otpbanka

ANNUAL REPORT

for the year ended 31 december 2022

OTP banka d.d.

Annual report for the year ended 31 December 2022

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

Content

1

Management Report on Bank's operations for the year 2022

Word of the President of the Board

Balázs Pál Békeffy

In the wake of the economic surge experienced in 2021, when we - as the economy and as the society - demonstrated our ability to rise above the consequences of adverse events such as pandemic and earthquake, we anticipated to ride on the same trajectory in 2022. However, not that far into the year we had to accept that we live in profoundly uncertain times and cannot make predictions but rather remain open to a number of scenarios. The invasion on Ukraine dealt a severe blow to the political stability in the East Europe, which reflected heavily on the political decisions not only in the rest of Europe, but worldwide, as well as on the decisions of investors and large business entities. The war gave rise to substantial disturbances in the energy prices, which spilled over to the hike of manufacturing prices, and trade in goods and services, causing additional setbacks in the supply chains already worn out by the pandemic. The strong inflationary pressure combined with a significant rise of the interest rates shaped challenges that had not been seen for years.

On top of all economic challenges, the financial sector in Croatia had an unparalleled year marked by the introduction of a new official currency – euro. Our priority was to ensure a successful EUR changeover and, being a responsible financial institution, in cooperation with all stakeholders, from the state authorities and regulators, to our clients, ensure functioning of the system with the new currency from the first day of 2023. Without a doubt, this has been the most complex process that involved the entire Croatian financial market, and we at OTP banka dedicated substantial time, and financial and human resources to its completion. Over 400 employees from all business areas were involved in the process preparation and implementation for months, and it was through their commitment that we successfully adjusted to the change. More than 100 applications, including the central information system of the Bank, sustained changes; along with 150 products, 5 payment systems and over 570 of major processes. Although the EUR changeover project was in the centre of our attention, we nevertheless succeeded in our ambition to achieve other business objectives, and even outperform the original plans in certain areas.

In 2022, we firmly remained the fourth-largest bank by total assets in the Croatian banking market, holding a market share of 10 percent. At the end of the year, the Bank's assets totalled HRK 57.5 billion, which constituted an increase of 16.3 percent compared to the end of 2021. At that, we grew in almost all market shares. Our market share in retail lending rose to 14.4%, whilst the share in corporate lending and lending to the government reached 11.7%. The total balance sheet increased by 14.9% in 2022, where such growth stemmed primarily from of the growth of clients' deposits, retail and corporate ones alike. Hence, the deposits remained our major source of funding. Compared to the year 2021, the Bank achieved a noteworthy increase of 30 basis points and reached the market share of 10.9% in retail deposits, whilst the market share in corporate deposits remained at a stable level of 8.4%.

Our success and efforts in in terms of provision of top-notch products and services to our clients, ensuring of their satisfaction, and developing accountability and sustainability in our operations, have not gone unnoticed, In addition to the growth of the market shares, in 2022 the Bank made exceptional financial results with the profit before tax of HRK 897 million (15% higher than in 2021), whilst the profit after tax amounted to HRK 675 million (an increase of 7%). A lower rise in the profit after tax comes as the result of an additional tax imposed on the Bank as a form of supporting subsidies and appropriations to the socially-handicapped, and to the legal entities that have been most affected by the crisis and the spike in the price of energy sources.

None of this would have been possible without outstanding efforts, ambition and enthusiasm of over 2,300 employees. With regard to that, we have been continuously improving our work environment and introducing new perquisites.

Our business strategy has been relying on the framework of the international OTP Group, where the main factors include ensuring of stability, strengthening of profitability, growth of market shares, continuous advancement of bank products and services, and innovations. In addition, the challenging business environment calls for prioritising the ability of high-speed digital development, the application of agile mode of operations that facilitates fast adjustment, and the integration of ESG criteria into all operating segments in order to provide for long-term sustainability. In 2022, we managed to make giant leaps forward in those three segments.

Digitalisation in the financial industry has been fast-tracked, and OTP banka's ambition is to be a trend-setter in the Croatian market. In order to cut down the time-to-market in digital banking, expand the range of services available to the clients though the digital channels, and enhance the existing services to upgrade the user experience, the Bank will go ahead with the transition towards the agile operating mode in our digital development. I am convinced that this will help shaping new products and services, and /or improvement of the existing ones in 2023 and beyond.

In 2022, we deeply committed to the integration of ESG (environment, social and governance) criteria into our operations. Simultaneously with setting up of the sustainability architecture, which permeates all business segments, we were dedicated to the development of the ESG strategy and sustainable financing. We have been gradually building the ESG criteria into all segments of our business through new policies, projects and due diligence of our impacts, as well as by incorporating the environmental and social parameters into risk management. We have been prudently managing our direct impacts by way of buying electricity from renewable sources or making own electricity, by responsible waste management and cutting down on the use of plastic and paper.

None of this would have been possible without outstanding efforts, ambition and enthusiasm of over 2,300 employees. With regard to that, we have been continuously improving our work environment and introducing new perquisites. At the beginning of 2022, we concluded a new Collective Bargaining Agreement, which I deem to be on the cutting edge in Croatia. Having received the feedback of the poll about employee engagement, we introduced a volunteering programme and the in-house social network called Jenz, which enriched our two-way communication, we continued developing the Ideaportal Project as a unique platform for employee idea exchange, and enabled hybrid work. As for the domain of corporate social responsibility, we have proved to be a valuable partner to the local communities, whereas the third cycle of our OTP RoundUp donation scheme yet again epitomised our care and commitment.

Our success and efforts in in terms of provision of top-notch products and services to our clients, ensuring of their satisfaction, and developing accountability and sustainability in our operations, have not gone unnoticed, earning us the following recognitions and awards: Global Investor/ISF and Global Finance awards for the best custodian bank, PRCA Platinum Award for Employee Engagement, and Euromoney's award for the market leader in the categories of Corporate and Social Responsibility, Corporate Banking and Digital Solutions.

As we have experienced not that long ago, predictions are rather useless because they depend on numerous external factors and changes in the economic trends and in the habits of our existing and future clients alike. Nevertheless, I believe that 2023 will bring us stable market conditions in which we will carry through all our plans. With innovations and development of the products across all business segments, we aim at offering our clients new digital solutions and custom-built approach. In the retail banking segment, goals will include portfolio growth, better user experience and further sales network optimisation, whereas in the corporate banking segment we will spare no effort to keep our clients satisfied and to adjust our services to their operating terms and conditions, along with the development of the Green Loan Framework, which will promote sustainable financing. We are fully aware that our ability to adapt to new business conditions, technological development, and rapid changes in habits and needs of the clients will play a decisive role in the time to come, and that we will be required to assess our environmental and social impact and ensure that our activities are fine-tuned to reflect responsible governance of such impacts.

On behalf of the Board, I would like to take this opportunity to thank all clinets and stakeholders for the constructive debate, trust and collaboration. Also, I would like to thank to all our dear employees for their personal commitment and responsibility, support and cooperation in running our business activities. We are confident that together we can forge better circumstances and a framework for the economic and personal growth, whilst simultaneously contributing to our society and the communities we live and work in, especially in terms of the environmental and climate protection.

Balázs Pál Békeffy
President of the Board

General information

Company and Headquarter

OTP banka d.d. (the Bank) is an authorized commercial bank operating in the Republic of Croatia and is the parent company of the Group OTP banka (the Group) in the Republic of Croatia.
The registered seat of the Bank is in Split, Domovinskog rata 61. The Bank is incorporated in the Republic of Croatia as a joint stock company.

Ownership Structure

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

	31 December 2022		31 December 2021	
	Share capital in HRK millions	Ownership interest in %	Share capital in HRK millions	Ownership interest in %
OTP Bank Nyrt Hungary	3,994	100.00	3,994	100.00
Total	**3,994**	**100.00**	**3,994**	**100.00**

Share Capital

The Bank is registered at the Commercial Court in Split, with the registered share capital in the amount of HRK 3,993,754,800 as at 31 December 2022 (31 December 2021: HRK 3,993,754,800).

Governance and Management

Shareholders' Assembly as at 31 December 2022:

Szabolcs Annus	Representative of the President of the Supervisory Board

Supervisory Board as at 31 December 2022:

Péter Csányi	President from 1 April 2020
László Kecskés	Vice president from 1 April 2020
Zlatko Mateša	Member from 15 October 2019
Ibolya Rajmonné Veres	Member from 1 April 2020
Zsolt Ardó	Member from 18 February 2020
Natalija Parlov	Member from 6 July 2022
Árpád Srankó	Member from 6 July 2022

General information (continued)

Governance and Management (continued)

Management Board as at 31 December 2022:

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

Corporate Governance Code

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

Bank's adequate corporate management includes:

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

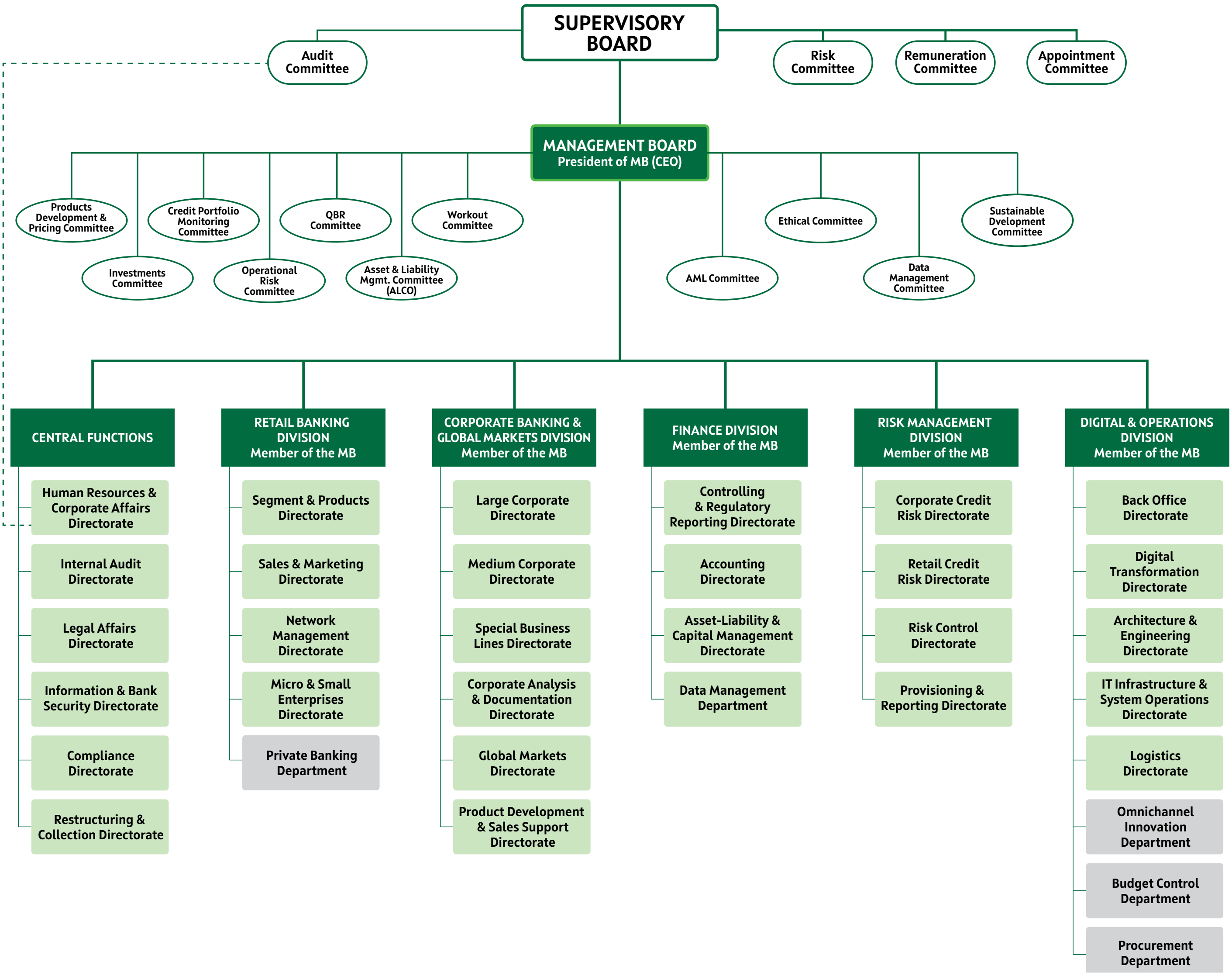
In 2022, the Bank adopted amendments to the Corporate Governance Code in accordance with the Guidelines on Internal Governance, which entered into force on 14 September 2022.

The Corporate Governance Code is published on the Bank's official website and is available at the following link:

https://www.otpbanka.hr/sites/default/files/doc/Kodeks%20korporativnog%20upravljanja.pdf

General information (continued)

Organization Structure Of The Bank



General information (continued)

Business Network

The bank operates with clients through 110 branches and 450 ATMs. In the last few years, the Bank has been optimizing its network of branches, however, it has maintained its presence in all areas of Croatia with the aim of providing quality and timely service to its clients. Also, in order to raise the level of service quality, the Bank is focused on the remodelling of branches, which from branches focused on transactional business have become comfortable zones for consulting clients focused on building long-term relationships with clients. In addition to the remodelling of branches, free Wi-Fi and internal radio stations are installed in over 70% of branches, as well as digital info kiosks with all important information for clients, and a large number of branches also have children's corners.

In the branches, individual person clients can contract all products, and in a large number of locations, the branches also provide services for business clients.

Branch network:

General information (continued)

Business Network (continued)

ATM network:

General information (continued)

Subsidiaries of OTP Banka d.d.

Several companies in full or partial ownership of OTP banka d.d. were established in the Republic of Croatia. During 2022, there were no additional purchase and sales or investments in the branches so that the number of branches and percentage of the Bank ownership at the end of 2022 remained the same as it was at the end of 2021.
In cooperation with subsidiaries, the Bank develops and provides all groups of services and products that can support banking operations with individuals and legal entities.

	Headquarter	Percentage of ownership	Industry
OTP Nekretnine d.o.o.	Zagreb	100%	Organization of project implementation for buildings
OTP invest društvo za upravljanje fondovima d.o.o.	Zagreb	81.7%	Fund management activities
OTP Leasing d.d.	Zagreb	60%	Finance and operating lease
Georg d.o.o.	Zagreb	76%	Business and other management consultancy activities

OTP Leasing d.d.

OTP Leasing d.d. was established in Zagreb by Merkantil Bank Zrt, Hungary, which specialises in lease operations within OTP Group, in 2006.

Having initially owned 10% of the shares in the company, in 2019 OTP banka concluded the Share Sale and Assignment Agreement concluded in September 2018, and thus became the majority owner of the company holding 60% of the shares. Merkantil Bank Zrt remained the owner of 40% of the Company's shares.

The main activity of the company are financial and operating lease.

The company has a wide sales network with branches in Zadar, Split, Pula, Rijeka, Zagreb, Varaždin, Slavonski Brod, Osijek and Dubrovnik. Any lease arrangements can be concluded also in the OTP banka branch network, which greatly contributes to the level of availability of the services nationwide.

On 1 July 2022, SB Leasing d.o.o. (founded in 2007) was merged to OTP Leasing d.d., whose business shares (100%) were acquired by the Company through an agreement on the transfer of business shares from Splitska banka d.d. in June 2018, and its activity is financial and operational leasing.

In 2022, the company retained first place in the leasing industry according to the number and value of newly concluded contracts. The total value of newly concluded leasing contracts in the Republic of Croatia in 2022 is HRK 10.5 billion, of which almost 18% refers to OTP Leasing (2021: 19%).

The company's assets in 2022 increased by 14.5% and amounted to HRK 3.2 billion (HRK 2.8 billion in 2021). For the year that ended on 31 December 2022, the Company's net profit was HRK 54.3 million (2021: HRK 36.5 million), which compared to 2021 increased by 48.7%.

OTP invest društvo za upravljanje fondovima d.o.o.

OTP Invest d.o.o. was established in 1997 in Zagreb, and is presently owned by OTP banka (81.7%) and OTP Alapkezelő Zártkörűen Működő Részvénytársaság, Hungary (18.3%).

The basic activity of the company is founding and management of UCITS funds and alternative investment funds. In addition to these activities, the Company also provides investment consulting and portfolio management services.

General information (continued)

Subsidiaries of OTP Banka d.d. (continued)

OTP invest društvo za upravljanje fondovima d.o.o. (continued)

The open investment UCITS funds managed by the Company are OTP start Fund, OTP e-start Fund, OTP ABSOLUTE Fund, OTP Balanced Fund, OTP MERIDIAN 20 Fund, OTP indeksni Fund, OTP GLOBAL, OTP MULTI USD 2 Fund and Stability Fund.

In November 2022, the Company established a new fund, OTP MULTI USD 2, which attracted additional investors and had an impact on increasing the Company's income in 2022 and strengthening its market position. Income from investment consulting activities also had a positive effect on the Company's operations in 2022.

As a result of disruptions in the financial market due to the invasion on Ukraine, the funds still recorded negative returns in 2022 and thus failed to fulfil their traditional role of diversifying investment alternatives.

OTP Nekretnine d.o.o.

The company OTP Nekretnine d.o.o. was founded in Zadar in 2000, and is fully owned by the Bank.

The basic activities include rental and real estate management, appraisal of real properties and chattels, real estate agency services, development projects and consultancy services.

The company operates through its two branches (Zagreb and Zadar).

The company is a sole owner of Cresco d.o.o., founded in 2008. The main activity of Cresco d.o.o. are the acquisition of real estate at auctions organised as a part of enforcement and bankruptcy, sale of such properties, and real estate agency services.

Consolidated profit of OTP Nekretnine d.o.o. for 2022 amounted to HRK 7.6 million (2021: HRK 7 million) which is an increase by 8.6% compared to 2021.

The increase in consolidated net profit is the result of an increased volume of real estate valuation services which is the result of significant growth in residential lending to clients of the Bank, supported by the program of subsidizing loans by Agency for Transactions and Mediation in Immovable Properties (ATMIP) and an increase in income from the sale of real estate from the portfolio of Cresco d.o.o.

Georg d.o.o.

Georg d.o.o. is a company founded in Zagreb in 1992. The Bank became the majority owner when it bought the controlling interest of 76% in 2021.

The basic activities of the Company are advisory services regarding grants awarded by the European Union.

The company provides services to small and medium-sized enterprises mainly in the sectors of agriculture and food industry, but also to all other sectors, as well as a certain number of state administration bodies and local self-government units (LGUs), as well as companies owned by LGUs, mainly in co-financed projects from EU funds. The company is also present in the markets of the Region, especially in the knowledge and experience transfer projects related to the Rural Development Fund.

Through 2022, the Company has intensified its work on synergy and visibility of the Company within the OTP group in the Republic of Croatia.

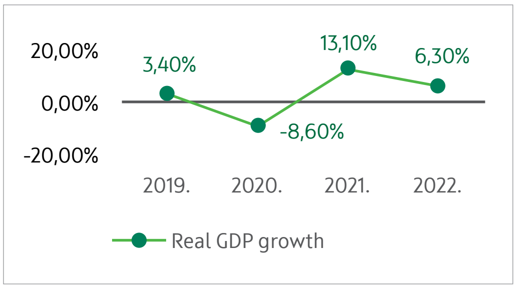
The Company's profit after tax in 2022 amounts to HRK 0.9 million, which is at the level of 2021.

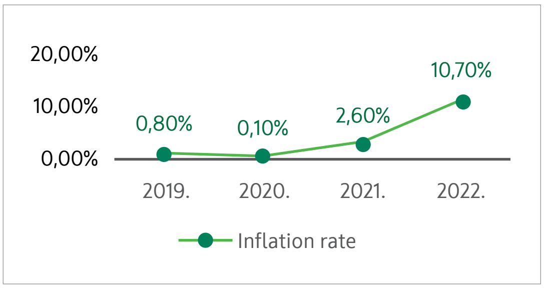
Macroeconomic Indicators for the Republic of Croatia

In the aftermath of an exceptional economic surge of 10.2% that was recorded in 2021 as the out-turn of the recovery from the economic crisis caused by the coronavirus pandemic, the most recent forecasts of the Croatian National Bank indicate that the gross domestic product of the Republic of Croatia could reach a substantial growth of 6.3% in the year 2022, which coincides with the OTP Group's forecast of 6.3%. The initial forecasts made earlier in the year suggested a more robust economic growth, however the advancing inflationary pressure that transpired as a consequence of an exceptionally expansive fiscal and monetary politics implemented during the corona crisis, with supply and distribution bottlenecks and, as of late, the on-going war operations in Ukraine, ultimately resulted in exacerbating of the economic circumstances necessary for achieving a long-term stable economic growth. Having regard to considerable price hikes affecting the Republic of Croatia, the neighbouring countries, and the European Union as a whole, the European Central Bank opted for cancellation of the quantitative easing policy that was put in place in the post-corona times in order to stimulate the economic recovery and boost the reference interest rate, but on the other hand it hindered further economic growth. Considering the above-mentioned, for the next year CNB has forecasted a rather modest economic growth of 1.4% in the real terms, the European Commission voiced the same expectations, whereas the OTP Group has envisaged the growth of 0.5%.

