2016

OTP banka Hrvatska Annual Report

OTP BANKA HRVATSKA d.d.

Financial statements and Independent Auditor's report
for the year ended 31 December 2016

2016

OTP banka Hrvatska Annual Report

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Report of the Management Board on the Position of the Bank

"The expectations for the year 2017 are positive, with the expected growth rate similar to the 2016 forecast, all based on the further growth of personal consumption, export (partially offset against a growing import to meet the domestic demand) and investments."

Balázs Békeffy
President of the Management Board

Dear customers and business partners,

Positive trends in the Croatian economy that began in 2015, continued progressively throughout the year 2016, resulting in the expected growth rate of the gross domestic product of 2.9%. Last time the country had such a significant growth of GDP (as much as 5.7%) was in 2007, so this recent growth rate certainly contributes to a positive atmosphere and creates a solid foundation for realistic expectations in the upcoming period.

Namely, the GDP growth rate per quarters in 2016 was increasing progressively: beginning with 2.7% and ending with 3.4% (this was the forecast rate for the last quarter). The growth is based on the growth across the board, and the growth of personal consumption - exceeding three percent in every quarter of the observed year while in the year before it barely reached 1.2% at the annual level - is a good indicator of positive changes in the environment.

Along with the growth of average salary, such development was also enabled by changes to the tax regulations that gave rise to different personal income taxation criteria, which resulted in larger salary base after tax and thus even better prerequisite for consumption. The most recent regulatory changes follow suit, so it is only to be expected that the personal consumption will keep growing this year, which is exceptionally positive also in terms of banking because we can expect further rise in the demand for all-purpose loans.

Last year was a record-breaking year for tourism since Croatian independence. The data on the tourist nights, visitors and turnover all showed excellent growth rates compared to the year before. Being the industry that drives a large number of auxiliary activities, tourism pushed the economy in general to the growth rate of 2.9% in the third quarter. The export is expected to grow at the same rate as last year, but below the level it reached in 2015, when the positive effects of the economic recovery in the European countries and withdrawal of EU funds were seen. Investments are expected to take place primarily in the private sector, given the need for consolidation and balancing out of the government spending.

Hence, the expectations for the year 2017 are positive, with the expected growth rate similar to the 2016 forecast, all based on the further growth of personal consumption, export (partially offset against a growing import to meet the domestic demand) and investments.

Although through 2015 and 2016 the consumer prices were falling, they are expected to start growing by about 1.2% in 2017, primarily as a consequence of a rise in the oil price. Reflecting such changes for the better in the economy, especially tourism, the labour market reacted with positive trends in terms of both: decrease in the unemployment rate and increase in the employment rate.

The new Government that assumed the power in 2016 brought about certain changes in the economic policy, which are evident in further tax cuts (higher tax relief, lower tax rates, suspension of certain duties for both private taxpayers and business owners). The government spending was reduced to the required limits (i.e. the state budget deficit must not exceed 3% of the gross domestic product), and the public debt finally turned downwards. Considering the stabilisation of government spending, positive effects in the general economic situation and exceptionally high liquidity in the system, it only stands to reason to expect that the state will be able to borrow at a lower price, which should echo in lower price of capital in the country in general.

The Croatian National Bank continued its expansive monetary policy aimed at strengthening of the credit activity and availability of cheaper local currency sources. Conditioned by changes in the surroundings and by bad past experiences linked to surges of the Swiss franc, there is an evident shift in behaviour of customers causing the banks to adapt to their tendency to save and borrow in the local currency.

Another obvious change was weakening of the retail saving trend in general, and especially in term deposits, as lower interest paid on such deposits encouraged investors to seek alternative investment options. In terms of interest-earning transactions, a slight recovery in the housing loans market is expected in 2017, same as in the market of corporate loans, whilst qualitative changes, such as a decrease in non-performing loans, were visible already over the last year. Improvements to the balance sheet on account of more successful collection are expected over the upcoming period.

After the negative result in 2015, caused by conversion of the CHF loans to HRK or EUR loans at the fixed exchange rate, the banking system had very good results last year, primarily owing to lower costs of new provisions and cheaper sources. Despite the negative trend on the interest-earning side, in the wake of a substantial drop of the price of sources the banks managed to secure growth of the net interest margin by restructuring their assets.

Bank's results and activities in 2016

Supported by positive economic trends and indicators, in 2016 the bank made the net profit of HRK 123.4 million. The operating income grew by 6.8%, mostly due to the growth of net interest income (10%) and to a smaller extent due to the income from f/x dealings. Namely, the interest rates continuously slid down last year, in the domestic and international interbank markets alike, including both: interest paid on savings and interest earned on loans extended to corporate and retail customers. As a result, the yield on securities that the bank bought throughout the year were lower, same as the interest earned on the proceeds lent to foreign and domestic banks, which was even negative in some cases. Observing the policy of active management of its interest rates, the structure of its sources and lending, the bank maintained profitability of its products and achieved a growth of the net interest income and the net interest margin regardless of the decrease in the interest income. In terms of expenses, the bank put a maximum effort into containing them, which can be seen in the positive effect of the cost to income ratio of the bank. As a consequence, the operating result was by 12.8% higher than in 2015, which secured coverage of the contingent liabilities arising from certain loans and litigations.

Analysing the balance sheet indicators and the structure of assets and liabilities of the bank, we can see that the bank kept the total balance sheet sum at the last year's level. In the face of the stagnating credit activities in its surrounding, the trend of deleveraging among banks due to high system liquidity, and a relatively low yield on other forms of lending and investing, the bank still succeeded in increasing its retail loans by 2%, whilst corporate loans grew by 3.6%. At that, it must be emphasised that the bank made sure to respond to a greater demand for loans in domestic currency, and proactively offered such loans in the retail sector, at both fixed and variable interest rates, all in order to maintain the competitive edge. On the other hand, the bank put its efforts into maintaining and expanding of its deposit base, so the total deposits grew despite significantly lower interest rates it paid on such sources.

The result of these activities, shown through the market share ratios as at the end of the last year, is an evident increase of the share in the total assets - to 3.98%, an increase of the share in received deposits – from 4.14% to 4.17%, and an increase in the share of gross loans - from 4.36% to 4.41%, all largest shares the bank has had so far. Special emphasis must be put on the increase in the share of housing loans, which is one of the fundamental and most competitive credit products of the bank, from 5.59% to 6.58%. All purpose loans held 6.98% of the market share, and the total retail loans 6.47% of the market share. These results will certainly pose a challenge for even greater efforts and growth across all business segments in the times to come.

Throughout the year 2016 the bank was meeting and fulfilling all the regulatory requirements in terms of capital adequacy for coverage of all risks and prescribed capital buffers, and the capital adequacy ratio equalled 16.6% at the end of the year.

Corporate social responsibility

As a bank deriving most of its business from the coastal areas, we have recognised the concept of renewable energy sources such as solar plants, and have installed them on our buildings located in the sunniest cities. Mid 2016 we put into operation the second power plant, this time on the Head Office building in Zadar. The power plant on our Pula building is still under construction. OTP banka is among the first larger companies in Croatia, and the first bank, to produce own power and use it in its offices and branches. With this project we prove yet again that social responsibility is one of our corporate values.

As a part of the programme "Green light to knowledge", in the academic year 2016/2017, for the seventh consecutive year, we donated HRK 555,000 worth of scholarships to 77 students of lower financial standing from the towns of Zadar, Sisak, Čakovec and Benkovac, and municipalities of Župa dubrovačka and Nuštar, and students of the University of Zadar.

In this academic year we also launched our scholarship programme for university valedictorians.

As a part of its programme "Green light to...better society", for the fifth consecutive year the Bank 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 just a short of a thousand applications from all parts of Croatia, and the total of 52 projects were chosen among which the sum of HRK 400,000 was distributed.

Last year we joined the project titled "Croatia Volunteers", which attempts to mobilise a large number of volunteers nationwide in order to stress the significance of volunteering for development of the society. We are very excited about many of our colleagues from different business centres who decided to dedicate their free time for the benefit of the society.

Also, we are proud of OTP banka team that took part in the global charity running event - Wings for Life World Run in Zadar on 8 May. OTP banka team had 46 runners who altogether ran 500.65 kilometres. One hundred percent of the funds raised by runners is intended for the Wings for Life foundation, which finances the most advanced spinal cord injury research.

Plans for 2017

In many respects, the year 2017 will be extremely important for OTP banka. In December 2016 we signed the Share Purchase Agreement with Splitska banka, and we expect that the acquisition process will be taking place as scheduled and the related transaction to be carried out by 1st May. The integration of the two banks should finish by summer 2018. This exceptionally challenging process demands a complete dedication of a large number of employees and managers, so most of our energy, working hours and resources in the current year will be devoted to this project.

Generally, subject to continuation of the good trends, we expect a slight growth of the bank's market shares in all segments. In addition to the growth of the market shares, we will keep our focus on the development of mobile and internet banking, user support and customer relations.

Finally, on my own behalf and on behalf of the Board and the entire OTP Group, I would like to take this opportunity to extend thanks to our customers and business partners for the trust shown. I would also like to thank our employees and managers for their enthusiastic and industrious approach to relentless challenges the bank is facing.

Yours faithfully,

Balázs Békeffy
President of the Management Board

Corporate governance code

By virtue of the provisions of the Companies Act and the views of the Croatian National Bank, the Management Board of OTP banka Hrvatska d.d. by its decision No 2001-118-3.20/14 of 22nd July 2014, adopted the following

Corporate governance code

1 OBJECTIVES AND BASIC PRINCIPLES

OTP banka Hrvatska d.d. (hereinafter: the Bank) as a credit institution is well aware of the importance of a responsible and ethics-based conduct of corporate entities as an essential prerequisite for developing high-quality relations and loyal competition between business partners as well as for efficient functioning of the market.

To this end, the Bank is developing its business activities and acting in accordance with the good corporate management practice. Moreover, it is trying, by way of its business strategy, business policy, key internal acts and business practice, to contribute to transparent and efficient business activities and better-quality relations with its business environment.

Bank's adequate corporate management includes:

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

It is considered that a vital segment of the Bank's identity is responsible management, therefore the Bank's view is that good corporate management is realised not just by fully meeting the regulatory requirements but that is also derives from the corporate culture prevailing in the Bank and personal integrity of all Bank's employees.

Basic corporate management principles of the Bank are the following:

1 transparency of the business activities;
2 clearly elaborated operating procedures;
3 avoidance of the conflict of interest;
4 efficient internal control;
5 efficient responsibilities system.

Any interpretation of the provisions contained herein should be governed primarily by accomplishment of the mentioned objectives and adherence to the mentioned principles.

2 PUBLICATION

In addition to the data the Bank publishes as it is required to do so by laws and other regulations, the Bank shall also publish and thus make available to any interested party, pertinent information on its work and activities which primarily refers to financial statements given that they are the most important and the most complete source of information on the Bank and the Annual Report on the company's status.

If the Bank's shares are listed on the stock exchange and they are traded in on a regulated securities market, the Bank shall:

1 give notice of any change to the rights under issued shares or other issued securities;
2 publish any information it is familiar with in respect of the shares and other securities of the Bank that are owned by any member of the Supervisory Board or the Management Board;
3 make public any other information that may be regarded vital in relation to the Bank, its financial standing, operating results, the ownership structure and management;
4 publish all the information categories clearly and unambiguously and enable any interested party equal and timely access to such information;
5 publish instantly any information that may have an impact on the making of decisions on investments into shares and other securities of the Bank, covering equally the positive and the negative aspects, with a view to allowing the investor to understand and correctly assess the Bank's standing.

Publishing of information is carried out in the manner laid down in law or the Bank's Articles of Association, whereas the Bank also ensures that pieces of information are published on own web pages and over the Internet.

3 BODIES OF THE BANK

The bodies of the Bank ensuring that good corporate management practice is implemented are the ones stated below:

1 General Meeting
2 Supervisory Board
3 Management Board

3.1 General Meeting

The General Meeting is the body of the Bank whereby shareholders exercise their main management rights by passing decisions on the Bank's activities that fall under their competence. The decisions passed by the General Meeting are laid down in law and the Bank's Articles of Association.

General Meetings are called when necessary, but at least once a year, and whenever the interests of the company require so.

General Meetings shall be called by the Management Board.

General Meetings may be called by the Supervisory Board in cases prescribed by law, and whenever the Supervisory Board deems it necessary.

The General Meeting shall also be called if so requested by shareholders who separately or together hold no less than 1/20 (One Twentieth) of the Bank's share capital providing that the Management Board has been notified about the purpose of the General Meeting.

Shareholders decide on their rights and obligations at the General Meeting in accordance with law and the Articles of Association.

Shareholders must meet the conditions prescribed by law and the Articles of Association in order to participate in the work of the General Meeting.

Each share, except for those not carrying the right to vote, entitles the shareholder to one vote, in proportion to the nominal value of each share.

The Bank issues shares made out to a name, and depending on the rights they carry they are either regular or preferential.

The Bank shall treat and accord equal conditions to all shareholders regardless of the number of shares they hold. The Bank shall equally accord same treatment to the investors notwithstanding the nature of the investor i.e. individual or institutional investors.

The General Meeting shall make its decisions by votes given by the shareholders present in person or by proxy at the General Meeting.

The General Meeting shall have a quorum if shareholders representing at least 50% (Fifty per cent) of the total share capital of the Bank are present (either in person or represented by proxy).

The General Meeting shall make decisions by a simple majority of the votes, except when deciding on the matters that require a certain necessary majority determined by law and the Articles of Association.

The right of a shareholder to participate in the General Meeting and exercise his/her voting rights may be realised by proxy, a legal entity or a natural person.

A power of attorney shall be issued and verified in the form prescribed by the Management Board and certified by a Notary Public.

3.2 Supervisory Board

The Supervisory Board shall supervise the management of the Bank. The competence of the Supervisory Board is laid down by law, the Articles of Association and other acts of the Bank.

It has authority to inspect the Bank's business books and all the Bank's documents and assets including cash and securities, which and when it deems necessary.

Supervisory Board members shall act in the Bank's interest, keep business and bank secrets and act with the due care of a good businessman.

The Supervisory Board members shall dedicate sufficient time to their obligations in the Bank and carry out activities based on complete and reliable information, whilst driven by good intentions.

The Supervisory Board shall have 5 members, one of whom is independent. The members of the Supervisory Board are elected by the General Meeting, after obtaining prior approval from the Croatian National Bank. The members of the Supervisory Board shall elect the Chairman and the Deputy of the Supervisory Board among themselves.

The mandate of each Supervisory Board member is three years from the date of the General Meeting at which the member was elected.

The Supervisory Board members can be re-elected.

The Supervisory Board's activities are carried out at its meetings.

The Supervisory Board's meetings are chaired by the Chairman of the Supervisory Board or the Deputy. The Supervisory Board shall make valid decisions if at least 3 (three) members attend the meeting. Each member of the Supervisory Board has one vote.

The Supervisory Board can pass decisions without convening a meeting, if votes are cast by a letter, phone, fax or by using other envisaged technical possibilities for that purpose, if none of the Supervisory Board members objects to such manner of voting.

The Supervisory Board shall have its own Rules of procedure whereby the arrangement of meetings, decision-making process, position of the committees and their authorities shall be governed.

The Management Board can perform particular types of business activities subject to prior consent of the Supervisory Board.

3.2.1 Audit Committee

In accordance with law, the Supervisory Board established the Audit Committee and appointed its members.

The authority of the Audit Committee is laid down in the provisions of the Audit Act and the Credit Institutions Act.

The work of the Audit Committee is laid down in detail in the Rules of procedure of the Audit Committee.

The Audit Committee shall always have uneven number of members.

3.2.2 Remuneration Committee

In accordance with law, the Supervisory Board established the Remuneration Committee and appointed its members.

The authority of the Remuneration Committee is laid down in the provisions of the Credit Institutions Act and the relevant decision of the CNB.

The work of the Remuneration Committee is laid down in detail in the Rules of Conduct of the Remuneration Committee.

3.2.3 Appointment Committee

In accordance with law, the Supervisory Board established the Appointment Committee and appointed its members.

The authority of the Appointment Committee is laid down in the provisions of the Credit Institutions Act.

The work of the Appointment Committee is laid down in detail in the Rules of Conduct of the Appointment Committee.

3.2.4 Risk Committee

In accordance with law, the Supervisory Board established the Risk Committee and appointed its members.

The authority of the Risk Committee is laid down in the provisions of the Credit Institutions Act.

The work of the Risk Committee is laid down in detail in the Rules of Conduct of the Risk Committee.

3.3 MANAGEMENT BOARD

The Management Board is responsible for conducting the Bank's business. The Management Board acts jointly.

The Bank is represented individually and independently by the president of the Management Board and Management Board members. The Bank can be represented by procura holder providing that he/she acts jointly with a Management Board member.

The Management Board consists of 3 (Three) to 5 (Five) members appointed by the Supervisory Board, subject to prior consent of the Croatian National Bank.

Any person who meets the requirements of the Companies Act and the Credit Institutions Act can be appointed a member of the Management Board.

Members of the Management Board are appointed for a period not longer than 5 (Five) years and may be re-elected.

When appointing Management Board members, it shall be attempted that they possess the following characteristics:

- experience in banking operations management
- developed organisational skills
- experience in detection and monitoring of risks and dealing with crisis situations
- knowledge of accounting and finance
- familiarization with Bank's business scope
- understanding of domestic and international money market
- ability to incorporate all the interests within the Bank
- personality that contributes to the realisation of the Bank's objectives
- knowledge of good corporate management practice
- strategic vision.

The Management Board shall unanimously adopt the Rules of Conduct of the Management Board, subject to prior consent of the Supervisory Board.

The scope of the Management Board's activities and responsibilities includes the activities in line with law, the Articles of Association and the Rules of Conduct of the Management Board.

During his/her term of office, no member of the Management Board shall without prior written consent of the Supervisory Board:

a) take or have employment, mandate or engagement with any other company or bank, with an exception of a subsidiary company, in which case the Supervisory Board must be notified by the Management Board in writing at its first meeting following such appointment;
b) in his/her own name and on his/her own behalf directly or indirectly be concerned or interested in business activities which are related to the Bank's business activities;
c) take or have membership in any limited liability company/partnership.
d) directly or indirectly own, conduct, contract, invest or acquire shares, engage or take part in some other way in any business activity or enterprise, which would represent competition to activities of the Bank.

4 RELATIONS BETWEEN THE MANAGEMENT BOARD, THE SUPERVISORY BOARD AND THE COMPANY

The Management Board and the Supervisory Board shall establish the strategic goals and the corporate values of the Bank and familiarize all the employees therewith.

The Management Board shall adopt the strategy and the risk policy, subject to prior consent of the Supervisory Board.

The Bank shall ensure a reasonable, transparent and documented decision-making procedure and see to that assigning of responsibilities and competences within the Bank is clear.

The Bank shall clearly define in writing the powers and key responsibilities of the Management Board, the Supervisory Board, the employees, committees and advisory bodies in the Bank.

The Management Board and the Supervisory Board shall cooperate in the best interest of the Bank as well as negotiate and come to a mutual agreement on the strategic features of the Bank's business activities.

The members of both the Management Board and the Supervisory Board shall avoid conflict of interest or a potential conflict of interest, including also spending of company funds for personal purposes and abuse of power with regard to transactions with related parties.

The Management Board shall timely and in full report to the Supervisory Board on all the facts and circumstances that may have an impact on the business activities, the financial standing and the balance of the Bank's assets and shall grant access to all the required data and the documents necessary to exercise their powers.

Members of the Management Board are entitled to remuneration for their work. The Supervisory Board shall sign contracts with members of the Management Board in order to regulate mutual rights and obligations.

Members of the Supervisory Board shall receive reward for their work in the amount decided by the General Meeting. The reward may be different for each member of the Supervisory Board, depending on the duties entrusted to them.

4.1 Conflict of interest

Conflict of interest exists in a member of the Supervisory Board, that is, a member of the Management Board who is not neutral in respect of the matter to be decided or it can be assumed on the grounds of his connection with other companies, persons or deals that his interests and inclinations do not necessarily correspond to Bank's interests.

Members of the Management Board and the Supervisory Board shall not pass decisions based on personal interests or the interests of the persons they are closely involved with.

All the activities the members of the Management Board or the Supervisory Board or their related parties and the Bank or its related parties are engaged in shall be market-based particularly as concerns deadlines, interest, guarantees etc.

All the contracts or agreements between a member of the Supervisory Board or a Management Board member and the Bank are subject to prior consent of the Supervisory Board.

4.2 Prohibition of competition

Members of the Management Board i.e. the Supervisory Board shall not, for own or someone else's account, personally or through third parties carry out the activities under the Bank's scope nor shall they supply advice to the persons that may be deemed Bank's competition.

Moreover, members of the Management Board and the Supervisory Board shall not hold a significant stake in the companies that may be deemed Bank's competitors.

5 INDEPENDENT EXTERNAL AUDITOR

The Bank is aware of the importance and the role of the audit function for the success of the corporate management, the legality and the transparency in the performance of all business processes in the Bank.

One of the important corporate management factors is to contract an independent external auditor, which the Bank must do, with a view to ensuring that financial statements adequately reflect the actual and the overall situation in the Bank.

Before signing of the contract on audit of annual financial statement, or before passing of the decision on appointment of auditor, the external auditor is to deliver to the bank the auditor's independence declaration, in line with the Credit Institutions Act and the Audit Act.

The external auditor shall be deemed any auditor who is not related to the Bank by ownership or interests and does not provide, on its own or through related parties, any other service to the Bank.

The independent external auditor shall, as clearly and unambiguously as possible, give own opinion on whether the financial statements prepared by the Management Board adequately reflect the capital balance and the Bank's financial standing and assets as well as the results for the given period.

6 INTERNAL CONTROLS SYSTEM

The Bank shall ensure an adequate internal controls system which enables it to timely monitor and detect any material risk the Bank is or may be exposed to in the pursuit of its business activities.

The Management Board is responsible for developing and maintaining the system which allows for efficient business activities, adequate risk control, reliability of financial and other non-financial information as well as compliance of the Bank's business activities with laws, regulations and Bank's internal acts.

In addition to the members of the Management Board and the Supervisory Board, employees and all organisational units of the Bank partake in the implementation of the mentioned control measures which are directly or indirectly integrated into the business processes.

In the Bank the internal controls system is realised through three mutually independent functions:

1 risk monitoring function
2 compliance monitoring function
3 internal audit function.

When establishing the mentioned functions the Management Board shall adhere to the following principles:

1 all three functions must be co-independent;
2 all three functions have to be independent from the business processes and activities which give rise to risks;
3 avoiding conflict of interest;
4 each function independently and directly reports on its work to the persons and/or bodies in line with laws, regulations and Bank's internal acts;
5 the Management Board should employ sufficient number of the persons qualified to exercise the mentioned functions.

7 BUSINESS BOOKS AND FINANCIAL STATEMENTS

The Bank keeps business books and other business documentation and records, evaluates assets and liabilities, prepares and publishes annual financial statements and the Annual Report on the company's status as required by applicable regulations and professional standards.

The Bank keeps business books and other business documentation and records by applying a method by way of which it may be checked at any time whether the Bank operates in line with applicable regulations and professional standards.

8 RISKS

The Bank manages risks by implementing the procedures and the methods for detecting, measuring i.e. assessing, controlling and monitoring risks and also by reporting on the risks it is or may be exposed to in its business activities.

