferred tax assets of HRK 8 million based on provisions for severance and employee retention and HRK 13 milion based on expenses for which the Bank has not received invoices by the reporting date.

In 2019, the Bank realized the tax impact of the Splitska banka merger after obtaining a positive tax ruling from the competent regulatory authorities.

(All amounts are expressed in millions of HRK)

11. TAXATION (CONTINUED)

(c) Movement in deferred tax assets and liabilities (continued)

	Deferred loan origination fees	Provision according to Note 28	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 FVOCI securities	Unrealized gains / (losses) at fair value from integration with Splitska banka	Tax impact of Splitska banka merger	Other	Total
Balance at 31 December 2018	**11**	**57**	**2**	**3**	**(27)**	**(38)**	**(72)**	**31**	**(34)**
Through profit or loss	(4)	(15)	40	1	-	8	-	(3)	27
Through other comprehensive income	-	-	-	-	(24)	-	-	-	(24)
Through retained earnings (tax on gain from bargain purchase)	-	-	-	-	-	-	72	-	72
Other movement (IFRS 9 – transfer to current tax liability)	-	-	-	-	-	-	-	(12)	(12)
Balance at 31 December 2019	**7**	**42**	**42**	**3**	**(51)**	**(30)**	**-**	**16**	**29**

(All amounts are expressed in millions of HRK)

12. BASIC AND DILUTED EARNINGS PER SHARE

For the purposes of determining earnings per share, for total earnings the Bank's profit for the current year attributable to the ordinary shareholders of the Bank is used. A reconciliation of the profit for the year attributable to ordinary shareholders is provided below.

	31/12/2020	31/12/2019
Profit attributable to ordinary shareholders	251	579
Weighted average number of shares	19,968,774	19,968,774
Earnings per share basic (in HRK)	**12.56**	**29.01**
Earnings per share diluted (in HRK)	**12.56**	**29.01**

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

	31/12/2020	31/12/2019
Cash in hand	663	725
Current account balance	2,128	3,823
FX settlement account with the CNB	53	4
Current accounts with foreign banks	2,583	858
Current accounts with domestic banks	132	39
Assets included in cash and cash equivalents (Note 32)	5,559	5,449
Obligatory reserve at the Croatian National Bank	1,906	2,486
	7,465	**7,935**

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, assets with the CNB do not, as a rule, meet the requirements for classification into higher risk stage (Stage 2 or Stage 3), and are always segmented into Stage 1.
No special loss allowance for expected credit losses is allocated to assets with the CNB, since the expected credit loss is insignificant.

(All amounts are expressed in millions of HRK)

14. LOANS AND RECEIVABLES FROM BANKS

	31/12/2020	31/12/2019
Short-term placements with other banks	336	853
Loss allowance for expected credit losses	(2)	(2)
	334	**851**

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

2020
Movement in gross carrying amount:

	Stage 1	Stage 2	Stage 3	POCI	Total
Balance at 31 December 2019	**851**	**-**	**2**	**-**	**853**
Net (derecognition)	(517)	-	-	-	(517)
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 increase / (decrease)	-	-	-	-	-
Balance at 31 December 2020	**-**	**-**	**2**	**-**	**2**

2019
Movement in gross carrying amount:

	Stage 1	Stage 2	Stage 3	POCI	Total
Balance at 31 December 2018	**1.027**	**-**	**2**	**-**	**1.029**
Net (derecognition)	(176)	-	-	-	(176)
Balance at 31 December 2019	**851**	**-**	**2**	**-**	**853**

Movement in loss allowance for expected credit losses:

	Stage 1	Stage 2	Stage 3	POCI	Total
Balance at 31 December 2018	**1**	**-**	**2**	**-**	**3**
Net (decrease)	(1)	-	-	-	(1)
Balance at 31 December 2019	**-**	**-**	**2**	**-**	**2**

(All amounts are expressed in millions of HRK)

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

	31/12/2020	**31/12/2019**
Units in open-end investment funds managed by affiliated persons	132	108
Bonds issued by the Republic of Croatia, listed on the market	95	175
Other securities measured at fair value through profit or loss	92	104
VISA International Series C preferred stock	37	-
Derivative financial assets	70	22
Loans	22	11
	448	**420**

During 2016, the Bank 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 Bank measures the respective shares at fair value through other comprehensive income and accordingly they are presented in the financial statements as at 31 December 2019 in Note 17.
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 Bank 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 mandatorily measured at fair value through profit or loss.The effect of reclassification from Financial assets measured at fair value through other comprehensive income into financial assets measured at fair value through profit or loss amounts to:

- Total effect through other comprehensive income (Note 30) - a decrease of HRK 33 million
- Effect presented through profit or loss (Note 6a) - an increase of HRK 33 million
- Effect presented through retained earnings (Note 30) - 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 Bank classified the Series A preferred stock as Financial assets at fair value through other comprehensive income (Note 17).

Other securities measured at fair value through profit or loss relate to Fortenova's securities acquired in the process of restructuring the Agrokor Group for which the Bank performed a new fair value assessment during the year in accordance with market conditions: equity instruments in the amount of HRK 18 million (2019: HRK 25 million) and debt instruments in the amount of HRK 74 million (2019: HRK 79 million).

The total net effect of the settlement in the process of restructuring the Agrokor Group (Fortenova) in 2019 is revenue in the amount of HRK 36 million and is presented in the following notes:

- Note 10 – revenue from reversal of loss allowance in the amount of HRK 288 million formed in 2018 and expense from reversal of loss allowance for new placements carried at amortized cost in the amount of HRK 38 million
- Note 6 - losses on fair value adjustments for new instruments carried measured at fair value through profit or loss in the amount of HRK 214 million

(All amounts are expressed in millions of HRK)

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

	2020			2019		
	Asset	**Liabilities**	**Contractual amount**	**Asset**	**Liabilities**	**Contractual amount**
Derivatives held for trading						
FX Swap and Forwards	44	96	5,772	10	14	3,215
Interest rate swap	26	20	896	12	-	476
Derivatives – fair value hedge						
Interest rate swap	-	6	38	-	4	37
Derivatives used to hedge cash flow						
Interest rate swap	-	-	-	-	13	10
	70	**122**	**6,706**	**22**	**31**	**3,738**

Derivative financial instruments held for trading allow the Bank 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 Bank also contracts interest rate swaps to minimize the risk of interest rate fluctuations. All derivatives have been agreed on the OTC market.

(All amounts are expressed in millions of HRK)

16. LOANS AND RECEIVABLES FROM CUSTOMERS

Analysis by type of product

	31/12/2020	**31/12/2019**
Kuna-denominated		
Retail customers	17,524	16,648
Corporate customers	11,556	9,680
Foreign-currency denominated		
Retail customers	96	98
Corporate customers	2,998	2,668
Total gross loans and receivables	**32,174**	**29,094**
Loss allowance for expected credit losses	(2,552)	(2,123)
	29,622	**26,971**

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 12.651 million (2019: HRK 12.505 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 net loan balance amount to HRK 36 million (2019: HRK 41 million).

2020
Movement in gross carrying amount:

	Stage 1	**Stage 2**	**Stage 3**	**POCI**	**Total**
Balance at 31 December 2019	**24,387**	**2,238**	**1,654**	**815**	**29,094**
Net new approvals / (derecognition)	2,881	294	59	(61)	3,173
Transfer to Stage 1*	548	(523)	(25)	-	-
Transfer to Stage 2**	(2,465)	2,546	(81)	-	-
Transfer to Stage 3	(738)	(391)	1,129	-	-
Sale of receivables***	-	-	(18)	(15)	(33)
Written off	-	-	(38)	(22)	(60)
Balance at 31 December 2020	**24,613**	**4,164**	**2,680**	**717**	**32,174**

** The transition from Stage 2 to Stage 1 is result of normal course of business, arising from recovery of exposures, whose transition to Stage 2 was driven by significant increase in credit risk as a result of contamination.*
***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)

16. LOANS AND RECEIVABLES FROM CUSTOMERS (CONTINUED)

Movement in loss allowance for expected credit losses:

	Stage 1	Stage 2	Stage 3	POCI	Total
Balance at 31 December 2019	**207**	**87**	**1,110**	**719**	**2,123**
Net new approvals / (derecognition)	(66)	62	238	(75)	159
Transfer to Stage 1	22	(14)	(8)	-	-
Transfer to Stage 2**	(36)	54	(18)	-	-
Transfer to Stage 3	(6)	(25)	31	-	-
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	-	-	(38)	(22)	(60)
Balance at 31 December 2020	**202**	**261**	**1,481**	**608**	**2,552**

** 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*

Agrokor settlement

On 1 March 2019, the Commercial Court in Zagreb accepted the proposal of the special Commissioner and the Temporary Creditors' Council of 28 February 2019, and determined that the commencement date of the implementation of the settlement, the commencement of the implementation of the restructuring measures and actions provided for in the settlement shall be 1 April 2019. As of 1 April 2019, the Bank implemented settlement effects in its books, the derecognition of existing financial instruments was made, as well as the recognition of new financial instruments attributable to the Bank after the settlement. Receivables that were transferred to off-balance sheet records at the end of 2018 were also completely written off.

The new instruments consist of loans carried at amortized cost and are disclosed in Note 16 in the nominal value of HRK 55.7 million (2019: HRK 55,7 million) and of securities disclosed in Note 15 Financial asset and liabilities at fair value through profit or loss.

2019
Movement in gross carrying amount:

	Stage 1	Stage 2	Stage 3	POCI	Total
Balance at 31 December 2018	**23,520**	**1,609**	**1,698**	**1,266**	**28,093**
Net new approvals / (derecognition)	1,881	(66)	(279)	(170)	1,366
Transfer to Stage 1	579	(498)	(81)	-	-
Transfer to Stage 2	(1,407)	1,498	(91)	-	-
Transfer to Stage 3	(186)	(305)	491	-	-
Sold receivables	-	-	(54)	(151)	(205)
Written off	-	-	(30)	(130)	(160)
Balance at 31 December 2019	**24,387**	**2,238**	**1,654**	**815**	**29,094**

(All amounts are expressed in millions of HRK)

16. LOANS AND RECEIVABLES FROM CUSTOMERS (CONTINUED)

Movement in loss allowance for expected credit losses:

	Stage 1	Stage 2	Stage 3	POCI	Total
Balance at 31 December 2018	**187**	**108**	**1,113**	**1,137**	**2,545**
Net new approvals / (derecognition)	(8)	(44)	76	(168)	(144)
Transfer to Stage 1	(5)	5	-	-	-
Transfer to Stage 2	-	18	(18)	-	-
Transfer to Stage 3	33	-	(33)	-	-
Exchange differences	-	-	7	-	7
Increase due to parameter change	-	-	26	-	26
Sold receivables	-	-	(31)	(120)	(151)
Written off	-	-	(30)	(130)	(160)
Balance at 31 December 2019	**207**	**87**	**1,110**	**719**	**2,123**

Concentration of loans and receivables from customers by industry:

	31/12/2020	31/12/2019
Public administration and defence	3,331	2,223
Manufacturing industries	2,290	2,215
Construction	1,948	1,737
Wholesale and retail trade, repair of motor vehicles and motorcycles	1,731	1,742
Accommodation and food service activities	1,410	1,148
Transport and storage	916	707
Professional, scientific and technical activities	556	421
Agriculture, forestry and fisheries	454	391
Real estate activities	303	290
Electricity, gas, steam and air conditioning supply	282	259
Water supply; wastewater disposal; waste management and environmental remediation activities	268	134
Health and social work activities	239	204
Administrative and support service activities	209	223
Financial and insurance activities	204	218
Information and communication	185	223
Other services	87	58
Mining and quarrying	69	76
Arts, entertainment and recreation	43	49
Education	29	30
Total corporate loans	14,554	12,348
Retail customers	17,620	16,746
	32,174	**29,094**
Loss allowance for expected credit losses	(2,552)	(2,123)
	29,622	**26,971**

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

(All amounts are expressed in millions of HRK)

17. FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

	31/12/2020	31/12/2019
Equity securities	87	111
Debt securities	5,526	6,094
	5,613	**6,205**

(a) Equity securities

	31/12/2020	31/12/2019
Listed	83	108
Unlisted	4	3
	87	**111**

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 (2019: HRK 3 million). There is no active market for these securities. 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 30 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 15). A more detailed description is given in Note 16.