Being a crucial economic activity of the Republic of Croatia, and playing one of the main roles in the growth of the gross domestic product, tourism made a noteworthy contribution to the growth of the Croatian economy in the year 2022. According to the data supplied by the Croatian Tourist Board, the cumulated number of tourist arrivals was just shy of 19 million (a rise by 26% compared to 2021), whereas in the same period almost 105 million overnight stays were recorded; again, a rise by 25% compared to the preceding year. When we compare the year 2022 with the record-breaking 2019, the arrivals were lower by mere 9%, whilst the tourist nights fell short by 3.5%.

Growth rates	2022.	2021.	2020.	2019.
Gross domestic product (GDP)	6.3	13.1	-8.6	3.4
Inflation	10.7	2.6	0.1	0,8
Unemployment rate	7.0	7.6	7.5	6.6
Public debt (as % of GDP)	71.2	78.4	87.0	71.1
Budget deficit (as % of GDP)	-2,5	-2.6	-7.3	0.3
Import	26.5	17.6	-12.4	6,5
Export	30.0	36.4	-23.3	6,8
Nominal salaries	8.1	5.4	2.8	3.8
Real salaries	-2.3	2.8	2.7	3.0





With the relaxation of the epidemiologic measures, and gradual resuming of the economic activities that had been affected by them, the beginning of 2022 saw turning of the tide in the labour market. In January 2022, the unemployment rate equalled 7.8%, only to drop down to 6.3% during the peak tourist season in July and August that normally brings a surge in demand for labour. As the tourist season waned, the demand for labour eased, causing the unemployment rate to rise from 6.1% in September to 6.8% in December. Overall, the

General information (continued)

Macroeconomic Indicators for the Republic of Croatia (continued)

number of the unemployed dropped from 131 thousands in January to 118 thousands in December, which translated into 13 thousands of new employments. OTP Group anticipates that the average unemployment rate in 2023 will be 7%.

The last quarter of 2021 saw the onset of inescapable inflationary pressures, which gathered more pace throughout 2022.

The various economic lockdown measures that had been introduced globally to curb the corona virus pandemic, ultimately gave rise to disruption of quite a few distribution chains and to bottlenecks in the provision of goods and services, which – paired with rather expansive fiscal and monetary policies in place at the time – generated a breeding ground for an inflation spike. As the epidemiological situation normalised and the economy started picking up again, the aggregate demand trend turned upwards, whereas the aggregate supply contracted, which triggered a sharp rise in the general price level, both in Croatia and in the surrounding countries. The inflationary pressure was further intensified as a consequence of the war operations in Ukraine, which especially mirrored in the domains of goods and foodstuffs. In January 2022, the inflation rate was 5.8%, only to surpass 10% in May (i.e. 10.8%), and then shoot up to the record-breaking 13.5% in November. According to CNB forecast, the inflation rate averaged 10.7% in 2022, whilst the year ahead is expected to bring still rather worrying average inflation rate of 7.5%. In their forecast, the OTP Group anticipates the average inflation rate of 9.3% in 2023.

Throughout 2022 the public finances remained exceptionally stable, which manifested in higher tax revenue caused by the growing inflation rate, and in intensive absorption of EU funds. On the other hand, the strong inflationary pressures that transpired at the end of 2022, enticed the Government of the Republic of Croatia to put in place additional fiscal measures, especially in terms of curtailing the prices of fuels and electrical power. A positive trend has been recorded as concerns the ratio of public debt to gross domestic product. According to the CNB data from October 2022, the total public debt equalled 73.1% of the gross domestic product as per the end of June 2022, which was a decrease of 11.8 percentage points compared to 84.9% that was the public debt to gross domestic product ratio at the end of June 2021.

OTP Group's forecasts indicate the budget deficit level of 2.5% for the year 2022, as well as for 2023. As for the public debt to the gross domestic product ratio, the OTP Group's envisages the level of 71.2% and 67.5% of GDP for the years 2022 and 2023, respectively. Mindful of Council Decision (EU) of 12 July 2022 on the adoption by Croatia of the euro on 1 January 2023, the rating agencies Standard & Poor's, Moody's and Fitch upgraded the credit rating of the Republic of Croatia to BBB+, BBB+, and Baa2, respectively.

The Croatian National Bank continued implementing its expansive monetary policy during 2022, without any changes to the reference interest rate for HRK currency. In addition, the Croatian National Bank continued securing liquidity to the banking sector via short-term regular money market operations, but they did not prompt much interest, apart from a short period in March 2022, when the banking sector withdrew the total of HRK 770 million. That goes to show that the system was brimming with liquidity already, on average equalling HRK 80 billion in the period from January until the end of December 2022.

The EU Council passed Decision (EU) 2022/1211 of 12 July 2022 on the adoption by Croatia of the euro on 1 January 2023, setting the fixed HRK / EUR exchange rate to 7.53450. In addition, CNB passed two decisions within the domain of monetary policy, and dealing with the reserve requirement and the ratio of minimum required amount of foreign currency claims. To this end, the reserve requirement was cut down from 9% to 5% on 10 August 2022, and then again from 5% to 1% on 14 December 2022, whereby it was adjusted to the Eurosystem. As for the minimum required foreign currency claims, the decision provided for cutting down of the ratio from 17% to 8.5% starting from 1 August 2022, and its repealing as of 1 January 2023.

The total assets of credit institutions equalled HRK 551.4 billion at the end of September 2022, which represented an increase of 10.1% compared to the end of the preceding year. As for credit facilities, there was a notable increase of the total loans and advances by 9%, while the non-performing loans (NPL) dropped by 17.1% since the end of 2021 until the end of September 2022.

In the first nine months of 2022, the credit institutions made the total profit after tax equalling HRK 5 billion, which resulted in a positive overall profitability trend with the average return on assets (ROA) equalling 1.3%, whilst the return on equity (ROE) stood at 10.2%.

The banking sector remained very well capitalised throughout 2022. Thus, the total banking system capitalisation rate was at 24% at the end of September 2022.

Measured by the liquidity coverage ratio (LCR), the liquidity of the banking system equalled 199% at the end of September 2022, noting that all credit institutions met the set minimum liquidity requirements.

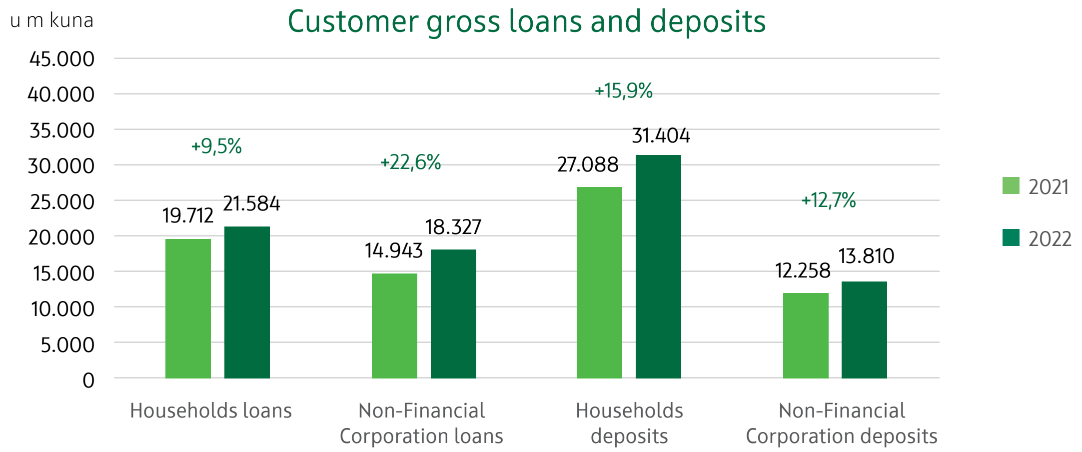
Financial Overview of Business Operations of the Bank for the Year 2022

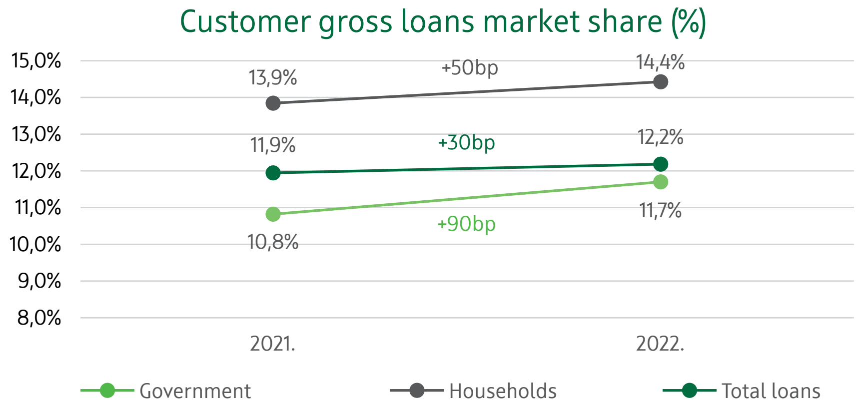
in million HRK	2022	2021	Change
Cash and balances with Croatian National Bank	**12.315**	**9.320**	**+32,1%**
Financial assets - securities	**5.522**	**6.391**	**-13,6%**
Financial assets measured at amortized cost - except for securities	**37.954**	**32.335**	**+17,4%**
Loans and receivables from banks	139	35	+297,1%
Loans and receivables from customers	37.815	32.300	+17,1%
Other assets	**1.751**	**1.429**	**+22,5%**
TOTAL ASSETS	**57.542**	**49.475**	**+16,3%**
Financial liabilities at amortized cost	**49.190**	**41.518**	**+18,5%**
Amounts due to other banks	1.201	816	+47,2%
Amounts due to customers	45.213	39.347	+14,9%
Other borrowed funds	2.776	1.355	+104,9%
Other liabilities	**1.412**	**1.189**	**+18,8%**
TOTAL LIABILITIES	**50.602**	**42.707**	**+18,5%**
Capital	**6.940**	**6.768**	**+2,5%**
TOTAL LIABILITIES AND CAPITAL	**57.542**	**49.475**	**+16,3%**

At the end of 2022, the total assets of the Bank were worth HRK 57.5 billion, an increase of 16.3% compared to the end of 2021. Measured by the amount of total assets, the Bank is ranked fourth among the credit institutions in the Republic of Croatia, with a market share of 10%.

in million HRK	2022	2021	Change
Total assets	57.542	49.475	16,3%
Loans and receivables from customers	37.815	32.300	17,1%
Amounts due to customers	45.213	39.347	14,9%
Capital	6.940	6.768	2,5%
Loan to deposit ratio (L/D)	83,6%	82,1%	+150 bp
Capital Adequacy Rate (CAD)	19,6%	20,9%	-130 bp

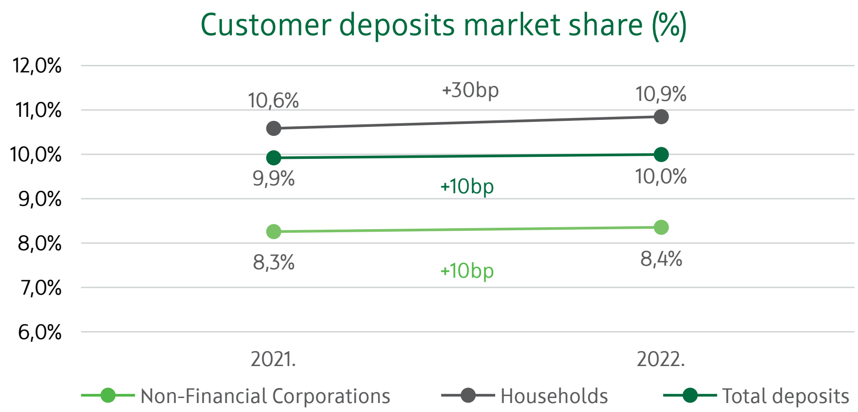
Financial Overview of Business Operations of the Bank for the Year 2022 (continued)





Net loans and receivables from clients recorded a growth of 17.1% in 2022, whereas gross loans and receivables from clients recorded a rise by 15.2%, noting that growth (both gross and net) was recorded in respect of both retail and corporate clients alike. Gross loans to retail clients rose by 9.5%, largely owing to the rise in the volume of housing loans (with subsidised lending as a huge factor). As regards corporate loans and loans to government, the recorded increase is by 22.6% gross, mostly as the result of the increase in the financing of the energy sector.

In addition to gross growth, higher quality of the credit portfolio also had a positive impact on the increase in the balance of net loans and receivables from clients, which made the ratio of impairment and gross loans reduce in 2022 by 150 basis points and equalled 5.3% (compared to 6.8% recorded at the end of 2021).
Such good lending dynamics reflected on the Bank's position on the market; thus, at the end of 2022, the Bank's market share in the retail loans segment grew to 14.4% (it equalled 13.9% in 2021), and to 11.7% in the corporate loans and government segment (it equalled 10.8% in 2021).
Clients' loans accounted for 65.7% of the Bank's assets at the end of 2022, which happened to be an increase by 0.4 percentage points compared to 2021 (65.3%).
The rise in the total balance sheet in 2022 comes primarily from an increase in clients' deposits, both retail and corporate clients wise. Traditionally, deposits continue to be the main source of finance for the Bank.



Financial Overview of Business Operations of the Bank for the Year 2022 (continued)

In 2022, the total deposits of clients recorded an increase by 14.9% compared to 2021, mainly due to a strong surge in HRK at sight deposits, once again largely thanks to a hefty inflow of HRK cash into the banking system in the lead-up to the changeover to euro, effective as of 1 January 2023, and amid exceptionally low interest rates on term deposits and no investment alternatives.

In the retail segment, the total deposits grew by 15.9%, whereas in the corporate segment they grew by 12.7%. The rise in deposits is reflected in the significant market share held by the Bank in the retail deposit segment at the end of 2022, which equalled 10.9% (10.6% in 2021), which is an increase by 30 basis points compared to 2021, whereas the market share in the corporate clients segment was stable and equalled about 8.4%.

Although client deposits soared in 2022, at the end of the year they accounted for 89.4% of the Bank's total liabilities, which translates into a decrease of 2.7 percentage points compared to 2021 (92.1% at the time).

The trend we are seeing, of other sources of finance slowly gaining ground in the total liabilities of the Bank, is primarily due to tighter capital requirements consistent with EU regulations. Thus, in 2022 the Bank increased financing from the parent bank, which ultimately equalled HRK 2.3 billion at the end of 2022, and accounted for 4.6% of the Bank's total liabilities.

As the result of the growth of the credit portfolio, while maintaining a stable position in the deposit market, the loan-to-deposit ratio (L/D) had increased by 150 basis points and equalled 83.6% (82.1% in 2021).

in million HRK	2022	2021	Change
Net interest income	1.336	1.156	↑ 15,6%
Net fee and commission income	463	369	↑ 25,5%
Net trading and other income	57	220	↓ -74,1%
Net operating income	**1.856**	**1.745**	↑ **6,4%**
Operating expenses	-984	-933	↓ 5,5%
Net losses from loss allowance and provisions	25	-32	↑ -178,1%
Profit before tax	**897**	**780**	↑ **15,0%**
Income tax	-222	-149	↓ 49,0%
Profit for the year	**675**	**631**	↑ **7,0%**
Return on equity (ROE)	9,9%	9,6%	↑ +30 bp
Cost-Income Ratio (C/I)	53,0%	53,5%	↑ -50 bp

Financial Overview of Business Operations of the Bank for the Year 2022 (continued)

In addition to excellent results, measured by the increase in the credit and deposit portfolios, and market shares, in 2022 the Bank performed exceptionally well also in terms of profit before and after taxes. Profit before taxes equalled HRK 897 million, i.e. an increase by 15% compared to 2021, whereas the profit after taxes equalled HRK 675 million for the year 2022, i.e. an increase by 7% compared to 2021. A lower rise in the profit after taxes comes as the result of an additional tax imposed on the Bank at the rate of 33% of taxable profit (applied on the set tax base that is made up of the positive difference between the taxable profit for the tax period and the average taxable profit for the preceding tax periods increased by 20%), under the Law on Excess Profit Tax introduced by the Government of the Republic of Croatia as a form of supporting subsidies and appropriations to the socially-handicapped, and to the legal entities that are affected by the crisis and the spike in the price of energy sources the most. The rise in the profit before taxes resulted from positive trends in the lending segment, and from the overall economic growth of the Republic of Croatia, notably excellent tourist figures.

The net interest income recorded a rise by 15.6%, as more loans were granted, along with the quality of the loan portfolio getting better and recovering.

The net fee income recorded a rise by 25.5%, following a successful tourist season and growth of economic activity, which is primarily evident from the rise in the net income from card transactions and fee income from payments.

Although substantially lower than in 2021, primarily due to a drop in the value of securities amid overall uncertainty and negative trends in the financial markets caused by the invasion on Ukraine, the income from trading also recorded a positive trend.

In 2022, the overall operating expenses increased by 5.5%, primarily on account of additional expenses from the introduction of euro as the domicile currency, followed by an increase in the prices of services and material due to the high inflation rate, and an increase in staff expenses. Regardless of the higher operating expenses, and thanks to positive trends and further optimisation, in 2022 the overall efficiency had increased, as reflected in the lower ratio of expenses and revenues by 50 basis points (from 53.5% in 2021 to 53% in 2022).

Additional positive impulse to the overall performance of the Bank came from lower credit risk and release of provisions thanks to a more favourable economic circumstances and solid collection of receivables, i.e. an overall healthier portfolio.

The cost of taxes grew by 49% compared to 2021, on account of the rise in profits, but for the most part because of the introduction of the extra profit tax.

In 2022 the growth of profits was reflected also in the higher rate of return on equity, which had increased by 30 basis point and equalled 9.9% (9.6% in 2021).

In 2022, the Bank duly met all relevant regulatory requirements. Its strong liquidity and capital position guarantees long-term stability and sustainability.

ESG and Corporate Social Responsibility of the Bank for 2022

Strategic approach and ESG management

For a number of years, the Bank has been an active supporter of corporate social responsibility and sustainability. We consider social and environmental impacts, as well as the influence on the economic development of the communities in which the Bank operates and society in general, part of our mission. In 2021, the Bank made a step forward in the integration of environmental, social and governance risks (ESG risks) into its business operations, by launching a separate sustainable development project and paving the road for larger sustainability contributions. As a financial group, the Bank's largest impact consists of development of sustainable finance to its clients, especially legal entities where it can support their transition to sustainable business operations and fulfilment of the low-carbon economy objectives. The Bank is committed to development of products and services that contribute to social values, as well as to preservation of climate and environment; its governance is based on ethics, with transparent reporting on business operations and impacts.

Given the importance of the ESG strategy, with great commitment, in 2022 the Bank continued to build the sustainable development framework up, primarily by setting in place an adequate infrastructure enabling multi-way and separate coordination of ESG factors, seeing that our impact comes from and is managed within various sectors of the Bank. The Sustainable Development Committee has been established at the highest management level (chaired by the president of the Board), along with a separate Sustainable Development Department the task of which is to manage and coordinate sustainability process at Bank level. The Sustainable Development Committee convenes regularly, keeping track of progress of integration of ESG risks into the Bank's business operations, development of sustainable products, and of the measures of monitoring impact and progress. The Sustainable Development Department sees to that all the activities, in terms of developing a strategy, plans and tasks, reporting on sustainability, are carried out. The Corporate Communications Department provides support in the sense that it takes care of projects that fall into the corporate social governance domain.

Corporate social governance and sustainability strategy and plans have been designed to reflect the framework of the parent OTP group (OTP Nyrt Hungary), particularly ESG strategy development guidelines. In addition, the Bank has been adhering to directives and regulations of the European Union, sustainable development objectives issued by the UN, relevant international conventions, documents, guidelines and standards, and lastly, the requirements of the financial industry regulators.

The main task to which the Bank was committed in 2022 was the development of the ESG strategy, particularly its environmental segment. As part of the project, environmental risks were recognised and described, climate and environmental risks were assessed, and ESG risks were built into risk management processes and risk policies. Furthermore, an assessment of environmentally friendly investments was carried out, and it is expected that in 2023 the Bank will have fully developed the sustainable finance rules and criteria. The strategy includes a list of the products that will be in the Bank's focus in the upcoming period. The Bank's intention is to fully align its operations with regulatory requirements concerning sustainable finance, and to make headway in monitoring and managing of own footprint.

The processes and rules adopted by the Bank shall apply to all its subsidiaries in the Republic of Croatia, in cooperation with which sustainable solutions are developed. The Bank is an active participant in the Croatian business council for sustainable development, where it participates in the dialogue on sustainable finance, as part of its activities within the Croatian Banking Association. The Bank also intends to become a UNEP FI member.

Actions undertaken to protect the environment and climate

The Bank has been recognised as „green" thanks to its long-term efforts to minimise its impact on the environment. It tackled its own sustainable corporate climate in the ESG strategy, under "Corporate social responsibility stakeholder". The Bank's commitment to monitoring and responsible management of own impact is again and again proved by the ongoing improvement in several segments:

- Use of energy from renewable sources, responsible management of energy and energy efficiency;
- Implementation of the "Green light to green living" project, i.e. initiatives for a plastic-free bank, use of recycled and recyclable materials in business operations, use of environmentally friendly material when furnishing branches and offices, and development of a responsible waste management system;
- Continuous reduction of paper use, by digitalisation of operations and making changes to business processes
- Development of online business operations, instructions on responsible use of transport, and procurement of vehicles that have lower impact on the environment.