The Bank prescribes procedures, criteria and methods for measuring, assessing and managing of risks in its acts, in accordance with statutory regulations, standards and rules of profession.

Risk management includes continuous detection, measuring, assessing and reporting on all materially significant risks the Bank is or may be exposed to.

The risk policy is connected to the Bank's strategy and encompasses defining of the type and the level of risk the Bank is willing to assume in order to reach its business objectives.

The Bank possesses written policies and procedures relating to risk management which are updated and the implementation of which is controlled.

9 TRANSPARENT AND TIMELY REPORTING

The Bank publishes corporate management data and information which are based on statutory regulations and good practice.

The information being published must be true, relevant, timely and available so that all the interested parties' needs are met.

The Bank places special emphasis on transparent and timely reporting to both the Bank's clients and the Bank's shareholders, as well as to any other interested party.

10 STATEMENT ON ADHERING TO THE CORPORATE MANAGEMENT CODE

The Bank's shares are not traded in on a regulated securities market, that is to say, the shares are not listed on the stock exchange.

If the shares of the Bank are listed and traded in on a regulated securities market, the Management Board and the Supervisory Board shall ensure that the Management Board publishes the data laid down in Article 272 p of the Companies Act in a special section of the Annual Report on the company's status.

In accordance with Article 18 of the Accounting Act the Bank shall also introduce into the Annual Report on the company's status an overview of the corporate management rules it applies.

Summary of the remuneration policy of the OTP banka Hrvatska group

Pursuant to the provisions of the Credit Institutions Act and the Decision on Employee Remuneration, by their Decision of 5th July 2016. the Management Board of OTP Banka Hrvatska d.d. Zadar adopted the updated Remuneration Policy of the OTP banka Hrvatska Group, which was confirmed by the Remuneration Committee and the Supervisory Board on 12th July 2016.

1 Purpose of the Policy

The purpose of the Policy is to recognise, to the extent of risk tolerance within the OTP Group, the efforts of the Bank's management and key executives, as well as of subsidiaries' managers, considering the performance on the level of the Bank and of the Group, and to support this by means of incentives.

2 Scope of the Remuneration Policy

The persons that the Remuneration Policy of the OTP banka Hrvatska Group relates to are the following:

- President and members of the Management Board of OTP banka Hrvatska d.d. and all the presidents of the management boards of the companies within the Bank's Group.

The Supervisory Board shall decide on the persons that the Remuneration Policy of the OTP banka Hrvatska d.d. Group relates to, after consultations and taking into consideration opinion of the Remuneration Committee of OTP banka d.d., the Remuneratioin Committee of the parent bank (via the HR Directorate of the parent bank) and the Supervisory Board of the parent bank .

3 Manner of payment of performance-based remuneration

Considering their management structure, the complexity of their activities and their special market circumstances, the form of performance-based remuneration, which is founded on the principle of proportionality, shall be determined differently for each member of the OTP banka Hrvatska Group:

- In case of credit institutions, payment of performance-based remuneration shall be made by combining cash payment and instruments linked to shares of the parent bank (hereinafter: the shares), where the allocation of shares shall be subject to deferral and retention.
- In case of Investment Funds, for the period between 01.01.2016. and 19.05.2016. (entering into force new Act on Open-ended Investment Funds with a Public Offering Act (Official Gazette Nos. 16/13,143/14,44/16)) payment of performance-based remuneration shall be made in cash, without deferral period, while for the period from 19.05.2016. payment of performance-based remuneration shall be made by combining cash payment and instruments primarly consisting of the UCITS funds shares, where the allocation of instruments shall be subject to deferral and retention.
- In case of other companies involved on the basis of the scope of their activities, payment of performance-based remuneration shall be made in cash, without a deferral period.

4 Fixed remuneration to performance-based remuneration ratio

With respect to the persons covered by the Remuneration Policy of the OTP banka Hrvatska Group, remuneration shall consist of fixed and variable components. The ratio of those components shall be determined by the Bank's Supervisory Board, after consulting with and taking into consideration the opinion of the Supervisory Board of the parent bank , according to the function, size and complexity of the organization managed.

5 Criteria for performance appraisal

With respect to performance-based remuneration, evaluation of the performance (target, appraisal) in OTP Group members shall differ depending on the nature of respective company's activity. When it comes to OTP Group members belonging to various categories, the key performance appraisal criteria shall be defined as follows:

- In case of **credit institutions**, in addition to RORAC (return on risk-adjusted capital), the ratios applied to measuring of collection/recovery of overdue receivables, revenue figures and individual targets can be used as appraisal criteria;
- In case of **investment funds management companies** - RORAC (return on risk-adjusted capital), calculated as follows: profit/loss of the company / capital requirements proportionate to the managed fund, calculated on the basis of international benchmarks.

Further performance indicators include the market share of the managed funds and the yield of the investment funds measured against the benchmark;

As for other members of OTP Group, the key performance appraisal criteria must ensure strengthening of financial management and market position, creating conditions for growth and sound operations.

6 Determining entitlement to performance-based remuneration

In respect of the year evaluated, the entitlement to performance-based remuneration and the extent thereof must be determined within 45 days following the regular annual General Meeting closing the year in question.

With respect to the persons covered by the Remuneration Policy of the OTP banka Hrvatska Group, the entitlement to performance-based remuneration and its amount shall be determined by the Supervisory Board, after consulting with and taking into consideration the opinion of the HR Directorate of the parent bank, and in case of the president the Management Board – with prior consent of the General Meeting.

7 Principles and rules concerning the payment of performance-based remuneration

- Upon assessing the performance for the year evaluated ("T year"), the amount of performance-based remuneration is broken down to the level of individuals. The amount of performance-based remuneration is determined in consideration of individual performance.
- Performance-based variable remuneration shall be paid out in the form of a cash bonus and shares allocated at preferential rates, or in the form of remuneration converted to shares.
- The number of shares that can be allocated to a single person at preferential rate or in the form of remuneration converted to shares shall be computed in a way to divide the amount provided for such shares by the value of the rate of a share at the time of performace assessment.
- The value of shares allocated at preferential rates or in the form of remuneration converted to shares at the time of performance assessment must be determined on the basis of the average daily mean quoted price of the ordinary shares issued by OTP Bank Nyrt, as registered by the Budapest Stock Exchange, on the three business days preceding the date of performance assessment.
- A portion of the share-based remuneration shall be deferred for a period of 3 years, where the rate of deferred payment shall be the same for each year.
- During the entire deferment period the impacts occurring meanwhile in connection with the activity of the persons covered by the Policy shall be considered, and depending on those the amount of the remuneration subject to deferred payment should be reduced as necessary.
- 50% of the non-deferred and deferred portion of shares allocated shall be retained for a period of 1 year.

Responsibilities of the Management and Supervisory Boards for the preparation and approval of the annual financial statements




The Management Board of the Bank is responsible for preparation of financial statements for each financial year which 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 applicable accounting standards, and is responsible for maintaining proper accounting records to enable the preparation of such financial statements at any time. It 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 to the Supervisory Board of its financial statements for acceptance. If the Supervisory Board approves the annual financial statements they are deemed confirmed by the Management Board and Supervisory Board.

The Management Board is also responsible for the preparation and fair presentation of the supplementary information prepared in accordance with the Decision of the Croatian National Bank on the Structure and Content of the Annual Financial Statements of Banks, dated 30 May 2008 (Official Gazette 62/08).

The financial statements set out on pages 9 to 84 prepared in accordance with statutory accounting requirements for banks in Croatia, as well as the supplementary information presented on pages 85 to 96 prepared in accordance with the Decision of the Croatian National Bank on the Structure and Content of the Annual Financial Statements of Banks, dated 30 May 2008 (Official Gazette 62/08), were authorised by the Management Board on 16 March 2017 for issue to the Supervisory Board and are signed below to signify this.

For and on behalf of OTP banka Hrvatska dd:

Balázs Békeffy
President of the
Management Board

Helena Banjad
Member of the
Management Board

Zorislav Vidović
Member of the
Management Board

Slaven Celić
Member of the
Management Board

Independent auditors' report to the owners of OTP banka Hrvatska dd, Zadar

Report on the Audit of Financial Statements

Opinion

We have audited the financial statements of OTP banka Hrvatska dd (the Bank) which comprise the statements of financial position as at 31 December 2016, the statement of comprehensive income, the statement of changes in shareholders' equity and the statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies and other explanatory information.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Bank as at 31 December 2016, and its financial performance and its cash flows for the year then ended in accordance with statutory accounting requirements for banks in Croatia.

Basis for Opinion

We conducted our audit in accordance with 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 in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) together with the ethical requirements that are relevant to our audit of the financial statements in Croatia, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

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 Board 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 Board Report includes required disclosures as set out in 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.
2) Management Board Report for the year 2016 has been prepared, in all material respects, in accordance with Article 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. We have nothing to report in this respect.

Responsibilities of the Management and Supervisory Boards for the Financial Statements

The Management Board is responsible for the preparation and fair presentation of the financial statements in accordance with statutory accounting requirements for Banks in Croatia and for such internal control as the Management Board 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, the Management Board 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.

Supervisory Board is responsible for overseeing the Bank's financial reporting process.

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 scepticism 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.

Report on Other Legal and Regulatory Requirements

Pursuant to the Decision of the Croatian National Bank on the Structure and Content of Annual Financial Statements of Banks (Official Gazette No. 62/08 hereinafter; "the Decision"), the Bank's management has prepared the forms, as presented in the Appendix to these financial statements on pages 85-96, which comprise the balance sheet as at 31 December 2016, the profit and loss account, the statement of changes in equity and the statement of cash flow for the year then ended, as well as the reconciliation to financial statements. These forms and the accompanying reconciliation to the financial statements are the responsibility of the Bank's management and do not represent components of the financial statements prepared in accordance with statutory accounting requirements for banks in Croatia, which are set out on pages 9-84, but rather a requirement specified by the Decision. The financial information provided in those forms has been derived from the financial statements.

In our opinion, the financial information presented in the Annual Report is consistent, in all material respects, with the aforementioned financial statements as at 31 December 2016.

Juraj Moravek
Member of the
Management Board

Nikola Smolčić
Certified auditor

Deloitte.

Deloitte d.o.o.
ZagrebTower
Radnička cesta 80
10000 Zagreb
Croatia

Zagreb, 16 March 2017

FINANCIAL STATEMENTS

Statement profit or loss and other comprehensive income

For the year ended 31 December 2016

All amounts are expressed in thousands of HRK

	Notes	2016	2015
Interest and similar income	3	687,126	722,790
Interest and similar expense	3	(141,120)	(226,276)
Net interest income		**546,006**	**496,514**
Fee and commission income	4	164,447	163,972
Fee and commission expense	4	(42,922)	(40,489)
Net fee and commission income		**121,525**	**123,483**
Net gains from trading in and valuation of financial instruments	5	110,388	56,120
Other operating income	6	13,198	18,812
Net trading and other income		**123,586**	**74,932**
Income before value adjustment and operating expenses		**791,117**	**694,929**
Net losses from impairment and provision charge	8	(211,293)	(416,406)
Personnel expenses	7a	(188,157)	(178,729)
Other operating expenses	7	(239,383)	(248,810)
Profit / (loss) before tax		**152,284**	**(149,016)**
Income tax	9a	28,866	69,427
Profit / (loss) for the year		**123,418**	**(79,589)**
Other comprehensive income:			
Items not reclassified subsequently to profit or loss:		-	-
Items transferred or transferable subsequently to profit or loss:			
Fair value reserve from financial assets available for sale			
Net change in fair value			
Net change in the fair value of financial assets available-for-sale, net of realised amounts	27	(29,071)	32,279
Deferred tax	9c	6,777	(6,455)
		(22,294)	**25,824**
Total other comprehensive (loss) / income		**(22,294)**	**25,824**
Total comprehensive income / (loss)		**101,124**	**(53,765)**
EARNINGS PER SHARE			
- basic and diluted (in kunas)	10	30.02	(19.36)

• The accompanying notes form an integral part of these financial statements.

Statement of financial position

At 31 December 2016

All amounts are expressed in thousands of HRK

	Notes	31.12.2016	31.12.2015
ASSETS			
Cash and balances with Croatian National Bank	11	2,622,409	1,993,247
Loans and receivables – banks	12	134,246	766,579
Financial assets at fair value through profit or loss	13a	14,789	35,857
Loans and receivables from customers	14	10,318,561	10,508,073
Financial assets available for sale	15	2,009,886	1,884,868
Investments held to maturity	16	143,202	143,537
Investments in subsidiaries	17	59,842	59,842
Property and equipment	18	251,126	246,577
Intangible assets	19	37,469	32,202
Goodwill	20	42,966	42,966
Deferred tax assets	9c	29,268	51,357
Other assets	21	85,343	73,707
TOTAL ASSETS		15,749,107	15,838,812
LIABILITIES			
Amounts due to other banks	22	20,633	22,098
Amounts due to customers	23	12,599,000	12,526,462
Other borrowed funds	24	1,060,321	1,176,638
Financial liabilities at fair value through profit or loss	13b	7,604	4,157
Provisions	25	126,654	282,768
Other liabilities	26	136,033	128,948
Total liabilities		13,950,245	14,141,071
SHAREHOLDERS' EQUITY			
Share capital	27	822,280	822,280
Share premium	27	171,260	171,260
Statutory and legal reserves	27	82,229	82,228
Other reserves	27	148,503	170,801
Retained earnings		574,590	451,172
Total shareholders' equity		1,798,862	1,697,741
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		15,749,107	15,838,812

• The accompanying notes form an integral part of these financial statements.

Statement of changes in shareholders' equity

For the year ended 31 December 2016

All amounts are expressed in thousands of HRK

	Share capital	Share premium	Legal and statutory reserves	Other reserves	Retained earnings	Total
Balance at 1 January 2015	822,280	171,260	82,228	144,982	530,438	1,751,188
Changes in equity in 2015	-	-	-			
Loss for the year	-	-	-	-	(79,589)	(79,589)
Other comprehensive income	-	-	-	25,824	-	25,824
Total comprehensive income	-	-	-	25,824	(79,589)	(53,765)
Profit acquired on merger of a part of OTP Nekretnine d.o.o. (Note 2.31)	-	-	-	-	323	323
Other movements (in the reserve funds for housing units)	-	-	-	(5)	-	(5)
Balance at 31 December 2015	822,280	171,260	82,228	170,801	451,172	1,697,741
Balance at 01 January 2016	822,280	171,260	82,228	170,801	451,172	1,697,741
Changes in equity in 2016						
Profit for the year					123,418	123,418
Other comprehensive income				(22,294)		(22,294)
Total comprehensive income						
Undistributed dividends transferred to statutory reserves			1			1
Other movements (in the reserve funds for housing units)				(4)		(4)
Balance at 31 December 2016	822,280	171,260	82,229	148,503	574,590	1,798,862

• The accompanying notes form an integral part of these financial statements.

Statement of cash flows

For the year ended 31 December 2016

All amounts are expressed in thousands of HRK

	2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES		
Profit before tax	152,284	(149,016)
Adjustments to reconcile profit before taxes to net cash from operating activities		
Net impairment allowance on loans and receivables	138,113	146,270
Provisions for legal actions and off-balance sheet items	91,734	26,136
Provisions for the costs of conversion of CHF loans	(18,554)	244,000
Depreciation and amortisation	36,911	35,914
Loss assumed on the merger of OTP Faktoring	-	2,946
Gains on disposal of property and equipment	(2,227)	(94)
Interest income	(687,126)	(722,790)
Interest expense	141,120	226,255
Gains from sale of financial assets available for sale	(39,966)	(204)
Operating income before changes in operating assets and liabilities	*(187,711)*	*(190,583)*
(Increase)/decrease in operating assets:		
Obligatory reserves with the CNB	155,474	74,464
Loans and receivables – banks	26,313	(57)
Loans and receivables from customers	46,549	(145,933)
Assets at fair value through profit or loss	24,515	(18,169)
Assets available for sale	(114,122)	73,628
Other assets	(7,805)	1,037
Increase/(decrease) in operating liabilities:		
Amounts due to other banks	(1,465)	5,475
Amounts due to customers	72,538	(175,639)
Other liabilities	7,085	(15,358)
Provisions	(229,294)	(54,464)
Net cash flow from operating activities before interest and income taxes paid	*(207,923)*	*(445,599)*
Income taxes paid	-	22,694
Interest received	687,999	717,662
Interest paid	(166,090)	(242,442)
Net cash from operating activities	313,986	52,315
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of tangible and intangible assets	(48,615)	(28,231)
Proceeds from disposal of tangible and intangible assets	4,111	1,916
Decrease/(increase) in held-to-maturity investments	504	(41,543)
Net cash from investing activities	(44,000)	(67,858)
CASH FLOWS FROM FINANCING ACTIVITIES		
Net cash from financing activities	(91,347)	41,904
Cash and cash equivalents acquired on the acquisition of OTP Faktoring	-	2,868
Net increase in cash and cash equivalents	178,639	29,229
Cash and cash equivalents at the beginning of the year	1,686,282	1,657,053
Cash and cash equivalents at the end of the year	1,864,921	1,686,282

• The accompanying notes form an integral part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS

1 GENERAL INFORMATION

The registered seat of the Bank is in Zadar, Domovinskog rata 3. 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 Zadar, with the registered share capital in the amount of HRK 822,279,600 as at 31 December 2016 (31 December 2015: HRK 822,279,600).

The principal activities of the Bank comprise the following:

1 Foreign exchange operations in Croatia;

2 Cash financing intermediation;

3 Acceptance of all types of deposits;

4 Issuance of all types of loans, opening of letters of credit, issuance of warranties and bank guarantees, and assuming other financial obligations;

5 Bill-of-exchange, cheque and deposit certificate operations for own account or on behalf of the Bank's customers;

6 Services related to securities (including brokerage and custody business);

7 Issuance and management of payment instruments (including cards);

8 Foreign credit operations and payment transactions; and

9 Domestic payment operations.

Ownership structure

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

Governance and Management

Shareholders' Assembly

Viktor Siništaj, President of the General Assembly of Shareholders

Supervisory Board

Dr. Antal Pongrácz, President
Szabolcs Annus, Member
Branko Mikša, Member
László Kecskés, Member
Attila Kozsik, Member

Management Board

Balázs Békeffy, President
Helena Banjad, Member
Zorislav Vidović, Member
Slaven Celić, Member

	31 December 2016		31 December 2015	
	Paid-in capital	Ownership interest in %	Paid-in capital	Ownership interest in %
OTP Bank Nyrt, Hungary	822,280	100.00	822,280	100.00
Total	822,280	100.00	822,280	100.00

• All amounts are expressed in thousands of HRK

2 ACCOUNTING POLICIES

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

2.1 Statement of compliance

These financial statements represent the separate financial statements of the Bank. The Bank has not prepared consolidated financial statements, which would include the Bank and its subsidiaries (note 17) using the exemption available within International Financial Reporting Standard 10 "Consolidated Financial Statements", as both the Bank and its subsidiaries are included in the consolidated financial statements of the ultimate parent, OTP Bank NyRt, Hungary, prepared in accordance with IFRS as adopted by EU.

These financial statements are prepared in accordance with the legal accounting requirements for banks in Croatia. The banking operations in Croatia are subject to the Credit Institutions Act (OG 159/2013, 19/2015 and 102/2015) pursuant to which the Bank's financial reporting is regulated by the Croatian National Bank ("the CNB") which is the central banking system oversight institution in Croatia. These financial statements have been prepared in accordance with the above-mentioned banking regulations.

The accounting regulations of the CNB rely on International Financial Reporting Standards (IFRS) adopted by the European Union (EU). Key differences between the accounting regulations of the CNB and the recognition and measurement requirements under International Financial Reporting Standards (IFRS) are as follows:

The CNB requires from banks to recognise in profit or loss impairment losses on assets not specifically identified as impaired (including certain sovereign risk assets) at prescribed rates (excluding financial assets at fair value through profit and loss and financial assets available for sale). The provisions of the Bank on a collective basis amount to HRK 113,087 thousand (2015: HRK 106,269 thousand) and have been recognised in the statement of financial position accordance with the CNB requirements, and the provisioning charge amounts to HRK 6,818 thousand (2015: income in the amount of HRK 324 thousand). Although, according to IFRS, it would be more appropriate to present the provisions by presenting the amounts in the shareholders' equity, the Bank continues to recognise the impairment losses under the CNB rules as a substitute for latent unidentified impairment losses calculated as required by IFRS. The Bank is continuously developing the model and the assumptions used.

The Management Board expects the unidentified impairment losses, estimated on the basis described above, not to exceed the amount that would have been determined under the CNB accounting regulations.

The next difference between IFRS and the CNB accounting regulations is in the determination of impairment losses on assets, by discounting the expected cash flows at an instrument's original effective interest rate. Unlike IFRS, the national regulations require that the amortisation of such discount be recognised as a reversal of the impairment loss, and not as interest income. Additionally, the CNB prescribes minimum levels of provisions for impairment losses for certain specifically identified impaired exposures, which may differ from the impairment loss required to be recognised in accordance with IFRS.

2.2 Basis of preparation

The financial statements are prepared on the amortised or historical cost basis, except for financial instruments which 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 discussed in Note 38.

The accounting policies set out below have been consistently applied to all the periods presented in these financial statements.

2.3 Business combinations

Business combinations are accounted for using the acquisition method as at the acquisition date, which is the date on which control is transferred to the Bank. The Bank

• All amounts are expressed in thousands of HRK

controls an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. In reviewing the conclusion about having control, the Bank considered structured entities and entities the receivables from which are classified as irrecoverable or partly recoverable as well as its exposure to the variable returns arising from its involvement with an entity. Jointly controlled business combinations are recognised at the carrying amounts, and any differences are recognised directly in equity.

Acquisitions since 1 January 2010

The Bank measures goodwill as the sum of the following:

- the fair value of the consideration transferred; plus
- the amount of any recognised non-controlling interest in the acquiree; plus
- for business combinations achieved in stages, the fair value of the currently held equity interest in the acquiree; less
- the net amounts of the identifiable assets acquired and the liabilities assumed (generally the fair value).

If the balance is negative, any gain arisen from a bargain purchase is recognised immediately in profit or loss. The consideration transferred does not include any settlement of a pre-existing business relationship. Such settlements are recognised generally in the satement of comprehensive income.

Acquisition-related costs, other than those associated with the issue of debt or equity securities, the Bank incurs in connection with a business combination are recognised as expenses when incurred.

A contingent consideration, if any, is recognised at the acquisition-date fair value. A contingent consideration classified as an equity instrument is not remeasured, and its settlement is recognised within capital reserves. Otherwise, subsequent changes in the fair value of a contingent consideration are recognised in the satement of comprehensive income.

Acquisitions until 1 January 2010

Goodwill arisen on acquisitions prior to 1 January 2010 represents the excess of the cost of acquisition over the Bank's share in the recognised amount of identifiable assets, liabilities and contingent liabilities of the acquiree (generally the fair value). If the balance was negative, any gain arisen on a bargain purchase was recognised immediately in profit or loss. Acquisition-related costs, other than those associated with the issue of debt or equity securities, the Bank incurs in connection with a business combination were added to the cost of acquisition.

Acquisition of jointly controlled entities

Business combinations arisen on the transfer of investments in entities controlled by the shareholder controlling the Bank are recognised at the carrying amounts from the date of the combination. The assets acquired and liabilities assumed are recognised at their carrying amounts as reported in the financial statements of the acquiree. Equity shares in acquirees are added to the corresponding equity shares within the Bank's equity other than those relating to issued capital. Consolidated financial statements incorporate the results of the consolidated entities for all the periods in which an entity was under joint control of the seller, irrespective of the time of the acquisition.