The Bank received dividends of HRK 720 thousand from VISA International in 2020 (2019: HRK 683 thousand). The equity ownership in VISA International is listed.

During 2019 and 2020, the Bank did not receive dividend from other equity shares shown in Note 17.

Overview of the Bank’s investments in equity securities with a breakdown of listed and unlisted securities on 31 December 2020 and 2019 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 i kratkoročnih vrijednosnica	Ordinary share	unlisted

(All amounts are expressed in millions of HRK)

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

(b) Debt securities

	31/12/2020	**31/12/2019**
Bonds of the Croatian Ministry of Finance	3,550	2,959
Foreign government bonds	603	787
Total listed securities	**4,153**	**3,746**
Treasury bills of the Croatian Ministry of Finance	1,373	2,348
Total unlisted securities	**1,373**	**2,348**
	5,526	**6,094**

The Bank 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.
Bonds of the Republic of Croatia include long-term HRK, currency and bonds in a currency clause.
In 2020 foreign government bonds include the long-term currency bonds of Hungary and Romania (in 2019 the long-term currency bonds of Hungary, Romania and Bulgaria).

2020
Movement of gross carrying amount of debt securities:

	Stage 1	**Stage 2**	**Stage 3**	**POCI**	**Total**
Balance at 31 December 2019	**6,094**	**-**	**-**	**-**	**6,094**
Net (derecognition)/new approvals	(838)	-	-	-	(838)
Balance at 31 December 2020	**5,256**	**-**	**-**	**-**	**5,256**

Movement in loss allowance for expected credit losses through other capital reserves (Note 30):

	Stage 1	**Stage 2**	**Stage 3**	**POCI**	**Total**
Balance at 31 December 2019	**6**	**-**	**-**	**-**	**6**
Net increase / (decrease)	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 AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME (CONTINUED)

2019
Movement of gross carrying amount of debt securities:

	Stage 1	Stage 2	Stage 3	POCI	Total
Balance at 31 December 2018	**5,265**	**-**	**-**	**-**	**5,265**
Net new approvals/(derecognition)	829	-	-	-	829
Balance at 31 December 2019	**6,094**	**-**	**-**	**-**	**6,094**

Movement of loss allowance for expected credit losses through other capital reserves (Note 30):

	Stage 1	Stage 2	Stage 3	POCI	Total
Balance at 31 December 2018	**11**	**-**	**-**	**-**	**11**
Net increase/(decrease)	**(5)**	-	-	-	(5)
Balance at 31 December 2019	**6**	**-**	**-**	**-**	**6**

18. FINANCIAL ASSETS MEASURED AT AMORTISED COST

	31/12/2020	31/12/2019
Bonds of the Republic of Croatia	17	16
Corporate Bonds	237	236
Corporate bills of exchange	2	4
	256	256
Loss allowance for expected credit losses	(20)	(19)
	236	**237**

In financial assets measured at amortized cost, the Bank 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 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 Bank made a 100% loss allowance for the entire amount of receivables.

(All amounts are expressed in millions of HRK)

18. 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	**240**	**-**	**16**	**-**	**256**
Net new approvals / (derecognition)	(1)	-	-	-	(1)
Transfer to Stage 1	-	-	-	-	-
Transfer to Stage 2	-	-	-	-	-
Transfer to Stage 3	(2)	-	2	-	-
Balance at 31 December 2020	**237**	**-**	**18**	**-**	**255**

Movement in loss allowance for expected credit losses:

	Stage 1	Stage 2	Stage 3	POCI	Total
Balance at 31 December 2019	**3**	**-**	**16**	**-**	**19**
Net increase / (decrease)	-	--	1	-	1
Transfer to Stage 1	-		-	-	-
Transfer to Stage 2	-	-	-	-	-
Transfer to Stage 3	-	-	-	-	-
Balance at 31 December 2020	**3**	**-**	**17**	**-**	**20**

2019
Movement in gross carrying amount:

	Stage 1	Stage 2	Stage 3	POCI	Total
Balance at 31 December 2018	**248**	**-**	**104**	**18**	**370**
Net new approvals / (derecognition)	(8)	-	(88)	(18)	(114)
Balance at 31 December 2019	**240**	**-**	**16**	**-**	**256**

Movement in loss allowance for expected credit losses:

	Stage 1	Stage 2	Stage 3	POCI	Total
Balance at 31 December 2018	**-**	**-**	**75**	**8**	**83**
Net increase / (decrease)	3	-	(59)	(8)	(64)
Balance at 31 December 2019	**3**	**-**	**16**	**-**	**19**

(All amounts are expressed in millions of HRK)

19. INVESTMENT IN SUBSIDIARIES

31/12/2020	Headquarter	Ownership percentage	Industry	Net carrying amount
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 investment in subsidiaries:				**313**

31/12/2019	Headquarter	Ownership percentage	Industry	Net carrying amount
OTP Nekretnine d.o.o.	Zagreb	100%	Organization of project implementation for buildings	260
OTP Invest d.o.o.	Zagreb	74.33%	Fund management activities	1
OTP Leasing d.d.	Zagreb	60%	Finance and operating lease	48
OTP Osiguranje d.d.	Zagreb	100%	Life insurance	54
Aventin d.o.o.in liquidation	Zadar	100%	Renting and operating of own or leased real estate (leasing)	-
OTP Savjetovanje d.o.o.	Zagreb	100%	Business and management consultancy	2
Total investment in subsidiaries:				**365**

The investment in OTP osiguranje was classified in Note 24 *Assets held for sale* as at 31 December 2020. Changes in investments in subsidiaries are presented in detail in Note 1.
Cresco d.o.o. (activity: Real estate business) is 100% owned by OTP Nekretnine d.o.o. The investment cost of OTP Nekretnine d.o.o. to Cresco d.o.o. is HRK 0 million and the share of OTP Nekretnine in net assets is HRK 5 million (2019: HRK 2 million). SB Leasing d.o.o., in liquidation (activity: Finance and operating lease) is 100% owned by OTP Leasing d.d. The investment cost of OTP Leasing in SB Leasing is HRK 33 million (2019: HRK 33 million) and share of OTP Leasing d.d. in net assets is HRK 25 million (2019: HRK 34 million).

In 2020 subsidiaries included in the consolidation did not recieve dividends expect for OTP leasing d.d. to whom SB Leasing d.o.o. in liquidation paid the total profit for 2019 in the amount of HRK 4,250 thousand and all retained earnings from 2011 to 2017 in the amount of HRK 6,852 thousand (in 2019 the profit for 2018 was paid in the amount of HRK 4,325 thousand).

OTP Nekretnine d.o.o. in 2020, generated a total of HRK 25 million income (2019: HRK 13 million) and a profit for the year in amount of HRK 2 million (2019: HRK 1 million). OTP Invest d.o.o. in 2020, generated a total of HRK 5.8 million of income (2019: HRK 5.8 million), and a total comprehensive loss for the year 2020 in the amount of HRK 1.5 million (2019: comprehensive loss in the amount of HRK 1.5 million). OTP Leasing d.d. in 2020, generated a total of HRK 173.6 million income (2019: HRK 193.5 million), HRK 11 million income from dividend payment (2019: HRK 4.3 million) and a total comprehensive income for the year 2020 in amount of HRK 31 million (2019: HRK 22 million). In 2019, OTP Osiguranje d.d. generated HRK 50.2 million income and other comprehensive income in amount of HRK 1.1 million while OTP Savjetovanje d.o.o. generated HRK 0 million income and loss for the year in amount of HRK 1.4 million.

(All amounts are expressed in millions of HRK)

20. PROPERTY AND EQUIPMENT

Assets recognised 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 2019	**443**	**144**	**197**	**6**	**45**	**835**
Transfer from assets under construction	19	27	15	1	(62)	-
Increases	-	-	-	-	67	67
Decrease due to write-off	-	(9)	(10)	(1)	(13)	(33)
Balance at 31 December 2019	**462**	**162**	**202**	**6**	**37**	**869**
Balance at 1 January 2020	**462**	**162**	**202**	**6**	**37**	**869**
Transfer from assets under construction	4	24	8	2	(38)	-
Increases	-	-	-	-	35	35
Reclassification in Investment property	(2)	-	-	-	-	(2)
Reclassification in Asset under construction	(28)	**-**	**-**	**-**	**-**	(28)
Decrease due to sale	(17)	**-**	**(2)**	**(1)**	**(1)**	(21)
Decrease due to write-off	(1)	(8)	(11)	-	-	(20)
Balance at 31 December 2020	**418**	**178**	**197**	**7**	**33**	**833**
Accumulated depreciation and impairment						
Balance at 1 January 2019	**207**	**87**	**140**	**3**	**-**	**437**
Depreciation expense for the current year	16	23	17	1	-	57
Decrease due to write-off	-	(8)	(10)	(1)	-	(19)
Balance at 31 December 2019	**223**	**102**	**147**	**3**	**-**	**475**
Balance at 1 January 2020	**223**	**102**	**147**	**3**	**-**	**475**
Depreciation expense for the current year	15	29	17	1	-	62
Impairment	1	-	-	-	-	1
Reclassification in Investment property	(1)	-	-	-	-	(1)
Decrease due to sale	(17)	-	(1)	(1)	-	(19)
Decrease due to write-off	(1)	(8)	(11)	-	-	(20)
Balance at 31 December 2020	**220**	**123**	**152**	**3**	**-**	**498**
Net carrying amount						
Balance at 31 December 2019	**239**	**60**	**55**	**3**	**37**	**394**
Balance at 31 December 2020	**198**	**55**	**45**	**4**	**33**	**335**

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

(All amounts are expressed in millions of HRK)

20a ASSETS AND LIABILITIES CLASSIFIED IN ACCORDANCE WITH IFRS 16

Right-of-use assets

	Land and buildings	Furniture and equipment	Motor vehicles and other	Total
Balance at 1 January 2019	**183**	**5**	**2**	**190**
New contracts	17	-	3	20
Expired contracts	-	-	-	-
Balance at 31 December 2019	**200**	**5**	**5**	**210**
Balance at 1 January 2020	**200**	**5**	**5**	**210**
New contracts	39	-	1	40
Contract modifications	(5)	(5)	-	(10)
Expired contracts	(4)	-	-	(4)
Balance at 31 December 2020	**230**	**-**	**6**	**236**
Balance at 1 January 2019	**-**	**-**	**-**	**-**
Depreciation expense for the current year	32	2	1	35
Balance at 31 December 2019	**32**	**2**	**1**	**35**
Balance at 1 January 2020	**32**	**2**	**1**	**35**
Depreciation expense for the current year	35	-	1	36
Contract modifications	(3)	(2)	-	(5)
Expired contracts	(4)	-	-	(4)
Balance at 31 December 20120	**60**	**-**	**2**	**62**
Net carrying amount				
Balance at 31 December 2019	**168**	**3**	**4**	**175**
Balance at 31 December 2020	**170**	**-**	**4**	**174**

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*.

	31/12/2020	31/12/2019
Short-term leases	1	4
Variable leases payments	2	5
Total	**3**	**9**

(All amounts are expressed in millions of HRK)

20a ASSETS AND LIABILITIES CLASSIFIED IN ACCORDANCE WITH IFRS 16 (CONTINUED)

Lease liabilities classified under IFRS 16

At 31 December, lease liabilities amounted to HRK 180 million (2019: HRK 179 million). The opening balance as of 1 January 2019 amounted to HRK 190 million.