ESG and Corporate Social Responsibility of the Bank for 2022 (continued)

Actions undertaken to protect the environment and climate (continued)

Use of energy from renewable sources and energy efficiency

Since October 2021, OTP banka d.d. has switched to the power generated exclusively from renewable sources. Namely, the Bank concluded the contract with HEP Opskrba whereby it undertook to go completely green by using a unique product created by HEP Opskrba called ZelEn, where the earnings from such sale of green energy are channelled to energy efficiency projects. In 2022, 8,371MWh of electricity was procured (at 0% CO2 emission), and the Bank expects to cut its carbon footprint by 8.1 ton of CO2 annually. For years OTP has been using own solar power sources from the solar power stations mounted on the roofs of its head office buildings in Zadar, Dubrovnik and Pula. In 2022 the Bank produced 83.9 MWh of electricity for own purposes. On top of that, together with its partners and the City of Zadar, the Bank financed a public electric car charging station, and is currently looking for new locations to set up more of such stations. Two hybrid vehicles and a PHEV vehicle were purchased in 2022. Employees may park their bicycles in three designated locations. Through its "Green light to green living" programme, the Bank issued in-house guidelines on rational use of electricity, other energy sources, and water.

The Bank is particularly concerned with energy efficiency when furnishing and refurbishing business premises and branches, opting for environmentally friendly materials and replacing standard lighting with modern LED lighting systems.

Responsible material and waste management

In 2022, through its "Green light to green living" programme, the Bank continued collection and disposal of waste in its business buildings in Split, Zadar, and Zagreb, using separate waste disposal containers. It is working towards adopting this practice also in Dubrovnik and Pula, and in branches in Zagreb. In 2022, the Bank thus disposed of a total of 52.3 tons of waste. The marketing communications team no longer uses plastic materials and has turned to recycled paper. In 2023 the Bank plans on having recycled paper gradually make its way into its business operations at Bank level, saving up on one ton of paper a year thanks to digitalisation, as estimated. In-house management of document printing is consistent with the LCC programme (Lexmark Cartridge Collection), which allows solely for the use of original recycled cartridges, whereas the used ones are collected for a refill.

Sustainable development in the social segment

The Bank has signed the Diversity Charter in Croatia. The Diversity and Inclusion Policy was adopted at the end of 2022; based on it, an action plan was prepared and the Declaration on Human Rights signed. With this Policy and Action Plan the Bank wants to provide a cultural environment and an organisation with equal opportunities for everyone, both in its immediate work environment, and in other business relationships, fostering a corporate culture where all employees would feel accepted and respected, encouraging inclusion and communication that would allow employees, partners and clients to achieve their life and professional objectives. In order to be able to compose the part of the ESG strategy that deals with management of social impact based on the GAP analysis, at the end of the year the Bank launched its social impact due diligence focusing on work environment and community, including the impact on human rights.

Sustainable procurement chain

The Bank is aware that its impact extends well beyond the limits of its organisation and business, affecting the Bank's value chain, i.e. the procurement chain. Thus, in 2022, special checks were put in place for the most important providers, aimed at testing their sustainable practices. The pilot programme covered 25 of the largest providers, and the Bank intends to keep developing responsible procurement processes in the period to come. Upon procurement of products and services, providers are requested to sign the Bank's Code of Ethics.

ESG and Corporate Social Responsibility of the Bank for 2022 (continued)

Sustainability reporting and support to public dialogue

The Bank has been publishing a special Sustainability Report composed in accordance with the GRI Standard. The Sustainability Report shows contributions to sustainable development objectives of the UN, and relies also on ISO 26 000 standard guidelines and UN Global Compact principles. In addition, the information about the Bank and its subsidiaries in Croatia are published also in the OTP Group Sustainability Report. The Bank's website has various documents available, along with codes and policies providing for ethical business practice, corporate responsibility, and for other segments of a sustainable and responsible corporation.

The Bank keeps track and measures its progress in sustainable practices also by participating in the Croatian Sustainability Index (HRIO), a uniform national measuring system set up by the Croatian Business Council for Sustainable Development (HR PSOR), a member of the World Business Council for Sustainable Development (WBCSD).

In its public communication, the Bank supports and encourages the dialogue on sustainable development and social responsibility. Thus, in 2022, the Bank supported the organisation and presentations at the Green Future Conference held in Split, the 14th Sustainable Development Conference held in Zagreb, and at the 6th Conference organised by U4HR and Lider under the title "Sustainable company, HR and employees in an ESG surrounding".

Corporate social responsibility

The Bank is proud of the fact that corporate social responsibility is entirely a part of its business policy. The Bank operates observing the principles of corporate social responsibility, as evident in the accountability and transparency of its business operations; from loan approval to savings and risk management, not to mention the projects designed to contribute to the development of local communities it operates in, as a nod to its uniquely regional character.

The Bank integrated its projects of establishing relations with the community through corporate social responsibility in the brand "Green light to", where it is engaged in encouraging the development of important segments in the communities of its business: care for the environment, sports, education, science, culture, health, entrepreneurship, as well as helping socially vulnerable segments of the society.

The Bank has been contributing to better schooling conditions for students nationwide, in cooperation with local communities, through its programme "Green light to knowledge" that has been running for 13 consecutive years now. In the academic year 2021/2022, the project for granting scholarships to students of lower financial standing has been realised in partnership with the towns of Split, Zadar, Sisak and Biograd na Moru, the municipalities of Župa dubrovačka, Bilje, Jakšić, Nuštar, Lanišće, Barban, Pićan and Gračišće, the University of Zadar, and the charity of the Dubrovnik Diocese, which means that the Bank, as a partner, joined the existing grant programmes in this academic year. The grants were awarded following the invitation to tenders, and the criteria included financial and social standing of the applicants, and their academic performance.

Over the last thirteen years, the Bank set aside over eight million kunas for this programme and provided better schooling conditions to young people nationwide.

Wishing to foster excellence in sports and for four consecutive years now, the Bank decided to award additional grants to students who, apart from their academic accomplishments, have also achieved noteworthy results in their chosen sport. The tender was open from 17 to 31 October 2022. By the decision of the Scholarship Award Committee and observing the agreed terms, the scholarship was awarded to young athletes from the Croatian Academic Swimming Club Mladost, Diving Sports Club Mladost Medulin, Athletic Club Zagreb and Distance Swimming Club Split.

For the eleventh year running, 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. The Donations Committee selected 35 projects from hundreds of applications from all over the Republic of Croatia. We chose the projects that stood out for their quality and showed special value for sensitive social groups and that, when implemented, will contribute to improve the quality of life in their local communities.

Over the last eleven years, the Bank has awarded HRK 4.7 million and helped in the implementation of almost 473 projects critical for the development of the community and society as a whole.

Two years ago, the Bank and Mastercard launched a considerable donation programme "OTP RoundUp!" in order to contribute, together with clients, to better quality and more accessible care in children's hospital wards.

Using Mastercard of the Bank, clients can round up the amounts during contactless payment. With every transaction they make buying at any

ESG and Corporate Social Responsibility of the Bank for 2022 (continued)

Corporate social responsibility (continued)

point of sale in the Republic of Croatia or online, the balance of the donation account, set up exclusively for the purpose of this programme, is increased. The programme consists of cycles during which the funds are collected for two children's hospitals or children's hospital wards. The cycles are closed at the end of the calendar year and the funds are paid to hospitals. On the first day of the following year, the dial goes back, but not to zero. Instead, the amount of 1 million kuna is donated jointly by the Bank and Mastercard at the beginning of each cycle.

In the first cycle of 2020, HRK 527,000 each were donated to the Pediatrics Department of the Šibenik General Hospital and the Neonatology Department of the Zagreb Clinical Hospital (also known as Petrova) for the purchase of necessary equipment. In the second cycle (in 2021) of the programme, a total of HRK 1.62 million was collected for an ultrasound device for pediatric cardiology at the Children's Medical Clinic of the Split Clinical Hospital and for the refurbishment of accommodation units of the pediatric surgery department at the Klaićeva Zagreb Children's Medical Clinic. In the third cycle (in 2022), a total of HRK 1.73 million was collected for the children's wards of the Čakovec County Hospital and the Dubrovnik General Hospital and paid into their accounts.

The "RoundUp!" programme will continue in 2023 and will prove once again the Bank's commitment to initiate constructive social activities.

The Bank has traditionally supported volunteer and humanitarian work by its engagement in numerous activities over the past years: Wings for Life humanitarian race, Boranka campaign, volunteering at an animal shelter, volunteering in the children's village in Ladimirevci, supporting and participating in environmental actions like Ekotlon or cleaning the Marjan forest park, and similar.

Recognising the willingness and enthusiasm of employees, the Volunteer Club was founded and, accordingly, the Volunteering Programme adopted. The Volunteer Club has been operating since 4 May 2022 and is aimed at providing help to persons in need in the local communities the Bank operates in. It consists of all employees who decide to participate in volunteer actions organised by the Bank or by inviting its employees to participate in a specific campaign or project supported by the Bank. In addition, it is important to emphasise that volunteering is exclusively a voluntary act and each Bank employee, in accordance with Article 17 (14) of the Collective Bargain Agreement, is entitled to 2 days off in the year they participate in volunteer activities. In 2022, almost 200 employees were engaged in over 10 volunteering campaigns organised by the Bank or as part of already existing campaigns in the Republic of Croatia.

In addition, the Bank enables its employees who are voluntary blood donors to donate blood in its premises when such campaigns are organised by the Bank and the Red Cross. In 2022, four such campaigns were organised, and it is planned to increase their number in 2023.

Responsibility for client relations

Sustainability and responsibility in market relations are the basis of the Bank's business policy. The Bank develops its products and services in accordance with the accepted principles of sustainability and special attention is paid to product availability, transparency of communication with clients, fair and transparent marketing communication. In 2022, the focus of the operations of the Bank and its subsidiaries was on the introduction of the euro as the official currency in the Republic of Croatia. This project required exceptional engagement of all employees of the Bank, numerous and complex adjustments and changes, and frequent attention to comply with all regulatory requirements. The Bank implemented the process successfully. During the key period of six months before the introduction of the euro, the changes were constantly communicated to all clients via all channels, the Code of Ethics for the introduction of the new currency was signed, and all the necessary measures and activities were taken to facilitate the currency transition for clients and enable them smooth business operations. As part of the Euro campaign, various materials have been published in multimedia formats. The instructions for using products and services have been also updated, and personalised notifications submitted to borrowers.

Availability of services and CSR products and services

In regular business, emphasis is on digital transition and continuous technological improvements, especially on a new mobile banking application, developed by the Bank, which introduction is expected soon. In 2022, the web application for Click Loans was launched, which was improved by new security elements aimed at making services easier to access and improving the client experience in searching for loan offers. The use of digital channels is growing constantly and the clients show interest in their use.

In the development of product availability, the Bank cooperates with the Croatian Bank for Reconstruction and Development in order to provide clients in areas of special state concern or of a less favourable economic position with more accessible sources of financing for their entrepreneurial projects. During 2022, in cooperation with HBOR, the Bank offered lines of credit for mitigating the consequences of the Covid-19 pandemic, as well as participating in the Programme for Portfolio Insurance of Liquidity Loans for Exporters. Cooperation with the European Investment Fund under the Pan-European Guarantee Fund (EGF) was also established, enabling clients to receive lower interest rates and more liberal collateral conditions for the loans intended for investment or acquisition of fixed assets. Special loans for the structural reconstruction of buildings damaged in the earthquakes were available two years ago.

ESG and Corporate Social Responsibility of the Bank for 2022 (continued)

Responsibility for client relations (continued)

Availability of services and CSR products and services (continued)

The "OTP RoundUp!" programme is an example of a socially engaged product where clients have the opportunity to participate in a humanitarian campaign using the Bank's Mastercard. In 2022, 18 thousand clients participated in the programme.

In an effort to help Ukrainian citizens who fled to the Republic of Croatia due to the war, the Bank offered them a special package of elementary services and products.

Responsible advertising and transparency

The Bank invests in the development of financial literacy all the time, especially of young generations (that is why a new web selector for students was created) and strives to respond to the needs of young people by continuously adjusting the methods and channels of communication, simplifying the structure of its applications and using simpler language more understandable to its clients.

The Bank pays special attention to the security of its clients and the protection of their privacy and assets. The Bank participates in the European Cyber Security Month. Instructions for the safe use of digital channels are constantly published on its website, and initiatives to raise awareness of digital inclusion and security are supported.

In accordance with its principles of diversity, the Bank facilitates availability of products and services to all persons, so when refurbishing branches, care is taken of access for persons with disabilities so that they can use the premises without hindrance. The Omoguru widget has been on the Bank's website for several years, making it easier for clients with sight and reading difficulties to follow the content on the website.

There are several ways available to clients to make inquiries in more detail, report an irregularity or complain about the conduct in a business relationship. Client opinion surveys indicate their full satisfaction with services and the speed required to resolve their inquiries.

The report on non-financial operations (in accordance with Article 21a of the Accounting Act) is issued by the Bank as a separate document (*https://www.otpbanka.hr/otp-banka-objavila-izvjestaj-o-odrzivosti*). Also, the report on non-financial operations of the Bank is included in the consolidated report on non-financial operations of OTP Bank Nytr (*https://www.otpgroup.info/sustainability/sustainability-reports*).

Plans for 2023

Bank's plans for 2023 have been set in accordance with the projected macroeconomic indicators and expectations regarding further development and growth of the banking sector, defined strategic guidelines and operational objectives set based on the going concern assumption.

In 2023, the retail banking segment will focus on further growth of the client portfolio, better client experience across all our communication and sales channels, enhancing of credit products and further digitalisation of business operations. Traditionally, and thus in 2023 as well, one of the focal points will be enhancement of client satisfaction. Simultaneously with the processes of branch network optimisation and digital channels development, the plan envisages improvement of the business processes in branches aimed at significant advance of the quality of service and client satisfaction, whilst remaining committed to the fulfilment of the new loan sales plan. Appreciating the specific circumstances of the Croatian market in terms of credit and deposit products, special focus will be put on service quality as the competitive edge bringing high client satisfaction levels.

The 2023 plans for the corporate banking segment assume that the business activities will continue to recover after the pandemic. Same as in 2022, the success of the operations will largely depend on the results of the tourist season. The key initiatives in this segment will continue to focus on boosting sales efficiency and client satisfaction. Taking that into account, quality and type of product, quality of service model, speed of responding to their requests, and nature and status of the business relationship enabling timely recognition of client's needs remain an everlasting condition precedent to success. In addition, further digitalisation across key segments remains of the utmost importance.

Another factor that must be weighed in 2023 is certainly clients' adjustment to the new currency and partial loss of income from foreign exchange operations.

Recognising clients' needs when designing products and services, under the assumption of normalisation of life and economy, will contribute to the planned scaling up of the operating income in 2023. Simultaneously with the mentioned activities, we expect improvement of the internal efficiency and business optimisation, whilst keeping costs at bay, which should create preconditions for even better business results.

The overall performance will be also under the impact of higher risk costs that are expected in the upcoming period due to inflation.

Mid 2022, the Bank adopted the ESG strategy, which was also taken into consideration upon preparation of the 2023 plan, and which zooms in on sustainable financing, green and socially responsible products, responsible management of ESG risks, reducing of own carbon footprint, and transparent reporting.

Preliminary activities have been launched for the introduction of the Green Loan Framework, designed in such a way that it identifies the investments that bolster the positive and lessen the negative impact on the environment and society, and that supports the companies and communities to adjust to the impacts of climate changes. The Green Loan Framework has identified a large number of categories for defining the green finance activities, whilst the criteria are based on the EU and CBI taxonomy.

Risk Management

As part of the OTP Group, the Bank's Risk Management is defined by the basic principles and guidelines prescribed in the policies and internal regulations of the Bank/OTP Group, together with the legal and regulatory requirements of both local and other relevant statutory bodies. The regulatory framework of the Bank's Corporate Governance ensures the independence of the risk management function/division from commercial and operational functions, as well as from other control functions. The risk management function includes the identification, measurement, assessment, analysis and monitoring of all significant risks of the institution's critical functions. The Risk Management framework includes the entire risk management system, including risk strategy, risk appetite and risk controls (such as policies and methodologies, etc.). The risk strategy summarises the risk approach, vision, mission, values, goals, strategic initiatives that support risk management within the set risk appetite and includes the Risk Appetite Statement (RAS). The Risk Appetite Statement regulates the risk appetite the Bank/OTP Group is willing to accept in order to implement its business and risk strategy. Although it is an integral part of the Risk Strategy, the RAS is approved by the Management Board as a separate document that is reviewed every year.

Main goals:

- Implementation of business strategies, taking into account the risk/return ratio;
- Ensure that potential losses are kept with the risk capacity;
- Adequate provisions for credit losses reflected in price and profitability;
- Adequate hedging for unexpected losses;
- Running the risk management system according to the size and complexity and in line with the regulator's expectations, using international best practices;
- Proactive, aware of risks, supporting business goals in a dynamic environment.

The strategic mission is: to be a partner to our business units; creating a value through data-driven decision making, advanced analytics and process excellence; ensuring a unique and transparent methodology or control environment for managing operational losses as well as maintaining safe growth of the portfolio through economic cycles.

Credit, market and operational risks are managed and controlled within the organisational structure of the Risk Management Division, headed by the Risk Management Member (CRO). Compliance risk management, data protection, fraud detection and prevention, information and cyber security, AML/CFT, legal risk and ESG are managed within the organisational structure of the Central Functions Division, headed by President of the Management Board.

Interest rate and liquidity risks are managed within the organisational structure of the Finance Division, headed by the Finance Board Member (CFO). The second line of defence/control covering these risks is implemented within the organisational structure of the Risk Management.

Credit risk

Credit risk means the risk that the other party won't be able to fully settle the amounts they owe. The Bank determines credit risk levels by setting a limit for risk amounts it assumes in relation to one client or a group of clients, and according to the business segment or products. Client credit risk management is based on a comprehensive assessment of the client's risk profile from a quantitative (financial) and qualitative point of view using a scoring and evaluation model, along with individual approval given by the corresponding level of approval. The authorisation system is set to reflect the risk profiles of clients as well as the competency level for their assessment. Internal lending limits at the level of client / group of clients, transaction or product are established in line with the Bank's defined risk appetite. The Bank has established a robust monitoring process for funded clients and approved exposures that enables corrective actions to be taken in the event of deterioration. The credit risk exposures are managed through various regular analyses at the level of client or portfolio, product or segment, sales channel or area. In the prevention of credit risk frauds, a wide range of tools and controls have been introduced with the aim of prevention, early detection of fraud cases and optimisation of the process.

Market risk

Market risk means the effect of external influences on the value of positions in the Bank's portfolio due to price changes, i.e. trends in the financial markets. According to this definition, market risk consists of currency risk, interest rate risk and price risk.

The fundamental goal of market risk management in the Trading Book is to make a profit by taking advantage of fluctuations in

Risk Management (continued)

Market risk (continued)

exchange rates and interest rates, i.e. limiting losses that may result from their unfavourable trends in a way not to put at risk the Bank's profitability and operations.

The Bank applies the VaR methodology using the historical simulation method with a confidence level of 99% and a time horizon of 1 day to estimate the market risk and maximum expected losses of the positions it holds.

The VaR methodology is a statistically defined probability-based approach that takes into account market volatility as well as risk diversification by identifying offsetting positions and correlations between products and markets.

The Management Board approves an acceptable level of VaR limits, which are monitored on a daily basis. While VaR covers the Bank's daily exposure to currency and interest rate risk, the sensitivity analysis assesses the impact of a reasonably possible change in interest rates or foreign currency exchange rates during the year. The longer horizon of the sensitivity analysis complements VaR and helps the Parent Bank assess its market risk exposure.

Market risk and counterparty risk in transactions on the financial markets are managed by the Market Risk and Liquidity Control Department. The Department is directly accountable to the chief risk director of the Bank and is fully independent of the business units it supervises. It operates within the Market Risk Division of the OTP Group, and risk measurement methodologies and control procedures of the Bank are aligned with the best practices of the OTP Group.

Liquidity risk

The policy of managing cash flows aimed at maintaining a balance between cash receipts and expenses is part of the Bank's broader asset and liability management policy. In order to ensure a satisfactory level of liquidity reserves, the Bank consistently monitors and plans the cash flow and predicts future liquidity needs taking into account changes in the economic, legislative and other circumstances of its operations. The aforementioned planning includes the identification of known, expected and potential cash outflows and the development of strategies to satisfy the Bank's liquidity reserves in certain currencies. It is important to emphasise that, when managing liquidity risk, the Bank strives to ensure currency compatibility of the portfolio of liquid assets with the currency distribution of its net liquidity outflows.

Operational risk

Operational risk means the risk of loss arising from inadequate or unsuccessful internal processes, humans and systems or from external events, including legal risk.

The Bank's activities in the field of operational risk management are compliant with current regulations and good practices of operational risk management and are reviewed regularly in line with their changes.

Significant operational risks are identified by:

- Self-assessment of risk and control mechanisms (Risk control self-assessment - RCSA)
- Scenario analysis
- Key risk indicators
- Collection of operational risk events
- Business Impact Analysis (BIA)

The Bank uses a simple approach for calculating capital requirements for operational risk.