2.4 Functional and presentation currency

Items included in the financial statements are presented in the currency of the primary economic environment in which the 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 rates of exchange set by the Croatian National Bank and used in the conversion of the Bank's assets and liabilities at the date of the statement of financial position were as follows:

31 December 2016
1 EUR = 7.557787 kn
1 CHF = 7.035735 kn
1 USD = 7.168536 kn
31 December 2015
1 EUR = 7.635047 kn
1 CHF = 7.059683 kn
1 USD = 6.991801 kn

2.5 Foreign currency translation

Transactions in foreign currencies are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the retranslation of monetary assets and liabilities denominated in foreign currencies at the year-end rates are recognised in profit and loss.

Foreign-currency denominated non-monetary assets and items that are measured in terms of historical cost are translated at the exchange rates in effect on the transaction dates and are not retranslated at the reporting date. The Bank does not apply cash flow hedges and

• All amounts are expressed in thousands of HRK

qualifying net investment hedges as defined in International Accounting Standard 39 "Financial Instruments: Measurement and Recognition" ("IAS 39").

Changes in the fair value of monetary securities denominated in foreign currencies and classified as available for sale are split into the exchange differences arisen from changes in the security's amortised cost and other changes in the net carrying amount of the security. Translation differences are recognised in profit or loss, and other changes in the carrying amount are recognised in equity.

The Bank has a portion of assets and liabilities originally denominated in Croatian kunas, which are linked to a foreign currency with a one-way currency clause. The clause provides the Bank the option to remeasure relevant assets by the higher of the foreign exchange rate valid as of the date of maturity and foreign exchange rate valid as of the date of origination of the financial instrument. In case of a liability linked to this clause, the counterparty has this option. Due to the specifics of the market in the Republic of Croatia the fair value of this option cannot be calculated, as forward rates for the Croatian kuna for periods over 6 months are not available. The Bank therefore estimates the values its assets and liabilities governed by such clauses at the higher of the middle spot rate of the Croatian National Bank valid at the reporting date and the contractually agreed foreign exchange rate for the option (valid at the date of the contract).

2.6 Leases

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

Assets held under finance leases are initially recognised as assets of the Bank at the lower of their fair value at the date of acquisition and the present value of the minimum lease payments. The corresponding liability to the lessor is included in the statement of financial position as a finance lease obligation. Lease payments are apportioned between finance charges and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance costs are charged directly to profit or loss, unless they are directly attributable to qualifying assets, in which case they are capitalised in accordance with the Bank's general policy on borrowing costs. are recognised as expenses in the periods in which they are incurred.

Operating lease payments are charged to profit or loss on a straight-line basis over the lease term, except where another systematic basis would be more representative of the time pattern in which economic benefits from the leased asset are consumed. Contingent rentals arising under operating leases are recognised as an expense in the period in which they are incurred.

In the event that lease incentives are received to enter into operating leases, such incentives are recognised as a liability. The aggregate benefit of incentives is recognised as a deduction from the rental expense on a straight-line basis, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

2.7 Interest income and expense

Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount.

Interest income includes coupons earned on fixed income investments and securities as well as accrued discount and premium on treasury bills and other discounted instruments.

One-off loan origination fees for loans which are probable of being drawn down, are deferred (together with related direct costs) and recognized as an adjustment to the effective yield of the loan and as such adjust the interest income.

2.8 Fee and commission income and expense

Fees and commissions consist mainly of fees on domestic and foreign payments, granted loans and other credit instruments issued by the Bank.

Fees and commissions are generally recognized as income when due.

2.9 Employee benefits

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

Bonuses
A liability is recognised for the amount expected to be paid under short-term cash bonus plans if the 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.

• All amounts are expressed in thousands of HRK

Long-term service benefits
The Bank provides employees with jubilee and one-off retirement awards. The obligation and costs of these benefits are determined using a projected unit credit method. The projected unit credit method considers each period of service as giving rise to an additional unit of benefit entitlement and measures each unit separately to build up the final obligation. The obligation is measured at the present value of estimated future cash flows using a discount rate that is similar to the interest rate on government bonds where the currency and terms of the government bonds are consistent with the currency and estimated terms of the benefit obligation.

2.10 Taxation

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

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

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 goodwill or 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 asset 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.

2.11 Cash and cash equivalents

For the purpose of reporting cash flows, cash and cash equivalents comprise cash, balances with the Croatian National Bank (CNB), accounts with other banks and term deposits with other banks with contractual maturities of up to three months.

Cash and cash equivalents exclude the obligatory reserves with the CNB, as these funds are not available for the Bank's day-to-day operations.

2.12 Financial instruments

Classification
The Bank classifies its financial instruments into the following categories: at fair value through profit or loss, loans and receivables, financial assets available for sale, held-to-maturity investments or other financial liabilities. The classification depends on the purpose for which the financial instruments are acquired. The management

• All amounts are expressed in thousands of HRK

determines the classification of financial instruments upon initial recognition and, where appropriate, reviews this designation at every reporting date. Items are designated as at fair value through profit or loss only upon initial recognition. Items designated as at fair value through profit or loss are not reclassified.

Financial assets and financial liabilities at fair value through profit or loss

This category has two sub-categories: financial instruments held for trading (including derivatives), and those designated by management as at fair value through profit or loss at inception. A financial instrument is classified into this category if it is acquired or incurred principally for the purpose of selling or repurchasing it in the near term, for the purpose of short-term profit-taking, or if it is designated as such by management.

The Bank classifies a financial asset as held for trading if:

- it has been acquired principally for the purpose of selling it in the near term; or
- on initial recognition it is part of a portfolio of identified financial instruments that the Bank manages together and has a recent actual pattern of short-term profit-taking; or
- it is a derivative that is not designated and effective as a hedging instrument.

A financial asset other than a financial asset held for trading may be designated as at FVTPL upon initial recognition if:

- such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or
- the financial asset forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Bank's documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or
- it forms part of a contract containing one or more embedded derivatives, and IAS 39 "Financial Instruments: Recognition and Measurement" permits the entire combined contract (asset or liability) to be designated as at FVTPL.

Financial instruments at fair value through profit or loss include investments in investment funds as well as derivatives.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, except for:

- those the Bank intends to sell immediately or in a short-term, which are classified as financial assets held for trading, and those initially designated by the management as at FVTPL;
- those initially designated as available for sale; or
- those under which the Bank will probably not be able to recover its entire initial investment for reasons other than impaired creditworthiness, which are classified as available for sale.

Loans and receivables arise when the Bank provides money to a debtor with no intention of trading with the receivable and include amounts due from other banks, loans to and receivables from customers, and the obligatory reserve with the Croatian National Bank. Loans and receivables are measured at amortised cost using the effective interest method, less any impairment. Interest income is recognised by applying the effective interest rate, except for short-term receivables where the recognition of interest would be immaterial.

Held-to-maturity investments

Held-to-maturity (HTM) investments are non-derivative financial assets with fixed or determinable payments and fixed maturity dates that the Bank has the positive intent and ability to hold to maturity. These include certain debt securities. Held-to-maturity investments are measured at amortised cost using the effective interest method, less any impairment, with revenue recognised on an effective yield basis.

Financial assets available for sale

Financial assets available for sale (AFS) are non-derivative financial assets that are either designated as AFS or are not classified elsewhere. Financial assets available for sale are intended to be held for an indefinite period of time, but may be sold in response to liquidity needs or changes in interest rates, foreign exchange rates, or equity prices. Available-for-sale financial assets include debt and equity securities and units in open ended investment funds. Fair value is determined in the manner described in Note 15. Gains and losses arising from changes in fair value are recognised in other comprehensive income and accumulated in the investments revaluation reserve, with the exception of impairment losses, interest calculated using the effective interest method, and foreign exchange gains and losses on monetary assets, which are recognised in profit or loss. Where the investment is disposed of or is determined to be impaired, the cumulative gain or loss previously accumulated in the investments revaluation reserve is reclassified to profit or loss.

Dividends on AFS equity instruments are recognised in profit or loss when the Bank's right to receive the dividends is established.

The fair value of AFS monetary assets denominated in a foreign currency is determined in that currency and translated at the spot rate in effect at the reporting date. The foreign exchange gains and losses that are recognised in profit or loss are determined based on the amortised cost of the monetary asset, and other foreign exchange gains and losses are recognised in other comprehensive income Unlisted (!) equity securities and whose fair value cannot be determined reliably are carried at cost. All other available-for-sale investments are subsequently measured at fair value.

Other financial liabilities

Other financial liabilities comprise all financial liabilities not held for trading or designated at fair value through profit or loss. Other financial liabilities include amounts due to other banks, amounts due to customers and other borrowed funds.

Recognition and derecognition

Purchases and sales of financial instruments at fair value through profit or loss, held to maturity and available for sale are recognised on the settlement date, which is the date when the financial instrument is transferred from the Bank. Loans and receivables and other financial liabilities are recognised when advanced to borrowers or received from lenders.

The Bank derecognises financial instruments (in full or in part) when the rights to receive cash from a financial instrument have expired or when it loses control over the contractual rights to the instrument. This occurs when the Bank transfers substantially all the risks and rewards of ownership to another business entity or when the rights are exercised, surrendered or have expired.

The Bank derecognises a financial liability only when it no longer exists, i.e. when it is discharged, cancelled or expired. If the terms of a financial liability change, the Bank will derecognise the liability and instantaneously recognise a new financial liability, with new terms and conditions.

Realised gains and losses from the disposal of financial instruments are determined using the weighted average cost method. except for financial assets available for sale whose recognision is based on first in first out method, which Bank implemented in mid 2016. Taking in account the scope and structure of financial asset sold during the year, as in previous years financial impact of methodology change is not material for financial year 2016.

Initial and subsequent measurement

Financial assets and liabilities are recognised initially at their fair value plus, in the case of a financial asset or a financial liability not carried at fair value through profit or loss, transaction costs directly attributable to the acquisition or issue of the financial asset or financial liability.

After initial recognition, the Bank measures financial instruments at fair value through profit or loss and available for sale at their fair value, without any deduction for selling costs. Equity instruments classified as available for sale that do not have a quoted market price in an active market and whose fair value cannot be reliably measured are carried at cost less impairment. Debt securities that do not have a quoted market price in an active market are recognised at amortised or indexed cost

Loans and receivables, held-to-maturity investments and other financial assets are measured at amortised cost using the effective interest method.

Gains and losses

Gains and losses arising from a change in the fair value of financial assets or financial liabilities at fair value through profit or loss are recognised in the statement of comprehensive income.

Gains and losses on changes in the fair value of monetary assets available for sale are recognised directly in the fair valuation reserve within equity and are reported in the statement of changes in equity. Impairment losses, foreign exchange gains and losses, interest income and amortisation of premium or discount using the effective interest rate method on available-for-sale monetary financial assets are recognised in the statement of comprehensive income. Dividend income is recognised in the statement of comprehensive income.

Upon sale or other derecognition of available-for-sale assets, any cumulative gains or losses are transferred to the statement of comprehensive income.

Gains and losses on financial instruments carried at amortised cost may also arise, and are recognised in the statement of comprehensive income when a financial instrument is derecognised or when its value is impaired.

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-exchange-traded derivatives is estimated at the amount that the Bank would receive or pay to terminate the contract at the

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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.

Fair value measurements recognised in the statement of financial position

The following table provides an analysis of financial instruments that are measured subsequent to initial recognition at fair value, grouped into Levels 1 to 3 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).

Reclassification of financial assets

Reclassification is permitted only in rare circumstances and where the asset is no longer held for the purpose of selling it in the short-term. In all other cases, reclassification of financial assets is restricted to debt instruments.

Reclassifications are accounted for at the fair value of the financial asset at the date of reclassification.

2.13 Impairment of financial assets

Impairment of financial assets at amortised cost

At each reporting date the Bank performs a review to identify any objective evidence that a financial asset, or a group of financial assets, may be impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a “loss event”) and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated. Objective evidence that a financial asset or group of assets is impaired includes observable data that comes to the attention of the Bank about the following loss events:

- significant financial difficulty of the issuer or counterparty;
- a breach of contract, such as a default or delinquency in interest or principal payments;
- the Bank granting to the borrower a concession in the form of restructuring a loan or an advance that the Bank would not otherwise consider;
- a significant restructuring because of financial difficulties or expected bankruptcy;
- the disappearance of an active market for that financial asset because of financial difficulties; or
- observable data indicating that there is a measurable decrease in the estimated future cash flows from a group of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial assets in the group.

If there is objective evidence of impairment of loans and advances or a held-to-maturity investment carried at amortised cost, the amount of the impairment loss is determined as the difference between the carrying amount of the asset and the present value of estimated future cash flows discounted using the original interest rate of the financial assets.

The carrying amounts of assets are impaired through an allowance account, and the impairment losses are recognised in the statement of comprehensive income. If a loan and receivable or held-to-maturity investment has a variable interest rate, the discount rate for measuring any

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impairment loss is the current effective interest rate determined under the contract.

Individually significant financial assets are tested for impairment on an individual basis. The remaining financial assets are assessed collectively. Individually significant assets not identified as impaired are included in the basis for collective impairment assessment.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed by adjusting the allowance account. The amount of the reversal is recognised in the statement of comprehensive income. When a loan is uncollectible, it is written off against the related impairment allowance account after all the necessary procedures have been completed and the amount of the loss has been determined. Subsequent recoveries of amounts previously written off are recognised as a reversal of impairment losses in the statement of comprehensive income.

Where possible, the Bank seeks to renegotiate loans instead of resorting to the activation of the underlying collateral. Derecognition is considered in case of renegotiated terms and conditions for a financial asset or replacing an existing financial asset with a new one as a result of the financial difficulties of the borrower. If the cash flows under renegotiated loans are significantly different, the contractual rights to the cash flows are considered to have expired. Following the renegotiation, impairment is measured using the original effective interest rate determined before the renegotiation, and the renegotiated loan is no longer considered past due. Renegotiated loans are monitored on an on-going basis to ensure that all the terms and conditions are met and future inflows are realised. Provisions continue to be recognised for renegotiated loans, either on an individual or a collective basis, using the original effective interest rate.

Financial assets at fair value through profit or loss

At each reporting date the Bank performs a review to identify any objective evidence that a financial asset, or a group of financial assets, may be impaired. For equity investments classified as available for sale, any significant or prolonged decrease in their fair value below the cost is taken into account in determining whether an asset has been impaired. If there is evidence that an available-for-sale financial asset is impaired, the cumulative loss, defined as the difference between the cost and current fair value, less impairment loss on that financial asset previously recognised in profit or loss, is transferred from equity and recognised in the statement of comprehensive income. Impairment losses recognised in the statement of comprehensive income on equity securities are not reversed through the statement of comprehensive income.

If, in a subsequent period, the fair value of a debt instrument classified as available for sale increases and the increase can be objectively related to an event occurring after the recognition of the impairment loss in profit or loss, the impairment loss is reversed in the statement of comprehensive income.

Financial assets carried at cost

These include equity securities classified as available for sale for which there is no reliable fair value. At each statement of financial position date, the Bank assesses whether there is objective evidence that a financial asset or a group of financial assets is impaired.

An impairment loss is determined as the difference between the carrying amount of the financial asset and the present value of expected future cash receipts discounted using the current market interest rate for similar financial assets. Impairment losses on those instruments are recognised in the statement of comprehensive income and are not subsequently reversed through the statement of comprehensive income.

Impairment of financial assets not identified as impaired

In addition to the above-described impairment losses on financial assets identified as impaired, the Bank recognises in its statement of comprehensive income impairment losses on on- and off-balance sheet credit risk exposures not identified as impaired at the rate of 0.80% for on-balance sheet exposures and 1.00% for off-balance sheet exposures (2015: 0.80% for on-balance sheet exposures), in accordance with the CNB regulations. Securities at fair value were excluded from the calculation of the provisions at the reporting date.

2.14 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. No derivatives are accounted for as hedging instruments. All derivatives are classified as financial instruments held for trading and measured at fair value through profit or loss.

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 remeasured at their fair value. The fair values are obtained from quoted market prices or discounted cash flow models as appropriate. All derivatives with a positive fair value are carried as assets and those with a negative fair value are

• All amounts are expressed in thousands of HRK

presented as liabilities. Changes in the fair value of derivatives are reported in the statement of comprehensive income.

2.15 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.

2.16 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:

	2016	2015
Buildings	40 years	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	1-15 years	1-15 years

Where the carrying amount of an asset exceeds its estimated recoverable amount, it is written down to the recoverable amount.

Gains and losses on disposal of property and equipment are determined by reference to their carrying amounts and are taken into account in determining operating profit. Maintenance and repairs are charged to the statement of comprehensive income as the expenditure is incurred. Improvements are capitalised.

2.17 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.

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 flows (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. Impairment losses on goodwill are not reversed.

Non-financial assets, other than goodwill, 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.

2.18 Financial guarantees

Financial guarantees are contracts that require the Bank to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the terms of a debt instrument.

Financial guarantee liabilities are recognised initially at their fair value, and the initial fair value is amortised over the life of the financial guarantee. The guarantee liability is subsequently carried at the higher of the amortised amount and the present value of any expected payment (when a payment under the guarantee has become probable). Financial guarantees are included in other liabilities.

• All amounts are expressed in thousands of HRK

2.19 Investments in subsidiaries

Investments in subsidiaries are included in the financial statements of the Bank at cost less any impairment losses.

2.20 Interest-bearing borrowings

Interest-bearing borrowings are recognised initially at fair value less transaction costs. They are measured subsequently at amortised cost, with any difference between the proceeds (net of transaction costs) and the redemption value being recognised in the satement of comprehensive income over the period of the borrowings using the effective interest method.

2.21 Current accounts and deposits from banks and customers

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

2.22 Foreclosed properties

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.

Gains and losses on the sale of such assets are recognised in the satement of comprehensive income.

2.23 Off-balance sheet commitments

In the ordinary course of business, the Bank enters into credit related commitments which are recorded in off-balance-sheet accounts 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.

2.24 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.

2.25 Assets 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.

2.29 Demerger involving a statutory merger of a part of the operations of OTP Nekretnine d.o.o.

On 10 February 2015 a demerger agreement (demerger involving a statutory merger) was entered into by OTP banka Hrvatska d.d. and OTP Nekretnine d.o.o., on the basis of which the Commercial Court in Zadar adopted on 27 March 2015 a decision on the status change and the demerger of OTP Nekretnine d.o.o.

The merger of a part of the company's operations was carried out at the carrying amounts as of the demerger date, as it involved entities under other than common

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control. The assets, liabilities and equity components acquired on the merger are summarised in the table below.

The assets and liabilities acquired by the Bank on the statutory merger were transferred at the carrying amounts at which they were reported in the financial statements of the company immediately before the merger.

Effect of the statutory merger

The effects of the statutory merger of OTP Nekretnine d.o.o. on 27 March 2015, on the Bank's assets and liabilities were as follows:

	Acquired on the merger
	HRK'000
Assets acquired and liabilities assumed	
Tangible assets	11,462
Trade receivables	330
Trade and other payables	(7)
Deferred tax assets and liabilities	**11,785**
Less: carrying amount of the investments in subsidiaries	(11,462)
Net identified liability added to the Bank	**323**
Merger of a subsidiary - increase in the Bank's reserves	
Retained earnings after the acquisition	323

2.30 Statutory merger of OTP Faktoring d.o.o.

Based on the decision of the Commercial Court in Zadar dated 10 April 2015, a statutory merger of OTP Faktoring was effected, and the company ceased to exist as a separate legal person. The merger was carried out at the carrying amounts as of the merger date, as it involved entities under other than common control. The assets, liabilities and equity components acquired on the merger are summarised in the table below. The assets and liabilities acquired by the Bank on the statutory merger were transferred at the carrying amounts at which they were reported in the financial statements of the company immediately before the merger. The difference between the cost of acquisition (HRK 1 thousand) and the net assets acquired (HRK 2,947 thousand) was negative and recognised as a post-merger cost.

Effect of the statutory merger

The effects of the statutory merger of OTP Faktoring d.o.o, effected at 10 April 2015, on the Bank's assets and liabilities were as follows:

	Acquired on the merger
	HRK'000
Assets acquired and liabilities assumed	
Cash and deposits with banks	2,868
Tangible assets	121
Other assets	229
Liabilities to banks	(5,498)
Amounts owed to employees, trade and other payables	(667)
Deferred tax assets and liabilities	**(2,947)**
Post-merger costs (Note 7)	(2,948)

The post-merger cost in the amount of HRK 2,948 thousand is disclosed in Note 7 "Other operating expenses".

• All amounts are expressed in thousands of HRK

3 NET INTEREST INCOME

	2016	2015
Interest and similar income		
Cash reserves and amounts due from other banks	7,418	10,073
Corporate loans	161,116	171,949
Retail loans	462,709	489,865
Debt securities	55,883	50,902
Others	-	1
	687,126	722,790
Interest and similar expense		
Current accounts and deposits from individuals	105,987	182,562
Current accounts and corporate deposits	10,463	16,693
Other borrowed funds and amounts owed to banks	24,668	27,000
Others	2	21
	141,120	226,276

Included in the various interest income line items for the year ended 31 December 2016 is a total interest income in the amount of HRK 46,328 thousand (2015: HRK 45,656 thousand) relating to interest income recovered from previously impaired assets.

4 NET FEE AND COMMISSION INCOME

a) Net fee and commission income – analysis by source

	2016	2015
Fee and commission income		
Corporate customers	40,087	38,167
Banks	21,037	28,495
Individuals	103,323	97,310
	164,447	163,972
Fee and commission expense		
Corporate customers	16,211	16,114
Banks	26,711	24,375
	42,922	40,489

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

	2016	2015
Fee and commission income		
Loan-related fees and commissions	4,562	4,054
Card-related fees and commissions	29,899	39,001
Domestic payment transaction related fees and commissions	43,939	42,110
Foreign payment transaction related fees and commissions	9,998	9,903
Guarantee-related fees and commissions	3,274	3,373
Asset management, brokerage and consultancy service fees	1,812	1,688
Package fees charged to individuals	30,971	27,194
Account maintenance fees	14,008	14,076
Other fees and commissions received	25,984	22,573
	164,447	163,972
Fee and commission expense		
Card-related fees and commissions	17,603	16,856
Domestic payment transaction related fees and commissions	7,763	7,152
Foreign payment transaction related fees and commissions	11,509	10,444
Other fees and commissions paid	6,047	6,037
	42,922	40,489

• All amounts are expressed in thousands of HRK

5 NET GAINS FROM TRADING IN AND VALUATION OF FINANCIAL INSTRUMENTS

	2016	2015
Net foreign exchange trading gains	67,668	65,897
Realised gains on available-for-sale securities	39,966	204
Net gains on derivatives	10,601	18,105
Net loss on translation of foreign-currency assets and liabilities	(7,847)	(28,086)
	110,388	56,120

6 OTHER OPERATING INCOME

	2016	2015
Amounts recovered through court actions	1,316	13,680
Dividend income	118	69
Accrued profit under the group insurance policy	92	27
Gains on disposal of property and equipment	2,227	94
Visa and Mastercard awards	659	750
Inventory gains	246	617
Rental income	3,537	2,739
Subsequent recovery of receivables written off in prior years	4,336	232
Other income	667	604
	13,198	18,812

The majority of the income from legal actions comprises two legal actions against the Republic of Croatia which became final in 2015 and related to the determination of the corporate income tax base for 2003 and a VAT dispute regarding loan receivables from Pevec d.d., in bankruptcy, factored to OTP Aventin d.o.o., a related company of the Bank.