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

31 December 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	2	9	24	75	78	**188**

31 December 2019	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	10	25	76	84	**198**

(All amounts are expressed in millions of HRK)

21. INVESTMENT PROPERTY

	Investment property
Cost	
Balance at 1 January 2019	**79**
Additions	-
Disposals and retirements	-
Balance at 31 December 2019	**79**
Balance at 1 January 2020	**79**
Reclassification from property under IAS 16 (Note 20)	2
Balance at 31 December 2020	**81**
Impairment and depreciation	
Balance at 1 January 2019	**15**
Depreciation expense for the current year	1
Disposals and retirements	-
Balance at 31 December 2019	**16**
Balance at 1 January 2020	**16**
Reclassification from property under IAS 16 (Note 20)	**1**
Depreciation expense for the current year	1
Disposals and retirements	-
Balance at 31 December 2020	**18**
Net carrying amount	
Balance at 31 December 2019	**63**
Balance at 31 December 2020	**63**

Investment property includes real estate not used by the Bank for operational purposes, but assets intended for sale or lease. The Bank 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 24. The total fair value of investment property is HRK 63 million (2019: HRK 69 million). Fair value is measured by independent up-to-date assessments of external appraisers. The fair value of investment property is measured using appraisals obtained from an independent external appraiser.

(All amounts are expressed in millions of HRK)

22. INTANGIBLE ASSETS

	Leasehold improvements	Software	Contracts with clients	Asset acquired but not brought into use	Total
Cost					
Balance at 1 January 2019	**73**	**313**	**283**	**36**	**705**
Transfer from assets under construction	3	42	-	(45)	-
Increases	-	-	-	34	34
Decrease due to write-off	(13)	-	-	(7)	(20)
Balance at 31 December 2019	**63**	**355**	**283**	**18**	**719**
Balance at 1 January 2020	**63**	**355**	**283**	**18**	**719**
Reclassification from property under IAS 16	(1)	-	-	-	(1)
Transfer from assets under development	6	25	-	(31)	-
Increases	-	-	-	26	26
Decrease due to write-off	-	(8)	-	-	(8)
Balance at 31 December 2020	**68**	**372**	**283**	**13**	**736**
Impairment and amortization					
Balance at 1 January 2019	**57**	**289**	**126**	**-**	**472**
Amortization expense for the current year	4	25	49	-	78
Decrease due to write-off	(13)	-	-	-	(13)
Balance at 31 December 2019	**48**	**314**	**175**	**-**	**537**
Balance at 1 January 2020	**48**	**314**	**175**	**-**	**537**
Amortization expense for the current year	4	16	40	-	60
Decrease due to write-off	-	(8)	-	-	(8)
Balance at 31 December 2020	**52**	**322**	**215**	**-**	**589**
Net carrying amount					
Balance at 31 December 2019	**15**	**41**	**108**	**18**	**182**
Balance at 31 December 2020	**16**	**50**	**68**	**13**	**147**

In accordance with the Bank's policies, in 2020 the Bank's management reviewed the estimated useful life of the software. For software in the amount of HRK 83 million (purchase value as at 31 December 2019), the estimated useful life has been extended from three to five years. The positive effect of the estimate on the reduction of depreciation costs in 2020 amounts to HRK 11.8 million.

(All amounts are expressed in millions of HRK)

23. OTHER ASSETS

	31/12/2020	31/12/2019
Other financial assets		
Receivables in respect of credit card operations	65	69
Collateral deposits for derivatives	65	-
Accrued fees and commissions	55	50
Accounts receivable	52	43
Other assets subject to impairment in accordance with IFRS 9	**237**	**162**
Loss allowance for expected credit losses:	(53)	(49)
Net other assets after impairment	**184**	**113**
Other non-financial assets		
Asset taken in lieu for uncollected receivables	1	6
Prepaid expenses	14	6
Other	8	11
Other non-financial assets (not subject to impairment in accordance with IFRS 9)	**23**	**23**
	207	**136**

In 2020 the significnt 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 23 *Other non-financial assets* to Note 24 *Assets held for sale*.

2020

Movement in gross carrying amount:

	Stage 1	Stage 2	Stage 3	POCI	Total
Balance at 31 December 2019	**104**	**-**	**58**	**-**	**162**
Net increase / (derecognition)	81	-	(3)	-	78
Transfer to Stage 1	2	-	(2)	-	-
Transfer to Stage 2	(2)	2	-	-	-
Transfer to Stage 3	(1)	-	1	-	-
Write off	-	-	(3)	-	(3)
Balance at 31 December 2020	**184**	**2**	**51**	**-**	**237**

(All amounts are expressed in millions of HRK)

23. OTHER ASSETS (CONTINUED)

Movement in loss allowance for expected credit losses of other financial assets:

	Stage 1	Stage 2	Stage 3	POCI	Total
Balance at 31 December 2019	**2**	**-**	**47**	**-**	**49**
Net increase / (decrease)	(1)	-	8	-	7
Transfer to Stage 1	1	-	(1)	-	-
Transfer to Stage 2	-	-	-	-	-
Transfer to Stage 3	-	-	-	-	-
Write off	-	-	(3)	-	(3)
Balance at 31 December 2020	**2**	**-**	**51**	**-**	**53**

2019

Movement in gross carrying amount:

	Stage 1	Stage 2	Stage 3	POCI	Total
Balance at 31 December 2018	**96**	**-**	**14**	**15**	**125**
Net new approvals / (derecognition)	8	-	30	-	38
Transfer to Stage 1	1	-	(1)	-	-
Transfer to Stage 2	-	-	-	-	-
Transfer to Stage 3	(2)	-	17	(15)	-
Write off		-	(1)	-	(1)
Balance at 31 December 2019	**103**	**-**	**59**	**-**	**162**

Movement in loss allowance for expected credit losses of other financial assets:

	Stage 1	Stage 2	Stage 3	POCI	Total
Balance at 31 December 2018	**2**	**-**	**14**	**15**	**31**
Net increase / (decrease)	(1)	-	21	-	20
Transfer to Stage 1	1	-	(1)	-	-
Transfer to Stage 2	-	-	-	-	-
Transfer to Stage 3	-	-	15	(15)	-
Write off	-	-	(2)	-	(2)
Balance at 31 December 2019	**2**	**-**	**47**	**-**	**49**

(All amounts are expressed in millions of HRK)

24. ASSETS HELD FOR SALE

The Bank 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.

	31/12/2020	**31/12/2019**
Investment in OTP Osiguranje	54	-
Real estate in the process of sale	25	-
Assets taken in exchange for uncollected receivables	5	1
Total assets held for sale	**84**	**1**

The Bank still has a 100% share in OTP Osiguranje, but due to the conditions that were met in 2020, the respective investment was reclassified from Investments in subsidiaries (Note 19) to Assets held for sale (Note 24). Please refer to Note 1 and Note 19 for details.
Real estate in the process of sale includes real estate owned by the Bank that was used by the Bank 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 19) to Assets held for sale (Note 24).
The significant part of the Assets taken over in exchange for uncollected receivables is in the process of sale in 2020. For these assets, the conditions for classification into assets held for sale were met and accordingly reclassified from *Other non-financial assets* (Note 23) to *Assets held for sale* (Note 24).

25. AMOUNTS DUE TO OTHER BANKS

	31/12/2020	**31/12/2019**
Demand deposits		
Kuna denominated	145	102
Foreign-currency denominated	15	19
Term deposits	2,360	1,688
	2,520	**1,809**

(All amounts are expressed in millions of HRK)

26. AMOUNTS DUE TO CUSTOMERS

	31/12/2020	31/12/2019
Retail customers		
Demand deposits		
Kuna denominated	6,912	6,133
Foreign-currency denominated	10,129	9,439
Term deposits		
Kuna denominated	1,581	1,747
Foreign-currency denominated	5,318	6,265
	23,940	**23,584**
Corporate customers		
Demand deposits		
Kuna denominated	6,819	6,928
Foreign-currency denominated	2,171	1,932
Term deposits		
Kuna denominated	414	555
Foreign-currency denominated	726	552
	10,130	**9,967**
	34,070	**33,551**

(All amounts are expressed in millions of HRK)

27. OTHER BORROWED FUNDS

	31/12/2020	31/12/2019
HBOR (Croatian Bank for Reconstruction and Development)	974	1,107
Ministry of Finance	3	3
Others	2	2
	979	**1,112**

(a) Liabilities to the Croatian Bank for Reconstruction and Development (HBOR)

Funds borrowed from HBOR are designated for approving loans to end-beneficiaries – corporate and retail customers – under the programmes supported by HBOR.

(b) Liabilities to the Ministry of Finance

This is a liability to the Croatian Ministry of Finance transferred from Dubrovačka banka and relates to interest on the so-called “frozen” foreign currency savings.

(c) Other borrowed funds

This obligation 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.

28. PROVISIONS FOR LIABILITIES AND CHARGES

	31/12/2020	31/12/2019
Litigation provision	290	253
Provision for severance and retention payments	83	110
Provisions for overpayments and conversion of CHF loans	10	10
	383	**373**
Provisions for off-balance sheet items (Note 31)	103	111
	486	**484**

Litigation provision related to legal actions against the Bank, i.e. where the Bank is the defendant, amount to HRK 290 million (2019: HRK 253 million).
Provisions for litigation are calculated in accordance with IAS 37.
When forming provisions for litigation, the Bank 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).

(All amounts are expressed in millions of HRK)

28. PROVISIONS FOR LIABILITIES AND CHARGES (CONTINUED)

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 82 million (2019: HRK 56 million). The increase in provisions compared to 2019 is the result of increased number of lawsuits against the Bank received during 2020. The Bank estimates each CHF loan lawsuit on an individual basis.

In relation to CHF cases, the Bank 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 Bank is of the opinion that the decision of the Constitutional Court dose not affect the positions of the parties involved in individual disputes that consumers have against banks.Bank's possible liabilities arising from decisions of competent courts related to such individual consumer lawsuits are considered as unpredictable liabilities.

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 Bank's position in them.

Litigation provision

	2020	**2019**
Balance at 1 January	**253**	**212**
Paid out	(16)	(4)
Net charge to statement of profit or loss (Note 10)	53	45
Balance at 31 December	**290**	**253**

(All amounts are expressed in millions of HRK)

28. PROVISIONS FOR LIABILITIES AND CHARGES (CONTINUED)

Provision for severance and retention payments

	2020	2019
Balance at 1 January	**110**	**208**
Paid out	(27)	(102)
Net charge to statement of profit or loss (Note 9)	-	4
Balance at 31 December	**83**	**110**

Provisions for severance and retention payments in the amount of HRK 83 million (2019: HRK 110 million) include provisions for:
- liabilities for employees based on restructuring HRK 72 million (2019: HRK 99 million)
- liabilities for severance and jubilee awards HRK 11 million (2019: HRK 11 million)

The cost of provisions in the amount of HRK 72 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 2021 and 2022 until the final completion of the restructuring process. The Bank regularly on a 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

	2020	2019
Balance at 1 January	**10**	**10**
Paid out	-	-
Balance at 31 December	**10**	**10**

(All amounts are expressed in millions of HRK)

29. OTHER LIABILITIES

	31/12/2020	31/12/2019
Liabilities in respect of credit card operations	113	126
Accrued expenses for bonuses and other employee benefits	59	56
Accrued expenses – nefakturirano	56	61
Salaries and contributions payable	30	29
Funds in transfer	24	98
Due to State Agency for Deposit insurance and Bank Rehabilitation for saving deposits insurance	15	15
Libilities towards suppliers	14	27
Liabilities in respect of opening of accounts (escrow accounts)	12	7
Liability for payments of deposits previously credited to income	11	9
Value added tax payable	3	3
Advances received	1	2
Liabilities for fees	-	1
Liabilities in respect of credit card operations	14	22
	352	**456**

(All amounts are expressed in millions of HRK)

30. SHAREHOLDERS' EQUITY AND RESERVES

SHARE CAPITAL

As of 31 December 2020 the share capital of the Bank consisted of 19,968,774 ordinary shares (2019: 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 (2019: HRK 3,993,755 thousand). All ordinary shares provide equal rights and carry one vote per share.
There were no dividend payments during 2020. The Bank's subsidiaries in the Republic of Croatia did not have any dividend payments during 2019 and 2020 except for dividend payments which SB Leasing d.o.o. in liquidation paid to OTP Leasing d.d. during 2019 and 2020 (Note 19).