By implementing all the adopted measures, the Management Board believes that the risks are adequately and satisfactory managed.

Management of Bank's Human Resources

The Human Resources and Corporate Affairs Directorate incorporates three departments that deal with the personnel issues.

Contemporary HR functions are combined in the processes and activities of the Talent Acquisition and Employee Support Department, the Employee Knowledge, Career and Experience Management Department, and the Organization Development and HR Controlling Department.

The key guidelines that bring them together in their everyday work are the common values of the Bank – excellence, accountability, reliability and team spirit.

At the end of 2022, the Bank had the total of 2375 employees or two employees less than year before. During 2022, 193 new employees were hired (of which 89 employees relate to branches), while in the same period 195 employees left the Bank (of which 100 employees relate to branches).

The age and educational structure of the Bank's employees has been stable in the last two years; the average age is about 41 years, of which 65% of the employees have higher education, and the average total years of employment is 17 years (of which 13 years in the Bank).

Employee remuneration

The Bank consistently follows the market trends as concerns employee remuneration in the financial sector, and adjusts the remuneration of own employees accordingly. To this end, in 2022 Bank provided additional funds for pay rise in response to the costs of living hike driven by the inflationary pressures. Additional funds were set aside for the bonus scheme, whereas the number of employees included into the bonus scheme was increased, as were the amounts of individual bonuses paid to the retail staff. Consequently, the total costs of the employee remuneration rose by 8.1% compared to the previous year.

New hires

The new hires were meticulously planned and aligned with the Bank's development objectives. The ongoing evolution of banking and booming digitalisation call for intensive search for highly trained experts through new hires and in-house recruitment. The situation in the labour market was rather unfavourable, which is why the Bank used services of employment and headhunting agencies for talent scouting.

New Collective Bargaining Agreement / perquisites

On 1st January 2022, the Bank concluded a new Collective Bargaining Agreement, effective for a three-year period. The new Agreement includes all previous employee entitlements and perquisites, and provides for some new ones, whereas the most prominent include: thirteenth salary (end-of-year bonus), holiday bonus, gift vouchers, presents for employees' children, financial support upon birth of a child, loyalty bonuses, bonuses for the participants in the bonus scheme, and contributions paid for special work conditions. The Bank ensures regular medical check-ups, and funds various sport and cultural events. The employees enjoy special benefits when taking housing loans and using banking services. There are insurance policies covering all employees during working hours and whilst commuting to and from work, with various forms of financial supports available in case of natural disasters, illnesses and similar. The new Collective Bargaining Agreement provides for longer holiday entitlements and paid leaves of absence (especially for parents of young children, such as paid time off for the first day of school or kindergarten, paid time off for any volunteering organised by the Bank or its partners, and expanded options for paid time off for professional training and qualifications.

Hybrid work

Starting on 1 July 2022, the Bank introduced a hybrid work option whereby an employee can work 3 days in the office and 2 days from home, wherever such arrangement is feasible without compromising the quality of business processes and services provided to the clients. This way the Bank accommodated additional work flexibility for the employees eligible for this type of arrangement.

Employer branding

The Bank completed its Employer Branding Strategy and drafted an action plan for the next year. In addition to a more appealing communication at the labour market, the efforts made by the Bank resulted in its growing popularity on the relevant business social networks.

Management of Bank's Human Resources (continued)

Digitalisation in HR

Closely following new trends and striving to meet the employees' expectations, the Bank has set up a digital signature scheme enabling the employees to sign their employment contracts electronically as of 2023. The annual performance assessment process has been digitalised as well.

Employee training and development

The Bank seeks to enable its employees to improve their knowledge and skills by way of various professional training programmes, and supports their personal development. Along the same line, applying timely and high-calibre education modules, the Bank provides a major support to the entire business operations and better services to its clients.

Only in 2022, the total of 2,364 employees took part in as many as 332 different training sessions of total duration of 44.6 thousand hours.

As much as 65% of the training accounted for in-house training, whereas 69% of all sessions were held through digital channels. It is worth noting that the digital training trend recorded a slight decrease compared to the year before.

The above mentioned training through digital channels took different forms: from webinars, e-learning modules, specialised education platforms and the e-learning platform of the Bank.

The e-learning platform offered the employees new contents and various topics to choose from.

Apart from the ongoing standard training programmes related to the regulatory issues, knowledge of products and services, and the connected tools and processes, expert skills in financial analysis and risk management, the training sessions available in 2022 extended to the currently trending topics of agile methodology and operations, ESG framework and EUR changeover.

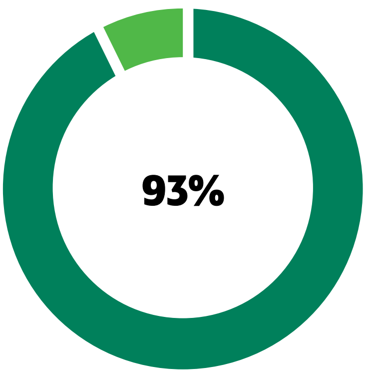
Employee engagement and satisfaction

Throughout 2022 the Bank continued introducing innovations though its Ideaportal Platform, encouraging its employees to think out of the box and offer creative ideas for solving certain challenges or for improving of business processes within the Bank.

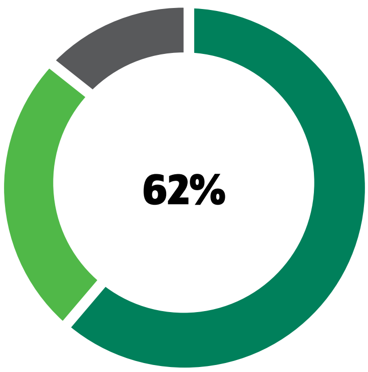
The world's largest professional PR body - Public Relations and Communications Association (PRCA) recognised the Ideaportal Project as a unique platform for employee idea exchange, found it best of the best, and awarded the Bank the PRCA Platinum Award for Employee Engagement.

Also, in 2022, the Bank participated in conducting the OTP Group's annual employee engagement survey in all countries where the Group operates in order to enable its employees to share feedback about their work experience. In total, 93% of the Bank's employees participated in the survey, indicating a desire for continuous dialogue and active participation in shaping the desired work environment.

Response rate



Engagement score
% responding favourably



Management of Bank's Human Resources (continued)

Employee engagement and satisfaction (continued)

Engaged employees understand their role in the development of the company, feel connected and belong to the organization, understand the purpose of business and their roles, and are motivated to invest their knowledge and emotion in their work in order to contribute to the achievement of their professional and organizational results. Engaged employees feel a sense of accomplishment through their work and have no intention of leaving the organization. In 2022, the Bank's employee engagement rate is 62%.

The key drivers that most influence employee engagement were identified as: the possibility of achieving career goals, recognition of employees as important stakeholders in the company's success by senior management, employee well-being as a priority, participation in devising better ways to perform work, as well as developing new and better ways to serve clients.

A detailed analysis of overall and individual results provides guidelines for defining and planning possible development activities, all with the aim of further increasing employee engagement.

Maintaining occupational health and safety awareness

The Bank provided medical check-ups for its employees in 2022, aimed at disease prevention and health promotion.

The Bank has been running perpetual training sessions to ensure that its employees work in a safe manner, and to advise them of the firefighting measures and first aid.

Research and Development

The present fast-changing society, witnessing a relentless progress of science and technology, calls for an organisational culture that fosters innovation steered towards enhancing of the relationship with clients and upgrading of their experience, thus laying the foundations for sustainable long-term business relations.

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

In order to cut down the time-to-market in digital banking, expand on the range of services available to the clients though the digital channels, and enhance the existing services to upgrade the user experience, the Bank will go ahead with the transition towards the agile operating model. To accomplish this objective, in the upcoming period the Bank will be reshaping to accommodate agile practices through development of its IT solutions, transformation projects and raising of employee awareness about the agile operating model.

The Bank encourages creativity and thinking outside the box in everyday work, as evident in the Ideaportal platform – an interactive portal where the employees can share proposals for optimisation and improvement of the business processes.

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

2

Responsibility of the Management for the preparation of annual financial statements

Responsibility of the Management for the preparation of annual financial statements

The Management Board of the Bank is required to prepare financial statements for each financial year, to give a true and fair view of the financial position of the Bank and of the results of its operations and cash flows in accordance with International Financial Reporting Standards as adopted by the European Union, and is responsible for maintaining proper accounting records to enable the preparation of such financial statements at any time. The Management Board has a general responsibility for taking such steps as are reasonably available to it, to safeguard the assets of the Bank and to prevent and detect fraud and other irregularities.

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

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

The Management Board is responsible for the preparation and content of the Management Report and the rest of other information, in accordance with the provisions of the Accounting Act (Official Gazette 78/2015, 134/2015, 120/2016, 116/2018, 42/2020, 47/2020, 114/2022).

Financial statements, as well as the Schedules prepared in accordance with the Decision of the Croatian National Bank on the Structure and Content of the Annual Financial Statements of Credit Institutions (Official Gazette 42/2018, 122/2020, 119/2021 and 108/2022), were authorised by the Management Board on 23 March 2023 and submitted to the Supervisory Board for acceptance. To confirm this, the financial statements have been signed by authorized persons, as follows.

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

Balázs Pál Békeffy
President of the Management Board

Nikola Mikša
Member of the Management Board

Slaven Celić
Member of the Management Board

Zvonimir Akrap
Member of the Management Board

Bruno Biuk
Member of the Management Board

Ivan Šimičević
Member of the Management Board

3

Independent Auditor's Report to the Shareholder of OTP banka d.d.

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IBAN: HR3324020061100280716
SWIFT: ESBCHR22

INDEPENDENT AUDITOR'S REPORT

To the Shareholder of OTP banka d.d.

Report on the audit of the financial statements

Opinion

We have audited the financial statements of OTP banka d.d. ("the Bank"), which comprise the statement of financial position as at 31 December 2022, income statement and the statement of other comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including significant accounting policies.

In our opinion, the accompanying financial statements give a true and fair view of the financial position of the Bank as at 31 December 2022 and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union (IFRS).

Basis for opinion

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

We are independent of the Bank in accordance with the International Ethics Standards Board of Accountants' (IESBA) International Code of Ethics for Professional Accountants, including International Independence Standards (IESBA Code), together with the ethical requirements that are relevant to our audit of the financial statements in Republic of 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.

Key audit matters

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

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

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Key Audit Matter	How we addressed Key Audit Matter
Determination of expected credit losses **See Note 16 Loans and advances to customers and Note 2.11 Loss allowance of financial assets**	
Determination of expected credit losses represent management's best estimate of the expected credit losses within the loan portfolios at the reporting date. Assessment of appropriate staging of exposures depends mostly on triggers ("trigger events") identified by management as indicators of significant increase in credit risk of customers and impairment respectively. These triggers are subject to high level of judgement of the Management. Impairment provisions for expected credit losses require use of complex models (depending on the elements of the information system) and significant judgment of the Management Board and include high degree of subjectivity in estimating future cash-flows and timing of recoverability. Also, uncertain economic outlook resulted in a more complex assessment of this effect onto expected credit losses. Additionally, regulator and market are focusing on exposures as they represent core business of the bank and provisioning of the loans is significantly affecting the result of the bank. This area is determined to be a key audit matter as the determination of the appropriate amount of impairment losses requires application of significant judgement and use of subjective and complex assumptions by management.	We obtained an understanding of the control environment and internal controls established by management in the process of measuring impairment provisions for expected credit losses. With the assistance of IT specialists, we assessed the design and tested the operating effectiveness of the controls, including the quality of underlying data and systems. We evaluated the design of controls over the calculation of individual impairments and tested the operational effectiveness of controls over the calculation of individual impairments of the Bank's portfolios, including the quality of the source data and the system. With the assistance of credit risk specialists, we assessed the methodology developed to calculate loan loss provisions under IFRS 9, concentrating on such aspects as factors for determining a "*significant increase in credit risk*", allocating loans to stages, appropriateness of models used for calculation of Stage 1 (A1) and Stage 2 (A2) allowances and portion of Stage 3 (B) allowances calculated on models (exposures below HRK 3 million) and estimation of key provisioning parameters. We evaluated matrices used in the calculation of probability of default ("PD") and loss given default ("LGD"). Additionally, with respect to models, we understood and assessed how the current macroeconomic expectations are incorporated in the model as part of forward-looking information. We examined a sample of exposures and performed procedures to evaluate the adequacy of classification of exposures in stages (including but not limited to assessing the creditworthiness of clients, review of input parameters such as probability of default, testing of reported days past due, assessing adequacy of Early warning signals ("EWS") and watch list status). Our audit procedures for individually significant exposures focused on measuring the impairment of individually significant credit exposures, including assessing whether historical experience is appropriate for estimating the amount of credit losses in the portfolio.

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	On a sample of individually impaired credit exposures within a portfolio of individually significant exposures, we tested the assumptions used in identifying impairment and quantification including estimates of future cash flows, estimates of related collaterals and estimates of recovery on default and assessed whether the specific Croatian National Bank ("CNB") provisioning requirements were reflected in the calculation. This also included taking into consideration the impact of forbearance. We also assessed adequacy of the disclosures in Note 16 Loans and advances to customers and Note 2.11 Loss allowance of financial assets in the financial statements and whether they are in accordance with the International Financial Reporting Standards as adopted by the European union (IFRS).
Assessment of provisions for CHF litigation **See Note 27 Provisions for liabilities and charges** As of 31 December 2022, the Bank recorded provisions for litigation cases related to loans originally issued or indexed to Swiss Francs ("CHF"). The provision for litigation cases relates to loans that have been converted and to loans that have not been converted and are still denominated in CHF, including requests for nullifying loan agreements in full and requests for nullifying specific clauses of loan agreements. We focused on this area because there are considerable judgements and estimates in applying the relevant requirements to estimating both timing and size of outflows of economic resources required to settle the Bank's obligations resulting from these specific litigation claims, given their inherent uncertainty and volume. Therefore, due to the significant judgment involved and considering total amount of provisions we consider this area as a key audit matter.	We obtained an understanding of the control environment and internal controls established by management in the process of assessment of provisions for CHF litigation. Also, we have inquired management in order to gain an understanding of the assumptions considered in determining the need to recognize and measure provisions for CHF litigation. We obtained an overview of the litigation claims against the Bank and the provisions recognized for these cases. We reconciled this information to the information provided in the financial statements and to the information received from independent legal advisers used by management. We obtained and reviewed the opinions and statements of independent legal advisers used by management and compared them to the information received from management in relation to the litigation claims. We obtained and reviewed the calculation of provisions for litigation and assessed whether the assumptions, on which the measurement of provisions is based, are based on relevant and available information from independent parties and the market. We also assessed adequacy of the disclosures in Note 27 Provisions for liabilities and charges in the financial statements and whether they are in accordance with the International Financial Reporting Standards as adopted by the European union (IFRS).

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Other information

Management is responsible for the other information. Other information comprises the Management Report included in the Annual Report, but does not include financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information.

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

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

1. the information given in the enclosed Management Report is consistent, in all material respects, with the enclosed financial statements; and

2. the enclosed Management Report is prepared in accordance with requirements of Article 21 of the Accounting Act;

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

Responsibilities of management and Audit Committee for the financial statements

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

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

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

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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 judgment and maintain professional skepticism throughout the audit. We also:

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

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

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

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

Report on Other Legal and Regulatory Requirements

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

Appointment of Auditor and Period of Engagement

We were initially appointed as auditors of the Bank on 31 March 2021. Our appointment has been renewed annually by General Assembly of Shareholders, with the most recent reappointment on 31 March 2022, representing a total period of uninterrupted engagement appointment of two years.

Consistence with Additional Report to Audit Committee

We confirm that our audit opinion on the financial statements expressed herein is consistent with the additional report to the Audit Committee of the Bank, which we issued on 22 March 2023 in accordance with Article 11 of Regulation (EU) No. 537/2014 of the European Parliament and the Council.

Provision of Non-audit Services

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

Report on Regulatory requirements

In accordance with the Bylaw on the structure and content of the annual financial statements of credit institutions (National Gazette no 42/18) (hereinafter "the Bylaw") the Bank's management has prepared forms which are presented on pages 151 to 161, and which contain a statement of financial position as at 31 December 2022, income statement, statement on other comprehensive income, statement of changes in equity and cash flow statement for the year then ended together with reconciliation with the financial statements of the Bank ("financial information"). This financial information is the responsibility of the Bank's management and is, pursuant to statutory accounting regulation as applicable to banks in Croatia, not a required part of the financial statements but is required by the Bylaw.
Our responsibility with respect to this financial information is to perform the procedures we consider appropriate to conclude whether this financial information have been properly derived from the audited financial statements. In our opinion based on the procedures performed the financial information presented in the forms has been properly derived, in all material respects, from the audited financial statements of the Bank which were prepared in accordance with International Financial Reporting Standards as adopted by the European Union (EU) as presented on pages 151 to 161 and are based on underlying accounting records of the Bank.

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

Zvonimir Madunić
Certified auditor and Board member

Ernst & Young d.o.o.
Radnička cesta 50
10000 Zagreb, Republic of Croatia
23 March 2023

4

Financial Statements

Unconsolidated statement of profit or loss

For the year ended 31 December 2022

(All amounts are expressed in millions of HRK)	Note	2022	2021
Interest income	4	1,384	1,184
Interest expense	4	(48)	(28)
Net interest income		**1,336**	**1,156**
Fee and commission income	5	614	493
Fee and commission expense	5	(151)	(124)
Net fee and commission income		**463**	**369**
Net (losses)/gains from valuation of financial instruments at fair value through profit or loss	6a	(102)	91
Net (losses) on financial instruments at fair value through other comprehensive income	6b	(7)	(10)
Net gains from trading and converting monetary assets and liabilities	6c	144	95
Net gains on financial assets at amortized cost	6d	1	-
Other operating income	7	21	44
Net trading and other income		**57**	**220**
Profit before value adjustment and operating expenses		**1,856**	**1,745**
Other operating expenses	8	(371)	(350)
Depreciation and amortisation expenses	8a	(146)	(151)
Personnel expenses	9	(467)	(432)
Net gains/(losses) from loss allowance and provisions	10	25	(32)
Profit before tax		**897**	**780**
Income tax	11a	(222)	(149)
Profit for the year		**675**	**631**
Basic and diluted earnings per share	12	33.82	31.61

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

Unconsolidated statement of other comprehensive income

For the year ended 31 December 2022

(All amounts are expressed in millions of HRK)	Note	2022	2021
Profit for the year		**675**	**631**
Other comprehensive income:			
Items not reclassified subsequently to profit or loss:			
Net fair value changes of financial asset measured through other comprehensive income - equity instruments	29	21	3
	27, 29	1	-
Actuarial gains on provisions for severance pay		22	3
Items reclassified subsequently to profit or loss:			
Net fair value changes of financial asset measured through other comprehensive income - debt securities	29	(267)	(31)
Net changes in allowance for expected credit losses of financial asset measured through other comprehensive income - financial assets	17b, 29	(2)	(7)
Total		(269)	(38)
Deferred tax	11c	44	5
Total other comprehensive income		**(203)**	**(30)**
Total comprehensive income		**472**	**601**

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

Unconsolidated statement of financial position

As at 31 December 2022

(All amounts are expressed in millions of HRK)	Note	31/12/2022	31/12/2021
ASSETS			
Cash and balances with Croatian National Bank	13	12,315	9,320
Loans and receivables from banks	14	139	35
Financial assets at fair value through profit or loss	15	328	399
Loans and receivables from customers	16	37,815	32,300
Equity instruments at fair value through other comprehensive income	17a	116	92
Debt securities at fair value through other comprehensive income	17b	4,566	5,818
Financial asset measured at amortised cost	18	840	352
Investments in subsidiaries	19	318	318
Property and equipment	20	325	299
Right-of-use assets	20a	165	172
Investment property	21	84	86
Intangible assets	22	90	102
Deferred tax assets	11c	98	42
Income tax receivables	11b	-	5
Other assets	23	343	135
TOTAL ASSETS		**57,542**	**49,475**

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

Unconsolidated statement of financial position (continued)

As at 31 December 2022

(All amounts are expressed in millions of HRK)	Note	31/12/2022	31/12/2021
LIABILITIES			
Amounts due to other banks	24	1,201	816
Amounts due to customers	25	45,213	39,347
Other borrowed funds	26	2,776	1,355
Financial liabilities at fair value through profit or loss	15	198	80
Provisions for liabilities and charges	27	500	474
Lease liabilities classified under IFRS 16	20a	171	176
Income tax liabilities	11b	136	-
Other liabilities	28	407	459
Total liabilities		**50,602**	**42,707**
SHAREHOLDERS' EQUITY AND RESERVES			
Share capital		3,994	3,994
Share premium		171	171
Statutory and legal reserves		505	505
Fair Value Reserves		(62)	141
Other reserves		3	3
Retained earnings		2,329	1,954
Total shareholders' equity and reserves	29	**6,940**	**6,768**
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY AND RESERVES		**57,542**	**49,475**