7 OTHER OPERATING EXPENSES

	2016	2015
Professional services and cost of material	117,429	122,033
Savings deposit insurance premiums	30,983	31,385
Marketing costs	21,715	19,676
Depreciation and amortisation	36,911	35,914
Administrative expenses	21,465	22,914
Other taxes and contributions	4,851	4,638
Written-off receivables	2,170	1,960
Other costs	3,859	7,342
The cost of the merger of OTP Faktoring (Note 2.32)	-	2,948
	239,383	248,810

a) Personnel expenses

	2016	2015
Gross salaries	132,684	133,747
- Net salaries	*93,215*	*93,001*
- Taxes, surtaxes and contributions	*39,469*	*40,746*
Contributions on salaries	22,710	23,075
New provisions made/(reversal of provisions) for termination benefits, jubilee awards and vacation allowances (Note 26)	197	(1,173)
Provisions for severance payments under consensual termination	414	1,132
Provisions for bonuses, rewards and other payments to employees	32,152	21,948
	188,157	178,729

At the year end the Bank had 1,150 (2015: 1,157 employees).

• All amounts are expressed in thousands of HRK

8 NET LOSSES FROM IMPAIRMENT AND PROVISION CHARGE

	2016	2015
Impairment of loan receivables, net (Note 14)	142,090	149,201
(Reversal of provisions) for HTM investments, net (Note 16)	(169)	(58)
(Reversal of provisions) for other assets, net (Note 21)	(3,831)	(4,527)
Impairment of amounts due to banks, net (Note 12)	23	100
Litigation provisions, net (Note 25)	86,094	26,637
Provisions made/(Reversal of provisions) for off-balance sheet items, net (Note 25)	5,640	(501)
Impairment of investment in subsidiary OTP Invest (Note 17)	-	1,554
(Reversal of provisions)/Provisions made for overpayment and conversion of CHF loans (Note 25)	(18,554)	244,000
	211,293	416,406

9 TAXATION

(a) Income tax expense recognised in profit or loss

	2016	2015
Current income tax credit	-	(17,600)
Net deferred tax charge/(credit)	28,866	(51,827)
	28,866	(69,427)

(b) Reconciliation of the accounting profit and income tax expense at 20%

	2016	2015
Profit/(loss) before tax	**152,284**	**(149,016)**
Tax at the statutory rate of 20% (2015: 20%)	30,457	-
Recognition of overpaid tax for 2014	-	(12,111)
Refund of corporate income tax from prior years	-	(5,489)
Non-taxable income, net of expenses not recognised for tax purposes	5,895	1,541
Utilisation of double-dip benefits	(147)	(97)
Net tax assets arisen from temporary differences	(17,843)	2,236
Deferred tax assets in respect of accounting loss for 2015	-	(29,803)
Tax assets recognised on tax losses from previous years assumed on the merger of OTP Faktoring d.d.	-	(491)
Tax assets recognised on tax losses from previous years assumed on the merger of Banco Popolare Croatia d.d.	-	(25,213)
Correction on overstated tax assets for 2015	6,290	-
Reconciliation of the tax assets at the rate of 18%	4,214	-
Income tax	**28,866**	**(69,427)**
Effective tax rate	**-**	**-**

The Bank did not include in the income tax assessment for 2014 non-taxable income from goodwill in the amount of HRK 152,755 thousand and the 2009 tax loss of Banco Popolare Croatia d.d. This was subsequently corrected on the submission of the 2014 tax return, and the Bank had no income tax liability, but was rather entitled to claim the refund of the entire surplus on the tax prepayments made for 2015, which was included in the current tax credit. Therefore, the entire amount of tax losses brought forward of Banco Popolare Croatia that relates to 2014 and 2013 was recognised as a deferred tax asset in 2015 at 20% of the tax base.

• All amounts are expressed in thousands of HRK

(c) Movement in deferred tax assets and liabilities

	Deferred loan origination fees	Unrealised gains/(losses) on available-for-sale securities	Others	Tax losses carried forward	Total
Balance at 1 January 2015	**6,466**	**(8,983)**	**8,503**	**-**	**5,986**
Credited to the statement of comprehensive income	(1,786)	-	(452)	54,064	51,826
Charged to equity	-	(6,455)	-	-	(6,455)
Balance at 31 December 2015	**4,680**	**(15,438)**	**8,051**	**54,064**	**51,357**
Credited to the statement of comprehensive income	1,704	-	13,082	(43,652)	(28,866)
Charged to equity	-	6,777	-	-	6,777
Balance at 31 December 2016	**6,384**	**(8,661)**	**21,133**	**10,412**	**29,268**

The balance captured under the line item 'Others' consists of HRK 6,244 thousand (2015: HRK 5,856 thousand) of deferred assets on provisions for bonuses, salaries to be paid during notice period, termination and other employee benefits, HRK 1,117 thousand (2015: HRK 1,363 thousand) in respect of the losses on revaluation of the commercial properties and other assets, HRK 1,369 thousand (2015: HRK 831 thousand) in respect of unrealised losses on the measurement of derivatives at fair value and HRK 12,403 thousand (2015: nil) in respect of provisions for interest on legal actions.

(d) Tax losses

The Bank is subject to taxation in accordance with the Croatian legislation. The availability of tax losses carried forward expires after five years and is subject to review based on the audit findings determined by the Ministry of Finance of the Republic of Croatia.

	2016	2015
Tax losses brought forward (assumed on the merger of Banco Popolare Croatia d.d.)	-	126,065
Tax losses transferred on the merger of OTP Faktoring d.o.o.	-	2,455
Tax losses brought forward from 2015	57,846	141,798
Total tax losses available for carryforward	**57,846**	**270,318**
Tax effect of tax losses available for carryforward at the rate of 18% (2015: 20%)	10,412	54,064
Amount not recognised as deferred tax asset	-	-
Deferred tax assets recognised	**10,412**	**54,064**

At 31 December 2016 unused tax losses available for reducing future taxable profits amount to HRK 57,846 thousand (2015: HRK 270,318). Based on those losses, the Bank recognised deferred tax assets in the amount of HRK 10,412 thousand (2015: HRK 54,064 thousand), as it is confident that it will generate sufficient future taxable profits that would allow the utilisation of the benefit of the available tax assets.

The availability of tax losses carried forward at 31 December 2016 expires as follows:

	2016	2015
No more than 5 years	-	142,111
No more than 4 years	57,846	43,283
No more than 3 years	-	83,758
No more than 2 years	-	1,166
No more than 1 year	-	-
Total tax losses available for carryforward	**57,846**	**270,318**

10 EARNINGS PER SHARE

For the purposes of determining earnings per share, earnings represent the Bank's profit for the current year attributable to the ordinary shareholders of the Bank.

A reconciliation of the profit for the year attributable to ordinary shareholders is provided below.

	31.12.2016	31.12.2015
Profit/(loss) for the year	123,418	(79,589)
Profit/(loss) attributable to ordinary shareholders	123,418	(79,589)
Weighted average number of shares of 200 HRK each (for basic and diluted earnings per share)	4,111,398	4,111,398
Earnings per share – basic and diluted (in HRK)	**30.02**	**(19.36)**

• All amounts are expressed in thousands of HRK

11 CASH AND BALANCES WITH THE CROATIAN NATIONAL BANK

	31.12.2016	31.12.2015
Cash in hand	279,163	293,774
Current account balance	555,830	535,981
FX settlement account with the CNB	60,362	-
Current accounts with foreign banks	707,148	108,851
Current accounts with domestic banks	127,735	6,463
Instruments in course of collection	708	1,241
Assets included in cash and cash equivalents (Note 29)	**1,730,946**	**946,310**
Obligatory reserve at the Croatian National Bank		
- in HRK	891,463	888,609
- in foreign currency	-	158,328
Total obligatory reserve at the Croatian National Bank	**891,463**	**1,046,937**
	2,622,409	1,993,247

The foreign-currency settlement account with the CNB is an account for the national and cross-border real-time settlement of euro-denominated payment transactions through TARGET2 system. The national component TARGET2-HR went into production on 1 February 2016, in accordance with the National SEPA Migration Plan. Upon the start of the component, TARGET2-HR has become the 25th component of the payment system TARGET2. The participants of the TARGET2-HR components are the Croatian National Bank and signed-up credit institutions.

The CNB requires from banks to maintain obligatory reserve funds, both in the form of amounts required to be deposited with the CNB and in the form of other liquid receivables. The obligatory reserve with the CNB represents the amount required to be deposited with the CNB.

At 31 December 2016 the obligatory reserve allocation rate was 12% (2015: 12%) of kuna- and foreign-currency denominated deposits, borrowings and issued debt securities.

At 31 December 2016 the percentage of the mandatory kuna reserve funds is 70% (2015: 70%), whereas the remaining 30% (2015: 30%) are to be held in the form of other liquid receivables, including the cash in the vault, but excluding cash in the vault and in hand. The percentage includes 75% (2015: 75%) of the foreign-currency denominated portion of the obligatory reserve required to be held in kunas.

The CNB Decision of 15 December 2015 imposed the requirement to maintain 100 percent of the foreign-currency portion of the obligatory reserve funds, which applies from 13 January 2016. The Decision also imposed the obligation for banks to maintain, on the basis determined in May 2016 and thereafter, 2 percent of the foreign-currency portion as an average daily balance of the funds on their own euro-denominated settlement accounts at the Croatian National Bank, i.e. on their own PM accounts within the TARGET2-HR system.

12 AMOUNTS DUE FROM OTHER BANKS

	31.12.2016	31.12.2015
Short-term placements with other banks	136,211	392,765
Loans and advances to other banks in Croatia	-	26,244
Reverse repo loans to other banks	-	**349,512**
	136,211	768,521
Less: provisions for impairment	(1,965)	(1,942)
	134,246	766,579

Changes in the provisions for impairment of amounts due from other banks:

	2016	2015
Balance at 1 January	1,942	1,842
New provisions made (Note 8)	23	100
Balance at 31 December	1,965	1,942

The entire amount due from other banks is measured at amortised cost.

• All amounts are expressed in thousands of HRK

13 FINANCIAL ASSETS AND LIABILITIES AT FAIR VALUE THROUGH PROFIT OR LOSS

(a) Financial assets at fair value through profit or loss

	31.12.2016		31.12.2015	
	Nominal amount	Fair value	Nominal amount	Fair value
Units in open-ended investment funds managed by a related party (quoted)	-	11,282	-	32,210
FX swap contracts	903,820	879	1,240,569	3,621
FX forward contracts	122,715	2,628	7,662	26
	1,026,535	14,789	1,248,231	35,857

The units in the open-ended investment funds are measured on the basis of the funds' net asset values.

(b) Financial liabilities at fair value through profit or loss

	31.12.2016		31.12.2015	
	Nominal amount	Fair value	Nominal amount	Fair value
FX swap contracts	907,937	4,982	1,240,367	4,132
FX forward contracts	122,709	2,622	7,661	25
	1,030,646	7,604	1,248,028	4,157

The Bank has entered into derivative contracts as noted below.

The Bank uses cross-currency swaps to reduce the currency exposures that are inherent in any banking business. The Bank reported the balances as off-balance sheet items. The derivatives were entered into with the parent bank. At 31 December 2016 the Bank had currency forward contracts with its parent bank, domestic commercial banks, funds and companies as the counterparties.

14 LOANS AND RECEIVABLES FROM CUSTOMERS

Analysis by type of product

	31.12.2016	31.12.2015
Kuna-denominated		
Retail customers	7,623,397	7,468,687
Corporate customers	3,245,331	3,428,547
Foreign-currency denominated		
Retail customers	111	207
Corporate customers	968,174	1,004,735
Total loans	**11,837,013**	**11,902,176**
Less: provisions for impairment	(1,518,452)	(1,394,103)
	10,318,561	10,508,073

Included in the loans are loans incorporating a currency protection clause, such as the euro (EUR), Swiss franc (CHF) and US dollar (USD), which amount to HRK 6,190,101 thousand (2015: HRK 6,787,918 thousand). 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 35,064 thousand (2015: HRK 31,787 thousand).

• All amounts are expressed in thousands of HRK

Movements in the impairment provision were as follows:

	2016	2015
Balance at 1 January	**1,394,103**	**1,251,602**
Amounts collected	(90,318)	(33,444)
New provisions made	232,408	182,645
Impairment losses recognised in the satement of comprehensive income (Note 8)	**142,090**	**149,201**
Exchange differences	(1,987)	(472)
Amounts written-off	(15,754)	(6,228)
Balance at 31 December	**1,518,452**	**1,394,103**

At 31 December 2016, the total amount of impaired loans HRK 2,055,573 thousand (2015: HRK 2,337,528 thousand).

Credit risk concentration by industry

Set out below is an overview of the Bank's concentration by various types of industries (gross amounts before provision for impairment):

	31.12.2016	31.12.2015
Agriculture, forestry and fisheries	301,324	357,164
Mining	17,423	20,140
Food and beverage production	151,824	127,337
Leather and textiles production	8,927	12,002
Publishing	13,417	12,380
Non-metal mineral and chemical products	99,948	23,573
Metal-working industry	48,926	45,205
Other manufacturing industries	239,334	218,238
Energy, gas and water supply	27,737	29,706
Construction	810,065	909,940
Trade	631,914	549,752
Hotel and restaurant trade	477,219	491,341
Transport and communications	115,998	136,143
Financial intermediation	55,744	16,129
Real property	408,509	353,155
Public administration and defence	551,696	873,829
Education, health and social security	130,591	151,173
Other services and social activities	122,909	106,075
Total corporate loans	**4,213,505**	**4,433,282**
Retail customers	**7,623,508**	**7,468,894**
	11,837,013	**11,902,176**
Less: provisions for impairment	(1,518,452)	(1,394,103)
Total loans	**10,318,561**	**10,508,073**

Conversion of CHF loans

In the period from 2005 to 2008 the Bank granted loans to individuals which were denominated or tied to the Swiss franc (CHF).

At the inception of the loan origination, individuals could benefit from the lower interest rates on such CHF loans. However, starting from 2006 the CHF LIBOR rate started to increase, resulting in higher interest rates on CHF loans granted by the Bank. In addition, the value of the Swiss franc grew strongly against the Croatian kuna, first in 2009 and then again in 2015, which increased the monthly instalments additionally, while the CHF LIBOR rate decreased considerably.

On 22 September 2015 the Act amending the Consumer Credit Act was adopted (hereinafter: "the Amended Act") which has introduced a permanent measure for regulating the conversion of CHF loans to euro-denominated loans. The Amended Act came into force on 30 September 2015.

Under the amendments, the conversion of CHF loans to euro-denominated loans was to be performed so as to align the position of CHF loan debtors with the one they would have if the loans were denominated in euros, and the position of the beneficiaries of loans pegged to the Swiss franc with the one they would have if the loans were pegged to the euro by means of a euro currency clause. The Amended Act imposed to banks a transition period of 45 days from its effective date for delivering a loan conversion calculation as at 30 September 2015 to the loan beneficiaries as well as specified a period of 30 days for consumers to accept the conversion. The time limit for the conversion itself, upon its acceptance, has not been defined.

Total estimated losses of the Bank recognised based on the accepted conversion amounts to HRK 244,000 thousand and is included within the line item Provisions made for overpayment and conversion of CHF loans disclosed in Note 8 above.

• All amounts are expressed in thousands of HRK

The table below provides an overview of the loan tranches and the pre-conversion carrying amounts of the loans subject to the conversion, together with post-conversion loan tranches and carrying amounts for customers who accepted the conversion as well as the loss on the conversion:

	At 30 September 2015, prior to conversion		Conversion accepted by customers until 31 December 2015		Loss on conversion
	Number of loan agreements	Carrying amount	Number of loan agreements	Carrying amount at 30 September 2015 (pre-conversion)	
Loans not yet due	1,414	448,679	1,390	446,341	
Delinquent loans not impaired	283	105,686	274	103,263	
Impaired loans	268	113,712	158	70,786	
Gross loans	1,965	668,077	1,822	620,390	244,000
Less: impairment		(51,104)		(25,247)	-
Total		616,973		595,143	244,000

Of the loans accepted by the debtors for conversion, as presented in the table above, 1,815 individual loan agreements were converted until 31 December 2016 (eight until 31 December 2015), and the remaining loan agreements are in the process of conversion.

In 2016 the Bank recognised income from the reversal of the CHF loan conversion provisions in the amount of HRK 18,554 thousand representing the difference between the estimated and the actual conversion loss (Note 8). The provisions for the CHF loan conversion for customers having accepted, but not yet exercised the conversion amounts to HRK 4,175 thousand (2015: HRK 242,024 thousand), as presented in Note 25 "Provisions".

15 FINANCIAL ASSETS AVAILABLE FOR SALE

	31.12.2016	31.12.2015
Equity securities	28,705	46,734
Debt securities	1,927,601	1,793,537
Units in open-end investment funds	53,580	44,597
	2,009,886	1,884,868

Equity securities consist mainly of the Zagreb Stock Exchange shares and the shares of Visa Inc. USA.

The decrease in equity securities available for sale is mostly due to the collection of the shares of Visa Europe revalued on the acquisition of the company by Visa Inc.

(a) Equity securities

	31.12.2016	31.12.2015
Equity securities at cost		
- Listed	16,098	15,607
- Unlisted	16,199	34,719
Less: provisions for impairment	(3,592)	(3,592)
	28,705	46,734

(b) Debt securities

	31.12.2016	31.12.2015
Listed		
Bonds of the Ministry of Finance	712,938	150,110
Foreign government bonds	1,004,980	1,170,791
Subtotal: listed debt securities	*1,717,918*	*1,320,901*
Treasury bills of the Croatian Ministry of Finance	209,683	472,636
Subtotal: unlisted debt securities	*209,683*	*472,636*
	1,927,601	1,793,537

• All amounts are expressed in thousands of HRK

The RHMF-O-203E bonds of the Republic of Croatia were issued in 2010. They are denominated in Croatian kunas and pegged with a currency clause to the euro and they bear interest at a rate of 6.50%, which is paid semi-annually. The bonds mature in 2020 and are quoted on the Zagreb Stock exchange. The fair value of the bonds is determined based on the bid price published on the Bloomberg service.

The RHMF-O-172A bonds of the Republic of Croatia were issued in 2007. They are denominated in Croatian kunas and bear interest at a rate of 4.75%, which is payable semi-annually. The bonds mature in 2017 and are quoted on the Zagreb Stock exchange. The fair value of the bonds is determined based on the bid price published on the Bloomberg service.

The RHMF-O-187A bonds of the Republic of Croatia were issued in 2013. They are denominated in Croatian kunas and bear interest at a rate of 5.25%, which is payable semi-annually. The bonds mature in 2018 and are quoted on the Zagreb Stock exchange. The fair value of the bonds is determined based on the bid price published on the Bloomberg service.

The bonds of the Republic of Croatia (RHMF-O-17BA) were issued in 2010. They are denominated in Croatian kunas and bear interest at a rate of 6.25%, which is payable semi-annually. The bonds mature in 2017 and are quoted on the Zagreb Stock exchange. The fair value of the bonds is determined based on the bid price published on the Bloomberg service.

The RHMF-O-257A bonds of the Republic of Croatia were issued in 2015. They are denominated in Croatian kunas and bear interest at a rate of 4.50%, which is payable semi-annually. The bonds mature in 2025 and are quoted on the Zagreb Stock exchange. The fair value of the bonds is determined based on the bid price published on the Bloomberg service.

The bonds of the Republic of Croatia (RHMF-O-26CA) were issued in 2015. They are denominated in Croatian kunas and bear interest at a rate of 4.25%, which is payable semi-annually. The bonds mature in 2026 and are listed on the Zagreb Stock exchange. The fair value of the bonds is determined based on the bid price published on the Bloomberg service.

The RHMF-O-203A bonds of the Republic of Croatia were issued in 2010. They are denominated in Croatian kunas and bear interest at a rate of 6.75%, which is payable semi-annually. The bonds mature in 2019 and are listed on the Zagreb Stock exchange. The fair value of the bonds is determined based on the bid price published on the Bloomberg service.

The bonds of the Republic of Croatia XS0464257152 were issued in 2009. They are denominated in Croatian kunas and bear interest at a rate of 6.75%, which is payable semi-annually. The bonds mature in 2020 and are quoted on foreign exchange markets. The fair value of the bonds is determined based on the bid price published on the Bloomberg service.

The bonds of the Hungarian Government were issued in 2007 and 2008 and are denominated in euros. The interest rate on the bonds is 4.375% and 5.75%, respectively, with the interest payable annually. The bonds mature in 2017 and 2018, respectively, and are listed on foreign exchange markets. The fair value of the bonds is determined based on the bid price published on the Bloomberg service.

The bonds of the Hungarian Government were issued in 2010 and 2011 and are denominated in US dollars. The interest rate on the bonds is 6.25% and 6.375%, respectively, with the interest payable semi-annually. The bonds mature in 2020 and 2021, respectively, and are listed on foreign exchange markets. The fair value of the bonds is determined based on the bid price published on the Bloomberg service.

Included in the Bank's portfolio are Treasury Bills of the Ministry of Finance with a maturity of 364 days. The T-bills are denominated in Croatian kunas and bear interest at market rates. The kuna-denominated T-bills were acquired by the Bank on the on the primary market in 2016. In 2016 the Bank also acquired special-purpose euro-denominated T-bills with a maturity of 455 days, which mature in November 2017.

(c) Units in open-end investment funds

The Bank has investments in open-ended investment funds managed by investment fund management company OTP invest d.o.o. These are: OTP Balanced Fund, OTP Index Fund and OTP Absolute Fund.

16 HELD-TO-MATURITY INVESTMENTS

	31.12.2016	31.12.2015
Bonds of the Croatian Ministry of Finance	16,565	16,734
Corporate bills	143,292	143,627
Less: provisions for impairment	(16,655)	(16,824)
	143,202	143,537

• All amounts are expressed in thousands of HRK

Movements in the Bank's provisions for impairment of held-to-maturity investments:

	2016	2015
Balance at 1 January	16,824	16,882
Amounts reversed	(169)	(58)
Balance at 31 December	16,655	16,824

The receivables for bonds of the Ministry of Finance arose as the bonds were accepted as a compensation for flats purchased by the Government of Croatia. Pending the clarification of the terms, the Bank has not recognised accrued interest on these bonds. Given the attempt to recover the receivables through court proceedings, the Management Board of the Bank considers that the recoverability of the receivables is uncertain. Therefore, an impairment provision was recognised in 2011. The investments held to maturity are not publicly traded.

17 INVESTMENTS IN SUBSIDIARIES

Set out below are the operating subsidiaries of the Bank:

Name	Business activity	Effective interest			
		31.12.2016	31.12.2015	31.12.2016	31.12.2015
OTP Invest d.o.o.	Investment fund management	74.33%	74.33%	9,648	9,648
OTP Nekretnine d.o.o.	Real estate operations	100.00%	100.00%	51,708	51,708
Kratos nekretnine d.o.o	Real estate operations	-	100.00%	-	20
OTP Aventin d.o.o.	Real estate operations	100.00%	100.00%	40	20
				61,396	61,396
				(1,554)	(1,554)
				59,842	59,842

In 2015, an impairment in the amount of HRK 1,554 thousand was recognised for the investment in OTP Invest d.o.o. In 2016 Kratos nekretnine d.o.o. was merged to OTP Aventin d.o.o.