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

	31/12/2020	31/12/2019
Statutory reserves	200	200
Legal reserves	199	199
	399	**399**

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 Bank'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

	31/12/2020	31/12/2019
Reserve for measuring fair value of financial asset at fair value through other comprehensive income – equity instruments	35	59
Reserve for measuring fair value of financial asset at fair value through other comprehensive income – debt instruments	117	145
Expected credit losses on financial asset at fair value through other comprehensive income (Note 17)	19	6
Total fair value reserves:	**171**	**210**

(All amounts are expressed in millions of HRK)

30. 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

	2020	2019
Balance as of 1 January	**59**	**31**
(Decrease) / Increase in reserves	(30)	34
Tax	6	(6)
Balance as of 31 December of the current year	**35**	**59**

Decrease of reserves based on reclassification of VISA Series C shares amounts to HRK 33 million.

Debt instruments

	2020	2019
Balance as of 1 January	**145**	**66**
(Decrease) / Increase in reserves (Note 30)	(34)	97
Tax	6	(18)
Balance as of 31 December of the current year	**117**	**145**

General banking risks reserves

	31/12/2020	31/12/2019
General banking risks reserves	106	106
Other reserves	3	3
Total other reserves	**109**	**109**

According to earlier CNB regulations, the Bank 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 Bank reported an annual growth over 15%. As the three-year period expired in 2011, the reserve was available to be utilised by the Bank as the Bank’s retained earnings.

(All amounts are expressed in millions of HRK)

30. SHAREHOLDERS' EQUITY AND RESERVES (CONTINUED)

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

Retained earnings

Retained earnings refer to the cumulative gains of the Bank retained in previous years adjusted for the dividend paid in 2019 and the profit realized in 2020. There were no dividend payments during 2020. Movement of retained earnings is presented in Statement of changes in shareholders' equity.
Based on the CNB's decision on the temporary restriction of distributions (see more details in the Note 41 Events after the balance sheet date), the Bank will not temporarily distribute the profit realized for 2020 as long as the Decision of the Croatian National Bank is in force.

31. CONTINGENT LIABILITIES AND COMMITMENTS

	31/12/2020	**31/12/2019**
Guarantees	1,794	1,483
Letters of credit	33	39
Approved unused facilities and global lines	7,656	6,370
Factoring	204	-
Binding letters of intent	30	-
	9,717	**7,892**
Provisions for loss allowance for contingent liabilities and commitments	(103)	(111)
	9,614	**7,781**

2020
Movement of gross carrying amount:

	Stage 1	**Stage 2**	**Stage 3**	**POCI**	**Total**
Balance as of 31 December 2019	**7,827**	**-**	**64**	**1**	**7,892**
Net new approvals / (derecognition)	1,453	394	(22)	-	1,825
Transfer to Stage 1	-	-	-	-	-
Transfer to Stage 2*	(104)	104	-	-	-
Transfer to Stage 3	-	-	-	-	-
Balance as of 31 December 2020	**9,176**	**498**	**42**	**1**	**9,717**

**HRK 104 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. CONTINGENT LIABILITIES AND COMMITMENTS (CONTINUED)

Movement in loss allowance for expected credit losses:

	Stage 1	Stage 2	Stage 3	POCI	Total
Balance as of 31 December 2019	**74**	**-**	**37**	**-**	**111**
Net new approvals / (derecognition)	(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*

2019
Movement of gross carrying amount:

	Stage 1	Stage 2	Stage 3	POCI	Total
Balance as of 1 January 2019	**7,509**	**-**	**120**	**2**	**7,631**
Net new approvals / (derecognition)	303	-	(41)	(1)	261
Transfer to Stage 1	(8)	-	8	-	-
Transfer to Stage 2	-	-	-	-	-
Transfer to Stage 3	23	-	(23)	-	-
Balance as of 31 December 2020	**7,827**	**-**	**64**	**1**	**7,892**

Movement in loss allowance for expected credit losses:

	Stage 1	Stage 2	Stage 3	POCI	Total
Balance as of 31 December 2018	**51**	**-**	**58**	**-**	**109**
Net new approvals / (derecognition)	17	-	(18)	-	(1)
Transfer to Stage 1	(1)	-	1	-	-
Transfer to Stage 2	-	-	-	-	-
Transfer to Stage 3	7	-	(7)	-	-
Increase due to recalibration of risk parameters	-	-	3	-	3
Balance as of 31 December 2019	**74**	**-**	**37**	**-**	**111**

(All amounts are expressed in millions of HRK)

32. 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:

	31/12/2020	**31/12/2019**
Cash and balances with Croatian National Bank (*Note 13*)	5,559	5,449
Loans and receivables from banks *(Note 14*)	295	832
	5,854	**6,281**

33. CAPITAL RISK MANAGEMENT

The Croatian National Bank (“the CNB”), as the Bank’s principal regulator, determines and supervises the capital requirements of the Bank 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 Bank’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 Bank’s long-term strategic goals are also considered. The directors review the Bank’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 Bank’s regulatory capital amounts to HRK 5,753 million (2019: HRK 5,838 millions) and is composed entirely of the Common Equity Tier capital. The capital adequacy ratio is 19,16% (2019: 21,18%).

During 2020, the Bank 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 Bank 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 Bank 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 Bank has been identified as Other Systemically Important Credit Institution (OSI Credit Institution) on a consolidated and individual basis. Consequently, the Bank is also obliged to maintain a buffer rate for the OSI Credit Institution amounting to 1.5% 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 Bank’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)

Capital

	31/12/2020	31/12/2019
Share capital	3,994	3,994
Share premium	171	171
Retained earnings (excluding profit for the year)	1,323	1,073
Other reserves	679	718
Transitional adjustments to ordinary share capital – unaudited	206	54
Deductions under EBA requirements – unaudited	(100)	(172)
Common Equity Tier 1 capital - unaudited	**6,273**	**5,838**
Core capital - unaudited	**6,273**	**5,838**
Regulatory capital - unaudited	**6,273**	**5,838**
Risk-weighted assets and other risk components - unaudited	**30,056**	**27,562**
Common Equity Tier 1 capital ratio - unaudited	20,87%	21.18%
Core capital ratio - unaudited	20,87%	21.18%
Total capital ratio - unaudited	20,87%	21.18%

(All amounts are expressed in millions of HRK)

34. CREDIT RISK

The Bank 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 Bank 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 Bank 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 Bank is exposed to credit risk on off-balance-sheet items, which include undrawn commitments to extend credit, issued guarantees and letters of credit.
The Bank 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.
As the year 2020 was marked by COVID 19 pandemic and devastating earthquakes, the Bank 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.

	Note	31/12/2020	31/12/2019
ASSETS			
Cash and balances with the Croatian National Bank	13	6,802	7,210
Loans and receivables from banks	14	334	851
Financial assets at fair value through profit or loss	15	70	22
Loans and receivables from customers	16	29,622	26,971
Debt securities at fair value through other comprehensive income	17b	5,526	6,094
Financial assets measured at amortized cost	18	236	237
Other financial assets	23	184	113
		42,774	**41,498**

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

The (gross) credit risk exposure for contingent liabilities and commitments (Note 31) is as follows:

	31/12/2020	31/12/2019
Guarantees and letters of credit	1,827	1,522
Approved unused facilities and other liabilities	7,890	6,370
	9,717	**7,892**

34. CREDIT RISK (CONTINUED)

Collateral and other forms of credit risk insurance

The Bank 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 Bank 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 2020, the total value of collateral held by the Bank as collateral for loans and advances and contingent liabilities and commitments amounts to 35,149 HRK million (2019: HRK 31,379 million).

Total allocated value of collaterals as of 31 December 2020 amounts to HRK 16,379 million (2019: HRK 14,895 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)

2020	**Maximum credit risk exposure (gross exposure)**	**Total allocated market value of collateral**	**Deposits**	**Real estate**	**Guarantees**	**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	336	-	-	-	-	-	336	-
Financial assets at fair value through profit or loss	70	-	-	-	-	-	70	-
Loans and receivables from customers	32,174	15,710	153	13,230	1,877	451	16,464	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	237	-	-	-	-	-	237	-
Total credit risk exposure of balance sheet items	**45,401**	**15,710**	**153**	**13,230**	**1,877**	**451**	**29,691**	**18,234**
Guarantees and letters of credit	1,827	338	15	317	-	6	1,489	459
Approved unused facilities and global lines	7,890	330	20	294	11	5	7,560	78
Total credit risk exposure of off-balance sheet items	**9,717**	**668**	**35**	**611**	**11**	**11**	**9,049**	**537**
Total credit risk exposure	**55,118**	**16,378**	**188**	**13,841**	**1,888**	**462**	**38,740**	**18,771**

(All amounts are expressed in millions of HRK)

34. CREDIT RISK (CONTINUED)

2019	Maximum credit risk exposure (gross exposure)	Total allocated market value of collateral	Deposits	Real estate	Guarantees	Other	Maximum exposure after deducting the market value of collateral	Available collateral value (above gross exposure)
Cash and balances with the Croatian National Bank	7,210	-	-	-	-	-	7,210	-
Loans and receivables from banks	853	-	-	-	-	-	853	-
Financial assets at fair value through profit or loss	22	-	-	-	-	-	22	-
Loans and receivables from customers	29,094	13,987	200	11,417	2,180	190	15,107	15,822
Financial assets that are valued through other comprehensive income	6,094	-	-	-	-	-	6,094	-
Financial assets measured at amortized cost	256	-	-	-	-	-	256	-
Other financial assets	162	-	-	-	-	-	162	-
Total credit risk exposure of balance sheet items	**43,691**	**13,987**	**200**	**11,417**	**2,180**	**190**	**29,704**	**15,822**
Guarantees and letters of credit	1,522	316	15	294	-	7	1,206	460
Approved unused facilities and global lines	6,370	592	19	418	151	4	5,778	202
Total credit risk exposure of off-balance sheet items	**7,892**	**908**	**34**	**712**	**151**	**11**	**6,984**	**662**
Total credit risk exposure	**51,583**	**14,895**	**234**	**12,129**	**2,331**	**201**	**36,688**	**16,484**

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 Bank is entitled to settle their claims in the event of the debtor defaulting, whereby the Bank 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 Bank 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%.

Fruthermore, 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).

(All amounts are expressed in millions of HRK)

34. CREDIT RISK (CONTINUED)

Guarantees
The Bank 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.

Other
The Bank 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.).

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

	Note	31/12/2020	31/12/2019
Current account with the Croatian National Bank	13	2,180	3,828
Obligatory reserve with the Croatian National Bank	13	1,906	2,486
Treasury bills of the Ministry of Finance	17	1,373	2,348
Bonds of the Ministry of Finance	17	3,549	2,959
Bonds of the Ministry of Finance	18	17	16
Loans and receivables from customers	16	2,702	1,494
Total asset:		**11,727**	**13,131**
Other borrowed funds	27	977	1,110
Total liabilities:		**977**	**1,110**

(All amounts are expressed in millions of HRK)

34. CREDIT RISK (CONTINUED)

Concentration of assets and liabilities* with respect to territorial division

As at 31 December 2020	Croatia	Hungary	Other	Total
Assets	39,167	550	3,057	42,774
Contingent liabilities	9,326	251	37	9,614
	48,493	**801**	**3,094**	**52,388**

As at 31 December 2019	Croatia	Hungary	Other	Total
Assets	38,735	988	1,775	41,498
Contingent liabilities	7,719	17	45	7,781
	46,454	**1,005**	**1,820**	**49,279**

*includes net exposure (gross exposure net of loss allowance for expected credit loss)

35. MARKET RISK

MARKET RISK IN TRADING BOOK

Market risk is the effect of external influences on the value of positions in the Bank'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 Bank.