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

Unconsolidated statement of changes in shareholders' equity

For the year ended 31 December 2022

(All amounts are expressed in millions of HRK)	Share capital	Share premium	Legal and statutory reserves	Fair value reserves	Other reserves	Retained earnings	Total
Balance at 1 January 2021	**3,994**	**171**	**399**	**171**	**109**	**1,573**	**6,417**
Changes in equity in 2021							
Other comprehensive income	-	-	-	-	-	-	-
- Debt securities (Note 29)	-	-	-	(26)	-	-	(26)
- Equity instruments (Note 29)	-	-	-	3	-	1	4
Expected credit losses for FVTOCI financial assets (Notes 17b and 29)	-	-	-	(7)	-	-	(7)
Profit for the year	-	-	-	-	-	631	631
Total comprehensive income	**-**	**-**	**-**	**(30)**	**-**	**632**	**602**
Transfer of profit to reserves	-	-	106	-	(106)	-	-
Dividends	-	-	-	-	-	(251)	(251)
Balance at 31 December 2021	**3,994**	**171**	**505**	**141**	**3**	**1,954**	**6,768**
Balance at 1 January 2022	**3,994**	**171**	**505**	**141**	**3**	**1,954**	**6,768**
Changes in equity in 2022							
Other comprehensive income	-	-	-	-	-	-	-
- Debt securities (Note 29)	-	-	-	(219)	-	-	(219)
- Equity instruments (Note 29)	-	-	-	17	-	-	17
Expected credit losses for FVTOCI financial assets (Notes 17b and 29)	-	-	-	(2)	-	-	(2)
Actuarial gains on provisions for severance pay (Notes 27 and 29)	-	-	-	1	-	-	1
Profit for the year	-	-	-	-	-	675	675
Total comprehensive income	**-**	**-**	**-**	**(203)**	**-**	**675**	**472**
Transfer of profit to reserves	-	-	-	-	-	-	-
Dividends	-	-	-	-	-	(300)	(300)
Balance at 31 December 2022	**3,994**	**171**	**505**	**(62)**	**3**	**2,329**	**6,940**

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

Unconsolidated statement of cash flows

For the year ended 31 December 2022

(All amounts are expressed in millions of HRK)	Note	2022	2021
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		897	780
Adjustments to reconcile profit before taxes to net cash from operating activities			
Net (gains)/losses on impairment of financial assets	10	(103)	(12)
Net (gains)/ losses on financial assets measured at fair value through profit or loss	6a	102	(91)
Net (gains)/losses on financial assets measured at fair value through other comprehensive income	6b	7	10
Net (gains)/losses from financial assets measured at amortized cost	6d	(1)	-
Impairment of tangible assets, asset taken in lieu and assets held for sale	8	1	9
Provisions for legal actions and off-balance sheet items	10	78	46
Other provisions	10	3	(2)
Depreciation and amortisation	8a	146	151
(Gains) on disposal and write-off of property and equipment	7	-	(1)
(Gains) on disposal of assets held for sale	7	-	(12)
Interest income	4, 7	(1,386)	(1,187)
Interest expense	4	48	28
Revenue from reversal of accrued expenses	7	(2)	(1)
Other non-cash items, other income and expenses	7, 8	32	34
Exchange rate differences	6	29	47
Operating income before changes in operating assets and liabilities		**(149)**	**(201)**
(Increase)/decrease in operating assets:			
Obligatory reserves with the CNB		843	(292)
Loans and receivables from banks		(138)	(12)
Loans and receivables from customers		(5,352)	(2,704)
Other assets		(218)	64
Increase/(decrease) in operating liabilities:			
Amounts due to other banks		393	(1,694)
Amounts due to customers		5,678	5,129
Other liabilities		(84)	88
Payments from provisions for liabilities and charges		(54)	(66)

Unconsolidated statement of cash flows (continued)

(All amounts are expressed in millions of HRK)	Note	2022	2021
Net cash flow from operating activities before interest and income taxes paid		**919**	**312**
Income taxes paid		(92)	(107)
Interest received		1,360	1,222
Interest paid		(39)	(33)
Net cash from operating activities		**2,148**	**1,394**
CASH FLOWS FROM INVESTING ACTIVITIES			
Financial assets and liabilities at fair value through profit or loss		352	129
Securities at fair value through other comprehensive income		962	(312)
Purchases of tangible and intangible assets		(121)	(67)
Proceeds from sale of tangible and intangible assets		1	-
Proceeds from sale of repossessed real estate		1	33
Proceeds from the sale of assets classified as discontinued operations		-	66
(Increase) of investments in subsidiaries		-	(3)
(Increase) of investments at amortised cost		(471)	(121)
Received dividends from investment activities		5	-
Net cash from investing activities		**729**	**(275)**
CASH FLOWS FROM FINANCING ACTIVITIES			
Repayment of lease liabilities (IFRS 16)		(37)	(37)
Increase of other borrowed funds		1,409	379
Dividends paid		(300)	(251)
Net cash from financing activities		**1,072**	**91**
Net increase in cash and cash equivalents		**3,949**	**1,210**
Cash and cash equivalents at the beginning of the year		**7,121**	**5,854**
Effect of foreign exchange rate changes on cash and cash equivalents		16	57
Cash and cash equivalents at the end of the year	**31**	**11,086**	**7,121**

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

Notes to the unconsolidated financial statements

For the year ended 31 December 2022

1. GENERAL INFORMATION

COMPANY AND HEADQUARTERS

OTP banka d.d. (the Bank) is an authorized commercial bank operating in the Republic of Croatia and is the parent company of the Group OTP banka (the Group) in the Republic of Croatia.

The registered seat of the Bank is in Split, Domovinskog rata 61. The Bank is incorporated in the Republic of Croatia as a joint stock company.

BUSINESS ACTIVITY

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

The Bank's main areas of operation are as follows:

1. Acceptance of all types of deposits
2. Approval of loans to customers
3. Repurchase of receivables
4. Financial lease
5. Issuing guarantees
6. Trading for own account or client's account
7. Payment services
8. Services related to lending activities
9. Issuing and managing other payment instruments
10. Rental of safes
11. Mediation on the money market
12. Issue of electronic money
13. Consulting legal entities on the structure of capital, business strategy, and provision of services related to business combinations and acquisition of shares and business interests
14. Investment related services and activities
15. Investment consulting
16. Offer implementation services, i.e. sale of financial instruments with the obligation of redemption
17. Offer implementation services, i.e. sale of financial instruments without the obligation of redemption
18. Conducting business related to the sale of insurance policies

1. GENERAL INFORMATION (continued)

OWNERSHIP STRUCTURE

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

	31 December 2022		31 December 2021	
	Share capital	Ownership interest in %	Share capital	Ownership interest in %
OTP Bank Nyrt Mađarska	3,994	100.00	3,994	100.00
Total	**3,994**	**100.00**	**3,994**	**100.00**

Repurchase of own shares
OTP banka d.d. is 100% owned by OTP bank Nyrt and did not repurchase its own shares in 2022.

SHARE CAPITAL

The Bank is registered at the Commercial Court in Split, with the registered share capital in the amount of HRK 3,993,754,800 as at 31 December 2022 (31 December 2021: HRK 3,993,754,800).

REGULATORY CAPITAL

The Bank's unaudited temporary regulatory capital amounts to HRK 6,878 million (2021: HRK 6,501 million) and is composed of the Common Equity Tier capital and additional capital. Additional capital amounts to HRK 452 million (2021: HRK 0 million). The capital adequacy ratio is 19.58% (2021: 20.91%).

GOVERNANCE AND MANAGEMENT

Shareholders' Assembly as at 31 December 2022 and 31 December 2021:

Annus Szabolcs	Representative of the President of the Supervisory Board

Supervisory Board as at 31 December 2022:

Péter Csányi	President from 1 April 2020
László Kecskés	Vice president from 1 April 2020
Zlatko Mateša	Member from 15 October 2019
Ibolya Rajmonné Veres	Member from 1 April 2020
Zsolt Ardó	Member from 18 February 2020
Natalija Parlov	Member from 6 July 2022
Árpád Srankó	Member from 6 July 2022

1. GENERAL INFORMATION (continued)

GOVERNANCE AND MANAGEMENT(continued)

Supervisory Board as at 31 December 2021:

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

Management Board as at 31 December 2022:

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

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

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

1. GENERAL INFORMATION (continued)

GOVERNANCE AND MANAGEMENT (continued)

Audit Committee as at 31 December 2022:

László Kecskés	President from 16 April 2012
Natalija Parlov	Deputy President from July 21, 2022
Zlatko Mateša	Member from 15 October 2019
Zsolt Ardó	Member from 1 April 2020

Audit Committee as at 31 December 2021:

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

SUBSIDIARIES OF THE BANK IN REPUBLIC OF CROATIA

Several companies in full or partial ownership of OTP banka d.d. were established in the Republic of Croatia. During 2022, there were no additional purchases and sales or investments in subsidiaries, so the number of subsidiaries and the percentage of the Bank's ownership at the end of 2022 remained the same as at the end of 2021. In cooperation with subsidiaries, the Bank develops and provides all groups of services and products that can support banking operations with individuals and legal entities.

	Headquarter	Percentage of ownership	Industry
OTP Nekretnine d.o.o.	Zagreb	100%	Organization of project implementation for buildings
OTP invest društvo za upravljanje fondovima d.o.o.	Zagreb	81.7%	Fund management activities
OTP Leasing d.d.	Zagreb	60%	Finance and operating lease
Georg d.o.o.	Zagreb	76%	Services related to grants from European Union funds

2. ACCOUNTING POLICIES

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

2.1 Basis of preparation

2.1.1 Statement of Compliance

These financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") under the historical cost convention, as modified by the initial recognition of financial instruments at fair value, and by the revaluation of financial instruments categorised at fair value through profit or loss ("FVTPL") and at fair value through other comprehensive income ("FVOCI"). The principal accounting policies applied in the preparation of these financial statements are set out below in this same note (Note 2). These policies have been consistently applied to all the periods presented, unless otherwise stated.

2.1.2 First time adoption of IFRS

These financial statements for the year ended 31 December 2022 are the Bank's first annual financial statements that comply with IFRS. The Bank's IFRS transition date is 1 January 2022. Subject to certain exceptions, IFRS 1, First-time Adoption of International Financial Reporting Standards, requires retrospective application of the version of standards and interpretations effective as of 31 December 2022 in preparing the opening IFRS statement of financial position at 1 January 2022 and throughout all periods presented in its first IFRS financial statements. In preparing these financial statements, the Bank did not have material mandatory exceptions and did not apply any optional exemptions to the retrospective application of other IFRSs. There are no material reconciling effects to the transition from statutory accounting regulations for banks in the Republic of Croatia to IFRS as at 1 January 2021 and for the year ended 31 December 2021. The Bank's operating, investing and financing cash flows reported under statutory accounting regulations for banks in the Republic of Croatia did not significantly differ from those required under IFRS.

In preparing financial statements, the Bank still takes into account certain minimum provisions in accordance with the applicable rules of the Croatian National Bank (CNB), primarily related to the identification of credit losses for individual placements that have been in default for a longer period of time, as well as provisions for certain categories of litigation. The Bank considers that the application of the aforementioned remaining rules does not materialy affect compliance of the financial statements with IFRS. Given that the amounts previously recognized in the statement of financial position applying the statutory accounting regulation as applicable for banks in Republic of Croatia on 31 December 2020 and 31 December 2021 does not differ significantly compared to IFRS, the Bank did not present third statement of financial position in the financial statements for 2022.

2.1.3 Basis of measurement

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

Actual results may differ from those estimates.

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

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

2.1.4 Effective standards, amendments to the existing standards and implementations

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

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

  » **IFRS 3 Business Combinations (Amendments)** update a reference in IFRS 3 to the previous version of the IASB's Conceptual Framework for Financial Reporting to the current version issued in 2018 without significantly changing the accounting requirements for business combinations.

2. ACCOUNTING POLICIES (continued)

2.1 Basis of preparation (continued)

2.1.4 Effective standards, amendments to the existing standards and implementations (continued)

» **IAS 16 Property, Plant and Equipment (Amendments)** prohibit a company from deducting from the cost of property, plant and equipment any proceeds from the sale of items produced while bringing the asset to the location and condition necessary for it be capable of operating in the manner intended by management. Instead, a company recognizes such sales proceeds and related cost in profit or loss.

» **IAS 37 Provisions, Contingent Liabilities and Contingent Assets (Amendments)** specify which costs a company includes in determining the cost of fulfilling a contract for the purpose of assessing whether a contract is onerous. The amendments clarify, the costs that relate directly to a contract to provide goods or services include both incremental costs and an allocation of costs directly related to the contract activities.

» **Annual Improvements 2018-2020** make minor amendments to **IFRS 1 First-time Adoption of International Financial Reporting Standards, IFRS 9 Financial Instruments, IAS 41 Agriculture** and the Illustrative Examples accompanying **IFRS 16 Leases**
The adoption of these amendments did not have a significant impact on the Bank's financial statements.

- **IFRS 16 Leases-Covid 19 Related Rent Concessions beyond 30 June 2021 (Amendment)**

The Amendment applies to annual reporting periods beginning on or after 1 April 2021, with earlier application permitted, including in financial statements not yet authorized for issue at the date the amendment is issued. In March 2021, the Board amended the conditions of the practical expedient in IFRS 16 that provides relief to lessees from applying the IFRS 16 guidance on lease modifications to rent concessions arising as a direct consequence of the covid-19 pandemic. Following the amendment, the practical expedient now applies to rent concessions for which any reduction in lease payments affects only payments originally due on or before 30 June 2022, provided the other conditions for applying the practical expedient are met. The adoption of these amendments did not have a significant impact on the Bank's financial statements.

2.1.5 Standards issued but not yet effective and not early adopted

- **IAS 1 Presentation of Financial Statements and IFRS Practice Statement 2: Disclosure of Accounting policies (Amendments)**

The Amendments are effective for annual periods beginning on or after 1 January 2023 with earlier application permitted. The amendments provide guidance on the application of materiality judgements to accounting policy disclosures. In particular, the amendments to IAS 1 replace the requirement to disclose ‘significant’ accounting policies with a requirement to disclose ‘material’ accounting policies. Also, guidance and illustrative examples are added in the Practice Statement to assist in the application of the materiality concept when making judgements about accounting policy disclosures. The Management Board has assessed that the amendments will not lead to significant changes in the Bank's financial statements in the period of the first application of the standards.

- **IAS 8 Accounting policies, Changes in Accounting Estimates and Errors: Definition of Accounting Estimates (Amendments)**

The amendments become effective for annual reporting periods beginning on or after 1 January 2023 with earlier application permitted and apply to changes in accounting policies and changes in accounting estimates that occur on or after the start of that period. The amendments introduce a new definition of accounting estimates, defined as monetary amounts in financial statements that are subject to measurement uncertainty, if they do not result from a correction of prior period error. Also, the amendments clarify what changes in accounting estimates are and how these differ from changes in accounting policies and corrections of errors. The Management Board estimated that the changes in the standards will not lead to significant changes in the financial statements of the Bank in the period of the first application of the standards.

- **AS 12 Income taxes: Deferred Tax related to Assets and Liabilities arising from a Single Transaction (Amendments)**

The amendments are effective for annual periods beginning on or after 1 January 2023 with earlier application permitted. The amendments narrow the scope of and provide further clarity on the initial recognition exception under IAS 12 and specify how companies should account for deferred tax related to assets and liabilities arising from a single transaction, such as leases and decommissioning obligations. The amendments clarify that where payments that settle a liability are deductible for tax purposes, it is a matter of judgement, having considered the applicable tax law, whether such deductions are attributable for tax purposes to the liability or to the related asset component. Under the amendments, the initial recognition exception does not apply to transactions that, on initial recognition, give rise to equal taxable and deductible temporary differences. It only applies if the recognition of a lease asset and lease liability (or decommissioning liability and decommissioning asset component) give rise to taxable and deductible temporary differences that are not equal. The Management Board estimated

2. ACCOUNTING POLICIES (continued)

2.1 Basis of preparation (continued)

2.1.5 Standards issued but not yet effective and not early adopted (continued)

that the changes in the standards will not lead to significant changes in the financial statements of the Bank in the period of the first application of the standards.

- **IAS 1 Presentation of Financial Statements: Classification of Liabilities as Current or Non-current (Amendments)**

  The amendments are effective for annual reporting periods beginning on or after 1 January 2024, with earlier application permitted, and will need to be applied retrospectively in accordance with IAS 8. The objective of the amendments is to clarify the principles in IAS 1 for the classification of liabilities as either current or non-current.
  The amendments clarify the meaning of a right to defer settlement, the requirement for this right to exist at the end of the reporting period, that management intent does not affect current or non-current classification, that options by the counterparty that could result in settlement by the transfer of the entity's own equity instruments do not affect current or non-current classification. Also, the amendments specify that only covenants with which an entity must comply on or before the reporting date will affect a liability's classification. Additional disclosures are also required for non-current liabilities arising from loan arrangements that are subject to covenants to be complied with within twelve months after the reporting period. The amendments have not yet been endorsed by the EU.
  The Management Board estimated that the changes in the standards will not lead to significant changes in the financial statements of the Bank in the period of the first application of the standards.

- **IFRS 16 Leases: Lease Liability in a Sale and Leaseback (amendments)**

  The amendments are effective for annual reporting periods beginning on or after January 1, 2024, with earlier application permitted. The amendments are intended to improve the requirements that a seller-lessee uses in measuring the lease liability arising in a sale and leaseback transaction in IFRS 16, while it does not change the accounting for leases unrelated to sale and leaseback transactions. In particular, the seller-lessee determines 'lease payments' or 'revised lease payments' in such a way that the seller-lessee would not recognise any amount of the gain or loss that relates to the right of use it retains. Applying these requirements does not prevent the seller-lessee from recognising, in profit or loss, any gain or loss relating to the partial or full termination of a lease. A seller-lessee applies the amendment retrospectively in accordance with IAS 8 to sale and leaseback transactions entered into after the date of initial application, being the beginning of the annual reporting period in which an entity first applied IFRS 16. The amendments have not yet been endorsed by the EU.
  The Management Board estimated that the changes in the standards will not lead to significant changes in the financial statements of the Bank in the period of the first application of the standards.

- **Amendment in IFRS 10 Consolidated Financial Statements and IAS 28 Investments in Associates and Joint Ventures: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture**

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

2.2 Functional and presentation currency

Items included in the financial statements are presented in the currency of the primary economic environment in which the Bank operates (its functional currency). The financial statements are presented in the Croatian kuna, which is both the functional and reporting currency of the Bank. The amounts are rounded to the nearest thousand (unless otherwise stated).

The principal exchange rates set by the Croatian National Bank and used in the conversion of the Bank's monetary assets and liabilities at the date of the statement of financial position were as follows:

31 December 2022	1 EUR = 7.53450 HRK	1 CHF = 7.651569 HRK	1 USD = 7,064035 HRK
31 December 2021	1 EUR = 7.517174 HRK	1 CHF = 7.248263 HRK	1 USD = 6.643548 HRK

2. ACCOUNTING POLICIES (continued)

2.3 Foreign currency translation

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

2.4 Leases

The Bank measures leases in accordance with IFRS 16.
IFRS 16 establishes the principles for the recognition, measurement, presentation and disclosure of leases, for both parties, for the user ("lessee") and for the service provider ("lessor").

a) Recognition of a lease liability

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

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

b) Recognition of right-of-use assets

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

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

The Bank uses expedients related to short-term leases (less than 12 months) as well as in the case of leases where the related assets are of low value (less than USD 5.000 converted to the functional currency at the middle exchange rate on the contract date), for which no financial liabilities nor the right-of-use assets will be recognized. These types of payments will be recognized as expenses using the linear method over the life of the lease.
The value added tax cost under all lease contracts in accordance with IFRS 16 is recognized directly in administrative expenses and is presented in Note 8.

2.5 Interest income and expense

Interest income and expense 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.

2. ACCOUNTING POLICIES (continued)

2.5 Interest income and expense (continued)

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

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

Interest income on financial assets classified as Stage 3 financial asset is recognized in the statement of profit or loss when collected. Penalty interests for financial assets and financial liabilities are recognised in other operating income or other operating costs.

2.6 Fee and commission income and expense

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

2.7 Employee benefits

Short-term benefits

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

Bonuses

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

Retirement benefits

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

Jubilee awards

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

2.8 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

2. ACCOUNTING POLICIES (continued)

2.8 Taxation (continued)

Deferred tax (continued)

against which deductible temporary differences can be utilised. Deferred tax assets and liabilities are not recognised if the temporary difference arises from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

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

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

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

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

Current and deferred tax for the period

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

2.9 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.

2.10 Financial instruments

Classification

The Bank recognizes regular way transactions with financial instruments at the settlement date and the derivate financial assets on the trade date. The Bank applies IFRS 9 and, depending on business model for management of financial assets and contractual cash flow characteristics, classifies financial assets into following measurement categories: financial assets at amortised cost; financial assets at fair value through other comprehensive income (FVTOCI); financial assets designated at fair value through other comprehensive income (FVTOCI); financial assets at fair value through profit or loss (FVTPL).

Financial assets at amortised cost

Financial asset is measured at amortised cost if both of following conditions are met:

(a) the financial asset is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows and

(b) the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

2. ACCOUNTING POLICIES (continued)

2.10 Financial instruments (continued)

Classification (continued)

Financial assets at fair value through other comprehensive income

Financial asset is measured at fair value through other comprehensive income if both of following conditions are met:

(a) the financial asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets and

(b) the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Financial assets designated at fair value through other comprehensive income

For investments in equity instruments that are not held for trading, the Bank may make an irrevocable election to present in other comprehensive income subsequent changes in the fair value.
If Bank chooses this option (fair value measurement), it is valid until maturity date of instrument.