	31.12.2016	31.12.2015
Balance at 1 January	59,842	72,858
Merger of a part of OTP Nekretnine to the Bank	-	(11,462)
Less: provisions for impairment	-	(1,554)
	59,842	59,842

Movements in the provisions for impairment of the investments in the subsidiaries:

	2016	2015
Balance at 1 January	1,554	-
New provisions made	-	1,554
Balance at 31 December	1,554	1,554

An overview of the total assets, income and the net profit/(loss) of the subsidiaries is provided below (unaudited figures):

	2016			2015		
	Total assets	Total income	Profit/(Loss)	Total assets	Total income	Profit/(Loss)
OTP Invest d.o.o.	4,610	7,618	556	3,779	7,156	499
OTP Nekretnine d.o.o.	57,799	9,438	791	56,511	10,840	285
Kratos nekretnine d.o.o	-	29	12	355	173	75
OTP Aventin d.o.o.	70,184	7,877	368	72,822	8,524	(10,977)
	132,593	24,962	1,727	133,467	26,693	(10,118)

As of the date of issue of the report, the information about the total assets, income and the net operating results of OTP Invest, OTP Nekretnine, Kratos nekretnine d.o.o. and OTP Aventin d.o.o. were not audited.

On 1 March 2016 the Commercial Court of Zadar adopted a decision on the merger of Kratos nekretnine d.o.o. into OTP Aventin d.o.o.

• All amounts are expressed in thousands of HRK

18 PROPERTY AND EQUIPMENT

	Land and buildings	Computers	Furniture and equipment	Motor vehicles	Others	Assets under development	Total
Cost							
Balance at 1 January 2015	313,720	69,689	177,718	3,120	1,041	11,014	576,302
Acquired on the merger of a subsidiary and OTP Faktoring	11,470	135	159	-	-	-	11,764
Transfer from assets under development	933	4,805	8,590	334	-	(14,662)	-
Additions	-	-	-	-	-	14,770	14,770
Disposals and retirements	-	(3,823)	(14,699)	(402)	-	-	(18,924)
Balance at 31 December 2015	326,123	70,806	171,768	3,052	1,041	11,122	583,912
Balance at 01 January 2016	326,123	70,806	171,768	3,052	1,041	11,122	583,912
Acquired on the merger of a subsidiary							0
Transfer from assets under development	2,264	3,540	10,131	381	-	(16,316)	0
Additions						32,017	32,017
Disposals and retirements	(278)	(2,826)	(15,353)	(603)	(17)	-	(19,077)
Balance at 31 December 2016	328,109	71,520	166,546	2,830	1,024	26,823	596,852
Accumulated depreciation and impairment							
Balance at 1 January 2015	140,397	58,280	129,247	2,785	-	-	330,709
Acquired on the merger of a subsidiary	1	129	51	-	-	-	181
Charge for the year	7,561	5,948	10,976	207	-	-	24,692
Increase/(decrease)	4	(3,823)	(14,026)	(402)	-	-	(18,247)
Balance at 31 December 2015	147,963	60,534	126,248	2,590	-	-	337,335
Balance at 01 January 2016	147,963	60,534	126,248	2,590	-	-	337,335
Acquired on the merger of a subsidiary					-	-	-
Charge for the year	7,676	5,415	12,321	222			25,634
Disposals and retirements	(215)	(2,824)	(13,757)	(447)	-	-	(17,243)
Balance at 31 December 2016	155,424	63,125	124,812	2,365	-	-	345,726
Net book value							
At 1 January 2016	178,160	10,272	45,520	462	1,041	11,122	246,577
At 31 December 2016	172,685	8,395	41,734	465	1,024	26,823	251,126

19 INTANGIBLE ASSETS

Cost	
Balance at 1 January 2015	140,077
Additions	13,463
Disposals and retirements	(5,427)
Balance at 31 December 2015	148,113
Balance at 1 January 2016	148,113
Additions	16,594
Disposals and retirements	(3,318)
Balance at 31 December 2016	161,389
Accumulated amortisation	
Balance at 1 January 2015	108,971
Charge for the year	11,222
Disposals and retirements	(4,282)
Balance at 31 December 2015	115,911
Balance at 1 January 2016	115,911
Charge for the year	11,277
Disposals and retirements	(3,268)
Balance at 31 December 2016	123,920
Net book value	
At 31 December 2015	32,202
At 31 December 2016	37,469

• All amounts are expressed in thousands of HRK

20 GOODWILL

Goodwill reported on the Bank's statement of financial position represents goodwill originally arisen on the acquisition of Istarska banka d.d., Pula and Sisačka banka d.d. Sisak (which is included in the Bank's accounts following the merger with these banks on 30 June 2002), and Dubrovačka banka d.d., Dubrovnik (which is included in the Bank's accounts following the merger of this bank on 30 September 2004). At 31 December 2016 the carrying amount of goodwill was 42,966 thousand (2015: HRK 42,966 thousand).

For the purposes of impairment testing, goodwill was allocated to three cash-generating units of the Bank (Business Centres) that are separably identifiable in the context of adding new value.

The Bank determines the need to recognise impairment based on the following four approaches: by considering the net present value of future assets; the present value of future net interest income; the present value of future operating income; and the analysis of actual operating results from the acquisition date to the date of the financial statements.

For each of the cash-generating units, the present value of the discounted cash flows was calculated.

The future period is taken to correspond with the period covered by the Strategic Plan, which comprises minimum three following years. Discounted cash flows were compared with the carrying amounts. The discount rate applied is the expected return on equity as defined in the Strategic Plan.

The Bank has assessed the recoverability of the goodwill and determined that there was no impairment of goodwill at 31 December 2016 and 2015.

21 OTHER ASSETS

	31.12.2016	31.12.2015
Accrued fees and commissions	21,249	21,977
Accounts receivable	32,351	18,888
Foreclosed assets	17,496	14,634
Receivables in respect of credit card operations	17,731	19,441
Prepaid expenses	5,117	11,255
Others	4,708	4,652
	98,652	**90,847**
Less: provisions for impairment	(13,309)	(17,140)
	85,343	73,707

Movements in provisions for impairment for other assets of the Bank were as follows:

	2016	2015
Balance at 1 January	**17,140**	**21,667**
Amounts reversed	(3,831)	(4,527)
Balance at 31 December	13,309	17,140

The provisions relate mainly to fees receivable, which are fully provided against upon expiry of 90 days.

22 AMOUNTS DUE TO OTHER BANKS

	31.12.2016	31.12.2015
Demand deposits		
– kuna-denominated	3,444	286
Foreign-currency denominated	17,189	21,812
	20,633	22,098

• All amounts are expressed in thousands of HRK

23 AMOUNTS DUE TO CUSTOMERS

	31.12.2016	31.12.2015
Retail customers		
Demand deposits		
– kuna-denominated	1,663,733	1,381,090
Foreign-currency denominated	2,339,694	1,863,597
Term deposits		
– kuna-denominated	1,333,096	1,401,390
Foreign-currency denominated	5,476,102	6,299,937
	10,812,625	10,946,014
Corporate customers		
Demand deposits		
– kuna-denominated	857,079	782,775
Foreign-currency denominated	463,683	314,225
Term deposits		
– kuna-denominated	214,519	233,821
Foreign-currency denominated	246,627	242,980
Deposits of the acquired subsidiaries	4,467	6,647
	1,786,375	1,580,448
	12,599,000	12,526,462

24 OTHER BORROWED FUNDS

	31.12.2016	31.12.2015
Domestic lenders:		
HBOR (Croatian development bank)	1,057,517	1,173,833
Ministry of Finance	2,802	2,802
Others	2	3
	1,060,321	1,176,638

(a) Liabilities to the Croatian development bank (HBOR)
Funds borrowed from HBOR are designated for approving loans to end-beneficiaries – corporate and retail customers – under the programmes supported by HBOR.

(b) Amounts due to the Croatian 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.

25 PROVISIONS

a) Analysis of provisions

	31.12.2016	31.12.2015
Provisions for off-balance sheet items	13,917	8,272
Litigation provision	108,562	32,472
Provisions for overpayments and conversion of CHF loans	4,175	242,024
	126,654	282,768

The loss on the conversion of CHF loans is discussed in Note 14.

b) Movements in provisions for risks and charges

Provisions for off-balance sheet items

	2016	2015
Balance at 1 January	8,272	8,773
Foreign exchange gains	5	-
New provisions made/(provisions reversed)	5,640	(501)
Balance at 31 December	13,917	8,272

• All amounts are expressed in thousands of HRK

Litigation provision

	2016	2015
Balance at 1 January	32,472	58,323
Net charge to profit or loss	86,094	26,637
Amounts utilised during the year	(10,004)	(52,488)
Balance at 31 December	108,562	32,472

Litigation provision relates to legal actions against the Bank, i.e. where the Bank is the defendant. The Bank has recognised provisions for those legal actions it expects to result finally in an outflow of the Bank's resources embodying economic benefits.

Provisions for overpayments and conversion of CHF loans

	2016	2015
Balance at 1 January	242,024	-
New provisions made	-	244,000
Conversions completed by the year-end	(219,295)	(947)
Provision surplus credited to income	(18,554)	-
Impairment due to a fixed exchange rate	-	(1,029)
Balance at 31 December	4,175	242,024

26 OTHER LIABILITIES

	31.12.2016	31.12.2015
Provisions for termination benefits, jubilee awards and annual vacation days	9,567	9,370
Provisions for severance payments and salaries payable during notice periods	414	1,132
Provisions for bonuses and other employee benefits	27,700	24,361
Amounts due to suppliers	32,276	27,173
Salaries and contributions payable	13,465	13,397
Due to State Agency for Deposit insurance and Bank Rehabilitation for saving deposits insurance	7,939	7,851
Accrued expenses	1,058	1,617
Provisions for payments of deposits previously credited to income	4,527	3,780
Liabilities in respect of credit card operations	6,159	4,501
Tax liabilities from prior years	2,307	2,307
Liabilities for undistributed cash	15	8,432
Advances received	101	1,412
Value added tax payable	2,140	2,620
Liabilities in respect of opening of accounts	3,362	3,202
Taxes payable on savings deposit interest	144	1,201
Other liabilities	24,859	16,592
	136,033	128,948

Provisions for termination benefits, jubilee awards and annual vacation days

Opening balance at 1.1.2015	10,543
Amounts reversed	(1,173)
Balance at 31 December 2015	9,370
New provisions made	197
Balance at 31 December 2016	9,567

• All amounts are expressed in thousands of HRK

27 SHAREHOLDERS' EQUITY

Share capital

As at 31 December 2016 the share capital of the Bank consists of 4,111,398 ordinary shares (2015: 4,111,398 ordinary shares), with a nominal value of HRK 200 each, which represents a share capital in the amount of HRK 822,280 thousand (2015: HRK 822,280 thousand). All the ordinary shares provide equal rights and carry one vote per share.

No dividends were paid in 2016 and 2015.

Share premium

Share premium consist of the premium which arose from issue of new ordinary shares form previous years in the amount of HRK 167,328 thousand, and of premiums arose from purchase of own ordinary shares in previous years in amount of HRK 3,932 thounsand.

Reserves

	31.12.2016	31.12.2015
Legal reserves	41,114	41,114
Statutory reserves	41,115	41,114
Total legal and statutory reserves	**82,229**	**82,228**
Fair value reserve	39,460	61,754
General banking risks reserve	105,819	105,819
Other reserves	3,224	3,228
Total other reserves	**148,503**	**170,801**

Movements in the fair value reserve:

	2016.	2015.
Balance at 1 January	**61,754**	**35,930**
Increase in reserves	17,127	37,133
Decrease in reserves	(16,673)	(4,854)
Collection of the VISA Europe shares	(29,525)	-
Taxes	6,777	(6,455)
Balance at 31 December	**39,460**	**61,754**

Legal and statutory reserves
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.

General banking risks reserve
According to earlier CNB regulations the Bank had to create a reserve for general banking risks if the increase of relevant on- and off-balance-sheet exposures at the statement-of-financial-position date exceeded 15% of the prior year-end exposures.

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.

Fair value reserve
The fair value reserve consists of unrealised gains and losses on changes in the fair value of financial assets available for sale, net of deferred tax.

Other reserves
Other reserves of the Bank represent mainly the reserve on the revaluation of assets transferred to investment properties. The revaluation of these properties occurred prior to the transfer.

Retained earnings
Retained earnings represent profits accumulated from prior years.

• All amounts are expressed in thousands of HRK

28 CONTINGENT LIABILITIES AND COMMITMENTS

Presented below are contractual amounts of the Bank's off-balance-sheet financial instruments:

	31.12.2016	31.12.2015
Payment guarantees	57,340	41,845
Performance guarantees	89,616	95,820
Letters of credit	4,426	4,677
Approved unused facilities	1,148,449	889,324
Others	120	2,372
	1,299,951	1,034,038

29 CASH AND CASH EQUIVALENTS

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

	31.12.2016	31.12.2015
Cash and cash equivalents (excluding mandatory reserve with Croatian National Bank (Note 11))	1,730,946	946,310
Amounts due from other banks	133,975	739,972
	1,864,921	1,686,282

30 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 1,674,782 thousand (31 December 2015: HRK 1,557,530 thousand) and is composed entirely of the Common Equity Tier 1 (CET1) capital. The capital adequacy ratio is 16.6% (2015: 15.6%). The 2016 data were not audited by the date of issue of these financial statements.

The Bank has to calculate the regulatory capital and the capital adequacy in accordance with the requirements of the European Banking Authority (EBA) and the national discretionary rules of the CNB, which were as follows (the information about the regulatory capital, risk-weighted assets and other risk components were not audited as of the date of issue of these financial statements):

• All amounts are expressed in thousands of HRK

Regulatory capital (unaudited)

	31.12.2016	31.12.2015
Share capital	822,280	822,280
Share premium	171,260	171,260
Retained earnings (included in the 2016 profit)	574,590	451,172
Other reserves	191,197	191,196
Deductions under EBA requirements	(84,545)	(78,378)
Common Equity Tier 1 capital	**1,674,782**	**1,557,530**
Additional Tier 1 capital		-
Core capital	**1,674,782**	**1,557,530**
Tier 2 capital		-
Regulatory capital (unaudited)	**1,674,782**	**1,557,530**
Risk-weighted assets and other risk components (unaudited)	10,064,422	10,011,059
Common Equity Tier 1 capital ratio	**16.6%**	**15.6%**
Tier 1 ratio	**16.6%**	**15.6%**
Total capital ratio	**16.6%**	**15.6%**

31 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 to geographical 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 to repay interest and principal and by revising the credit limits, where necessary, or obtaining collateral, corporate or personal guarantees.

Maximum exposure to credit risk without taking account of any collateral and other credit enhancements

The table below shows the maximum exposure to credit risk for the components of the statement of financial position:

	31.12.2016	31.12.2015
ASSETS		
Cash and balances with Croatian National Bank	2,342,538	1,699,473
Loans and receivables from other banks	134,246	766,579
Financial assets at fair value through profit or loss	3,507	3,647
Loans and receivables from customers	10,318,561	10,508,073
- corporate customers	4,213,505	4,433,282
- retail customers	7,623,508	7,468,894
Less: provisions for impairment	(1,518,452)	(1,394,103)
Debt securities available for sale	1,927,601	1,793,537
Held-to-maturity investments	143,202	143,537
Other assets	75,901	49,232
	14,945,556	14,964,078

The table below shows the maximum exposure to credit risk on off-balance sheet items:

	31.12.2016	31.12.2015
Guarantees and letters of credit	151,382	142,342
Lending and other commitments	1,148,569	891,696
	1,299,951	1,034,038

The analysis provided above reflects the Bank's maximum exposure to credit risk at 31 December 2016 and 2015, without taking into account any collateral or other credit enhancements attached. For on-balance-sheet assets, the exposures set out above are based on the net carrying amounts as reported in the statement of financial position.

• All amounts are expressed in thousands of HRK

Concentration of assets and liabilities – Republic of Croatia and its institutions

	Notes	31.12.2016	31.12.2015
Current account with the Croatian National Bank	11	616,192	535,981
Obligatory reserve at the Croatian National Bank	11	891,463	1,046,937
Obligatory treasury bills with the Croatian National Bank	11	-	-
Treasury bills of the Croatian Ministry of Finance	15c	209,683	472,636
Bonds of the Ministry of Finance	15b, 16	712,938	150,110
HBOR and Government loans		449,599	796,474
Other assets		158	6,440
Other borrowed funds		(1,060,322)	(1,176,638)
Other liabilities		(8,125)	(10,629)
		1,811,586	1,821,311

Concentration of assets by geographical area

At 31 December 2016	Croatia	Hungary	Austria	Switzerland	Germany	Great Britain	USA	Others	Total
Assets									
Cash and balances with the Croatian National Bank	1,915,261	5,084	-	6,309	223,476	156,681	13,094	302,504	2,622,409
Loans and receivables from other banks	-	-	-	-	-	19,476	-	114,770	134,246
Financial assets at fair value through profit or loss	11,625	3,164	-	-	-	-	-	-	14,789
Loans and receivables from customers	10,314,595	36	-	-	861	-	-	3,069	10,318,561
Financial assets available for sale	979,517	1,004,980	-	-	-	-	25,308	81	2,009,886
Held-to-maturity investments	143,202	-	-	-	-	-	-	-	143,202
Investments in subsidiaries	59,842	-	-	-	-	-	-	-	59,842
Tangible and intangible assets	331,561	-	-	-	-	-	-	-	331,561
Deferred tax assets	29,268	-	-	-	-	-	-	-	29,268
Other assets	62,893	61	18,516	12	112	533	2,477	739	85,343
	13,847,764	1,013,325	18,516	6,321	224,449	176,690	40,879	421,163	15,749,107

At 31 December 2015	Croatia	Hungary	Austria	Switzerland	Germany	Great Britain	USA	Others	Total
Assets									
Cash and balances with the Croatian National Bank	1,884,396	6,211	-	15,059	55,556	4,037	1,452	26,536	1,993,247
Loans and receivables from other banks	26,247	414,558	180,004	126,514	-	18,996	-	260	766,579
Financial assets at fair value through profit or loss	32,236	3,621	-	-	-	-	-	-	35,857
Loans and receivables from customers	10,502,756	45	-	-	929	-	-	4,343	10,508,073
Financial assets available for sale	670,659	1,170,791	-	-	-	27,729	15,607	82	1,884,868
Held-to-maturity investments	143,537	-	-	-	-	-	-	-	143,537
Investments in subsidiaries	59,842	-	-	-	-	-	-	-	59,842
Tangible and intangible assets	321,745	-	-	-	-	-	-	-	321,745
Deferred tax assets	51,357	-	-	-	-	-	-	-	51,357
Other assets	72,079	36	12	13	130	579	62	796	73,707
	13,764,854	1,595,262	180,016	141,586	56,615	51,341	17,121	32,017	15,838,812

• All amounts are expressed in thousands of HRK

Concentration of assets by risk groups

At 31 December 2016	Risk group A	Risk group B	Risk group C	Unallocated	Impairment	Total
Assets						
Cash and balances with the Croatian National Bank	2,342,538	-	-	279,871	-	2,622,409
Loans and receivables from other banks	134,091	1,071	1,049	-	(1,965)	134,246
Financial assets at fair value through profit or loss	-	-	-	14,789	-	14,789
Loans and receivables from customers	9,781,440	1,137,589	917,984	-	(1,518,452)	10,318,561
Financial assets available for sale	-	-	-	2,009,886	-	2,009,886
Held-to-maturity investments	143,202	-	16,655	-	(16,655)	143,202
Investments in subsidiaries	-	-	-	59,842	-	59,842
Tangible and intangible assets	-	-	-	331,561	-	331,561
Deferred tax assets	-	-	-	29,268	-	29,268
Other assets	61,299	1,039	13,563	22,751	(13,309)	85,343
	12,462,570	1,139,699	949,251	2,747,968	(1,550,381)	15,749,107

At 31 December 2015	Risk group A	Risk group B	Risk group C	Unallocated	Impairment	Total
Assets						
Cash and balances with the Croatian National Bank	1,699,474	-	-	293,773	-	1,993,247
Loans and receivables from other banks	766,423	1,076	1,022	-	(1,942)	766,579
Financial assets at fair value through profit or loss	-	-	-	35,857	-	35,857
Loans and receivables from customers	9,564,648	1,656,209	681,319	-	(1,394,103)	10,508,073
Financial assets available for sale	-	-	-	1,884,868	-	1,884,868
Held-to-maturity investments	143,537	-	16,824	-	(16,824)	143,537
Investments in subsidiaries	-	-	-	59,842	-	59,842
Tangible and intangible assets	-	-	-	321,745	-	321,745
Deferred tax assets	-	-	-	51,357	-	51,357
Other assets	49,037	5,595	13,301	22,914	(17,140)	73,707
	12,223,119	1,662,880	712,466	2,670,356	(1,430,009)	15,838,812

Loans and receivables from customers (Amounts due from customers) analysed by risk groups

Risk group	31.12.2016		31.12.2015	
	Loans and receivables from customers	Impairment provision	Loans and receivables from customers	Impairment provision
A	9,781,440	100,585	9,564,648	97,997
B1	423,333	46,260	743,922	78,377
B2	450,468	237,979	713,017	369,837
B3	263,788	215,645	199,270	166,573
C	917,984	917,983	681,319	681,319
Total	11,837,013	1,518,452	11,902,176	1,394,103

Loans and receivables from customers (Amounts due from customers) analysed by effect

	Retail loans		Corporate loans	
	31.12.2016	31.12.2015	31.12.2016	31.12.2015
Not yet due and impaired	6,499,379	6,280,112	3,236,101	3,227,931
Past due but not impaired	20,907	23,076	25,053	33,529
Impaired	1,103,222	1,165,706	952,351	1,171,822
Gross amount	7,623,508	7,468,894	4,213,505	4,433,282
Less: provisions for impairment	(823,553)	(787,251)	(694,899)	(606,852)
Net	6,799,955	6,681,643	3,518,606	3,826,430

• All amounts are expressed in thousands of HRK

32 MARKET RISK

Currency risk

The Bank takes on exposure to the effects of changes in the foreign currency exchange rates on its financial position and cash flows.

The tables below analyse the Bank's exposures by principal currencies. The remaining currencies are shown within 'Other currencies'. The Bank monitors its foreign exchange (FX) position for compliance with the regulatory requirements of the Croatian National Bank established in respect of limits on open positions. In measuring the open positions, the Bank monitors the value at risk limits on its currency exposures. Other currencies also include amounts pegged to the Swiss franc by a currency clause.

The Bank has developed a VaR analysis (Value at Risk). This analysis is defined as the worst possible scenario over a certain time frame under normal market conditions. The analysis is based on a window of 10 days at a confidence of 99%. The probability that the Bank will incur losses in excess of the VaR calculated in normal market conditions is 1%. VaR calculated as of 31 December 2016 amounts to HRK 147 thousand (2015: HRK 87 thousand). The minimum VaR for 2016 amounts to HRK 27 thousand, the maximum VaR for 2016 amounts to HRK 493 thousand, and the average is HRK 136 thousand.