The market risks in the Trading Book to which the Bank 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 banking 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 Bank Nyrt. The limits are revised and approved on an annual basis, the amount of which is determined by the Bank's business policy and market conditions, as well as by the policy of the OTP Bank Nyrt as a whole.

The Asset and Liability Management Department is responsible for managing the Bank's remaining foreign exchange position, which is the difference between the Bank'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 Bank 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
2020				
Interest rate risk				
FI	0.00	0.13	0.75	0.12
MM	0.1	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**
2019				
Interest rate risk	0.04	0.23	1.17	0.33
Curreny risk	0.00	0.10	0.58	0.01
Total VaR	**0.04**	**0.27**	**0.96**	**0.33**

(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 Bank'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. Net 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
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
2019				
EUR	0.1	47.1	153.2	0.1
USD	0.0	0.2	1.3	0.3
CHF	0.0	0.1	0.7	0.0
Global foreign exchange position	1.4	48.2	155.4	2.9

The Asset and Liability Management Department is responsible for managing the Bank's remaining foreign exchange position, which is the difference between the Bank'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 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	282	51	115	-	448
Loans and receivables from customers	15,189	293	14,130	10	29,622
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	-	-	313	-	313
Property and equipment	-	-	335	-	335
Right-of-use assets	-	-	174	-	174
Investment property	-	-	63	-	63
Intangible assets	-	-	147	-	147
Deferred tax assets	-	-	75	-	75
Income tax receivables	-	-	10	-	10
Other assets	1	-	206	-	207
Non-current assets held for sale	-	-	84	-	84
Total assets	**18,430**	**1,297**	**23,995**	**1,404**	**45,126**
Liabilities					
Amounts due to other banks	2,045	246	225	4	2,520
Amounts due to customers	15,801	1,907	15,710	652	34,070
Other borrowed funds	510	-	469	-	979
Financial liabilities at fair value through profit or loss	26	-	96	-	122
Provisions	29	4	453	-	486
Deferred tax liabilities	-	-	-	-	-
Income tax liability	-	-	-	-	-
Lease liabilities classified under IFRS 16	-	-	180	-	180
Other Liabilities	21	-	327	4	352
Total Liabilities	**18,432**	**2,157**	**17,460**	**660**	**38,709**
Net foreign exchange position	**(2)**	**(860)**	**6,535**	**744**	**6,417**

* 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 2019					
Assets					
Cash and balances with the Croatian National Bank	273	29	6,936	697	7,935
Loans and receivables from other banks	448	85	3	315	851
Financial assets at fair value through profit or loss	264	32	124	-	420
Loans and receivables from customers	14,708	258	11,992	13	26,971
Equity securities at fair value through other comprehensive income	-	105	6	-	111
Debt securities at fair value through other comprehensive income	1,644	491	3,959	-	6,094
Investment at amortized cost	-	68	169	-	237
Investment in subsidiaries	-	-	365	-	365
Property and equipment	-	-	394	-	394
Right-of-use assets	-	-	175	-	175
Investment property	-	-	63	-	63
Intangible assets	-	-	182	-	182
Deferred tax assets	-	-	29	-	29
Other assets	2	-	134	-	136
Non-current assets held for sale	-	-	1	-	1
Total assets	**17,339**	**1,068**	**24,532**	**1,025**	**43,964**
Liabilities					
Amounts due to other banks	1,698	6	102	3	1,809
Amounts due to customers	15,539	2,038	15,357	617	33,551
Other borrowed funds	577	1	534	-	1,112
Financial liabilities at fair value through profit or loss	17	-	14	-	31
Provisions	15	-	469	-	484
Deferred tax liabilities	-	-	-	-	-
Current liability for income tax	-	-	145	-	145
Lease liabilities classified under IFRS 16	-	-	179	-	179
Other Liabilities	231	-	225	-	456
Total Liabilities	**18,077**	**2,045**	**17,025**	**620**	**37,767**
Net foreign exchange position	**(738)**	**(977)**	**7,507**	**405**	**6,197**

* currency clause in the stated currency is included

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

31/12/2019	**1W-1Y**	**1Y-10Y**	**10y-15Y**	**Total**
EUR	21.19	37.60	(0.08)	58.71
USD	(69.50)	38.73	0.00	(30.77)
HRK	45.25	0.53	0.00	45.78
Other	0.00	0.00	0.00	0.00
Total	**(3.06)**	**76.86**	**(0.08)**	**73.72**

35. MARKET RISK (CONTINUED)

INTEREST RATE RISK IN BANKING BOOK

Interest rate sensitivity of assets and liabilities

Interest rate risk represents the exposure of Bank to unexpected or unfavorable 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 Bank's assets, liabilities and off-balance sheet instruments.

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

Bank 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.

- 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.

- Effective repricing table
  It is a gap analysis for the determination of gap risk (repricing risk), yield curve risk, basis risk and option risk, as it also takes into account the effect of behavioural assumptions.

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

(All amounts are expressed in millions of HRK)

35. MARKET RISK (CONTINUED)

INTEREST RATE RISK IN BANKING BOOK (CONTINUED)

Interest rate risk management as required by the Croatian National Bank

Pursuant to the Decision on managing banking-book interest rate risk, the Bank has the obligation to measure and evaluate the negative impact of interest rate risk in the banking book on the net interest income or gains and economic value in the banking book. For the purpose of Croatian National Bank reporting, and related to the aspect of impact on the economic value in the banking book, the Bank 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.

According to CNB regulations, ratio of change of economic value of the banking book and regulatory capital must not exceed 20%, while the internal threshold is set at 10% of regulatory capital.

An overview of the Bank's sensitivity to interest rate fluctuations measured in accordance with regulatory reporting requirements 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)

Interest rate risk management as required by the Croatian National Bank (continued)

An overview of the Bank's sensitivity to interest rate fluctuations measured in accordance with the statutory reporting requirements as at 31 December 2019 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	3,304	2,154	1,410	(401)	114	(37)	6,544
Gap in EUR	(2,230)	1,023	1,060	(148)	(302)	2	(595)
Gap in other currencies	(988)	134	141	2	1	2	(708)
Total	**86**	**3,311**	**2,611**	**(547)**	**(187)**	**(33)**	**5,241**
Net weighted position by currency_HRK				195			
Net weighted position by currency_EUR				60			
Net weighted position by currency _other currencies				(3)			
Change in economic value				**252**			
Regulatory capital				5,838			
(Change in economic value / Regulatory capital)*100				**4,3%**			

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

	Interest rate 2020	Interest rate 2019
	%	%
Cash and balances with the Croatian National Bank	0.0	0.0
Loans and receivables from other banks	0.0	0.1
Loans and receivables from customers	3.6	4.1
Debt securities at fair value through other comprehensive income	1.4	1.4
Investments at amortized cost	4.3	4.0
Amounts due to other banks	(0.2)	(0.2)
Amounts due to customers	0.1	0.1
Other borrowed funds	1.3	1.4

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 Bank's wider asset and liability management policy. To ensure a satisfactory level of liquidity reserves, the Bank consistently implements the cash flow monitoring and planning process and anticipates future liquidity needs taking into account changes in the Bank's economic, legislative and other circumstances. This planning involves identifying known, expected and potential cash outflows and developing strategies to meet the Bank's liquidity requirements in certain currencies. It is important to emphasize that the Bank, 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.

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.

The operational management of the foreign exchange liquidity of the OTP Bank in Croatia is centralized and is managed according to the concept of the Liquidity pool of the Parent Company. Under this framework, OTP Bank Nyrt Hungary retains a liquidity buffer in case of a liquidity shock (deposit or business-related shock) and for financing the regular operations of the Bank. Unlike foreign currency liquidity, the operational management of the HRK liquidity of the Bank is the responsibility of each individual member company.

In order to ensure liquidity stress resilience, the Bank 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 Bank'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 2020 and 31 December 2019 is indicated in the table below:

	31/12/2020	31/12/2019
Giro account	2,128	3,823
Mandatory maintenance of the HRK mandatory reserve with the CNB	(817)	(1,066)
Foreign currency settlement account with the Croatian National Bank	53	4
Mandatory maintenance of the foreign currency mandatory reserve with the CNB	(8)	(11)
Liquid assets on accounts with the Croatian National Bank	**1,356**	**2,750**
Current accounts with foreign banks	2,583	858
Current accounts with domestic banks	132	39
Short-term placements with other banks	314	853
Liquid assets placed with banks	**3,029**	**1,750**
Bonds of the Republic of Croatia	3,549	2,959
Foreign country bonds	603	788
Treasury bills of the Republic of Croatia	1,373	2,347
Total liquid assets placed in securities measured at fair value through other comprehensive income	**5,525**	**6,094**
Total liquid assets	**9,910**	**10,594**

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 2020 and 31 December 2019 is indicated in the tables below:

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**

31/12/2019

	Total	Up to 1 year	1 to 3 years	3 to 5 years	Over 5 years
Bonds of the Republic of Croatia	2,959	24	1,828	465	642
Foreign government bonds	787	246	85	456	-
Treasury bills of the Republic of Croatia	2,348	2,348	-	-	-
Liquid assets placed in securities	**6,094**	**2,618**	**1,913**	**921**	**642**

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 2020, the Bank had no impaired asset burden other than the mandatory reserve of HRK 1,906 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

The Bank 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 2020, the mandatory reserve rate was 9% of the prescribed basis which represents a decrease of 3% compared to 31 December 2019. Based on the CNB's decision of 23 March 2020, the reserve rate was reduced to 9%.
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 FitchRatings 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 to 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 2020 and 31 December 2019 for the Bank is indicated in the table below:

	31/12/2020	**31/12/2019**
Short-term foreign currency claims	**4,680**	**3,586**
Foreign currency liabilities	**20,661**	**19,881**
Minimum required foreign currency claims (%)	**22.65%**	**18.04%**
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 2020 and 31 December 2019 for the Bank is indicated in the table below:

	31/12/2020		31/12/2019	
	Amount	Weighted amount	Amount	Weighted amount
Liquidity buffer (HQLA)	**7,634**	**7,607**	**9,730**	**9,704**
Cash and reserves with the Central Bank	1,924	1,924	3,385	3,385
Total 1st and 2nd degree assets	5,710	5,683	6,345	6,319
Total net liquidity outflows	**37,022**	**3,620**	**37,174**	**4,915**
Inflows	**3,872**	**3,356**	**2,606**	**1,995**
Cash receivables from non-financial clients	955	508	1,142	605
Cash receivables from financial clients	2,734	2,734	1,355	1,355
Other inflows	183	114	109	35
Outflows	**40,895**	**6,977**	**39,780**	**6,910**
Retail deposits	26,389	2,124	25,937	2,112
Non-operational deposits	7,459	3,988	7,236	3,912
Other liabilities	7,047	865	6,607	886
Liquidity coverage ratio (%)_LCR	**210%**		**197%**	
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 575/2013 of the European Parliament and the Delegated Commission Regulation (EU) No. 2015/61, prescribe 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 2020 and 31 December 2019 for the Bank is indicated in the table below:

	31/12/2020	**31/12/2019**
Items providing stable funding sources	**34,417**	**33,778**
Items requiring stable funding sources	**26,403**	**23,098**
Net stable funding ratio requirements (%)_NSFR	**130%**	**146%**
Regulatory limit	100%	100%
Internal minimum	110%	110%
Internal optimum	120%	120%

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.