Gain/loss on disposal of equity instruments designated at fair value through other comprehensive income is never recycled to profit and loss account; unrealised gains/losses are recognized within other comprehensive income. Only dividends are recognized within profit and loss account.

Financial assets at fair value through profit or loss

Financial asset is measured at fair value through profit or loss, if not classified held to collect or held to collect and sell, unless irrevocable choice has been elected and in cases of SPPI test fail.
Derivatives, units in investment funds and securities held for trading are an examples of instruments that shall be classified in

Business model assessment

Business model is based on activities conducted by the Bank to achieve objectives in accordance with Bank's strategy and how Bank manages its' financial assets with aim of generating profits.

Types of business models considering cash flow generation are described in following paragraphs:

- Business model held to collect

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

During 2022 and 2021, the Bank sold several individual and one group of NPL portfolios that did not lead to a breach of the business model, but were sold due to the deterioration of the credit risk of individual clients.

- Business model held to collect and sell

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

- Other models (other strategies)

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

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

2. ACCOUNTING POLICIES (continued)

2.10 Financial instruments (continued)

Reclassification

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

The Bank may not reclassify financial liabilities. The Bank reclassifies investments in debt instruments only if the business model for managing those assets changes.

The following events are not considered reclassifications:

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

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

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

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

Reclassification "into FVTPL"

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

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

Reclassification "into FVOCI"

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

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

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

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

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

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

2. ACCOUNTING POLICIES (continued)

2.10 Financial instruments (continued)

Reclassification (continued)

Reclassification "into amortized cost"

If the Bank reclassifies a financial asset out of the FVTPL category into the amortized cost category, its fair value at the reclassification date becomes its new gross carrying amount.

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

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

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

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

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

SPPI test (Solely Payment of Principal and Interest)

SPPI test is conducted to assess contractual cash flow characteristics of particular financial instruments, i.e. to assess if contractual cash flows represent solely payments of principal and interest on unpaid principal in accordance with basic lending arrangement (without specific modifications related to prepayment fee, index linked payments, mismatch between interest rate and reference interest rate etc.). For the purpose of this test, principal is defined as fair value of financial assets at initial recognition. Interest consists of consideration for the time value of money, for the credit risk associated with the principal amount outstanding during a particular period of time and for other basic lending risks and costs, as well as a profit margin.

In cases where the SPPI test indicates the existence of modification of the time value of money, an additional assessment is conducted to determine whether the modification is significant (the benchmark test). Benchmark test is conducted by comparing undiscounted contractual cash flows and undiscounted cash flows that would arise if the time value of money element was not modified (reference or benchmark cash flows).

Relevant comparable benchmark instrument is instrument with identical contractual terms and the identical credit risk, either existing or hypothetical instrument (it is not required for instrument to exist on the market). If based on conducted assessments, result is significant difference between contractual cash flows and reference/benchmark cash flows, financial asset fails SPPI test and shall be allocated to measurement category fair value through profit or loss.

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

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

2. ACCOUNTING POLICIES (continued)

2.10 Financial instruments (continued)

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

1. Corporate clients products:

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

2. Small corporate clients products:

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

3. Retail clients products:

- Housing loans with fixed interest rate
- Housing loans with variable interest rate
- Housing loans with combination of fixed and variable interest rate
- Subsidized housing loans
- Cash loans with fixed interest rate
- Cash loans with variable interest rate
- Lombard loans
- Express loans
- Mortgage loans
- Tourism loans
- Car loans
- Housing loans without mortgage
- Overdraft loans with fixed interest rate
- Credit card loans - revolving
- Credit card loans - charge
- Credit card loans - instalment

2. ACCOUNTING POLICIES (continued)

2.10 Financial instruments (continued)

Modifications

The modification applies to all financial assets and liabilities within the scope of IFRS 9. Any change in a contractual provision is considered a modification. The Bank defines the significance of the modification. In case of significant modification, the Bank derecognizes the existing instrument and carries out initial recognition of the new instrument. Upon initial recognition of a new instrument, the Bank implements all necessary requirements defined in IFRS 9 for the initial recognition of financial assets. If the modification is insignificant, the Bank continues to recognize the existing instrument and calculates the modification differences using the effective interest rate. Modification gains and losses are recognized through the profit and loss statement.

The most common form of modification is restructuring, where in almost all cases the Bank derecognizes an existing instrument and recognizes a new instrument. Payment delays (so-called moratoriums) and other exposure restructuring measures implemented as a result of the COVID-19 pandemic are also treated by the Bank as modifications, therefore the Bank calculates modification losses / gains. Also, insignificant modification differences result in continued recognition of the existing instrument, while in cases of significant modification differences, the Bank derecognises the existing instrument and recognizes a new one, which is subject to all requirements of IFRS 9 on initial recognition of financial assets.

Recognition and derecognition

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

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

Write-offs

The Bank writes off financial assets in cases where it is not possible to collect, or when all payment possibilities have been exhausted, or when the collection costs exceed the amount of possible collection.

The Bank writes off financial assets that are completely impaired or whose fair value is equal or approximately zero.
The Bank primarily seeks to sell such financial assets in the market. If there is no market demand for financial assets, they are written off and transferred to off-balance sheet records.

In case of financial assets recorded in off-balance sheet records, for which certain collection procedures of mostly formal nature have not yet been completed, the Bank continues to monitor them and collect wherever possible. These financial assets are finally written off only when there is no longer any reason for the Bank to continue collection, or when there is no possibility of partial collection in the future.

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

Gains and losses

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

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

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

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

2. ACCOUNTING POLICIES (continued)

2.10 Financial instruments (continued)

Fair value measurement principles

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

Valuation techniques and assumptions for the purposes of measuring fair value

The fair values of financial assets and financial liabilities are determined as follows:

- The fair values of financial assets and financial liabilities with standard terms and conditions and traded on active liquid markets are determined by reference to quoted market prices (includes listed redeemable notes, bills of exchange, debentures and perpetual notes).

- The fair values of other financial assets and financial liabilities (excluding derivative financial 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 financial 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 derivative financial instruments, and option pricing models for optional derivative financial instruments. Foreign currency forward contracts are measured using quoted forward exchange rates and yield curves derived from quoted interest rates matching maturities of the contracts. Interest rate swaps are measured at the present value of future cash flows estimated and discounted based on the applicable yield curves derived from quoted interest rates.

2.11 Loss allowance of financial assets

Loss allowance of financial assets measured at amortised cost

Definition and calculation method of expected credit losses for each stage

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

The Bank also recognizes expected credit losses on a monthly basis for exposures subject to loss allowance requirements in amounts equal to:

1) 12 month expected credit loss for Stage 1 risk subcategory;

2) lifetime expected credit loss for Stage 2 and Stage 3 risk subcategory

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

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

In case of collective assessment, the Bank uses internal model in accordance with IFRS 9 for calculation of expected credit losses, applying PD (probability of default), LGD (loss given default) and EAD (exposure at default; for off-balance exposures CCF of 100% is applied) as parameters for loss allowance calculation. Bank also applies 5 different macroeconomic scenarios that reflect forecasts. Macroeconomic scenarios and its probabilities are based on regional macroeconomic forecasts. Expected loss (EL) is calculated separately for each

2. ACCOUNTING POLICIES (continued)

2.11 Loss allowance of financial assets (continued)

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

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

scenario and final expected loss (EL) assessment is weighted average of expected loss in cases of multiple scenarios. Model calculation is performed monthly.

Basic assumption in the model is credit segmentation based on client type (sovereign, banks, corporate, retail). Retail segment is further subdivided by product type into the sub-segment of housing, mortgage, cash, car and other loans and the sub-segments of overdrafts and credit cards. Each segment is further elaborated according to the time when the receivable was recorded in the system (book criterion), and according to the calculating provisions class (provisioning bucket) which is defined according to the number of days past due in combination with stage where necessary.

The classes are as follows:

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

For the purposes of capturing the LGD parameter, the ECL calculation model also uses a breakdown of secured and unsecured exposures, currencies, and number of quarters since entering the default status.

The Bank uses the aggregate method to calculate the expected credit loss of exposures classified in Stage 3 in the case of Retail portfolio (included in Note 16 Loans and receivables from customers), and to calculate the expected credit loss of exposures classified in Stage 1 and Stage 2, and for assets carried at amortized cost which is included in notes 13 Cash and balances with Croatian National Bank, 14 Loans and receivables from banks, 16 Loans and receivables from customers, 18 Financial assets measured at amortized cost, and 23 Other financial assets subject to impairment.

After initial recognition financial assets are allocated into one of three stages:

1) Stage 1 - performing,
2) Stage 2 - performing, but for which significant increase in credit risk was observed since initial recognition,
3) Stage 3 - default and other non performing exposures

Performing assets (Stage 1) include all financial assets for which the events and conditions applicable to Stage 2 and Stage 3 do not exist at the reporting date.

A financial asset shows significant increase in credit risk (Stage 2), if in respect of which any of the following triggers exist on the reporting date, without fulfilling any of the conditions for the allocation to the default stage (Stage 3):

- the payment delay 31 to 90 (by introducing materially significant delays this trigger now works on both payment delay counter and the economic counter)
- it is classified as performing forborne,
- based on individual decision, its currency suffered a significant "shock" since the disbursement of the loan and no hedge position exists in respect thereof (CHF) (valid only for retail placements),
- the loan-to-value ratio (LTV) exceeds a predefined rate (at present 125% for secured Retail loans)
- the transaction/client rating exceeds a previously defined value (for cash loans and corporate - rating 8 and 9; for housing loans - rating 7, 8 and 9) or enters a certain range, or has deteriorated compared to historical values and dropped to a predefined level. In the event that the determination of the stage based on the rating is not possible (because the rating category is not available), the following rule is used as a trigger for Stage 2: if in the last 6 months the number of days of delay (DPD) is greater than 10 days, the case in question is determined as Stage 2

2. ACCOUNTING POLICIES (continued)

2.11 Loss allowance of financial assets (continued)

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

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

- In case there is 3x increase in PD since initial recognition of housing and cash loans and at the same time the rating is 6 and above and due debt greater than HRK 37,5)
- all placements of a client whose at least one placement is classified in Stage 3 (if placements in Stage 3 are in the status of default due to objective criteria, and their balance sheet exposure is less then 20% of the total balance sheet exposure of the client, then all other placements are in Stage 2)
- exposure is marked as a watch-list (non retail)
- In case there is significant change in macroeconomic environment and it results in significant increase in the lifetime credit risk, the OTP Bank's HQ Group Reserve Committee has the right to request transfer of affected loans / portfolios to stage 2 which is approved in coordination between OTP Bank Nyrt and management of Bank,
- In case it is determined in the post-controls of approved loans that there was no adequate credit capabilities, the exposure can be considered as increased credit risk, which is why it is classified in phase 2.

A financial asset is default (Stage 3) if following conditions for allocation of exposure into default are met:

- objective criterion: consecutive DPD 90+ with material credit obligation,
- probability criterion: the analysis of the probability that the obligor getting unable to pay its credit obligations in full (criteria of "unlikely to pay", i.e. UTP)
- distressed restructuring and forborne exposure classified as NPL where the existence of UTP criteria is identified, or there is a significant NPV loss (1%) compared to the original cash flows subsequent to the restructuring measure
- all placements of a client whose at least one placement is classified in Stage 3 (if placements in Stage 3 are in the status of default due to objective criteria, and their balance sheet exposure exceeds 20% of the total balance sheet exposure of the client, then all other placements are in Stage 3)
- the new exposure of the obligor has to be qualified as default if obligor's previously defaulted exposure has been sold or written off

Purchased or originated credit impaired asset (POCI) assessment

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

Loss allowance of financial asset measured at fair value through other comprehensive income

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

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

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

Loss allowance of financial assets not covered by IFRS 16 and IFRS 15

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

2. ACCOUNTING POLICIES (continued)

2.12 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. Derivative financial instruments are classified within financial instruments that are carried at fair value through profit or loss as financial instruments held for trading or as derivative financial instruments that are preferred for the risk management purposes.

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

2.13 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 Bank 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.

2.14 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:

	2022	2021
Tangible assets		
Buildings	33-40 years	33-40 years
Computers	4-5 years	4-5 years
Furniture and equipment	2.5-10 years	2.5-10 years
Motor vehicles	4-5 years	4-5 years
Intangible assets		
Investment in leased assets	according to the years of rent	according to the years of rent
Software	3-5 years	3-5 years
Contracts with customers	5 years	5 years

2. ACCOUNTING POLICIES (continued)

2.14 Tangible and intangible assets (continued)

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

The residual value of the asset, the depreciation method and estimated useful lives are reviewed at each reporting date and adjusted if necessary. Where the carrying amount of an asset exceeds its estimated recoverable amount, it is written down to the recoverable amount.

Gains and losses on the sale of property and equipment are determined as the difference between the amount charged and the carrying amount and are included in the statement of profit or loss. In the carrying amount of property and equipment the Bank includes the cost of replacing the part of an item when such cost arises if it is probable that the Bank will have future economic benefits contained in that item and if the purchase value of such item can be reliably estimated. All other repair and maintenance costs are recognized as incurred.

2.15 Impairment of tangible and intangible assets

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

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

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

2.16 Investment property

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

2.17 Non-current assets held for sale

Assets that are expected to be offset primarily by sale rather than continued use are classified as held for sale. The following conditions must be fulfilled:

the property must be available for sale in its existing condition; its sale must be highly probable; as expected and planned sale must occur within one year from the date of classification.

Prior to being classified as held for sale, assets are measured in accordance with the accounting policies of

the Bank, after which they are measured at the lower of cost or fair value less costs to sell, whichever is lower. Non-current assets classified as held for sale are not depreciated. At the time of reclassification, when a change of intention or when the conditions required by IFRS 5 are no longer met, the Bank does not restate the comparative information in the Statement of financial position. In the case of reclassification, the valuation is adjusted in accordance with the relevant standards, as if no reclassification had taken place.

2. ACCOUNTING POLICIES (continued)

2.18 Investment in subsidiaries

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

2.19 Assets acquired in lieu of uncollected receivables

Occasionally, the Bank forecloses properties and other assets to recover the outstanding loans and advances to customers. Such properties and other assets are recognised at the lower of the net realisable value and current fair value. The Bank seeks to sell the foreclosed assets and only exceptionally makes them available for its own use. Such properties are presented in Note 23 Other assets.

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

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

2.20 Current accounts and deposits from banks and customers

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

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

2.21 Other financial liabilities

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

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

2.22 Provisions

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

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

2.23 Off-balance sheet commitments

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

The definition of the calculation of expected credit losses for each stage, the identification of significant credit risk, and the manner of determining the impairment are consistent with the rules for the portfolio of financial assets that are carried at amortized cost. In the aggregate method, the Bank uses an internal IFRS 9 model to calculate expected credit losses using PD (probability of default), LGD (loss given default) and EAD (exposure at default); 100% credit conversion factor applies to off-balance sheet contingent liabilities) impairment parameters. Please see Note 2.11 for more details.

2. ACCOUNTING POLICIES (continued)

2.24 Asset managed on behalf of third parties

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

2.25 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.

2.26 Retained earnings

Any profit for the year that is not allocated to dividends and reserves are kept as retained earnings.

2.27 Borrowing costs

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

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

All other borrowing costs are charged to the profit or loss for the period in which they are incurred.

The Bank did not have assets that met the criteria for capitalization of borrowing costs.

3. ACCOUNTING ESTIMATES AND JUDGEMENTS IN APPLYING ACCOUNTING POLICIES

The Bank makes certain judgments and estimates about uncertain events, including estimates and judgments concerning the future. Such accounting estimates and judgments are regularly reviewed and are based on past experience and other factors, such as the reasonably expected course of future events under given circumstances, but which nevertheless represent sources of uncertainty. The estimation of 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.

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

Bank continuously monitors credit worthiness of its customers. In accordance with regulation, impairment of on-balance and off-balance exposures to credit risk is assessed at least quarterly.

Expected credit losses are recognized as a decrease of the net book value of: current accounts with banks (presented in Note 13), loans and receivables from banks and other customers (presented in notes 14 and 16), impairment for financial assets measured at amortised cost (presented in note 18), receivables from other financial assets measured at amortized cost (presented in note 23), impairment losses for assets measured at fair value through other comprehensive income (presented in note 17). Loss allowance for risks and costs resulting from potential liabilities, loan commitments, mostly in form of granted unused credit lines, guarantees, letters of credit and unused credit card limits (presented in note 30) are recognized as a provision (presented in Note 27).

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

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

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

In November 2022, the parameters were adjusted due to new economic trends on the domestic and international market in 2022. Based on the above, the previously expected GDP growth for 2023 and 2024 was reduced, which resulted in PL growth.

The averages of expected losses (EL) were also updated so that the weighting of the projection scenario (from 50% to 60%) was increased to the detriment of the optimistic scenario (from 30% to 20%), which resulted in a higher weighted average of expected losses (EL)

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

Taxation

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

Regulatory requirements

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

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

Litigation and restructuring costs

The Bank makes provisions for litigation and restructuring costs in accordance with IAS 37. Provisions are recognized when the Bank has a present obligation as a result of past events and for which the Bank is aware that they have been incurred, and if it is probable that an outflow of resources containing economic benefits will be required to settle the liabilities and if the amount of the liabilities can be measured reliably. Provisions are reduced only for those expenses for which provisions are initially recognized. If an outflow of economic benefits to settle the obligation is no longer probable, provisions are reversed.

When forming provisions for litigation, the Bank also takes into account all the criteria laid down in the Decision of the Croatian National Bank on the obligation to make provisions for litigation conducted against a credit institution. The amount of such formed provisions does not deviate from the amount estimated in accordance with IAS 37.

In the ordinary course of business, several lawsuits and complaints have been filed against the Bank, the outcome of which is uncertain.

According to the Management's estimate, the provisions formed are sufficient to cover the costs of active litigation and restructuring costs.

Estimates for litigation, restructuring costs and provisions for disputes related to loans in Swiss francs are presented in note 27 Provisions for liabilities and costs.

Impairment of non-financial assets

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

For details see accounting policies Notes 2.14 to 2.19.

Fair value measurement

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

The fair value of non-traded derivatives is estimated at the amount that the Bank would receive or pay to terminate the contract at the statement of financial position date, taking into account current market conditions and the current creditworthiness of the counterparties. For details please accounting policies Note 2.10 *Financial instruments*.

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

4. NET INTEREST INCOME

	2022	2021
Interest income		
Retail loans	862	821
Corporate loans	297	276
Cash reserves and amounts due from other banks	138	14
Debt securities	87	73
	1,384	**1,184**
Interest expenses		
Other borrowed funds	32	11
Other borrowed funds owed to banks	4	2
Current accounts and retail deposits	6	8
Current accounts and corporate deposits	4	5
Interest expenses IFRS 16	2	2
	48	**28**

Included in various items within interest income for the year ended 31 December 2022, a total of HRK 80 million (2021: HRK 99 million) refers to the interest income charged on the assets which were previously impaired as Stage 3.
Deferred interest loan origination fees are recognized in interest income as an adjustment to the effective interest income. The total amount of these fees in interest income in 2022 is HRK 37 million (2021: HRK 34 million).
Penalty interest calculated on loans and receivables from customers is shown in other operating income (Note 7).
Revenue recognized in accordance with IFRS 15 amounts to HRK 1,384 million (2021: HRK 1,184 million) and is recognized as a point in time.

5. NET FEE AND COMMISSION INCOME

a) Net fee and commission income – analysis by source

	2022	2021
Fee and commission income		
Retail customers	276	242
Corporate customers	235	176
Banks	103	75
	614	**493**
Fee and commission expense		
Banks	94	72
Corporate customers	57	52
	151	**124**

5. NET FEE AND COMMISSION INCOME (continued)

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

	2022	2021
Fee and commission income		
Domestic payment transaction related fees and commissions	146	117
Package fees charged to individuals	111	100
Card-related fees and commissions	104	80
Merchant fees for card business	93	65
Account maintenance fees	24	20
Loan-related fees and commissions	23	16
Fees for other services related to client accounts	21	18
Asset management fees	20	17
Foreign payment transaction related fees and commissions	17	16
Guarantee-related fees and commissions	17	14
Sale of insurance policies	16	11
Brokerage and consultancy service fees	9	6
Exchange office business – commission	2	2
Other fees and commissions received	11	11
	614	**493**
Fee and commission expense		
Card-related fees and commissions	92	68
Domestic payment transaction related fees and commissions	31	27
Foreign payment transaction related fees and commissions	8	8
Asset management fees	6	5
Other fees and commissions paid	14	16
	151	**124**

Revenue recognized in accordance with IFRS 15 amounts to HRK 614 million (2021: HRK 493 million) and is recognized as a point in time.

6. NET GAINS / (LOSS) FROM TRADING AND VALUATION OF FINANCIAL INSTRUMENTS

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

	2022	2021
Net (loss)/gain on derivative financial instruments	(95)	41
Net (loss)/gain on financial asset at fair value through profit or loss	(7)	50
	(102)	**91**

Financial assets that are measured through profit or loss, and to which these net (losses)/gains relate, are presented in Note 15.