In assessing the internal capital adequacy (ICAAP) for the currency risk, the Bank has elected to improve the Standardised Approach using historical VaR figures. Given the identified weaknesses of the variance/co-variance method, such as not normally distributed yields (mainly due to fat tails), not being independent from period to period, problems arise in grouping the volatilities and the leverage effects, and the Bank has decided to apply historical VaR method as a robust alternative given the issues noted above.

For the daily VaR, the Bank applies historical VaR using the following assumptions:

- Confidence interval of 99%
- Ten-day period of holding
- Observation period of 250 banking days
- The calculation is based on open daily FX positions.

At 31 December 2016	EUR	EUR currency clause	Total in EUR	USD	CHF	HRK	Other currencies	Total
Assets								
Cash and balances with the Croatian National Bank	766,994	-	766,994	25,584	12,754	1,661,811	155,266	2,622,409
Loans and receivables from other banks	109,724	-	109,724	19,531	28	-	4,963	134,246
Financial assets at fair value through profit or loss	-	-	-	-	-	14,789	-	14,789
Loans and receivables from customers	949,042	6,000,031	6,949,073	55,864	14,837	3,298,768	19	10,318,561
Financial assets available for sale	633,471	24,605	658,076	576,829	-	774,981	-	2,009,886
Held-to-maturity investments	-	-	-	-	-	143,202	-	143,202
Investments in subsidiaries	-	-	-	-	-	59,842	-	59,842
Tangible and intangible assets	-	-	-	-	-	331,561	-	331,561
Deferred tax assets	-	-	-	-	-	29,268	-	29,268
Other assets	21,219	-	21,219	61	34	64,002	27	85,343
Total assets	**2,480,450**	**6,024,636**	**8,505,086**	**677,869**	**27,653**	**6,378,224**	**160,275**	**15,749,107**
Liabilities								
Amounts due to other banks	16,451	-	16,451	635	30	3,444	73	20,633
Amounts due to customers	6,875,475	7,704	6,883,179	1,373,971	120,806	4,064,957	156,087	12,599,000
Other borrowed funds	2,960	810,081	813,041	-	-	247,280	-	1,060,321
Financial liabilities at fair value through profit or loss	-	-	-	-	-	7,604	-	7,604
Provisions	-	-	-	-	-	126,654	-	126,654
Other liabilities	6,045	1,183	7,228	951	8	127,497	349	136,033
Total liabilities	**6,900,931**	**818,968**	**7,719,899**	**1,375,557**	**120,844**	**4,577,436**	**156,509**	**13,950,245**
Net foreign exchange position	**(4,420,481)**	**5,205,668**	**785,187**	**(697,688)**	**(93,191)**	**1,800,788**	**3,766**	**1,798,862**

• All amounts are expressed in thousands of HRK

At 31 December 2015	EUR	EUR currency clause	Total in EUR	USD	CHF	HRK	Other currencies	Total
Assets								
Cash and balances with the Croatian National Bank	277,806	-	277,806	9,510	20,694	1,650,037	35,200	1,993,247
Loans and receivables from other banks	38,313	-	38,313	44,911	28	207,248	476,079	766,579
Financial assets at fair value through profit or loss	-	-	-	-	-	35,857	-	35,857
Loans and receivables from customers	986,819	6,015,858	7,002,677	52,440	581,314	2,871,607	35	10,508,073
Financial assets available for sale	1,061,710	19,707	1,081,417	303,432	-	500,019	-	1,884,868
Held-to-maturity investments	-	-	-	-	-	143,537	-	143,537
Investments in subsidiaries	-	-	-	-	-	59,842	-	59,842
Tangible and intangible assets	-	-	-	-	-	321,745	-	321,745
Deferred tax assets	-	-	-	-	-	51,357	-	51,357
Other assets	586	-	586	134	8	72,934	45	73,707
Total assets	**2,365,234**	**6,035,565**	**8,400,799**	**410,427**	**602,044**	**5,914,183**	**511,359**	**15,838,812**
Liabilities								
Amounts due to other banks	21,181	-	21,181	520	30	286	81	22,098
Amounts due to customers	7,043,075	8,103	7,051,178	1,386,493	133,550	3,797,269	157,972	12,526,462
Other borrowed funds	-	913,917	913,917	-	¬-	262,721	-	1,176,638
Financial liabilities at fair value through profit or loss	-	4,157	4,157	-	-	-	-	4,157
Provisions	-	-	-	-	-	282,768	-	282,768
Other liabilities	7,975	1,376	9,351	872	9	118,301	415	128,948
Total liabilities	**7,072,231**	**927,553**	**7,999,784**	**1,387,885**	**133,589**	**4,461,345**	**158,468**	**14,141,071**
Net foreign exchange position	(4,706,997)	5,108,012	401,015	(977,458)	468,455	1,452,838	352,891	1,697,741

Interest rate risk

Interest-rate sensitivity of assets and liabilities

Interest rate risk is the risk that the value of a financial instrument will fluctuate due to changes in market interest rates. The length of time for which the rate of interest on a financial instrument remains fixed indicates the extent of the exposure to interest rate risk. The table below provides information on the extent of the Bank's interest rate exposure based either on the contractual maturity of its financial instruments or, for instruments that reprice to a market rate of interest before maturity, the next repricing date. It is the policy of the Bank to manage the exposure to fluctuations in the net interest income arising from changes in interest rates by the degree of repricing mismatch in the statement of financial position. Those assets and liabilities that do not have a contractual maturity date or are not interest bearing are grouped in the 'Non-interest bearing' category. Earnings will also be affected by the currency of the assets and liabilities. The Bank has a significant portion of interest-bearing assets and liabilities denominated in or pegged to foreign currency.

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 calculate the ratio of changes in the economic value of its banking book to its regulatory capital based on a standard interest-rate shock represented by a parallel positive or negative shift in interest rates by 200 basis points on the benchmark yield curve. According to the CNB regulations, the ratio may not exceed 20%.

Based on the Bank's calculation, if interest rates would change 200 bp, the economic value of the banking book would change to 3.42% of the regulatory capital (2015: 0.98%).

Interest-rate risk management as required by the OTP Group

According to the OTP Group methodology, the Bank estimates the impact of the internally calculated interest rate stress on the economic value of its assets and liabilities by applying the minimum zero rate (0%), except where the interest rate may be negative. The Bank applies internally developed sensitivity assumptions for items with unspecified maturities (e.g. demand deposits), and only unfavourable interest rate movements are considered. The magnitude of the interest rate shock for an individual currency is the higher of the standard interest rate shock (200 bp) and the internally calculated shock, determined as the 1st and 99th percentile of the interest rate change over a period of nine years.

By applying the internally determined interest rate shock results in the change in the economic value of assets and liabilities of 0.7 percent of the regulatory capital.

• All amounts are expressed in thousands of HRK

At 31 December 2016	Up to 1 month	1-3 months	3 months to 1 year	Over 1 year	Non-interest bearing	Total
Assets						
Cash and balances with the Croatian National Bank	834,883	-	-	-	1,787,526	2,622,409
Loans and receivables from other banks	134,234	-	-	-	12	134,246
Financial assets at fair value through profit or loss	-	-	-	-	14,789	14,789
Loans and receivables from customers	5,061,109	493,676	1,556,264	3,168,496	39,016	10,318,561
Financial assets available for sale	1,785	169,710	789,723	966,383	82,285	2,009,886
Held-to-maturity investments	-	46,063	97,139	-	-	143,202
Investments in subsidiaries	-	-	-	-	59,842	59,842
Tangible and intangible assets	-	-	-	-	331,561	331,561
Deferred tax assets	-	-	-	-	29,268	29,268
Other assets	-	-	-	-	85,343	85,343
Total assets	6,032,011	709,449	2,443,126	4,134,879	2,429,642	15,749,107
Liabilities						
Amounts due to other banks	20,624	-	-	-	9	20,633
Amounts due to customers	7,284,011	1,592,633	3,514,111	163,723	44,522	12,599,000
Other borrowed funds	3,617	147,936	116,427	784,238	8,103	1,060,321
Financial liabilities at fair value through profit or loss	-	-	-	-	7,604	7,604
Provisions	-	-	-	-	126,654	126,654
Other liabilities	-	-	-	-	136,033	136,033
Total liabilities	7,308,252	1,740,569	3,630,538	947,961	322,925	13,950,245
On-balance sheet interest rate gap	(1,276,241)	(1,031,120)	(1,187,412)	3,186,918	2,106,717	1,798,862

At 31 December 2015	Up to 1 month	1-3 months	3 months to 1 year	Over 1 year	Non-interest bearing	Total
Assets						
Cash and balances with the Croatian National Bank	115,314	-	-	-	1,877,933	1,993,247
Loans and receivables from other banks	740,336	-	26,243	-	-	766,579
Financial assets at fair value through profit or loss	-	-	-	-	35,857	35,857
Loans and receivables from customers	5,984,264	643,092	1,511,334	2,324,906	44,477	10,508,073
Financial assets available for sale	79,729	203,433	465,687	1,044,688	91,331	1,884,868
Held-to-maturity investments	895	-	142,642	-	-	143,537
Investments in subsidiaries	-	-	-	-	59,842	59,842
Tangible and intangible assets	-	-	-	-	321,745	321,745
Deferred tax assets	-	-	-	-	51,357	51,357
Other assets	-	-	-	-	73,707	73,707
Total assets	6,920,538	846,525	2,145,906	3,369,594	2,556,249	15,838,812
Liabilities						
Amounts due to other banks	22,098	-	-	-	-	22,098
Amounts due to customers	6,832,813	1,573,602	4,023,240	31,439	65,368	12,526,462
Other borrowed funds	2,617	165,969	132,560	871,189	4,303	1,176,638
Financial liabilities at fair value through profit or loss	-	-	-	-	4,157	4,157
Provisions	-	-	-	-	282,768	282,768
Other liabilities	-	-	-	-	128,948	128,948
Total liabilities	6,857,528	1,739,571	4,155,800	902,628	485,544	14,141,071
On-balance sheet interest rate gap	63,010	(893,046)	(2,009,894)	2,466,966	2,070,705	1,697,741

The table below summarises the year-end average effective interest rate for monetary financial instruments:

	31.12.2016	Interest rate (%)	31.12.2015	Interest rate (%)
Cash and balances with the Croatian National Bank	2,622,409	0.0	1,993,247	0.0
Loans and receivables from other banks	134,246	-0.5	766,579	1.0
Loans and receivables from customers	10,318,561	5.7	10,508,073	6.0
Held-to-maturity investments	143,202	6.1	143,537	7.9
Financial assets available for sale	2,009,886	2.5	1,884,868	2.4
	15,228,304		15,296,304	
Amounts due to other banks	20,633	0.0	22,098	0.0
Amounts due to customers	12,599,000	0.7	12,526,462	1.3
Other borrowed funds	1,060,321	2.0	1,176,638	2.1
	13,679,954		13,725,198	

• All amounts are expressed in thousands of HRK

33 LIQUIDITY RISK

The Bank is exposed to daily calls on the available cash resources from overnight deposits, current accounts, matured deposits, loan drawdowns, guarantees and from margin and other calls on cash-settled derivatives. The Bank does not maintain cash resources to meet all the demands, as experience has shown that a minimum level of reinvestment of maturing funds can be predicted with a high level of certainty. The management sets limits for the minimum portion of maturing funds available to meet such calls and the minimum level of interbank and other borrowing facilities that should be available to cover unexpected levels of demand. The table below analyses the assets and liabilities of the Bank classified into relevant maturity groupings based on the remaining period to contractual maturity from the date of the statement of financial position.

At 31 December 2016	Up to 1 month	1-3 months	3 months to 1 year	1 to 3 years	Over 3 year	Undefined	Total
Assets							
Cash and balances with the Croatian National Bank	2,178,498	119,132	266,885	44,483	13,411	-	2,622,409
Loans and receivables from other banks	134,246	-	-	-	-	-	134,246
Financial assets at fair value through profit or loss	14,789	-	-	-	-	-	14,789
Loans and receivables from customers	1,129,579	288,344	1,351,476	2,511,611	5,037,551	-	10,318,561
Financial assets available for sale	113,460	166,250	772,884	458,647	498,645	-	2,009,886
Held-to-maturity investments	-	46,063	97,139	-	-	-	143,202
Investments in subsidiaries	-	-	-	-	-	59,842	59,842
Tangible and intangible assets	-	-	-	-	-	331,561	331,561
Deferred tax assets	-	-	-	-	-	29,268	29,268
Other assets	67,847	-	17,496	-	-	-	85,343
Total assets	**3,638,419**	**619,789**	**2,505,880**	**3,014,741**	**5,549,607**	**420,671**	**15,749,107**
Liabilities							
Amounts due to other banks	20,633	-	-	-	-	-	20,633
Amounts due to customers	6,325,231	1,683,687	3,771,875	628,678	189,529	-	12,599,000
Other borrowed funds	44,074	35,276	127,163	281,768	572,040	-	1,060,321
Financial liabilities at fair value through profit or loss	7,604	-	-	-	-	-	7,604
Provisions	-	-	-	-	-	126,654	126,654
Other liabilities	136,033	-	-	-	-	-	136,033
Total liabilities	**6,533,575**	**1,718,963**	**3,899,038**	**910,446**	**761,569**	**126,654**	**13,950,245**
Net maturity gap	(2,895,156)	(1,099,174)	(1,393,158)	2,104,295	4,788,038	294,017	1,798,862

At 31 December 2015	Up to 1 month	1-3 months	3 months to 1 year	1 to 3 years	Over 3 year	Undefined	Total
Assets							
Cash and balances with the Croatian National Bank	1,406,300	139,915	361,693	63,024	22,315	-	1,993,247
Loans and receivables from other banks	740,335	-	-	26,244	-	-	766,579
Financial assets at fair value through profit or loss	35,857	-	-	-	-	-	35,857
Loans and receivables from customers	1,069,234	421,232	1,411,016	2,099,573	5,507,018	-	10,508,073
Financial assets available for sale	191,260	193,901	438,798	775,347	285,562	-	1,884,868
Held-to-maturity investments	895	-	142,642	-	-	-	143,537
Investments in subsidiaries	-	-	-	-	-	59,842	59,842
Tangible and intangible assets	-	-	-	-	-	321,745	321,745
Deferred tax assets	-	-	-	-	-	51,357	51,357
Other assets	59,073	-	14,634	-	-	-	73,707
Total assets	**3,502,954**	**755,048**	**2,368,783**	**2,964,188**	**5,814,895**	**432,944**	**15,838,812**
Obveze							
Amounts due to other banks	22,098	-	-	-	-	-	22,098
Amounts due to customers	5,503,726	1,674,062	4,327,602	754,072	267,000	-	12,526,462
Other borrowed funds	5,631	33,922	141,788	326,250	669,047	-	1,176,638
Financial liabilities at fair value through profit or loss	4,157	-	-	-	-	-	4,157
Provisions	-	-	-	-	-	282,768	282,768
Other liabilities	128,948	-	-	-	-	-	128,948
Total liabilities	**5,664,560**	**1,707,984**	**4,469,390**	**1,080,322**	**936,047**	**282,768**	**14,141,071**
Net maturity gap	(2,161,60)	(952,936)	(2,100,607)	1,883,866	4,878,848	150,176	1,697,741

• All amounts are expressed in thousands of HRK

The matching and controlled mismatching of the maturities and interest rates of assets and liabilities are fundamental to the management of the Bank. It is unusual for banks ever to be completely matched because of the often uncertain timing and the varied nature of transactions. An unmatched position potentially improves profitability, but may also increase the risk of loss.

The maturities of assets and liabilities and the ability to replace, at an acceptable cost, interest–bearing liabilities as they mature, are important factors in assessing the liquidity of the Bank and its exposure to changes in interest and exchange rates.

Liquidity requirements to support calls under guarantees and standby letters of credit are considerably less than the amount of the commitment because the Bank does not generally expect the third party to draw funds under the agreement. The total outstanding contractual amount of commitments to extend credit does not necessarily represent future cash requirements, since many of these commitments will expire or terminate without being funded.

34 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.

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 Operational Risk Management Rules and the Operational Risk Management Guidelines as well as the Guidelines for Operational Risk Self-assessment constitute the framework for managing operational risk at the Bank.

The Bank has a Business Continuity Plan and its 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: 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.

The Division for Quantitative Analysis, Market and Operational Risks operates as an independent unit within the Operational Risk Management Department and 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, informing the Bank's Management Board regularly on operational risk events, as well as for providing assistance and support to all the Bank's organisational units in understanding the structured approach to managing operational risks.

In line with the decentralised operational risk management methodology, the owners of each of the processes at the Bank have the obligation to co-operate closely in assessing the risks inherent in those processes (self-assessment) and then to identify and implement measures for managing risks identified in the respective areas and processes for which they are responsible.

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

The Bank applies a simplified approach in determining the capital requirements for operational risk.

35 RELATED-PARTY TRANSACTIONS

The Bank is the parent of the OTP Bank Group. 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 definitions from International Accounting Standard 24 "Related Party Disclosures" (IAS 24).

The year-end outstanding balances and the underlying related-party transactions during the year were as follows:

• All amounts are expressed in thousands of HRK

	31.12.2016		31.12.2015	
	Receivables	Liabilities	Receivables	Liabilities
Otp Bank Nyrt, Hungary	8,500	8,973	421,039	4,724
OTP Nekretnine d.o.o.	25	2,863	25	5,236
OTP Invest d.o.o.	293	1,398	138	865
Kratos nekretnine d.o.o	-	-	-	111
OTP Aventin d.o.o.	68,888	206	72,041	442
OTP Leasing d.d.	1,300	15,892	1,914	14,738
Cresco d.o.o.	-	1	-	6
	79,006	29,333	495,157	26,122

	2016		2015	
	Income	Expenses	Income	Expenses
Otp Bank Nyrt, Hungary	18,780	742	30,552	1,790
OTP Nekretnine d.o.o.	64	2,172	52	1,286
OTP Invest d.o.o.	287	1	193	1
Kratos nekretnine d.o.o	-	-	1	-
OTP Aventin d.o.o.	15,243	9,046	6,693	2,731
Poslovno savjetovanje 2013 d.o.o.	-	-	1	-
OTP Leasing d.d.	797	707	368	1,222
Cresco d.o.o.	-	-	1	-
	35,171	12,668	37,861	7,030

OTP Faktoring d.o.o. was merged into OTP banka d.d. in February 2015, and Cresco d.o.o. was acquired by OTP Nekretnine d.o.o. in November 2015. Poslovno savjetovanje 2013 d.o.o. was extinguished in 2016.

Remuneration paid to key management personnel amounted to HRK 7,012 thousand (2015: HRK 6,713 thousand) and comprised short-term benefits. Included in key management personnel are Management Board members.

Remuneration paid to Supervisory Board members amounted to HRK 880 thousand (2015: HRK 873 thousand) and comprised short-term benefits.

36 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 2016, funds managed by the Bank on behalf of third parties amounted to HRK 70,670 thousand (2015: HRK 68,720 thousand). Additionally, assets under the management of OTP Invest, a subsidiary of the Bank, amounted to HRK 814,893 thousand (2015: HRK 643,142 thousand), and represent the funds the Bank manages as a depositary or custody bank. In addition, the Bank has under custody assets of other customers in the amount of HRK 451,721 thousand (2015: HRK 308,129 thousand).

37 FAIR VALUES 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:

- 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

• All amounts are expressed in thousands of HRK

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 under contracts with similar maturities; 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.

Fair value measurements recognised in the statement of financial position

The following table provides an analysis of financial instruments that are measured subsequent to initial recognition at fair value, grouped into Levels 1 to 3 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).

There were no transfers between Level 1, 2 and 3 in the period.

	31.12.2016				31.12.2015			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
Financial assets at fair value through profit or loss								
Non-derivative financial assets	11,282	-	--	11,282	32,210	-	-	32,210
Other derivative financial assets	-	3,507	-	3,507	-	3,647	-	3,647
Financial assets available for sale								
Equity securities	16,098	-	12,607	28,705	15,607	-	31,127	46,734
Debt securities	1,717,918	209,683	-	1,927,601	1,320,901	472,636	-	1,793,537
Units in open-end investment funds	55,580	-	-	55,580	44,597	-	-	44,597
Total	1,800,878	213,190	12,607	2,026,675	1,413,315	476,283	31,127	1,920,725
Financial liabilities at fair value through profit or loss								
Other derivative financial liabilities	-	7,604	-	7,604	-	4,157	-	4,157
Total	-	7,604	-	7,604	-	4,157	-	4,157

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, together with the valuation techniques and the inputs to the techniques used.

• All amounts are expressed in thousands of HRK

Financial assets and financial liabilities	Fair value as at		Fair value hierarchy	Valuation technique(s) and key input(s)	Significant unobservable input(s)	Relationship of unobservable inputs to fair value
	31.12.2016	31.12.2015				
Fair value through the statement of comprehensive income – units in open-ended investment funds	11,282	32,210	Level 1	Redemption price quoted by the Fund	N/A	N/A
Fair value through the statement of comprehensive income – derivatives	Assets: 3,507; and liabilities: 7,604	Assets: 3,647; and liabilities: 4,157	Level 2	The fair value denominated in the original currency is retrieved from Kondor application after 14:30 hours and multiplied by the middle exchange rate of the CNB to determine the countervalue in kunas. Kondor determines the present value by discounting the agreed future cash flows in the original currencies.	N/A	N/A
Equity securities available for sale	16,098	15,607	Level 1	Price quoted in an active market – average price at the last working day in a month.	N/A	N/A
Available for sale – equity securities	12,607	31,127	Level 3	For VISA shares series C according to quoted price of shares series A discounted using internally calculated discount rate and for other securities measured at cost – tested for impairment	Discount rate for measuring of fair value is determined according to internal methodology	N/A
Available for sale – equity securities	1,717,918	1,320,901	Level 1	Price quoted in an active market – bid price at 14:00 hr on the last working day in a month	N/A	N/A
Available for sale – T-bills of the Ministry of Finance in domestic currency and with a currency clause	194,657	321,703	Level 2	Valuation at prices calculated using interpolation of last auctions prices.	N/A	N/A
Available for sale – Foreign-currency denominated T-bills of the Ministry of Finance	15,026	150,933	Level 2	Measured at cost, with the discount amortised on a straight-line basis to maturity	N/A	N/A
Available for sale – units in open-ended investment funds	55,580	44,597	Level 1	Redemption price quoted by the Fund	N/A	N/A

Movements in Level 3 financial instruments measured at fair value

The fair-value hierarchy level of financial instruments is determined at the beginning of each reporting period. The following table shows a reconciliation of the opening and closing amounts of Level 3 financial assets and liabilities reported at fair value:

	Available-for-sale – unlisted shares	Total
Balance at 1 January 2015	**3,398**	**3,398**
Total gains or losses:		
- recognised in profit or loss	-	-
- recognised in other comprehensive income	27,729	27,729
Balance at 31 December 2015	**31,127**	**31,127**
Sale of the VISA Europe shares	**(29,525)**	**(29,529)**
Total gains or losses:		
- recognised in profit or loss	37,975	37,975
- recognised in other comprehensive income	(26,970)	(26,966)
Balance at 31 December 2016	12,607	12,607

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, Held-to-maturity investments and Amounts due to other banks are considered not to differ significantly from their carrying amounts.

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 were not considered in measuring the fair value because their recoverable amount is assumed to reflect their fair price.

• All amounts are expressed in thousands of HRK

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.