(All amounts are expressed in millions of HRK)

36. LIQUIDITY RISK (CONTINUED)

The table below represent the maturity analysis of discounted assets and libilities 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	448	-	-	-	-	-	448
Loans and receivables from customers	2,081	1,115	3,419	5,783	17,224	-	29,622
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
Investments in subsidiaries	-	-	-	-	-	313	313
Property and equipment	-	-	-	-	-	335	335
Right-of-use assets	3	8	22	71	70	-	174
Investment property	-	-	-	-	-	63	63
Intangible assets	-	-	-	-	-	147	147
Deferred tax assets	-	-	-	-	-	75	75
Income tax receivables	-	-	10	-	-	-	10
Other Assets	207	-	-	-	-	-	207
Non-current assets held for sale	-	-	84	-	-	-	84
Total assets	**10,538**	**1,199**	**5,453**	**7,511**	**19,405**	**1,020**	**45,126**

(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	27,685	1,475	4,088	590	232	-	34,070
Other borrowed funds	8	45	167	277	482	-	979
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	272	486
Income tax payable	-	-	-	-	-	-	-
Lease liabilities classified under IFRS 16	2	9	22	71	76	-	180
Other liabilities	352	-	-	-	-	-	352
Total liabilities	**28,305**	**3,903**	**4,381**	**1,012**	**836**	**272**	**38,709**
Net liquidity gap	**(17,767)**	**(2,704)**	**1,072**	**6,499**	**18,569**	**748**	**6,417**

(All amounts are expressed in millions of HRK)

36. LIQUIDITY RISK (CONTINUED)

The table below represents the maturity analysis of discounted assets and libilities as at 31 December 2019.

	Up to 1 month	1 to 3 months	3 months to 1 year	1 to 3 years	Over 3 years	Undefined	Total
As at 31 December 2019							
Assets							
Cash and balances with Croatian National Bank	7,935	-	-	-	-	-	7,935
Loans and receivables from banks	851	-	-	-	-	-	851
Financial assets at fair value through profit or loss	420	-	-	-	-	-	420
Loans and receivables from customers	2,831	1,041	4,108	5,623	13,368		26,971
Equity instruments at fair value through other comprehensive income	-	-	-	-	-	111	111
Debt securities at fair value through other comprehensive income	247	281	2,090	1,071	2,405	-	6,094
Financial asset measured at amortised cost	0	2	1	78	156	-	237
Investments in subsidiaries	-	-	-	-	-	365	365
Property and equipment	-	-	-	-	-	394	394
Right-of-use assets	3	9	23	70	70	-	175
Investment property	-	-	-	-	-	63	63
Intangible assets	-	-	-	-	-	182	182
Deferred tax assets	-	-	-	-	-	29	29
Income tax receivables	-	-	-	-	-	-	-
Other Assets	136	-	-	-	-	-	136
Non-current assets held for sale	-	-	1	-	-	-	1
Total assets	**12,423**	**1,333**	**6,223**	**6,842**	**15,999**	**1,144**	**43,964**

(All amounts are expressed in millions of HRK)

36. LIQUIDITY RISK (CONTINUED)

As at 31 December 2019	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	643	1,116	50	-	-	-	1,809
Amounts due to customers	26,154	1,742	4,621	637	397	-	33,551
Other borrowed funds	7	49	175	335	546	-	1,112
Financial liabilities at fair value through profit or loss	8	2	4	-	17	-	31
Provisions for liabilities and charges	12	38	92	91	21	230	484
Income tax payable	-	-	145	-	-	-	145
Lease liabilities classified under IFRS 16	2	9	21	72	75	-	179
Other liabilities	456	-	-	-	-	-	456
Total liabilities	**27,282**	**2,956**	**5,108**	**1,135**	**1,056**	**230**	**37,767**
Net liquidity gap	**(14,859)**	**(1,623)**	**1,115**	**5,707**	**14,943**	**914**	**6,197**

(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 2020						
Liabilities						
Amounts due to other banks	240	2,280	-	-	-	2,520
Amounts due to customers	27,685	1,475	4,091	593	235	34,079
Other borrowed funds	8	48	176	291	504	1,027
Financial liabilities at fair value through profit or loss	6	54	34	2	26	122
Other liabilities	352	--	-	-	-	352
Total Liabilities	**28,291**	**3,857**	**4,301**	**886**	**765**	**38,100**
As at 31 December 2019						
Liabilities						
Amounts due to other banks	643	1,116	55	-	-	1,814
Amounts due to customers	26,155	1,744	4,633	644	409	33,585
Other borrowed funds	7	52	183	350	579	1,171
Financial liabilities at fair value through profit or loss	8	2	4	-	17	31
Other liabilities	456	-	-	-	-	456
Total Liabilities	**27,269**	**2,914**	**4,875**	**994**	**1,005**	**37,057**

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

37. 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 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.

COVID-19 pandemic marked 2020. As a response to the pandemic, the Bank also implemented a separate Business Continuity Plan for the pandemic scenario and activated the Bank's Crisis Staff to effectively manage the crisis. Circumstances and business models have changed in line with the requirements imposed by the COVID-19 pandemic. The “remote work” model has become the primary recovery scenario and a regular way of working. Measures have been implemented to mitigate the risks posed by the COVID-19 pandemic. 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.

(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 Bank 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; close family members of the Management Board members; and entities controlled, jointly controlled or significantly influenced by key management personnel and their close family members, in accordance with the definition contained in International Accounting Standard 24 *"Related Party Disclosures"* (IAS 24).

As at 31 December 2020, the Bank holds shares in the following open-end investment funds managed by OTP Invest d.o.o: OTP balanced fund, OTP index fund, OTP e-start fund, OTP global fund, OTP absolute fund, OTP Short-term bond fund and OTP Start fund in the total amount of HRK 132 million (2019: HRK 108 million).

At the end of 2020 and during 2020, balances and the underlying transactions with related parties, excluding investments in subsidiaries (Notes 19 and 24), were as follows:

	31/12/2020		31/12/2019	
	Receivables	**Liabilities**	**Receivables**	**Liabilities**
OTP Bank Nyrt Hungary	70	2,411	497	1,639
OTP Bank Romania S.A.	-	-	2	-
SKB Banka	13	19	-	12
OTP Nekretnine d.o.o.	1	21	85	104
OTP Invest d.o.o.	-	4	-	2
OTP Leasing d.d.	68	63	54	170
Cresco d.o.o.	6	1	5	1
SB Leasing d.o.o. in liquidation	10	8	39	44
OTP Osiguranje d.d.	1	53	1	35
Zelena nekretnina	-	25	-	13
Key Management of the Bank and subsidiaries*	1	1	2	2
	170	**2,606**	**685**	**2,022**

* Included in key management personnel are Management Board members of the Bank and Procuratior of the Bank. Amounts include receivables and liabilities for loans, deposits and interest.

(All amounts are expressed in millions of HRK)

38. RELATED PARTY TRANSACTIONS (CONTINUED)

	2020		2019	
	Income	**Expenses*******	**Income**	**Expenses**
OTP Bank Nyrt Hungary	83	163	116	115
OTP Nekretnine d.o.o.	-	17	-	6
OTP Invest d.o.o.	-	-	-	7
Aventin d.o.o. in liquidation*	-	-	11	6
OTP Leasing d.d.**	2	1	3	2
SB Zgrada d.o.o.***	-	-	-	3
SB Leasing d.o.o. in liquidation**	1	-	3	-
OTP Osiguranje d.d.	6	3	8	4
DSK Bank Bugarska	8	-	-	-
Other related parties in Hungary	-	2	-	1
Key Management of the Bank and subsidiaries****	-	-	-	-
	100	**186**	**141**	**144**

* The company has been in liquidation since 25 October 2019, in 2020, bankruptcy proceedings were opened and closed, and on 14 September the company was deleted from the court register
** The Bank acquired a majority interest on 1 April 2019, and its revenues and expenses are presented from that date until the end of 2019.
*** The company was merged with OTP Real Estate on 23 December 2019 and its revenues and expenses are presented from January 1 to 22 December 2019.
**** Income and expenses with Key Management of the Bank and subsidiaries include income and expenses for loans, deposits and interest.
*****The costs of OTP Nekretnine and OTP Leasing include invoiced costs for assets managed under IFRS 16

Remuneration paid to key management of the Bank for 2020 amounted to HRK 11 million (2019: HRK 11 million) and are comprised of short-term benefits in amount of HRK 9 million (2019: HRK 9 million) and long-term benefits in cash in amount of HRK 2 million (2019: HRK 2 million).

As at 31 December 2020 the amount of deferred compensation liabilities to key management from previous years is HRK 7 million (2019: HRK 6 million). Included in key management personnel are Management Board members of the Bank and Procuratior of the Bank.

Remuneration paid to Supervisory Board members for 2020 amounted to HRK 1 million (2019: HRK 1 million).

(All amounts are expressed in millions of HRK)

39. FUNDS MANAGED ON BEHALF OF THIRD PARTIES

The Bank manages funds on behalf of third parties, which consist mainly of loans provided by one legal person to another through the Bank as agent. These assets are accounted for separately from those of the Bank, and the Bank has no liability in connection with these transactions. The Bank charges a fee for these services.

At 31 December 2020, funds managed by the Bank on behalf of third parties amounted to HRK 180 million (2019: HRK 178 million). As at 31 December 2020, the total portfolio of securities of domestic and foreign clients the Bank has under custody, including domestic pension and investment funds, amounted to HRK 68,093 million (2019: HRK 66,545 million), of which HRK 4,624 million refers to Bank's subsidiaries (2019: HRK 4,707).

	31/12/2020	**31/12/2019**
OTP Bank Nyrt Hungary	3,994	3,994
OTP Invest d.o.o.	527	605
OTP banka Srbija	12	-
OTP Osiguranje d.d.	91	108
	4,624	**4,707**

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)

2020

	Level 1	Level 2	Level 3	Total
Financial assets at fair value through profit or loss (Note 15)				
Units in open-end investment funds	-	132	-	132
Bonds of Republic of Croatia (listed)	95	-	-	95
VISA International preferred stock	-	-	37	37
Currency swaps and forward contracts	-	44	-	44
Interest rate swaps	-	26	-	26
Other securities at fair value through profit or loss	-	-	92	92
Loans	-	-	22	22
	95	**202**	**151**	**448**
Financial assets at fair value through other comprehensive income (Note 17a and 17b)				
Listed investments				
Debt securities of Republic of Croatia	3,550	-	-	3,550
Debt securities of Foreign countries	603	-	-	603
Equity securities	39	-	44	83
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	**1,575**	**199**	**6,061**
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	**1,453**	**199**	**5,939**

(All amounts are expressed in millions of HRK)

40. FAIR VALUE OF FINANCIAL ASSETS AND LIABILITIES (CONTINUED)

2019

	Level 1	Level 2	Level 3	Total
Financial assets at fair value through profit or loss (Note 15)				
Units in open-end investment funds	-	108	-	108
Bonds of Republic of Croatia (listed)	175	-	-	175
Currency swaps and forward contracts	-	10	-	10
Interest rate swaps	-	12	-	12
Other securities measured at fair value through profit or loss	-	-	104	104
Loans	-	-	11	11
	175	**130**	**115**	**420**
Financial assets at fair value through other comprehensive income (Note 17a and 17b)				
Listed investments				
Debt securities of Republic of Croatia	2,959	-	-	2,959
Debt securities of Foreign countries	787	-	-	787
Equity securities	39	-	69	108
Unlisted investments				
Treasury bills of Republic of Croatia	1,042	1,306	-	2,348
Equity securities	-	-	3	3
	4,827	**1,306**	**72**	**6,205**
	5,002	**1,436**	**187**	**6,625**
Financial liabilities at fair value through profit or loss				
Currency swaps and forward contracts	-	14	-	14
Interest rate swaps	-	17	-	17
	-	**31**	**-**	**31**
	5,002	**1,405**	**187**	**6,594**