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

	2022	2021
Realised (losses) on securities at fair value through other comprehensive income	(7)	(10)
	(7)	**(10)**

Financial assets measured through other comprehensive income, to which these net (losses) relate, are included in Note 17. The amount of HRK 7 million refers to the adjustment on the basis of realized securities acquired during the acquisition of the former Splitska banka d.d..

c) Net gains/(losses) from trading and converting monetary assets and liabilitiesa

	2022	2021
Net gains from currency sale and purchase	173	142
Net (losses) from conversion of monetary assets and liabilities denominated in foreign currencies and foreign currency clause	(29)	(47)
	144	**95**

d) Net gains on financial assets at amortized cost

	2022	2021
Net gain from the sale of non-financial assets at amortized cost	1	-
	1	**-**

7. OTHER OPERATING INCOME

	2022	2021
Dividends received	5	1
Leases	4	3
Collection of written-off receivables from previous years	3	4
Amounts recovered through court actions	2	11
Default interest on loans and receivables from customers	2	3
Reversal of accrued costs	2	1
Inventory income	1	4
Sale of real estate and equipment	1	1
Sale of OTP Osiguranje d.d.	-	11
Collected costs of court fees	-	1
Other income	1	4
	21	**44**

During 2022, several lawsuits were settled in which the Bank made a profit of HRK 2 million (2021: HRK 11 million).

Revenues from rents are mostly related to revenues from properties rental which are used by the Bank, and whose insignificant part is leased, as well as revenues from rent which are paid by telecoms for lease of premises at the top of buildings for their antennas and other communication devices in amount of HRK 3 million (2021: HRK 2 million) while the rest of HRK 1 million (2021: HRK 1 million) is related to revenues from properties which are fully leased.

Gains from the sale of property and equipment relate to the sale of the building with the associated land, ATMs and vehicles, details are provided in Note 20.

8. OTHER OPERATING EXPENSES

	2022	2021
Professional services and cost of material	258	223
Administrative expenses	37	29
Marketing expenses	34	38
Savings deposit insurance premiums	20	17
Remediation contribution	8	19
Other taxes and contributions	6	6
Supervision fee	6	5
Other costs	2	13
	371	**350**

Of the total costs of professional services and materials, HRK 17.3 million is related to the costs of introducing the euro as the domicile currency.

In 2022, the external auditor provided services as follows: audit of quarterly and annual financial statements, audit of the reporting package to OTP Bank Nyrt Hungary, other agreed procedures to verify compliance with financial, accounting or regulatory matters, statutory engagement, and assessment of compliance of general information system controls. In accordance with EU Regulation 537/2014, services provided during the year are services that are allowed. The cost (with included VAT) of mentioned services amounts to HRK 3.65 million for 2022 (2021: HRK 3 million). The costs of auditing are shown under the position Professional services and cost of materials.

8a DEPRECIATION AND AMORTISATION EXPENSE

	2022	2021
Depreciation of tangible assets (Note 20)	60	64
Assets classified under IFRS 16 (Note 20a)	38	37
Depreciation of investment property (Note 21)	2	1
Amortisation of intangible assets (Note 22)	46	49
	146	**151**

9. PERSONNEL EXPENSES

	2022	2021
Gross salaries	348	328
- net salaries	*253*	*239*
- taxes, surtaxes and contributions	*95*	*89*
Contributions on salaries	53	50
Accrued expenses for bonuses and other employee expenses	34	36
Other employee expenses	32	18
	467	**432**

The Bank had 2,375 employees (2021: 2,377) at year-end. This information includes all employees who have concluded an Employment Contract with the Bank as at 31 December 2022

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

	Note	2022	2021
Decreases/(Increases) of expected credit loss of current accounts with banks	13	4	(6)
(Increases) of expected credit losses of loans and receivables from banks	14	(1)	-
Decreases of expected credit loss of loans and receivables from customers	16	101	27
Decreases/(Increases) of expected credit loss of financial assets measured at amortized cost	18	4	(10)
Decreases/(increases) of expected credit loss of investments measured through other comprehensive income	17	2	8
(Increases) of expected credit loss of other asset	23	(7)	(7)
(Increases) of litigation provisions	27	(76)	(74)
(Increases)/decreases of expected credit loss of contingent liabilities and commitments	30	(2)	28
Decreases in provisions for other liabilities	27	-	2
		25	**(32)**

The loss allowance for expected credit losses classified in Stage 1 and Stage 2, from the total loss allowance for expected credit losses, amounts to HRK 124 million (2021: gain of HRK 76 million). Gain related to Stage 3 amounts to HRK 225 million (2021: loss of HRK 36 million).

In accordance with the Decision of the HNB, in the event of default and when the assessment of future cash flows is based on the value of adequate security instruments, and appropriate legal actions have not been taken for the purpose of collection of claims through the realization of security instruments, the Bank classifies such exposures in the risk subcategory B-1 or worse subcategory and carries out a corresponding impairment in the amount of at least 15% of the exposure. If appropriate legal actions have not been taken to collect claims by implementing adequate security instruments within one year from the date of default of a debtor, a reduction in value of at least 25% of the exposure is made. Regardless of the legal actions taken for the purpose of collection of claims through the realization of the security instrument, if no collection occurs two years from the date of non-fulfillment of the debtor's obligations, the Bank will classify unpaid exposures until the date of their collection into risk subcategory B-1 or a worse subcategory and, taking taking into account the probability of collection, carry out a reduction in the value of at least 30% of the receivables based on the principal, and every 180 days increase it by an additional 5% of the receivables based on the principal. Quantitative effect of the overlay described above in 2022 amounts to HRK 4.4 million (2021: HRK 7.3 million).

11. TAXATION

(a) Income tax expense recognised in profit or loss

	2022	2021
Current income tax	176	111
Net deferred tax (credit)/charge	(12)	38
Extra income tax	58	-
	222	**149**

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

	2022	2021
Profit before tax	**897**	**780**
Tax at the statutory rate of 18%	**161**	**141**
Non-taxable income, net of expenses not recognised for tax pur-poses	7	19
Expenses not tax deductible until realization	44	40
Utilisation of expenses from previous years that were not tax de-ductible	(36)	(89)
Current income tax	***176***	***111***
Deferred tax on expenses not tax deductible until realization	(44)	(40)
Deferred tax on utilisation of expenses from previous years that were not tax deductible	36	89
Deferred tax at fair value from integration with Splitska banka	(4)	(11)
Deferred tax	***(12)***	***38***
Current year income tax recognised in profit and loss	**164**	**149**
Extra income tax	**58**	**-**
Effective tax rate - current income tax	18.28%	19.10%
Effective tax rate - extra income tax	24.75%	19.10%

Current tax liability amounts to HRK 234 million (2021: HRK 111 million) and advances have been paid in the amount of HRK 92 million and the overpayment from 2021 in the amount of HRK 6 million was used (2021: HRK 107 million and the overpayment from 2020 in the amount of HRK 9 million was used), whereby the income tax liability as at 31 December 2022 amounts to HRK 136 million (2021: HRK 5 million).

In accordance with the Act on Extra Income Tax (NN 151/2022), the Bank is the extra income tax taxpayer, which is calculated at the rate of 33% on the determined tax base, which is the positive difference between the taxable profit of the tax period and the average of taxable profit of previous tax periods (from 2018 to 2021) increased by 20%.

11. TAXATION (continued)

(c) Movement in deferred tax assets and liabilities

	Unrealised losses from financial assets measured at fair value through profit or loss	Provisions for long-term liabilities in accordance with IAS 37 and 19	Provisions for current liabilities	Deferred loan origination fees	Unrealised gains/(losses) through OCI	Unrealized gains / (losses) at fair value from integration with Splitska banka	Other	Total
Balance at 31 December 2021	**13**	**39**	**20**	**7**	**(29)**	**(12)**	**4**	**42**
Through profit or loss	19	2	(13)	-	-	4	-	12
Through other comprehensive income	-	-	-	-	44	-	-	44
Balance at 31 December 2022	**32**	**41**	**7**	**7**	**15**	**(8)**	**4**	**98**

Other consists of deferred tax assets in the amount of HRK 3 million (2021: HRK 3 million) based on impairment of investments in subsidiaries and HRK 1 million (2021: HRK 1 million) on the basis of costs according to IFRS 16 (difference between invoices from the lessors and accounting evidence of lease in accordance with IFRS 16).

	Unrealised losses from financial assets measured at fair value through profit or loss	Provisions for long-term liabilities in accordance with IAS 37 and 19	Provisions for current liabilities	Deferred loan origination fees	Unrealised gains/(losses) through OCI	Unrealized gains / (losses) at fair value from integration with Splitska banka	Other	Total
Balance at 31 December 2020	**61**	**40**	**21**	**7**	**(34)**	**(23)**	**3**	**75**
Through profit or loss	(48)	(1)	(1)	-	-	11	1	(38)
Through other comprehensive income	-	-	-	-	5	-	-	5
Balance at 31 December 2021	**13**	**39**	**20**	**7**	**(29)**	**(12)**	**4**	**42**

12. BASIC AND DILUTED EARNINGS PER SHARE

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

	31/12/2022	31/12/2021
Profit attributable to ordinary shareholders	675	631
Weighted average number of shares	19,968,774	19,968,774
Earnings per share basic (in HRK)	**33.82**	**31.61**
Earnings per share diluted (in HRK)	**33.82**	**31.61**

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

	31/12/2022	31/12/2021
Cash in hand	1,739	730
Current account balance	8,887	4,536
FX settlement account with the CNB	10	5
Current accounts with foreign banks	321	1,816
Current accounts with domestic banks	2	34
Assets included in cash and cash equivalents (Note 31)	**10,959**	**7,121**
Obligatory reserve at the Croatian National Bank	-	2,205
Collateral deposit for pre- supply EUR	1,358	-
	12,317	**9,326**
Impairment on expected credit losses	(2)	(6)
	12,315	**9,320**

Foreign currency settlement account with the CNB is an account the Bank has opened for the purpose of settlement of national and cross-border payment transactions in euro in real time via TARGET2. The TARGET2-HR national component commenced production on 1 February 2016 in accordance with the National Migration Plan to SEPA. Participants in the TARGET2-HR component are the Croatian National Bank and credit institutions that have signed a participation agreement. The Croatian National Bank accrues interest on the PM account in the TARGET2-HR system, which is 0.25% higher than the reference ECB deposit interest rate on excess foreign currency liquidity in excess of its foreign currency reserve obligation.
Due to the nature of the receivables, on assets with the CNB, Bank does not allocate impairment on expected credit loss since expected credit loss is insignificant.
In December 2022, the obligation of banks to set mandatory reserves in a special account with the Croatian National Bank was abolished due to the obligation to harmonize the regulations of the Republic of Croatia with the regulations applied in the euro zone, in accordance with the regulations of the European Central Bank. Accordingly, the Croatian National Bank transferred all the required reserve funds that were in the special account to the Bank's regular transaction (giro) account.
In accordance with the Agreement between the Bank and the Croatian National Bank on pre-supply of euros, the Bank had obligations to set a collateral deposit in the pre-supply amount increased by 10%. During January and February 2023, the Croatian National Bank used collateral deposit in amount of HRK 1,235 million for the pre-supply, while the remaining part of the deposit of HRK 123 million was returned to the Bank for liquidity purposes.

2022

Movement in gross carrying amount:

	Stage 1	Stage 2	Stage 3	POCI	Total
Balance at 31 December 2021	**9,326**	**-**	**-**	**-**	**9,326**
Net increase	2,991	-	-	-	2,991
Balance at 31 December 2022	**12,317**	**-**	**-**	**-**	**12,317**

Movement in provisions for impairment:

	Stage 1	Stage 2	Stage 3	POCI	Total
Balance at 31 December 2021	**6**	**-**	**-**	**-**	**6**
Net (decrease)	(4)	-	-	-	(4)
Balance at 31 December 2022	**2**	**-**	**-**	**-**	**2**

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

2021

Movement in gross carrying amount:

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

Movement in provisions for impairment:

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

14. LOANS AND RECEIVABLES FROM BANKS

	31/12/2022	31/12/2021
Short-term placements with other banks	140	35
Loss allowance for expected credit losses	(1)	-
	139	**35**

Loans and receivables from other banks are measured at amortised cost

2022

Movement in gross carrying amount:

	Stage 1	Stage 2	Stage 3	POCI	Total
Balance at 31 December 2021	**35**	**-**	**-**	**-**	**35**
Net increase	104	-	-	-	104
Balance at 31 December 2022	**139**	**-**	**-**	**-**	**139**

Movement in loss allowance for expected credit losses:

	Stage 1	Stage 2	Stage 3	POCI	Total
Balance at 31 December 2021	**-**	**-**	**-**	**-**	**-**
Net increase	1	-	-	-	1
Balance at 31 December 2022	**1**	**-**	**-**	**-**	**1**

14. LOANS AND RECEIVABLES FROM BANKS (continued)

2021

Movement in gross carrying amount:

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

Movement in loss allowance for expected credit losses:

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

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

	31/12/2022	31/12/2021
Units in open-end investment funds managed by related party	128	133
Bonds issued by the Republic of Croatia, listed on the market	-	129
Derivative financial assets	182	92
VISA International Series C preferred stock	18	39
Loans	-	6
	328	**399**

Bonds issued by the Republic of Croatia, which are listed on the market, were sold during 2022.

Visa Inc. was obliged to partially convert the preferred share of Visa International Series C into Visa tradeable shares. In this context, on 29 July 2022, VISA Inc reduced the conversion factor for Visa Series C preferred shares from 6,824 to 3,645, while each holder of a share of preferred stock will receive a number of shares of Series A preferred stock equal to the applicable conversion adjustment divided by 100. The Bank classified the Series A preferred stock as Financial assets at fair value through other comprehensive income (Note 17).

Loans have no balance on 31 December 2022. The receivable from Ingra was sold during 2022, while the remaining receivables for loans are shown at fair value of HRK 0 (2021: HRK 0 million).

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

	2022			2021		
	Asset	Liabilities	Contractual amount	Asset	Liabilities	Contractual amount
Derivative financial instruments held for trading						
FX Swap and Forwards	39	58	4,997	66	54	6,802
Interest rate swap	139	139	1,207	26	20	803
Derivative financial instruments – fair value hedge						
Interest rate swap	4	-	38	-	4	38
Derivative financial instruments used to hedge cash flow						
Option	-	1	1	-	2	2
	182	**198**	**6,243**	**92**	**80**	**7,645**

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

16. LOANS AND RECEIVABLES FROM CUSTOMERS

Structure by type of product

	31/12/2022	31/12/2021
Kuna-denominated		
Retail customers	21,507	19,641
Corporate customers	13,667	11,703
Foreign-currency denominated		
Retail customers	77	71
Corporate customers	4,660	3,240
Total gross loans and receivables	**39,911**	**34,655**
Loss allowance for expected credit losses	(2,096)	(2,355)
	37,815	**32,300**

Included in the loans and receivables from customers are loans incorporating a currency clause, linked to euro (EUR), Swiss franc (CHF) and US dollar (USD), which amount to HRK 17,613 million (2021: HRK 14,094 million). Repayments of principal and interest are determined in the foreign currency and paid in the kuna-equivalent amount translated at the foreign exchange rate applicable on the date of payment.

Deferred income from loan approval fees included in gross loans and receivables amounts to HRK 30 million (HRK 31 million in 2021).

16. LOANS AND RECEIVABLES FROM CUSTOMERS (continued)

2022

Movement in gross carrying amount:

	Stage 1	Stage 2	Stage 3	POCI	Total
Balance as at 31 December 2021	**28,010**	**3,770**	**2,364**	**511**	**34,655**
Net new approvals / (derecognition)	5,641	165	(248)	(140)	5,418
Transfer to Stage 1	769	(751)	(18)	-	-
Transfer to Stage 2	(932)	1,399	(467)	-	-
Transfer to Stage 3	(77)	(160)	237	-	-
Sale of receivables*			(70)	(17)	(87)
Written off	-	-	(65)	(10)	(75)
Balance as at 31 December 2022	**33,411**	**4,423**	**1,733**	**344**	**39,911**

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

Movement in loss allowance for expected credit losses:

	Stage 1	Stage 2	Stage 3	POCI	Total
Balance at 31 December 2021	**157**	**243**	**1,504**	**451**	**2,355**
Net new approvals / (derecognition)	(35)	(16)	56	(153)	(148)
Transfer to Stage 1	62	(54)	(8)	-	-
Transfer to Stage 2	(5)	175	(170)	-	-
Transfer to Stage 3	(1)	(21)	22	-	-
Exchange differences	-	-	3	-	3
Increase due to change of parame-ters	9	24	11	-	44
Sale of receivables*	-	-	(66)	(17)	(83)
Written off	-	-	(65)	(10)	(75)
Balance at 31 December 2022	**187**	**351**	**1,287**	**271**	**2,096**

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

16. LOANS AND RECEIVABLES FROM CUSTOMERS (continued)

2021

Movement in gross carrying amount:

	Stage 1	Stage 2	Stage 3	POCI	Total
Balance at 31 December 2020	**24,613**	**4,164**	**2,680**	**717**	**32,174**
Net new approvals / (derecognition)	3,607	(465)	(284)	(193)	2,665
Transfer to Stage 1	1,094	(1,079)	(15)	-	-
Transfer to Stage 2	(1,200)	1,333	(133)	-	-
Transfer to Stage 3	(104)	(183)	287	-	-
Sale of receivables*	-	-	(96)	(13)	(109)
Written off	-	-	(75)	-	(75)
Balance at 31 December 2021	**28,010**	**3,770**	**2,364**	**511**	**34,655**

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

Movement in loss allowance for expected credit losses:

	Stage 1	Stage 2	Stage 3	POCI	Total
Balance at 31 December 2020	**202**	**261**	**1,481**	**608**	**2,552**
Net new approvals / (derecognition)	(18)	(2)	144	(144)	(20)
Transfer to Stage 1	56	(52)	(4)	-	-
Transfer to Stage 2	(11)	47	(36)	-	-
Transfer to Stage 3	(1)	(20)	21	-	-
Exchange differences	-	-	(1)	-	(1)
Increase due to change of parameters (COVID)	(71)	9	39	-	(23)
Moratorium extension (COVID)	-	-	17	-	17
Sale of receivables*	-	-	(82)	(13)	(95)
Written off	-	-	(75)	-	(75)
Balance at 31 December 2021	**157**	**243**	**1,504**	**451**	**2,355**

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

16. LOANS AND RECEIVABLES FROM CUSTOMERS (continued)

Concentration of loans and receivables from customers by industry:

	31/12/2022	31/12/2021
Manufacturing industries	2,763	2,155
Public administration and defence, mandatory social security	2,625	3,129
Wholesale and retail trade, repair of motor vehicles and motorcycles	2,341	1,687
Electricity, gas, steam and air conditioning supply	2,250	769
Construction	2,214	2,091
Accommodation and food service activities	1,380	1,483
Transport and storage	1,107	890
Agriculture, forestry and fisheries	759	582
Information and communication	696	362
Professional, scientific and technical activities	618	439
Water supply; wastewater disposal; waste management and envi-ronmental remediation activities	399	226
Real estate activities	388	219
Financial and insurance activities	231	284
Health and social work activities	209	237
Administrative and support service activities	181	161
Other services	83	98
Arts, entertainment and recreation	53	35
Education	27	27
Activities of extraterritorial organizations	2	-
Mining and quarrying	1	69
Total corporate loans	**18,327**	**14,943**
Retail customers	21,584	19,712
	39,911	**34,655**
Loss allowance for expected credit losses	(2,096)	(2,355)
	37,815	**32,300**

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

17. FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

	31/12/2022	31/12/2021
Equity securities	116	92
Debt securities	4,566	5,818
	4,682	**5,910**

(a) Equity securities

	31/12/2022	31/12/2021
Listed	112	88
Unlisted	4	4
	116	**92**

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

In 2021, the Bank introduced an internal model for calculating the fair value of unlisted equity securities that are not listed on the financial market and for which there is no market or published price. Given the portfolio that the Bank has and the motive for its presence in the Bank's balance sheet, the most appropriate valuation method (internal model) is the residual income method.

Residual income is recognized as net income less opportunity costs incurred, in this case, by owning a stake in a particular economic entity. From the position of the economic entity (the company) it is the residual, part of the income after the calculation of the cost of capital of the company.

Other listed equity securities for which fair value can be measured reliably are held at fair value through other comprehensive income – the option of fair value through other comprehensive income. The equity shares valuation method is explained in Note 39.

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

The Bank received dividends of HRK 1.096 million from VISA International in 2022 (2021: HRK 0.771 million). The equity ownership in VISA International is listed.

For other equity securities presented in Note 17, the Bank did not receive a dividend in 2022 (2021: HRK 4 thousand).

Overview of the Bank's investments in equity securities with a breakdown of listed and unlisted securities on 31 December 2022 and 2021 is given below.

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

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

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

(b) Debt securities

	31/12/2022	31/12/2021
Bonds of the Republic of Croatia	2,637	3,314
Foreign government bonds	519	536
Total listed securities	**3,156**	**3,850**
Treasury bills of the Republic of Croatia	-	1,053
Treasury bills of the National Bank of Hungary	1,410	915
Total unlisted securities	**1,410**	**1,968**
	4,566	**5,818**

The Bank classifies debt securities that it intends to hold for collection or sale, and which have met the requirements of the SPPI test, in financial assets measured at fair value through other comprehensive income.
The SPPI test is performed on each individual instrument (securities).