	Notes	Carrying amount	Fair value			Total
			Level 1	Level 2	Level 3	
		2016	2016			
Financial assets						
Loans and receivables from banks	*12*	134,246	-	-	134,246	**134,246**
Loans and receivables from customers	*14*	10,318,561	-	-	10,436,983	**10,436,983**
Held-to-maturity investments	*16*	143,202	-	-	143,202	**143,202**
Financial liabilities						
Amounts due to other banks	*22*	20,633	-	-	20,633	**20,633**
Amounts due to customers	*23*	12,599,000	-	-	12,622,152	**12,622,152**

38 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 impairment 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.

Impairment losses on loans and receivables

The Bank monitors the creditworthiness of its customers on an ongoing basis. In accordance with applicable regulations, the Bank's on- and off-balance sheet credit risk exposures are reviewed for impairment at least quarterly.

Impairment losses are recognised mainly as a charge to the carrying amounts of loans to and receivables from corporate and retail customers (summarised in Note 14), and as provisions for liabilities and charges arising from the Bank's off-balance-sheet risk exposure to customers, mainly in the form of undrawn lending commitments, guarantees, letters of credit and unused credit card limits (summarised in Note 25). Impairment losses are also considered in assessing credit risk exposures to other banks and for other assets not carried at fair value, where credit risk is not the primary risk of impairment.

Summary of impairment losses on customers	Notes	31.12.2016	31.12.2015
Provisions for loans to and receivables from customers	14	1,518,452	1,394,103
Provisions for off-balance sheet items	25	13,917	8,272
		1,532,369	1,402,375

The Bank first performs an individual assessment of whether there is objective evidence of impairment of an individually significant asset (mainly corporate exposures) and a collective assessment for assets that are not individually significant (mainly retail exposures). However, assets assessed individually as unimpaired are then included in groups of assets with similar credit risk characteristics. These portfolios are then assessed collectively for impairment.

The Bank estimates impairment losses in cases where it judges that the observable data indicates the likelihood of a measurable decrease in the estimated future cash flows from an asset or a portfolio of assets. Such evidence includes delinquency in payments or other indications of financial difficulty of borrowers and any adverse changes in the economic conditions in which borrowers operate or in the value or enforceability of security, where these changes can be correlated with defaults.

In assessing impairment, the Bank considers the combined effect of several events and applies its experienced judgement in cases where the observable data required to estimate impairment is limited. In estimating impairment losses on items individually or collectively assessed as impaired, the Bank also considers the ranges of specific impairment loss provisioning rates prescribed by the CNB for individually identified losses.

At the year end, the gross amount of loans to and receivables from customers identified as individually impaired and the rate of impairment loss recognised were as follows:

• All amounts are expressed in thousands of HRK

	31.12.2016			31.12.2015		
	Corporate customers	Retail customers	Total	Corporate customers	Retail customers	Total
Gross exposure	952,351	1,103,222	2,055,573	1,171,822	1,165,706	2,337,528
Loss rate	65.93%	71.61%	68.98%	47.76%	63.17%	55.45%

Any additional increase of the impairment loss rate by one percentage point on the gross portfolio at 31 December 2016 would lead to the recognition of an additional impairment loss of HRK 20,556 thousand (2015: HRK 23,375 thousand).

The Bank recognises an impairment provision on a collective i.e. portfolio basis at rates prescribed by the CNB, from minimum 0.80% if there is a developed internal methodology, or at least 1.00% if there is no developed an internal methodology, which apply to all credit risk exposures except those arising from the portfolio at fair value through profit or loss and the portfolio available for sale, including off-balance-sheet amounts (including undrawn lending and credit card commitments) and sovereign risk. Amounts assessed as impaired are excluded from this calculation.

At 31 December 2016 the impairment provision determined on a collective (portfolio) basis for the relevant on-balance sheet and off-balance sheet exposures of the Bank in accordance with local regulations amounts to HRK 113,087 thousand (2015: HRK 106,269 thousand). The total portfolio-based impairment losses amounted to 0.80% of the relevant on-balance sheet exposure and 1.00% of the off-balance sheet exposure (2015: 0.80% of the on-balance sheet and off-balance sheet exposures) arising from eligible loans to and receivables from customers and contingent liabilities of the Bank, each net of the amounts individually assessed as impaired.

By applying the 1% rate applicable in case of non-existing internal model, the portfolio-based impairment losses would be HRK 24,981 thousand (2015: HRK 26,546 thousand) higher than the amount recognised by the Bank.

Impairment of available-for-sale equity investments

The Bank determines that available-for-sale equity investments are impaired when there has been a significant or prolonged decline in the fair value below the cost. Identifying a significant or prolonged decline requires judgement. In making this judgement, the Bank assesses, among other factors, the nominal volatility in the share price. In addition, impairment may be appropriate when there is evidence of a deterioration in the financial health of the investee, the industry and sector performance, changes in technology, and operational and financing cash flows.

Held-to-maturity investments

The Bank follows the guidance of IAS 39 in classifying non-derivative financial assets with fixed or determinable payments and fixed maturity as held to maturity, which requires significant judgement. In making this judgement, the Bank considers its intent and ability to hold such investments to maturity.

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.

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.

Legal actions

There are several legal actions and claims initiated against the Bank, arisen from the ordinary course of business, the outcome of which is uncertain. At 31 December 2016, based on the legal advice, the Management Board recognised provisions in the amount of HRK 108,562 thousand (2015: HRK 32,472 thousand) for those risks.

• All amounts are expressed in thousands of HRK

39 EVENTS AFTER THE REPORTING DATE

On 20 December 2016 a share purchase agreement was signed between Otp Bank Nyrt, Hungary and

SOCIETE GENERALE SA, France for the purchase of all the shares of SOCIETE GENERALE – SPLITSKA BANKA d.d., a member of the Societe Generale Group. The transaction is expected to be finalised by the end of the first quarter of 2017, after obtaining all the required approvals from the regulator.

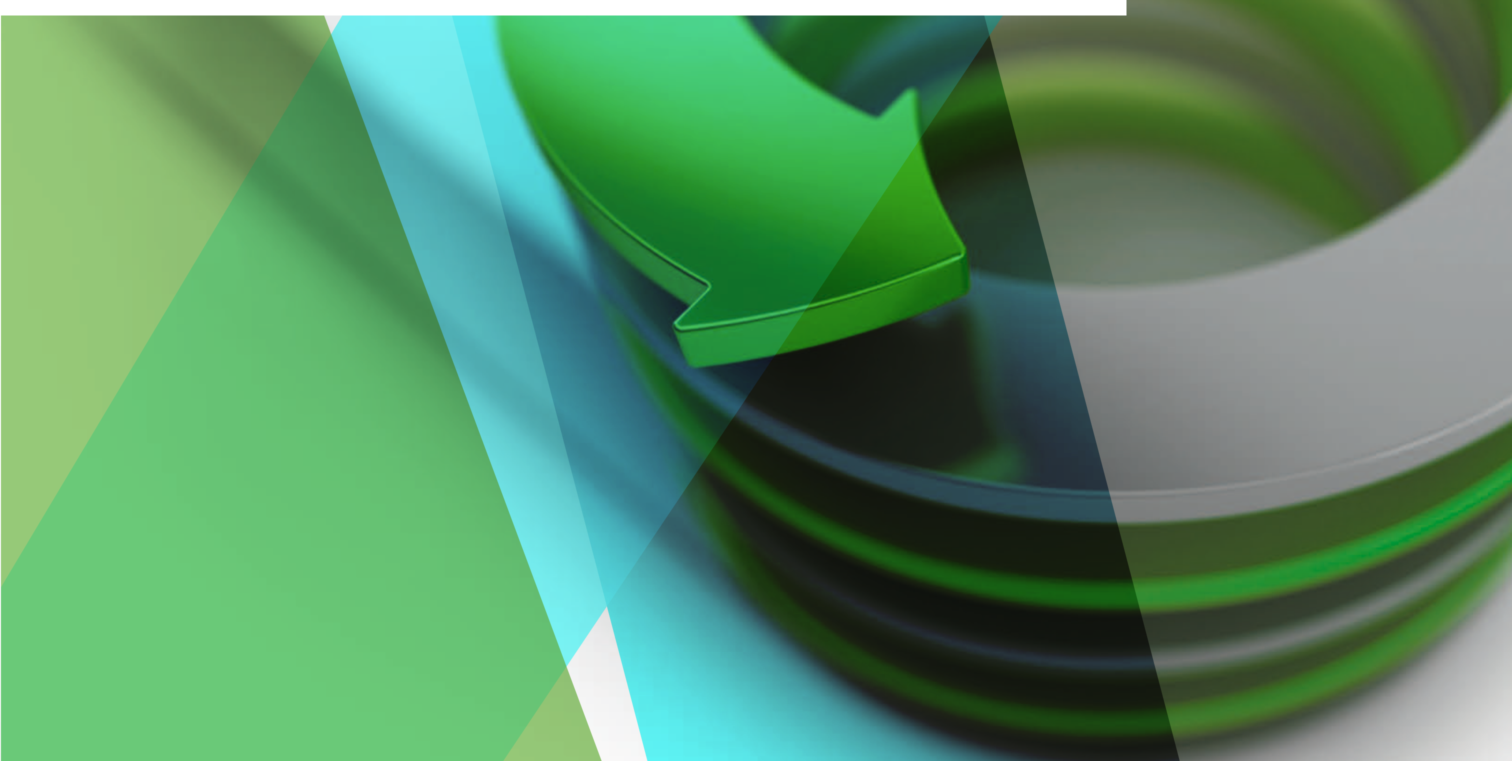
The purchase price includes the transfer of the entire ownership interests in SG leasing d.o.o., SB nekretnine d.o.o and SB zgrade d.o.o., as well as a 49-percent interest in Societe Generale osiguranje d.d.

Balázs Békeffy
President of the
Management Board

Zorislav Vidović
Member of the
Management Board

• All amounts are expressed in thousands of HRK

APPENDIX - SUPPLEMENTARY FINANCIAL STATEMENTS AND REPORTS FOR THE CROATIAN NATIONAL BANK



Profit and loss account

Pursuant to the Croatian Accounting Act, the Croatian National Bank issued the Decision on Structure and Contents of Annual Financial Statements of Banks (Official Gazette No. 62/08).

The following tables reflect the presentation of the financial statements in accordance with the Decision:

For the year ended 31 December 2016

All amounts are expressed in thousands of HRK

	2016	2015
1 Interest income	686,683	721,084
2 (Interest expense)	(171,540)	(258,254)
3 Net interest income	**515,143**	**462,830**
4 Fee and commission income	164,445	163,977
5 (Fee and commission expenses)	(42,922)	(40,489)
6 Net fee and commission income	**121,523**	**123,488**
7 Gains/(losses) on investments in subsidiaries, associates and joint ventures	-	(1,554)
8 Trading gains/(losses)s	78,514	87,449
9 Gains/(losses) on embedded derivatives	(281)	(3,450)
10 Gains/(losses) on assets at FVTPL not actively traded	73	116
11 Gains/(losses) on available-for-sale assets	39,966	204
12 Gains/(losses) on assets held to maturity	-	-
13 Gains/(losses) on hedging relationships	-	-
14 Gains on investments in subsidiaries, associates and joint ventures	-	-
15 Gains on other equity investments	118	70
16 Foreign exchange gains/(losses)	(9,915)	(26,261)
17 Other income	27,232	18,395
18 Other expenses	(121,528)	(303,943)
19 General administrative expenses and depreciation	(361,130)	(362,850)
20 Net income from operations before impairment and provisions for losses	**289,715**	**(5,506)**
21 Impairment losses and provisions	(137,431)	(143,510)
22 Profit/(loss) before taxation	**152,284**	**(149,016)**
23 Income tax	(28,866)	69,427
24 Profit/(loss) for the year	**123,418**	**(79,589)**
25 Earnings per share	-	-
26 Profit/(loss) for the year	**123,418**	**(79,589)**
27 Attributable to the equity holders of the parent	**123,418**	**(79,589)**
28 Minority interest	-	-

Balance sheet

For the year ended 31 December 2016

All amounts are expressed in thousands of HRK

Assets	2016	2015
1 Cash and deposits with the CNB	**1,787,526**	**1,877,933**
1.1 Cash	279,871	295,015
1.2 Deposits with the CNB	1,507,655	1,582,918
2 Deposits with credit institutions (banks)	969,117	506,118
3 Treasury bills of the Ministry of Finance and of the CNB	194,657	321,703
4 Securities and other financial instruments held for trading	-	-
5 Securities and other financial instruments available for sale	1,784,053	1,536,234
6 Securities and other financial instruments held to maturity	143,202	143,537
7 Securities and other financial instruments at FVTPL not actively traded	11,282	32,210
8 Derivative financial assets	3,531	3,834
9 Loans to financial institutions	11,095	36,638
10 Loans and advances to other customers	10,335,615	10,861,577
11 Investments in subsidiaries, associates and joint ventures	59,842	59,842
12 Foreclosed assets	17,496	14,634
13 Tangible assets (net of depreciation)	256,726	251,293
14 Interest, fees and other assets	254,685	272,450
A. Total assets	**15,828,827**	**15,918,003**
Liabilities and equity		
1 Loans from financial institutions	1,056,107	1,176,708
2 Deposits	12,552,927	12,453,597
2.1 Balances on giro and current accounts	2,534,663	2,159,291
2.2 Savings deposits	2,782,480	2,173,846
2.3 Term deposits	7,235,784	8,120,460
3 Other loans	-	-
3.1 Short-term borrowings	-	-
3.2 Long-term borrowings	-	-
4 Derivative financial and other liabilities held for trading	7,646	4,283
5 Issued debt securities	-	-
6 Issued subordinated instruments	-	-
7 Hybrid instruments issued	-	-
8 Interest, fees and other liabilities	413,286	585,674
B. Total liabilities	**14,029,966**	**14,220,262**
1 Share capital	989,607	989,607
2 Profit/(loss) for the year	123,418	(79,589)
3 Retained earnings/(Accumulated losses)	451,173	530,762
4 Legal reserves	41,114	41,114
5 Statutory and other capital reserves	145,427	138,654
6 Unrealised gains/(losses) on revaluation of financial assets available for sale	48,122	77,193
C. Total equity	**1,798,861**	**1,697,741**
D. Total equity and liabilities	**15,828,827**	**15,918,003**
8 Total equity	**1,798,861**	**1,697,741**
9 Attributable to the equity holders of the parent	**1,798,861**	**1,697,741**
10 Minority interest	**-**	**-**

Statement of changes in shareholders' equity

For the year ended 31 December 2016

All amounts are expressed in thousands of HRK

	Share capital	Legal statutory and other reserves	Retained earnings/ (Accumulated losses)	Profit/(loss)	Unrealised gains/ (losses) on revaluation of financial assets for the year	Total equity
1 Balance at 1 January 2016	989,607	179,768	530,762	(79,589)	77,193	1,697,741
2 Effects of changes in accounting policies and corrections of errors	-	-	-	-	-	-
3 Restated balance at 1 January 2016	989,607	179,768	530,762	(79,589)	77,193	1,697,741
4 Sale of available-for-sale financial assets	-	-	-	-	(29,541)	(29,541)
5 Change in the fair value of financial assets available for sale	-	-	-	-	470	470
6 Tax on items recognised directly in/transferred from equity	-	-	-	-	6,777	6,777
7 Other gains and losses recognised directly in equity	-	-	-	-	-	-
8 Net gains/losses recognised directly in equity	-	-	-	-	(22,294)	(22,294)
9 Profit/(loss) for the year	-	-	-	123,418	-	123,418
10 Total recognised income and expenses for the year	-	-	-	123,418	(22,294)	101,124
11 Increase/(decrease) in share capital	-	-	-	-	-	-
12 (Purchase)/sale of treasury shares	-	-	-	-	-	-
13 Other changes	-	6,773	(79,589)	79,589	(6,777)	(4)
14 Transferred to reserves	-	-	-	-	-	-
15 Profit acquired on the merger of a part of OTP Nekretnine d.o.o.	-	-	-	-	-	-
16 Dividends paid	-	-	-	-	-	-
17 Profit allocation	-	-	-	-	-	-
18 Balance at 31 December 2016	989,607	186,541	451,173	123,418	48,122	1,798,861

1 Balance at 1 January 2015	989,607	186,228	375,206	155,233	44,914	1,751,188
2 Effects of changes in accounting policies and corrections of errors	-	-	-	-	-	-
3 Restated balance at 1 January 2015	989,607	186,228	375,206	155,233	44,914	1,751,188
4 Sale of available-for-sale financial assets	-	-	-	-	(204)	(204)
5 Change in the fair value of financial assets available for sale	-	-	-	-	32,483	32,483
6 Tax on items recognised directly in/transferred from equity	-	-	-	-	(6,455)	(6,455)
7 Other gains and losses recognised directly in equity	-	-	-	-	-	-
8 Net gains/losses recognised directly in equity	-	-	-	-	25,824	25,824
9 Profit/(loss) for the year	-	-	-	(79,589)	-	(79,589)
10 Total recognised income and expenses for the year	-	-	-	(79,589)	25,824	(53,765)
11 Increase/(decrease) in share capital	-	-	-	-	-	-
12 (Purchase)/sale of treasury shares	-	-	-	-	-	-
13 Other changes	-	(6,460)	155,233	(155,233)	6,455	(5)
14 Transferred to reserves	-	-	-	-	-	-
15 Profit acquired on the merger of a part of OTP Nekretnine d.o.o.	-	-	323	-	-	323
16 Dividends paid	-	-	-	-	-	-
17 Profit allocation	-	-	323	-	-	323
18 Balance at 31 December 2015	989,607	179,768	530,762	(79,589)	77,193	1,697,741

Statement of cash flows

For the year ended 31 December 2016

All amounts are expressed in thousands of HRK

	2016	2015
Operating activities		
1.1 Profit/(loss) before taxation	**152,284**	**(149,016)**
1.2 Impairment allowance and provisions for losses	137,431	143,511
1.3 Depreciation and amortisation	36,911	35,914
1.4 Net unrealised (gains)/losses on financial assets and liabilities at FVTPL	-	-
1.5 Gains/(losses) on sale of tangible assets	(2,227)	(94)
1.6 Other (gains)/losses	-	-
1 Operating cash flows before changes in operating assets	**324,399**	**30,315**
2.1 Deposits with the CNB	155,475	74,464
2.2 Treasury bills of the Ministry of Finance and of the CNB	127,046	310,980
2.3 Deposits with banking institutions and loans to financial institutions	-	(8)
2.4 Loans and advances to other customers	67,951	(151,106)
2.5 Securities and other financial instruments held for trading	21,231	(22,028)
2.6 Securities and other financial instruments available for sale	(277,008)	(232,598)
2.7 Securities and other financial instruments at FVTPL not actively traded	-	-
2.8 Other operating assets	20,100	(35,397)
2 Net (increase)/decrease in operating assets	**114,795**	**(55,693)**
Increase/(decrease) in operating liabilities		
3.1 Demand deposits	375,372	366,160
3.2 Savings and term deposits	(276,042)	(527,181)
3.3 Derivative financial and other liabilities held for trading	3,363	3,931
3.4 Other liabilities	(200,121)	228,911
3 Net increase/(decrease) in operating liabilities	**(97,428)**	**71,821**
4 Net cash from operating activities	**341,766**	**46,443**
5 Income taxes paid	-	22,694
6 Net cash inflow/(outflow) from operating activities	**341,766**	**69,137**
Investing activities		
7.1 Proceeds from sale/(payments for purchases) of tangible and intangible assets	(42,979)	(38,466)
7.2 Proceeds from sale of/(payments for purchases of) investments in subsidiaries, associates and joint ventures	-	13,016
7.3 Proceeds from/(payments to acquire) securities and other financial instruments held to maturity	335	(41,602)
7.4 Dividends received	118	69
7.5 Other receipts/(payments) from investing activities	-	-
7 Net cash from investing activities	**(42,526)**	**(66,983)**
Financing activities		
8.1 Net increase/(decrease) in borrowings	(120,601)	26,752
8.2 Net increase/(decrease) of issued debt securities	-	-
8.3 Net increase/(decrease) in subordinated and hybrid instruments	-	-
8.4 Proceeds from issue of share capital	-	-
8.5 (Dividends paid)	-	-
8.6 Other receipts/(payments) from financing activities	-	323
8 Net cash from financing activities	**(120,601)**	**27,075**
9 Net increase/(decrease) in cash and cash equivalents	**178,639**	**29,229**
10 Cash and cash equivalents, beginning of the year	**1,686,282**	**1,657,053**
11 Cash and cash equivalents at the end of the year	**1,864,921**	**1,686,282**

Comparative presentations

Comparative presentation of the profit and loss account items and the statement of comprehensive income for 2016

As the figures grouped in the financial statements prepared under the Decision of the Croatian National Bank differ from the manner in which they are classified under the accounting requirements for banks in the Republic of Croatia, the tables below provide a reconciliation between the two different presentations.

For the year ended 31 December 2016

All amounts are expressed in thousands of HRK

	Under the CNB Decision	Accounting standards for banks	Difference
Interest income	686,683	687,126	(443)
(Interest expense)	(171,540)	(141,120)	(30,420)
Net interest income	**515,143**	**546,006**	**(30,863)**
Fee and commission income	164,445	64,447	(2)
(Fee and commission expenses)	(42,922)	(42,922)	-
Net fee and commission income	**121,523**	**121,525**	**(2)**
Gains/(losses) on investments in subsidiaries, associates and joint ventures	-		-
Trading gains/(losses)	78,514	-	78,514
Gains/(losses) on embedded derivatives	(281)	-	(281)
Gains/(losses) on assets at FVTPL not actively traded	73	-	73
Gains/(losses) on assets available for sale	39,966	-	39,966
Gains/(losses) on assets held to maturity	-	-	-
Gains/(losses) on hedging relationships	-	-	-
Gains on investments in subsidiaries, associates and joint ventures	-	-	-
Gains on other equity investments	118	-	118
Foreign exchange gains/(losses)	(9,915)	-	(9,915)
Net gains from trading in and valuation of financial instruments	-	110,388	(110,388)
Other income	27,232	13,198	14,034
Other expenses	(121,528)	-	(121,128)
General administrative expenses and depreciation	(361,130)	-	(361,130)
Net income from operations before impairment and provisions for losses	**289,715**	**791,117**	**(501,402)**
Impairment losses and provisions	(137,431)	(211,293)	73,862
Personnel expenses	-	(188,157)	188,157
Other operating expenses	-	(239,383)	239,383
Profit/(loss) before taxation	**152,284**	**152,284**	**-**
Income tax	(28,866)	(28,866)	-
Profit/(loss) for the year	**123,418**	**123,418**	**-**
Earnings per share	-	-	-
Profit/(loss) for the year	123,418	123,418	-

Comparative presentations

Comparative presentation of the profit and loss account items and the statement of comprehensive income for 2015

For the year ended 31 December 2016

All amounts are expressed in thousands of HRK

	Under the CNB Decision	Accounting standards for banks	Difference
Interest income	721,084	722,790	(1,706)
(Interest expense)	(258,254)	(226,276)	(31,978)
Net interest income	**462,830**	**496,514**	**(33,684)**
Fee and commission income	163,977	163,972	5
(Fee and commission expenses)	(40,489)	(40,489)	-
Net fee and commission income	**123,488**	**123,483**	**5**
Gains/(losses) on investments in subsidiaries, associates and joint ventures	(1,554)	-	(1,554)
Trading gains/(losses)	87,449	-	87,449
Gains/(losses) on embedded derivatives	(3,450)	-	(3,450)
Gains/(losses) on assets at FVTPL not actively traded	116	-	116
Gains/(losses) on assets available for sale	204	-	204
Gains/(losses) on assets held to maturity	-	-	-
Gains/(losses) on hedging relationships	-	-	-
Gains on investments in subsidiaries, associates and joint ventures	-	-	-
Gains on other equity investments	70	-	70
Foreign exchange gains/(losses)	(26,261)	-	(26,261)
Net gains from trading in and valuation of financial instruments	-	56,120	(56,120)
Other income	18,395	18,812	(417)
Other expenses	(303,943)	-	(303,943)
General administrative expenses and depreciation	(362,850)	-	(362,850)
Net income from operations before impairment and provisions for losses	**(5,506)**	**694,929**	**(700,435)**
Impairment losses and provisions	(143,510)	(416,406)	272,896
Personnel expenses	-	(178,729)	178,729
Other operating expenses	-	(248,810)	248,810
Profit/(loss) before taxation	**(149,016)**	**(149,016)**	**-**
Income tax	69,427	69,427	-
Profit/(loss) for the year	**(79,589)**	**(79,589)**	**-**
Earnings per share	-	-	-
Profit/(loss) for the year	(79,589)	(79,589)	-

Reconciliations between the items from the statement of comprehensive income included in the Annual Report and the items presented in accordance with the CNB Decision

Reconciliation notes to the statement of comprehensive income for 2016

The differences on items of the statement of comprehensive income included in the Annual Report from the presentation under the CNB Decision comprise the following:

The difference in the total interest income reported under the CNB accounting requirements for banks in the Republic of Croatia versus the Annual Report relates to the net foreign exchange difference on interest income, which is presented in Annual Report within the line item "Net profit or loss from trading in and valuation of financial instruments". The difference in the total interest expense reported under the CNB accounting requirements for banks in the Republic of Croatia versus the Annual Report relates to the savings deposit insurance premiums, which are included in the Annual Report in the line items "Operating expenses", and to the "Net foreign exchange gains on interest expense", included in the Annual Report under "Net profit or loss from trading in and valuation of financial instruments".