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 assets / financial liabilities	Fair value as at 2020	Fair value as at 2019	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 15)	Which are held for trading: Assets: 132	Which are held for trading: Assets: 108	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 15)	Assets: 44 Liabilities: 96	Assets: 10 Liabilities: 14	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 15)	<u>Held for trading</u> Assets: 26 Liabilities: 20 <u>Fair value hedge:</u> Assets: - Liabilities: 6 <u>Cash flow hedge:</u> Assets: - Liabilities: -	<u>Held for trading</u> Assets: 12 Liabilities: - <u>Fair value hedge:</u> Assets: - Liabilities: 4 <u>Cash flow hedge:</u> Assets: - Liabilities: 13	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 15 and Note 17)	Debt securities held for trading and are quoted in Croatia - issued by the Republic of Croatia: 95	Debt securities held for trading and are quoted in Croatia - issued by the Republic of Croatia: 175	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: 3,550 - issued by foreign countries: 603	Debt securities that are valued through other comprehensive income - issued by the Republic of Croatia: 2,959 - issued by foreign countries: 787	Level 1	Prices quoted on an active market.	Not applicable	Not applicable
5) Equity securities (Note 17)	Listed in Croatia - shares: - Listed abroad - shares: 39	Listed in Croatia - shares: 2 Listed abroad - shares: 37	Level 1	Prices quoted on an active market.	Not applicable	Not applicable
	Listed in Croatia - shares: 3 Listed abroad: - shares: 41	Listed in Croatia - shares: - Listed abroad: - shares: 69	Level 3	Prices quoted on an active market. Quoted ordinary share prices adjusted for conversion factor and estimated risk	Not applicable	Not applicable
	Unlisted: - shares: 4	Unlisted: - shares: 3	Level 3	At cost subject to impairment testing	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 assets / financial liabilities	Fair value as at 2020	Fair value as at 2019	Fair value level	Valuation method and key inputs	Significant unobservable inputs	Unobservable inputs in relation to fair value
6) Debt securities that are unlisted (Note 17)	Treasury bills issued by the Republic of Croatia: - Treasury bills issued by the Republic of Croatia: 1,373	Treasury bills issued by the Republic of Croatia: 1,042 Treasury bills issued by the Republic of Croatia: 1,306	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: 22	Loans: 11	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 at 1 January 2019	62
Total gains and losses recognized in other comprehensive income	21
Balance at 31 December 2019	**83**
Balance at 1 January 2020	**83**
Total gains and losses recognized in other comprehensive income	(28)
Total gains and losses recognized in profit and loss	11
Balance at 31 December 2020	**66**

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 at 31/12/2020

			Fair value			
	Note	Carrying amount	Level 1	Level 2	Level 3	Total
Financial asset						
Loans and receivables from banks	14	334	-	-	334	**334**
Loans and receivables from customers	16	29,622	-	-	29,942	**29,942**
Investments at amortization cost	18	236	-	-	245	**245**
Financial liabilities						
Liabilities to other banks	25	2,520	-	-	2,520	**2,520**
Liabilities to customers	26	34,070	-	-	34,069	**34,069**

Balance at 31/12/2019

			Fair value			
	Note	Carrying amount	Level 1	Level 2	Level 3	Total
Financial asset						
Loans and receivables from banks	14	851	-	-	855	**855**
Loans and receivables from customers	16	26,971	-	-	27,270	**27,270**
Investments at amortization cost	18	237	-	249	4	**253**
Financial liabilities						
Liabilities to other banks	25	1,809	-	-	1,809	**1,809**
Liabilities to customers	26	33,551	-	-	33,560	**33,560**

41. SUBSEQUENT EVENTS

Changes in the Bank's Management Board

As of 15 March 2021 the Bank received approval from the Croatian National Bank („CNB") regarding appointment of Mr.Ivan Šimičević as a member of the Management Board of OTP banka d.d.. Until 15 March 2021, Mr. Šimičević was appointed as Procurator of the Management Board, and as of recepit of CNB's approval he is appointed as a member of the Management Board in term of office of three years.

COVID-19 pandemic

At the date of this Annual Report, the COVID-19 pandemic is still ongoing, with uncertain effects on the overall global and local economy.

The Bank continuously follow the situation and assesses all potential impacts on the financial position, financial result and other key elements of the Bank's everyday business.

The most important priority of the Bank is business continuity and maximum protection of the Bank's clients and employees. The stability of the Bank's liquidity and capital position makes the Bank ready to support the recovery of its clients and support them in realizing their development potentials and new business opportunities.

CNB's Decision on a temporary restriction of distributions (OG 4/2021)

The Decision on the temporary restriction of distributions was published on 14 January 2021 with effective date on 15 January 2021.

This Decision governs the temporary restriction of distributions with the aim of enhancing financial system resilience and maintaining financial stability in the Republic of Croatia. The provision of Decision shall apply to all credit institutions in the Republic of Croatia.

Credit institutions temporarily, until 31 December 2021, shall not:

1) make a dividend distribution or create an obligation to make a dividend distribution;
2) redeem or purchase own shares or other capital instruments of the credit institution referred to in Article 26, paragraph (1), item (a) of Regulation (EU) No 575/2013 of the European Parliament and of the Council of 26 June 2013 on prudential requirements for credit institutions and investment firms and amending Regulation (EU) No 648/2012 (OJ L 176, 27. 6. 2013, hereinafter: Regulation (EU) No 575/2013) as last amended by Regulation (EU) 2020/873 of the European Parliament and of the Council of 24 June 2020 amending Regulations (EU) No 575/2013 and (EU) 2019/876 as regards certain adjustments in response to the COVID-19 pandemic (OJ L 204, 26. 6. 2020);
3) make a repayment of the amounts paid up in connection with capital instruments referred to in Article 26, paragraph (1), item (a) of Regulation (EU) No 575/2013;
4) make a distribution of items referred to in Article 26, paragraph (1), items (b) to (f) of Regulation (EU) No 575/2013;
5) award variable remuneration to identified staff.

The Croatian National Bank will monitor closely the health and economic developments and will, at the latest until 30 September 2021, review if the grounds that prompted the adoption of this decision still exist and it may accordingly revoke the Decision before its expiry. In accordance with the CNB's Decision mentioned earlier, the Bank issued internal Decision on a temporary restriction of distributions applicable to all items to which the CNB Decision applies during the period for which the CNB Decision is in force.

Decision of the Constitutional Court as of 3 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. Consequently, this means that the judgment of the Supreme Court of the Republic of Croatia, as well as the judgments of the lower courts - the High Commercial Court and the Commercial Court in Zagreb, remain unchanged and in force in the dispute in question.

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 clients) or increase in liabilities on bank's side. The Bank is of the opinion that the decision of the Constitutional Court dose not affect the positions of the parties involved in individual disputes of consumers against banks.

Purchase of shares in a company

In February 2021, the Bank conducted agreement for purchase of majority shares in consulting company. The transaction will be finalized upon receipt of the regulatory approval from the Croatian National Bank.

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 42/18 and 122/20 ("Decision").

In the following tables, the financial statements are presented in accordance with the aforementioned Decision.

Statement of profit or loss – unaudited

In millions HRK	In accrodance with Croatian National Bank decision 2020	Accounting standards for banks in Croatia 2020	Difference 2020	In accrodance with Croatian National Bank decision 2019	Accounting standards for banks in Croatia 2019	Difference 2019
Interest income	1.239	1.198	41	1.277	1.265	12
(Interest expense)	(61)	(45)	(16)	(78)	(73)	(5)
(Expenses on share capital repayable on demand)	-	-	-	-	-	-
Dividend income	1	-	1	1	1	-
Fee and commission income	426	426	-	493	493	-
(Fee and commission expense)	(97)	(97)	-	(115)	(115)	-
Gains or (-) losses on derecognition of financial assets and liabilities not measured at fair value through profit or loss, net	8	8	-	-	-	-
Gains or (-) losses on financial assets and liabilities held for trading, net	(2)	20	(22)	224	217	7
Gains or (-) losses on non-trading financial assets mandatory at fair value through profit or loss, net	69	66	3	(177)	(169)	(8)
Gains or (-) losses on financial assets and liabilities designated at fair value through profit or loss, net	-	-	-	-	-	-
Gains or (-) losses from hedge accounting, net	(1)	-	(1)	(2)	-	(2)
Exchange differences [gain or (-) loss], net	125	128	(3)	(23)	(23)	-
Gains or (-) losses on derecognition of non-financial assets, net	-	-	-	-	-	-
Other operating income	34	36	(2)	41	46	(5)
(Other operating expenses)	(17)	-	(17)	(111)	-	(111)
Total operating income, net	**1.724**	**1,740**	**(16)**	**1.530**	**1.644**	**(111)**
(Administrative expenses)	(698)	(789)	91	(759)	(867)	108
(Cash contributions to resolution committees and deposit insurance schemes)	(73)	-	(73)	-	-	-
(Depreciation)	(159)	(159)	-	(171)	(171)	-
Modification gains or (-) losses, net	-	-	-	-	-	-
(Provisions or (-) reversal of provisions)	(46)	(484)	438	(47)	121	(168)
(Impairment or (-) reversal of impairment on financial assets not measured at fair value through profit or loss)	(436)	-	(436)	171	-	171
(Impairment or (-) reversal of impairment of investments in subsidiaries, joint ventures and associates)	-	-	-	(8)	(8)	-
(Impairment or (-) reversal of impairment on non-financial assets)	(4)	-	(4)	(2)	(2)	-
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	**308**	**308**	-	**714**	**714**	-
(Tax expense or (-) income related to profit or loss from continuing operations)	(57)	(57)	-	(135)	(135)	-
Profit or (–) loss after tax from continuing operations	**251**	**251**	-	**579**	**579**	-
Profit or (-) loss after tax from discontinued operations	-	-	-	-	-	-
Profit or (-) loss before tax from discontinued operations	-	-	-	-	-	-
(Tax expense or (-) income related to discontinued operations)	-	-	-	-	-	-
Profit or (-) loss for the year	**251**	**251**	-	**579**	**579**	-
Attributable to minority interest (non-controlling interests)	-	-	-	-	-	-
Attributable to owners of the parent	251	251	-	579	579	-

Statement of other comprehensive income – unaudited

In millions HRK	In accrodance with Croatian National Bank decision 2020	Accounting standards for banks in Croatia 2020	Difference 2020	In accrodance with Croatian Nationaln Bank decision 2019	Accounting standards for banks in Croatia 2019	Difference 2019
Profit or (–) loss for the year	**251**	**251**	**-**	**579**	**579**	**-**
Other comprehensive income (3. + 15.)	**(39)**	**(39)**	**-**	**102**	**102**	**-**
Items not to be reclassified to profit or loss (from 4. to 10. + 13. + 14.)	(24)	(24)	-	28	28	-
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	(30)	(30)	-	34	34	-
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	6	6	-	(6)	(6)	-
Items that may be reclassified to profit or loss (from 16. to 23.)	(15)	(15)	-	74	74	-
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	(20)	(20)	-	92	92	-
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	-	(18)	(18)	-
Total comprehensive income for the year (1. + 2.; 25. + 26.)	**212**	**212**	**-**	**681**	**681**	**-**
Attributable to minority interest (non-controlling interest)	-	-	-	-	-	-
Attributable to owners of the parent	**212**	**212**	**-**	**681**	**681**	**-**

Unaudited presentation of the reconciliation of items presented in the Statement of profit or loss and Statement of other comprehensive income presented as part of the 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 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 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 Annual Report these expenses are presented in the item other operating expenses.

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, and realized profit from equity instruments, which must be measured at fair value through profit or loss is shown in the Annual Report within the position Net (losses) / gains from valuation of financial assets measured through profit or loss.

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 Annual Report they are presented in the item Gains or losses on financial assets and liabilities held for trading.