The items "Trading gains/losses", "Gains/losses on derivatives" and "Gains/losses on exchange differences" are presented separately under the CNB bank accounting requirements, whereas in the Annual Report they have been included in "Net profit or loss from trading in and valuation of financial instruments". The line items "Profit/(loss) on assets at FVTPL not actively traded", "Income from other equity investments" and "Other income" are presented separately, as provided by the CNB accounting requirements for banks, whereas in the Annual Report they are aggregated under "Other operating income". The line items "Other expenses"and "General and administrative expenses and depreciation" are presented separately, as provided by the CNB accounting requirements for banks, whereas in the Annual Report they are included in "Personnel expenses" and "Other operating expenses".

Comparative presentations

Reconciliation between the balance sheets at 31 December 2016 and 2015

For the year ended 31 December 2016

All amounts are expressed in thousands of HRK

Assets	Under the CNB decision – 2016	Accounting standards for banks in Croatia – 2016	Difference – 2016	Under the CNB decision – 2015	Accounting standards for banks in Croatia – 2015	Difference – 2015
Cash and deposits with the CNB	1,787,526	-	1,787,526	1,877,933	-	1,877,933
Cash	279,871	-	279,871	295,015	-	295,015
Deposits with the CNB	1,507,655	-	1,507,655	1,582,918	-	1,582,918
Deposits with credit institutions (banks)	969,117	-	969,117	506,118	-	506,118
Cash and balances with the Croatian National Bank	-	*2,622,409*	*(2,622,409)*	-	*1,993,247*	*(1,993,247)*
Loans and receivables from other banks	-	*134,246*	*(134,246)*	-	*766,579*	*(766,579)*
Treasury bills of the Croatian Ministry of Finance and of the CNB	194,657	-	194,657	321,703	-	321,703
Securities and other financial instruments held for trading	-	-	-	-	-	-
Securities and other financial instruments available for sale	1,784,053	2,009,886	(225,833)	1,536,234	1,884,868	(348,634)
Securities and other financial instruments held to maturity	143,202	143,202	-	143,537	143,537	-
Securities and other financial instruments at FVTPL not actively traded	11,282	-	11,282	32,210	-	32,210
Financial assets at fair value through profit or loss	-	*14,789*	*(14,789)*	-	*35,857*	*(35,857)*
Derivative financial assets	3,531	-	3,531	3,834	-	3,834
Loans to financial institutions	11,095	-	11,095	36,638	-	36,638
Loans and advances to other customers	10,335,615	-	10,335,615	10,861,577	-	10,861,577
Loans and receivables from customers	-	*10,318,561*	*(10,318,561)*	-	*10,508,073*	*(10,508,073)*
Investments in subsidiaries, associates and joint ventures	59,842	59,842	-	59,842	59,842	-
Foreclosed assets	17,496	-	17,496	14,634	-	14,634
Tangible assets (net of depreciation)	256,726	251,126	5,600	251,293	246,577	4,716
Intangible assets	-	*37,469*	*(37,469)*	-	*32,202*	*(32,202)*
Goodwill	-	*42,966*	*(42,966)*	-	*42,966*	*(42,966)*
Deferred tax assets	-	*29,268*	*(29,268)*	-	*51,357*	*(51,357)*
Interest, fees and other assets	254,685	-	254,685	272,450	-	272,450
Other assets	-	*85,343*	*(85,343)*	-	*73,707*	*(73,707)*
Total assets	15,828,827	15,749,107	79,720	15,918,003	15,838,812	79,191

Comparative presentations

Reconciliation between the balance sheets at 31 December 2016 and 2015

For the year ended 31 December 2016

All amounts are expressed in thousands of HRK

Liabilities, equity and reserves	Under the CNB decision – 2016	Accounting standards for banks in Croatia – 2016	Difference – 2016	Under the CNB decision – 2015	Accounting standards for banks in Croatia – 2015	Difference – 2015
Loans from financial institutions	1,056,107	-	1,056,107	1,176,708	-	1,176,708
Deposits	12,552,927	-	12,552,927	12,453,597	-	12,453,597
Balances on giro and current accounts	2,534,663	-	2,534,663	2,159,291	-	2,159,291
Savings deposits	2,782,480	-	2,782,480	2,173,846	-	2,173,846
Term deposits	7,235,784	-	7,235,784	8,120,460	-	8,120,460
Other borrowed funds	-	-	-	-	-	-
Short-term borrowings	-	-	-	-	-	-
Long-term borrowings	-	-	-	-	-	-
Amounts due to other banks	-	*20,633*	*(20,633)*	-	*22,098*	*(22,098)*
Amounts due to customers	-	*12,599,000*	*(12,599,000)*	-	*12,526,462*	*(12,526,462)*
Other borrowed funds	-	*1,060,321*	*(1,060,321)*	-	*1,176,638*	*(1,176,638)*
Derivative financial and other liabilities held for trading	7,646	-	7,646	4,283	-	4,283
Financial liabilities at fair value through profit or loss	-	*7,604*	*(7,604)*	-	*4,157*	*(4,157)*
Issued debt securities	-	-	-	-	-	-
Provisions	-	*126,654*	*(126,654)*	-	*282,768*	*(282,768)*
Interest, fees and other liabilities	413,286	-	413,286	585,674		585,674
Other liabilities	-	*136,033*	*(136,033)*	-	*128,948*	*(128,948)*
Total liabilities	**14,029,966**	**13,950,245**	**79,721**	**14,220,262**	**14,141,071**	**79,191**
Share capital	989,607	822,280	167,327	989,607	822,280	167,327
Share premium	-	*171,260*	*(171,260)*	-	*171,260*	*(171,260)*
Profit/(loss) for the year	123,418	-	123,418	(79,589)	-	(79,589)
Retained earnings/(Accumulated losses)	451,172	574,590	(123,418)	530,762	451,172	79,590
Legal reserves	41,114	-	41,114	41,114	-	41,114
Statutory and legal reserves	-	*82,229*	*(82,229)*	-	*82,228*	*(82,228)*
Statutory and other capital reserves	145,428	-	145,428	138,654	-	138,654
Other reserves	-	*148,503*	*(148,503)*	-	*170,801*	*(170,801)*
Unrealised gains/(losses) on revaluation of financial assets available for sale	48,122	-	48,122	77,193	-	77,193
Total equity	**1,798,861**	**1,798,862**	**(1)**	**1,697,741**	**1,697,741**	**-**
Total liabilities and equity	**15,828,827**	**15,749,107**	**79,720**	**15,918,003**	**15,838,812**	**79,191**

Reconciliations between the items from the statement of financial position included in the Annual Report and the items presented in accordance with the CNB Decision

Reconciliation notes to the statement of financial position for 2016

Assets

The line items "Cash and deposits with the CNB" and "Deposits and receivables from banking institutions" are presented separately, as provided by the CNB accounting requirements for banks, whereas in the Annual Report they are captured under "Loans and receivables from other banks" and "Cash and balances with the Croatian National Bank".

The treasury bills of the Ministry of Finance and of the Croatian National Bank are presented separately, as provided by the CNB accounting requirements for banks, whereas in the Annual Report they are included in "Financial assets available for sale". Securities and other financial instruments at FVTPL not actively traded are presented separately under the CNB accounting requirements for banks, whereas in the Annual Report they are included in "Financial assets at fair value through profit or loss".

Foreclosed assets are presented separately, in accordance with the CNB accounting requirements for banks in the Republic of Croatia, whereas in the Annual Report they are included in "Other assets". Deferred tax assets are presented within the line item "Interest, fees and other assets", in accordance with the CNB accounting requirements for banks in the Republic of Croatia, whereas in the Annual report they are presented separately. Accrued interest and fees due and not yet due as well as intangible assets are presented under the CNB accounting requirements for banks in the Republic of Croatia within "Interest, fees and other assets", whereas in the Annual Report they are presented separately, i.e. the interest is presented together with the principal due and not yet due and the related securities.

Liabilities and equity

In accordance with the CNB accounting requirements for banks in the Republic of Croatia, short-term and long-term loans from financial institutions, other short-term and long-term loans and issued subordinated debt instruments are items to be presented separately, whereas in the Annual Report they are included under "Other borrowed funds".

Under the CNB accounting requirements for banks in the Republic of Croatia, balances on current and giro accounts, savings and term deposits are presented separately, whereas in the Annual Report they are included in "Amounts due to other banks" and "Amounts due to customers".

In accordance with the CNB accounting requirements for banks in the Republic of Croatia, provisions are included in "Interest, fees and other liabilities", whereas they are presented separately in the Annual Report.

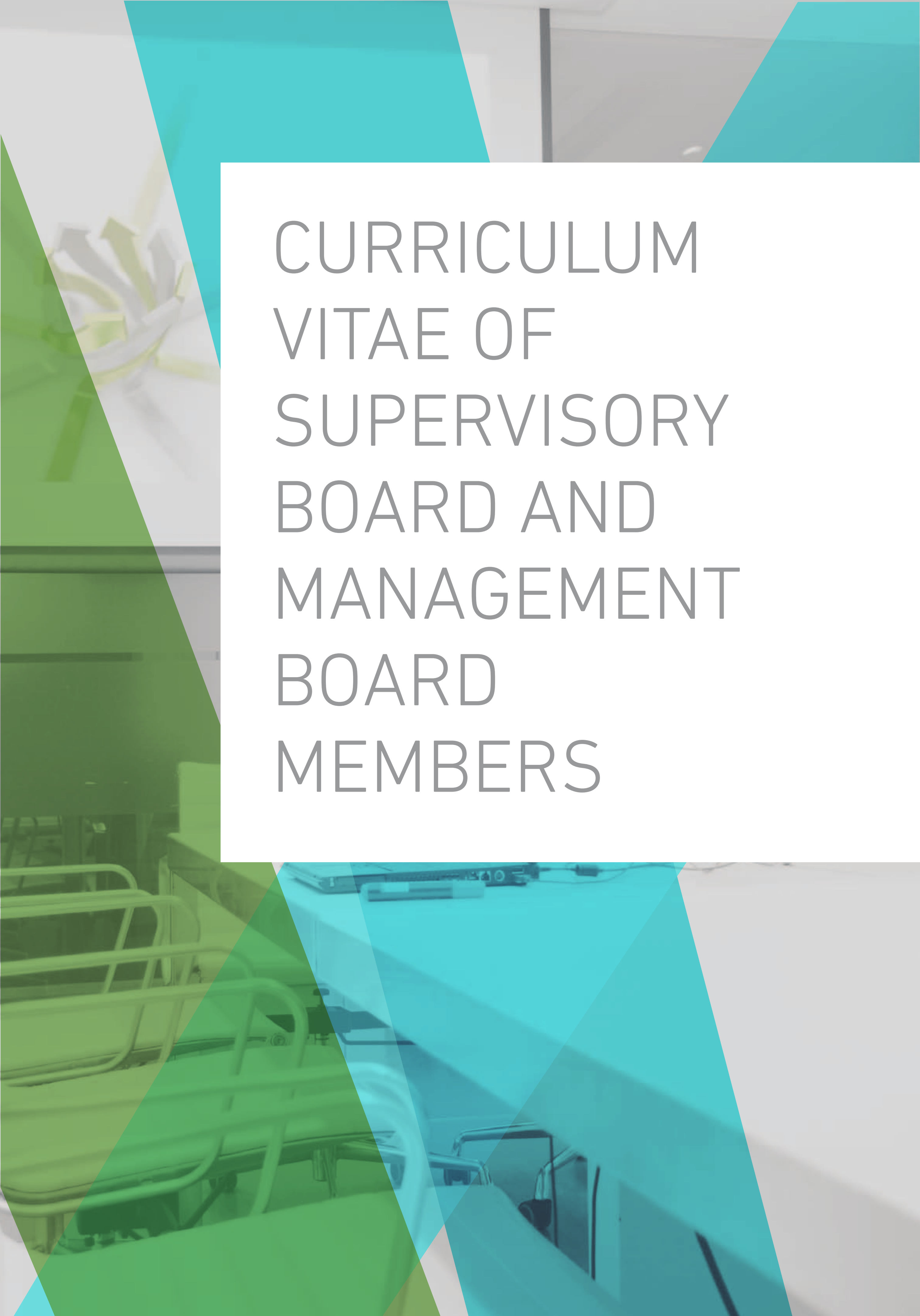
Accrued interest due and not yet due is presented in the Annual Report under the related principal due and not yet due, whereas under the CNB accounting requirements for banks in the Republic of Croatia they are included in "Interest, fees and other liabilities".

Under the CNB accounting requirements for banks in the Republic of Croatia, share capital includes the registered and issued capital of the bank as well as capital gains/losses on the issue of shares. In the Annual Report, the items are included in the line items "Shareholders' equity" and "Share premium". The line items also include capital gains/losses on purchase and sale of own shares, which are included in the line item "Statutory and other capital reserves" according to the CNB accounting requirements for banks in the Republic of Croatia.

The line items "Profit/(loss) for the year " and " Retained earnings/accumulated losses" reported under the CNB accounting requirements for banks in the Republic of Croatia are presented separately, whereas in the Annual Report they are aggregated under the line item "Retained earnings/(accumulated losses)".

Under the CNB accounting requirements for banks in the Republic of Croatia, "Legal reserves" represent a separate line item, whereas in the Annual Report they are combined with the statutory reserves under the line item "Legal and statutory reserves".

"Statutory and other capital reserves" reported under the CNB accounting requirements for banks in the Republic of Croatia consists of statutory reserves, other reserves formed out of after-tax profit as well as tax on items directly recognised in or transferred from equity. The line item "Other reserves" in the Annual Report includes other reserves formed out of after-tax profit and unrealised gains/(losses) on remeasurement of financial assets available for sale. Under the CNB accounting requirements for banks in the Republic of Croatia, "Unrealised gains/(losses) on remeasurement of financial assets available for sale" are presented separately.



CURRICULUM VITAE OF SUPERVISORY BOARD AND MANAGEMENT BOARD MEMBERS

Curriculum vitae of Supervisory Board Members

Dr. Antal Pongrácz
Chairman of the Supervisory Board of OTP banka Hrvatska d.d.

Dr. Antal Pongrácz, Chairman of the Supervisory Board, was born in 1946. He holds a PhD in Economic Sciences. Early in his career he worked as an analyst and later on as a manager at the Revenue Directorate, but also held various positions in the Hungarian Ministry of Finance. He was also the first Deputy Chairman of the State Office for Youth and Sports. He came to OTP Bank for the first time in 1988 and was the first Deputy CEO of OTP Bank until 1990. Between 1991 and 1994 he was the CEO, then the Chairman and CEO of the European Commercial Bank Rt., between 1994 and 1998 he was the Chairman and CEO of Szerencsejáték Rt, then from 1998-99 he served as CEO of Hungarian flagship carrier Malév. Since 2001 he has been the executive director of OTP Bank's Staff Division. He has been a member of OTP Bank's Board of Directors since 2002 and the Deputy Chairman since June 2009.

Szabolcs Annus
Deputy chairman of the Supervisory Board of OTP banka Hrvatska d.d.

Szabolcs Annus was born in 1976. He graduated from the Budapest University in economic studies and completed postgraduate degree in banking. He has been with OTP Bank since 2000, first as a controller, then advisor in Staff Division and head of Group-level Coordination Department shortly thereafter. Since 2007 he has been holding the position of a country manager for Romania, and since September 2008 he has also been in charge of Bank Group Supervision Department. Since 2007 he has been a member of various supervisory boards. Between 2007 and 2008 he was the SB chairman at OTP Travel, since 2007 he has been an SB member of OTP bank Romania. He was also a member of the Board in Portfolio Venture Capital Fund Management Company during 2010, and has been an SB member since October 2010. In addition, he has been a member of the Board of OTP Building Society since 2011.

Branko Mikša

Member of the Supervisory Board of
OTP banka Hrvatska d.d.

Branko Mikša was born in 1947 in Đurmanec, Croatia. He graduated in 1970 and gained his masters degree in 1973 from the Faculty of Economics, University of Zagreb. From 1970 to 1991 he worked at Pliva holding various positions from an associate to the head of the supply chain, export director and marketing director. In 1991 and 1992 he was the director of Pliva Handels GmbH in Germany, while in 1992 and 1993 he held the position of the Minister of Trade and Tourism in the Croatian Government. From 1993 to 1996 he was the Mayor of Zagreb, while from 1996 to 1999 he returned to Pliva Handels GmbH in Germany. Since 1999 he has been the Deputy President of the Supervisory Board of Agrokor d.d. and advisor to the President of the Agrokor Group. He has been an independent member of the Supervisory Board since 29 September 2011.

László Kecskés

Member of the Supervisory Board of
OTP banka Hrvatska d.d.

László Kecskés graduated from the Financial Accounting College and began his career as the Manager of Kecskés and Co. accounting and tax-consultant company. After two years he transferred to the position of the Chief Manager at Intertia Accountant Trustee, where he remained until 1994 when he became an auditor in OTP Bank. In 1996 he became the Deputy Head of the Banking Operation Audit Department and obtained the position of the General Director in 2001. Since April 2007 he has been the Managing Director of the OTP Bank Internal Audit Directorate.

Attila Kozsik

Member of the Supervisory Board of
OTP banka Hrvatska d.d.

Attila Kozsik was born in 1975. He graduated from the University of Budapest, in economics and got his a postgraduate degree in finance. He also holds a Certified European Financial Analyst (CEFA) diploma. Mr Kozsik started his career as a controlling expert at Citibank, followed by the position of a consultant at the company PriceWaterhouseCoopers. He arrived at OTP banka in 2002 as the manager of the Analysis and Control Section, whereas in 2009 he became the senior manager in the Core Strategy and Analyses Department. Between March and September 2010 he was the CFO and member of the Executive Committee of OTP banka Serbia, whereas from October 2010 to July 2013 he was the CFO at the commercial bank AD Podgorica, Montenegro, where he has been a member of the Management Board since October 2013. Since August 2013 he has been the director – consultant to the Deputy CEO at OTP banka.

Curriculum vitae of Management Board Members

Balázs Békeffy
President of the Management Board of
OTP banka Hrvatska d.d.

Balázs Békeffy, president of the Management Board of OTP banka d.d., was born in 1977 in Budapest. He graduated from the Budapest University of Economics, and gained specialised education at professional schools in Moscow and Sweden. He started his career in a subsidiary of the Swiss-based pharmaceutical and research company Novartis Seeds, and afterwards worked with the audit company PricewaterhouseCoopers as a consultant at Corporate Finance Services. He joined OTP Bank in March 2003, as a senior project manager in charge of bank acquisitions. In March 2006, he was appointed head of the Operations Division within OTP banka Hrvatska, and in September 2006 he was appointed Management Board member. He was appointed Management Board president in September 2011, and is in charge of Operations, IT, Human Resources, Legal Affairs, Compliance and Security and Internal Audit.

Zorislav Vidović
Member of the Management Board of
OTP banka Hrvatska d.d.

Zorislav Vidović, member of the Management Board of OTP banka d.d., was born in 1964 in Šibenik. He graduated from the Faculty of Economics at the University of Zagreb in 1988. In the period from 1988 to 1990 he held a job in the Finance Section of the company Kepol Zadar. At the end of 1990 he joined Dalmatinska banka where he was assigned to the Assets and Lending Division and in 1992 he earned his broker's license. From 1997 to 2002 he held the position of the director of the Treasury Department. He was a member of the Management Board since 1 April 2002 until 24 April 2014, when he was appointed president of the Management Board of Banco Popolare Croatia. On 16 December 2014 he was appointed member of the Management Board of OTP banka in charge of the Treasury, Finance, Corporate Banking and Group Governance system.

Helena Banjad
Member of the Management Board of OTP banka Hrvatska d.d.

Helena Banjad, member of the Management Board of OTP banka d.d., was born in 1955 in Zadar. She graduated from the Faculty of Economics at the University of Zagreb in 1978. She started her career in the development department of Pliva pharmaceutical company in Zagreb, and in 1981 took a job in Zadar, working in the foreign trade unit of a chemical company. She joined Dalmatinska banka in 1990, and left the Bank for a company offering financial services, where she worked from 1993 to 1995. Her jobs with the Bank included running the international market and managing f/x liquidity (1990 to 1993), correspondent banking and procurement of funds from international markets (1995 to 1998), and since 1998 she has been heading the Risk Management Division. In the period from 2002 to 2004 she held the position of the Management Board member in charge of risks. She was appointed Management Board member in August 2011, and the supervision over credit, market and operational risks remains within her competence.

Slaven Celić
Member of the Management Board of OTP banka Hrvatska d.d.

Slaven Celić, member of the Management Board of OTP banka d.d., was born in Šibenik in 1967. He graduated from the Faculty of Economics at the University of Split in 1992. Before joining the Bank at the end of 1997 he taught the economics courses in a secondary school in Šibenik. His first job in Dalmatinska banka was that of a senior loan and deposit administration officer, followed by the position of a relationship manager in the Corporate Banking Division, which he held from 2001 to 2004. He was promoted to the position of the manager of the Business Unit Šibenik in March 2004, only to be fast tracked to the position of the head of the Retail Banking Division in May the same year. He was appointed Management Board member in September 2012, and is in charge of the Retail Banking, and Marketing and Corporate Communications.

OTP BANKA HRVATSKA BUSINESS NETWORK

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