Gains / (losses) from hedge accounting are presented as separate position in accordance with the Decision, while in the Annual Report they are presented under the position Net (losses) / gains from valuation of financial assets measured through profit or loss.

In the 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 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 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 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 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 Annual Report they are included in te position other operating costs.

In accordance with the Decision provisions for off-balance sheet liabilities and provisions for litigations are presented as part of the Provisions item while in the Annual Report the provisions for impairment of financial instruments are presented in that position as well.

Impairment of financial instruments in accordance with the Decision is presented in a separate position called Impairment or Reversal of impairment loss on financial assets not measured at fair value through profit or loss.

(All amounts are expressed in millions of HRK)

Statement of financial position – unaudited

Assets	In accordance with Croatian National Bank decision 2020	Accounting standards for banks in Croatia 2020	Difference 2020	In accordance with Croatian National Bank decision 2019	Accounting standards for banks in Croatia 2019	Difference 2019
Cash, cash balances at central banks and other demand deposits	**5,559**	**7,799**	**(2,240)**	**5,450**	**8,786**	**(3,336)**
Cash on hand	663	663	-	725	725	-
Cash balances at central banks	2,180	4,087	(1,906)	3,828	6,313	(2,485)
Other demand deposits	2,716	3,049	(334)	897	1,748	(851)
Financial assets held for trading	**165**	**165**	**-**	**196**	**197**	**(1)**
Derivatives	70	70	-	21	22	(1)
Equity instruments	-	-	-	-	-	-
Debt securities	95	95	-	175	175	-
Loans and advances	-	-	-	-	-	-
Non-trading financial assets mandatory at fair value through profit or loss	**283**	**283**	**-**	**223**	**223**	**-**
Equity instruments	186	186	-	133	133	-
Debt securities	74	74	-	79	79	-
Loans and advances	22	22	-	11	11	-
Financial assets designated at fair value through profit or loss	**-**	**-**	**-**	**-**	**-**	**-**
Debt securities	-	-	-	-	-	-
Loans and advances	-	-	-	-	-	-
Financial assets at fair value through other comprehensive income	**5,613**	**5,613**	**-**	**6,205**	**6,205**	**-**
Equity instruments	87	87	-	111	111	-
Debt securities	5,526	5,526	-	6,094	6,094	-
Loans and advances	-	-	-	-	-	-
Financial assets at amortised cost	**32,345**	**29,858**	**2,487**	**30,733**	**27,208**	**3,525**
Debt securities	236	236	-	237	237	-
Loans and advances	32,109	29,622	2,487	30,496	26,971	3,525
Derivatives – Hedge accounting	-	-	-	-	-	-
Fair value changes of the hedged items in portfolio hedge of interest rate risk	-	-	-	-	-	-
Investments in subsidiaries, joint ventures and associates	368	313	55	365	365	-
Tangible assets	597	572	25	632	632	-
Intangible assets	147	147	-	182	182	-
Tax assets	78	85	(7)	29	29	-
Other assets	24	207	(183)	19	136	(117)
Non-current assets and disposal groups classified as held for sale	5	84	(79)	7	1	6
Total assets	**45,184**	**45,126**	**58**	**44,041**	**43,964**	**77**

(All amounts are expressed in millions of HRK)

Statement of financial position – unaudited (continued)

Liabilities	In accordance with Croatian National Bank decision 2020	Accounting standards for banks in Croatia 2020	Difference 2020	In accordance with Croatian National Bank decision 2019	Accounting standards for banks in Croatia 2019	Difference 2019
Financial liabilities held for trading	**114**	**122**	**(8)**	**26**	**31**	**(5)**
Derivatives	114	122	(8)	26	31	(5)
Short positions	-	-	-	-	-	-
Deposits	-	-	-	-	-	-
Debt securities issued	-	-	-	-	-	-
Other financial liabilities	-	-	-	-	-	-
Financial liabilities designated at fair value through profit or loss	**-**	**-**	**-**	**-**	**-**	**-**
Deposits	-	-	-	-	-	-
Debt securities issued	-	-	-	-	-	-
Other financial liabilities	-	-	-	-	-	-
Financial liabilities measured at amortised cost	**37,660**	**37,569**	**91**	**36,560**	**36,472**	**88**
Deposits	37,478	37,569	(91)	36,380	36,472	(92)
Debt securities issued	-	-	-	-	-	-
Other financial liabilities	182	-	182	180	-	180
Derivatives – Hedge accounting	6	-	6	5	-	5
Fair value changes of the hedged items in portfolio hedge of interest rate risk	-	-	-	-	-	-
Provisions	509	486	23	505	484	21
Tax liabilities	-	-	-	152	145	7
Share capital repayable on demand	-	-	-	-	-	-
Other liabilities	478	532	(54)	596	635	(39)
Liabilities included in disposal groups classified as held for sale	-	-	-	-	-	-
Total liabilities	**38,767**	**38,709**	**58**	**37,844**	**37,767**	**77**
Equity	-	-	-	-	-	-
Share capital	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	171	171	-	210	210	-
Retained earnings	1,322	1,573	(251)	735	1,314	(579)
Revaluation reserves	-	-	-	-	-	-
Other reserves	508	508	-	508	508	-
(-) Treasury shares	-	-	-	-	-	-
Profit or loss attributable to owners of the parent company	251	-	251	579	-	579
(-) Interim dividends	-	-	-	-	-	-
Minority interests (Non-controlling interests)	-	-	-	-	-	-
Total equity	**6,417**	**6,417**	**-**	**6,197**	**6,197**	**-**
Total liabilities and equity	**45,184**	**45,126**	**58**	**44,041**	**43,964**	**77**

Unaudited presentation of the reconciliation of items presented in the Statement of financial position presented as part of the Annual Report and items presented in accordance with the CNB Decision:

Assets
In the 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 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 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 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 Annual Report they are partly stated as position Other assets at amortized cost.

In accordance with the Decision, all investments in affiliated companies are presented in the position of Investments in subsidiaries, joint ventures and associates, while in the Annual Report they are presented as a Assets held for sale.

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 Annual Report.

In accordance with the Decision, the position Other liabilities includes VAT and other tax liabilities, which are presented in the Annual Report as a part of Other liabilities, together with input VAT receivables, which are stated in Other assets in the Annual Report.

Liabilities
Pursuant to the Decision, derivatives relating to hedge accounting are presented in a separate position, while in the 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 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 measured at amortized cost, while in the 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 Annual Report they 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 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 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 Annual Report it is presented as part of the Retained earnings.

(All amounts are expressed in millions of HRK)

Statement of changes in equity – unaudited

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		Total
												Accumulated Other Comprehensive Income	Other items	
Opening balance [before restatement]	3,994	171	-	-	210	735	-	508	-	579	-	-	-	6,197
Effects of corrections of errors	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Effects of changes in accounting policies	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Opening balance [current period] (1. + 2. + 3.)	**3,994**	**171**	**-**	**-**	**210**	**735**	**-**	**508**	**-**	**579**	**-**	**-**	**-**	**6,197**
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	-	-	-	-	-	579	-	-	-	(579)	-	-	-	-
Equity increase or (-) decrease resulting from business combinations	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Share based payments	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Other increase or (-) decrease in equity	-	-	-	-	-	8	-	-	-	-	-	-	-	8
Total comprehensive income for the year	-	-	-	-	(39)	-	-	-	-	251	-	-	-	212
Closing balance [current period] (from 4. to 20.)	**3,994**	**171**	**-**	**-**	**171**	**1,322**	**-**	**508**	**-**	**251**	**-**	**-**	**-**	**6,417**

(All amounts are expressed in millions of HRK)

Statement of changes in equity – unaudited (continued)

2019	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		Total
												Accumulated Other Comprehensive Income	Other items	
Opening balance [before restatement]	3,994	171	-	-	108	1,300	-	196	-	166	-	-	-	5,935
Effects of corrections of errors	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Effects of changes in accounting policies	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Opening balance [current period] (1. + 2. + 3.)	**3,994**	**171**	**-**	**-**	**108**	**1,300**	**-**	**196**	**-**	**166**	**-**	**-**	**-**	**5,935**
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	-	-	-	-	-	(491)	-	-	-	-	-	-	-	(491)
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	-	-	-	-	-	(146)	-	312	-	(166)	-	-	-	-
Equity increase or (-) decrease resulting from business combinations	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Share based payments	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Other increase or (-) decrease in equity	-	-	-	-	-	72	-	-	-	-	-	-	-	72
Total comprehensive income for the year	-	-	-	-	102	-	-	-	-	579	-	-	-	681
Closing balance [current period] (from 4. to 20.)	**3,994**	**171**	**-**	**-**	**210**	**735**	**-**	**508**	**-**	**579**	**-**	**-**	**-**	**6,197**

(All amounts are expressed in millions of HRK)

Statement of cash flows – unaudited

	2020	2019
Operating activities – indirect method		
Profit/(loss) before tax	308	714
Adjustments:	-	-
Impairment and provisions	489	(86)
Depreciation	159	171
Net unrealised (gains)/losses on financial assets at fair value through statement of profit or loss	25	131
Loss/(profit) from the sale of tangible assets	(8)	-
Other non-cash items	(1,298)	(1,185)
Changes in assets and liabilities from operating activities		
Deposits with the Croatian National Bank	580	(5)
Deposits with financial institutions and loans to financial institutions	(32)	-
Loans and advances to other clients	(2,838)	(1,477)
Securities and other financial instruments at fair value through other comprehensive income	549	(714)
Securities and other financial instruments held for trading	58	27
Securities and other financial instruments at fair value through statement of profit of loss, not traded	(6)	(5)
Securities and other financial instruments at fair value through statement of profit or loss	(87)	51
Securities and other financial instruments at amortized cost	(4)	16
Other assets from operating activities	(83)	(43)
Deposits from financial institutions	862	1,206
Transaction accounts of other clients	1,804	2,338
Savings deposits of other clients	(348)	(526)
Time deposits of other clients	(1,135)	(1,485)
Derivative financial liabilities and other traded liabilities	90	18
Other liabilities from operating activities	(145)	(66)
Interest received from operating activities [indirect method]	1,160	1,290
Dividends received from operating activities [indirect method]	-	-
Interest paid from operating activities [indirect method]	(63)	(102)
(Income taxes paid)	(245)	(40)
Net cash flow from operating activities	**(208)**	**228**
Investing activities		
Cash receipts from the sale / payments for the purchase of tangible and intangible assets	(50)	(98)
Cash receipts from the sale / payments for the purchase of investments in branches, associates and joint ventures	(2)	(51)
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	**(52)**	**(149)**
Financing activities		
Net increase/(decrease) in loans received from financing activities	(179)	(252)
Net increase/(decrease) of debt securities issued	-	-
Net increase/(decrease) of Tier 2 capital instruments	-	-
Increase of share capital	-	-
(Dividends paid)	-	(491)
Other receipts/(payments) from financing activities	-	-
Net cash flow from financing activities	**(179)**	**(743)**
Net increase/(decrease) of cash and cash equivalents	**(439)**	**(664)**
Cash and cash equivalents at the beginning of period	**6,281**	**6,896**
Effect of exchange rate fluctuations on cash and cash equivalents	12	49
Cash and cash equivalents at the end of period	**5,854**	**6,281**

Unaudited presentation of the reconciliation of items presented in the Statement of cash flows as part of the 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 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.

In accordance with the Decision, the position Other non-cash items includes 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 gain on the sale of financial assets measured at fair value through other comprehensive income in the position Net (gains) 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 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 item Amounts due to customers as presented in the 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 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 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 in the Annual report as Purchases of tangible and intangible assets, Proceeds from sale of tangible and intangible assets and Proceeds from sale of repossessed real estate.

The item Net increase / decrease / of loans received from financing activities in accordance with the Decision is divided into two items in the Annual Report: Repayment of lease liabilities (IFRS 16) and (Decrease) of other borrowed funds.