Treasury bills of the Republic of Croatia include short-term HRK and foreign currency long-term bills. All treasury bills were sold in 2022.
In 2022 and 2021 bonds of the Republic of Croatia include long-term HRK, currency and bonds in a currency clause.
In 2022 and 2021 foreign government bonds include the long-term currency bonds of Hungary and Romania.

2022

Movement of gross carrying amount of debt securities:

	Stage 1	Stage 2	Stage 3	POCI	Total
Balance at 31 December 2021	**5,818**	-	-	-	**5,818**
Net (derecognition)	(1,252)	-	-	-	(1,252)
Balance at 31 December 2022	**4,566**	-	-	-	**4,566**

Movement in loss allowance for expected credit losses through other capital reserves (Note 29)

	Stage 1	Stage 2	Stage 3	POCI	Total
Balance at 31 December 2021	**12**	-	-	-	**12**
Net (decrease)	(4)	-	-	-	(4)
Increase due to parameter change	2				2
Balance at 31 December 2022	**10**	-	-	-	**10**

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

2021

Movement of gross carrying amount of debt securities:

	Stage 1	Stage 2	Stage 3	POCI	Total
Balance at 31 December 2020	**5,526**	-	-	-	**5,526**
Net new approvals	292	-	-	-	292
Balance at 31 December 2021	**5,818**	-	-	-	**5,818**

Movement in loss allowance for expected credit losses through other capital reserves (Note 29):

	Stage 1	Stage 2	Stage 3	POCI	Total
Balance at 31 December 2020	**19**	-	-	-	**19**
Net decrease	(8)	-	-	-	(8)
Increase due to parameter change (COVID)	1				1
Balance at 31 December 2021	**12**	-	-	-	**12**

18. FINANCIAL ASSETS MEASURED AT AMORTISED COST

	31/12/2022	31/12/2021
Bonds of the Republic of Croatia	549	-
Corporate Bonds	296	363
Corporate bills of exchange	4	2
	849	365
Loss allowance for expected credit losses	(9)	(13)
	840	**352**

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

The SPPI test is performed on each individual instrument (securities).

18. FINANCIAL ASSETS MEASURED AT AMORTISED COST (continued)

2022

Movement in gross carrying amount:

	Stage 1	Stage 2	Stage 3	POCI	Total
Balance at 31 December 2021	**212**	**152**	**1**	**-**	**365**
Net new approvals	481	2	1	-	484
Transfer to Stage 1	-	-	-	-	-
Transfer to Stage 2	(5)	5	-	-	-
Transfer to Stage 3	-	-	-	-	-
Write off	-	-	-	-	-
Balance at 31 December 2022	**688**	**159**	**2**	**-**	**849**

Movement in loss allowance for expected credit losses:

	Stage 1	Stage 2	Stage 3	POCI	Total
Balance at 31 December 2021	**2**	**11**	**-**	**-**	**13**
Net increase	1	-	1	-	2
Transfer to Stage 1	-	-	-	-	-
Transfer to Stage 2	-	-	-	-	-
Transfer to Stage 3	-	-	-	-	-
Decrease due to parameter change	-	(6)	-	-	(6)
Write off	-	-	-	-	-
Balance at 31 December 2022	**3**	**5**	**1**	**-**	**9**

2021

Movement in gross carrying amount:

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

18. FINANCIAL ASSETS MEASURED AT AMORTISED COST (continued)

Movement in loss allowance for expected credit losses:

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

19. INVESTMENT IN SUBSIDIARIES

31/12/2021 31/12/2022	Headquarter	Ownership percentage	Industry	Net carrying amount
OTP Nekretnine d.o.o.	Zagreb	100%	Organization of project implementation for buildings	260
OTP Invest d.o.o.	Zagreb	81.7%	Fund management activities	5
OTP Leasing d.d.	Zagreb	60%	Finance and operating lease	48
Georg d.o.o.	Zagreb	76%	Business and other management consultancy activities	5
Total investment in subsidiaries:				**318**

OTP Nekretnine d.o.o. in 2022, generated a total revenue of HRK 34 million (2021: HRK 28 million) and net profit for the year in amount of HRK 8 million (2021: HRK 3 million).
Cresco d.o.o. (activity: Real estate business) is 100% owned by OTP Nekretnine d.o.o.
The investment cost of OTP Nekretnine d.o.o. to Cresco d.o.o. is HRK 17 thousand and the share of OTP Nekretnine in net assets is HRK 9 million (2021: HRK 5 million).
OTP Invest d.o.o. in 2022, generated a total revenue of HRK 9 million (2021: HRK 8 million), and a net loss for the year 2022 in the amount of HRK 0.6 million (2021: 0.1 million).
OTP Leasing d.d. in 2022, generated a total revenue of HRK 221 million (2021: HRK 173 million), and a net income in amount of HRK 54,3 million (2021: HRK 36,5 million).
SB Leasing d.o.o., in liquidation (activity: Finance and operating lease) 100% owned by OTP Leasing d.d. was merged with the company OTP Leasing d.d. on 1 July 2022.
In 2022 Georg d.o.o. generated a total revenue of HRK 5 million (2021: HRK 5 million) and net profit in amount of HRK 0.9 million (2021: HRK 0.9 million).

In 2022, OTP Nekretnine received a dividend from Cresco d.o.o. in the amount of HRK 4 million.
In 2021, subsidiaries had no dividend receipts.

20. PROPERTY AND EQUIPMENT

Assets recognised in accordance with IAS 16

	Land and building	Computers	Furniture and equipment	Motor vehicles	Asset under construction	Total
Cost						
Balance at 1 January 2021	**478**	**179**	**197**	**7**	**36**	**897**
Transfer from assets under construction	14	26	7		(47)	-
Increases	-	-	-	-	41	41
Reclassification to Investment property	(47)	-	-	-	-	(47)
Reclassification to Asset held for sale	(4)	-	-	-	-	(4)
Decrease due to write-off	(8)	(3)	(12)	-	-	(23)
Balance at 31 December 2021	**433**	**202**	**192**	**7**	**30**	**864**
Balance at 1 January 2022	**433**	**202**	**192**	**7**	**30**	**864**
Reclassification	-	8	(6)	(2)	-	-
Transfer from assets under construction	10	26	12	-	(48)	-
Increases	-	-	-	-	87	87
Reclassification to Investment property	(29)	-	-	-	-	(29)
Reclassification to Asset held for sale	(1)	-	-	-	-	(1)
Decrease due to sale	-	**(5)**	**(1)**	**-**	**-**	(6)
Decrease due to write-off	(10)	(16)	(9)	-	-	(35)
Balance at 31 December 2022	**403**	**215**	**188**	**5**	**69**	**880**
Accumulated depreciation and impairment						
Balance at 1 January 2021	**263**	**124**	**152**	**3**	**-**	**542**
Depreciation expense for the current year	18	29	16	1	-	64
Impairment	7	-	-	-	-	7
Reclassification to Investment property	(23)	-	-	-	-	(23)
Decrease due to sale	(2)	-	-	-	-	(2)
Decrease due to write-off	(8)	(3)	(12)	-	-	(23)
Balance at 31 December 2021	**255**	**150**	**156**	**4**	**-**	**565**
Balance at 1 January 2022	**255**	**150**	**156**	**4**	**-**	**565**
Reclassification	-	7	(7)	-	-	-
Depreciation expense for the current year	18	28	13	1	-	60
Impairment					-	
Reclassification to Investment property	(29)	-	-	-	-	(29)
Decrease due to sale	-	(5)	(1)	-	-	(6)
Decrease due to write-off	(10)	(16)	(9)	-	-	(35)
Balance at 31 December 2022	**234**	**164**	**152**	**5**	**-**	**555**
Net carrying amount						
Balance at 31 December 2021	**178**	**52**	**36**	**3**	**30**	**299**
Balance at 31 December 2022	**169**	**51**	**36**	**1**	**69**	**325**

20. PROPERTY AND EQUIPMENT (continued)

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

The total fair value of real estate and equipment is HRK 381 million (2021: HRK 407 million). Fair value amounts are measured by independent up-to-date estimates by an external appraiser.

In 2022, in order to align with the OTP Bank Nyrt's standards, the Bank carried out the reclassification of the following items of tangible assets: computer equipment from Furniture and equipment to Computers in the amount of purchase value of HRK 8 million (2021: HRK 8 million) and accumulated depreciation in the amount of HRK 7 million (2021: HRK 7 million), and works of art from Motor vehicles to Furniture and equipment in the amount of HRK 2 million (2021: HRK 2 million).

20a ASSETS AND LIABILITIES CLASSIFIED IN ACCORDANCE WITH IFRS 16

Right-of-use assets

	Land and building	Furniture and equipment	Motor vehicles	Total
Balance at 1 January 2021	**230**	**-**	**6**	**236**
New contracts	21	-	1	22
Contract modifications	9	-	(1)	8
Expired contracts	(3)	-	-	(3)
Balance at 31 December 2021	**257**	**-**	**6**	**263**
Balance at 1 January 2022	**257**	**-**	**6**	**263**
New contracts	31	-	2	33
Contract modifications	(7)	-	(1)	(8)
Expired contracts	(18)	-	-	(18)
Balance at 31 December 2022	**263**	**-**	**7**	**270**
Balance at 1 January 2021	**60**	**-**	**2**	**62**
Depreciation expense	36	-	1	37
Contract modifications	(3)	-	(1)	(4)
Expired contracts	(4)	-	-	(4)
Balance at 31 December 2021	**89**	**-**	**2**	**91**
Balance at 1 January 2022	**89**	**-**	**2**	**91**
Depreciation expense	37	-	1	38
Contract modifications	(6)	-	-	(6)
Expired contracts	(18)	-	-	(18)
Balance at 31 December 2022	**102**	**-**	**3**	**105**
Net carrying amount				
Balance at 31 December 2021	**168**	**-**	**4**	**172**
Balance at 31 December 2022	**161**	**-**	**4**	**165**

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

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

	31/12/2022	31/12/2021
Short-term leases	1	1
Variable leases payments	1	1
Total	**2**	**2**

Lease liabilities classified under IFRS 16

At 31 December 2022, lease liabilities amounted to HRK 171 million (2021: HRK 176 million).

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

31 December 2022	Up to 1 month	1 to 3 months	3 months to 1 year	1 to 3 years	Over 3 years	Total
Total lease liabilities	3	10	25	82	58	**178**

31 December 2021	Up to 1 month	1 to 3 months	3 months to 1 year	1 to 3 years	Over 3 years	Total
Total lease liabilities	3	9	23	78	70	**183**

21. INVESTMENT PROPERTY

	Investment property
Cost	
Balance at 1 January 2021	**81**
Reclassification from property under IAS 16 (Note 20)	47
Balance at 31 December 2021	**128**
Balance at 1 January 2022	**128**
Reclassification from property under IAS 16 (Note 20)	29
Balance at 31 December 2022	**157**
Depreciation and impairment	
Balance at 1 January 2021	**18**
Reclassification from property under IAS 16 (Note 20)	23
Depreciation expense for the current year	1
Balance at 31 December 2021	**42**
Balance at 1 January 2022	**42**
Reclassification from property under IAS 16 (Note 20)	29
Depreciation expense for the current year	2
Balance at 31 December 2022	**73**
Net carrying amount	
Balance at 31 December 2021	**86**
Balance at 31 December 2022	**84**

Investment property includes real estate not used by the Bank for operational purposes, but assets intended for sale or lease. The Bank shall reclassify the assets it intends to sell in accordance with IFRS 5 when all of the requirements prescribed by said IFRS are met. The total fair value of investment property is HRK 144 million (2021: HRK 114 million). Fair value is measured by independent up-to-date assessments of external appraisers.

The fair value of investment property is measured using appraisals obtained from an independent external appraiser. Real estate that is no longer used for business purposes (due to closure of branches or closure of other business premises) is recognized by the Bank in accordance with IAS 40 and accordingly reclassified from assets that were recognized according to IAS 16.

22. INTANGIBLE ASSETS

	Software	Contracts with clients	Asset under construction	Total
Cost				
Balance at 1 January 2021	**381**	**283**	**9**	**673**
Transfer from assets under construc-tion	19	-	(19)	-
Increases	-	-	26	26
Decrease due to write-off	(29)	-	(2)	(31)
Balance at 31 December 2021	**371**	**283**	**14**	**668**
Balance at 1 January 2022	**371**	**283**	**14**	**668**
Transfer from assets under construc-tion	16	-	(16)	-
Increases	-	-	34	34
Decrease due to write-off	(11)	-	-	(11)
Balance at 31 December 2022	**376**	**283**	**32**	**691**
Impairment and amortization				
Balance at 1 January 2021	**331**	**215**	**-**	**546**
Amortization expense for the current year	20	29	-	49
Decrease due to write-off	(29)	-	-	(29)
Balance at 31 December 2021	**322**	**244**	**-**	**566**
Balance at 1 January 2022	**322**	**244**	**-**	**566**
Amortization expense for the current year	25	21	-	46
Decrease due to write-off	(11)	-	-	(11)
Balance at 31 December 2022	**336**	**265**	**-**	**601**
Net carrying amount				
Balance at 31 December 2021	**49**	**39**	**14**	**102**
Balance at 31 December 2022	**40**	**18**	**32**	**90**

23. OTHER ASSETS

	31/12/2022	31/12/2021
Other financial assets		
Receivables for cash from FINA that was not deposited into the ac-count	137	-
Receivables in respect of credit card operations	92	54
Accrued fees and commissions	63	53
Accounts receivable	61	53
Collateral deposits for derivative financial instruments	22	-
Other assets subject to impairment in accordance with IFRS 9	**375**	**160**
Loss allowance for expected credit losses:	(56)	(52)
Net other assets after impairment	**319**	**108**
Other non-financial assets		
Prepaid expenses	16	19
Asset taken in lieu for uncollected receivables	-	1
Other	8	7
Other non-financial assets (not subject to impairment in accord-ance with IFRS 9)	**24**	**27**
	343	**135**

2022

Movement in gross carrying amount:

	Stage 1	Stage 2	Stage 3	POCI	Total
Balance at 31 December 2021	**109**	-	**51**	-	**160**
Net new approvals	210	-	8	-	218
Transfer to Stage 1	1	-	(1)	-	-
Transfer to Stage 2	-	-	-	-	-
Transfer to Stage 3	-	-	-	-	-
Write off	-	-	(3)	-	(3)
Balance at 31 December 2022	**320**	-	**55**	-	**375**

23. OTHER ASSETS (continued)

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

	Stage 1	Stage 2	Stage 3	POCI	Total
Balance at 31 December 2021	**1**	-	**51**	-	**52**
Net increase	-	-	7	-	7
Transfer to Stage 1	1	-	(1)	-	-
Transfer to Stage 2	-	-	-	-	-
Transfer to Stage 3	-	-	-	-	-
Write off	-	-	(3)	-	(3)
Balance at 31 December 2022	**2**	-	**54**	-	**56**

2021

Movement in gross carrying amount:

	Stage 1	Stage 2	Stage 3	POCI	Total
Balance at 31 December 2020	**184**	**2**	**51**	-	**237**
Net new approvals/(derecognition)	(77)	-	8	-	(69)
Transfer to Stage 1	3	**(2)**	(1)	-	-
Transfer to Stage 2	-	-	-	-	-
Transfer to Stage 3	(1)	-	1	-	-
Write off	-	-	(8)	-	(8)
Balance at 31 December 2021	**109**	-	**51**	-	**160**

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

	Stage 1	Stage 2	Stage 3	POCI	Total
Balance at 31 December 2020	**2**	-	**51**	-	**53**
Net increase/(decrease)	(2)	-	9	-	7
Transfer to Stage 1	1	-	(1)	-	-
Transfer to Stage 2	-	-	-	-	-
Transfer to Stage 3	-	-	-	-	-
Write off	-	-	(8)	-	(8)
Balance at 31 December 2021	**1**	-	**51**	-	**52**

24. AMOUNTS DUE TO OTHER BANKS

	31/12/2022	31/12/2021
Demand deposits		
Kuna denominated	94	128
Foreign-currency denominated	151	11
Term deposits		
Foreign-currency denominated	956	677
	1,201	**816**

25. AMOUNTS DUE TO CUSTOMERS

	31/12/2022	31/12/2021
Retail customers		
Demand deposits		
Kuna denominated	11,745	8,539
Foreign-currency denominated	13,656	12,099
Term deposits		
Kuna denominated	1,442	1,514
Foreign-currency denominated	4,561	4,937
	31,404	**27,089**
Corporate customers		
Demand deposits		
Kuna denominated	10,386	8,253
Foreign-currency denominated	3,148	3,197
Term deposits		
Kuna denominated	152	615
Foreign-currency denominated	123	193
	13,809	**12,258**
	45,213	**39,347**

26. OTHER BORROWED FUNDS

	31/12/2022	31/12/2021
OTP Bank Nyrt	2,308	-
OTP Financing Malta	-	789
HBOR (Croatian Bank for Reconstruction and Development)	466	564
Others	2	2
	2,776	**1,355**

Liabilities to OTP Bank Nyrt include funds borrowed for the purpose of maintaining the minimum Requirement for regulatory capital and liabilities (MREL) in accordance with EU regulations: MREL loan in the amount of HRK 1,849 million (2021: OTP Financing Malta HRK 789 million) and subordinated loan in the amount of 459 HRK million.

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

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

27. PROVISIONS FOR LIABILITIES AND CHARGES

	31/12/2022	31/12/2021
Litigation provision	370	327
Provision for severance and retention payments	31	54
Provision for unused vacations	14	10
Provisions for other liabilities	8	8
	423	**399**
Provisions for off-balance sheet items (Note 30)	77	75
	500	**474**

Litigation provision related to legal actions against the Bank, i.e. where the Bank is the defendant, amount to HRK 370 million (2021: HRK 327 million).
Provisions for litigation are calculated in accordance with IAS 37 (Note 2.22. and Note 3).

When forming provisions for litigation, the Bank also takes into account all criteria prescribed by the CNB's Decision on the obligation to make provisions for litigations conducted against a credit institution. The amount of such formed provisions does not deviate from the amount estimated in accordance with IAS 37.

Provisions for legal cases for loans in Swiss francs:

Provisions for legal cases regarding the CHF loans are presented within the litigation provisions and amount to HRK 133 million (2021: HRK 117 million). The increase in provisions compared to 2021 is the result of increased number of lawsuits against the Bank received during 2022. The Bank estimates each CHF loan lawsuit on an individual basis.

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

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

27. PROVISIONS FOR LIABILITIES AND CHARGES (continued)

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

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

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

In December 2022, the Supreme Court adopted a legal understanding that, in relation to converted loans, the Court confirms that the conversion has also carried out full restitution in relation to these clients, and that the consumer has the right to payment the associated default interest on overpaid amounts charged to it by the bank when calculating the loan conversion in accordance with Article 19.c of the Act on Consumer Credit calculated in accordance with Article 1115 of the Civil Obligations Act from the day of each individual payment to the day of the conversion. It is not clear from the last address of the the Supreme Court of the Republic of Croatia that the legal understanding is officially accepted and therefore binding, since the provisions of the Rules of Procedure determined that all decisions (including the legal understanding of December 2022) pass additional control of the Recognition Service.

In the Bank's opinion, and given the existing decisions of the Supreme Court as well as the final decisions of the lower courts according to which the courts act, the above has not led to an increase in obligations on the Bank's side in relation to the Bank's current policy, i.e. in relation to the total amount of provisions formed as of 31 December 2022.

In accordance with the above, the Bank does not expect an increase in the dynamics of disputes that would result in additional provisions above the amounts provided for as of 31 December 2022. Accordingly, the Bank did not change the booking policy for the converted CHF loans. Possible liabilities of the Bank arising from the decisions of competent courts related to such individual consumer claims are considered contingent liabilities.

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

Litigation provision

	2022	2021
Balance at 1 January	**327**	**290**
Paid out	(33)	(37)
Net charge to statement of profit or loss (Note 10)	76	74
Balance at 31 December	**370**	**327**

Provision for severance and retention payments

	2022	2021
Balance at 1 January	**54**	**83**
Paid out	(22)	(29)
Net charge to other comprehensive income (Note 29)	(1)	-
Balance at 31 December	**31**	**54**

Provisions for severance and retention payments in the amount of HRK 31 million (2021: HRK 54 million) include provisions for:
- liabilities for employees based on restructuring - HRK 21 million (2021: HRK 43 million)
- liabilities for severance and jubilee awards - HRK 10 million (2021: HRK 11 million)

27. PROVISIONS FOR LIABILITIES AND CHARGES (continued)

Provision for severance and retention payments (continued)

The cost of provisions in the amount of HRK 21 million were formed in accordance with IAS 37 on the basis of the restructuring plan which includes a detailed list of employees included in the plan, expenses to be incurred for each employee and implementation date. Provisions will be used during 2023 until the final completion of the restructuring process. The Bank regularly, on a annual basis, monitors the plan implementation and, in accordance with the current situation, defines the future use of the provided amount.

Provisions for other liabilities

	2022	2021
Balance at 1 January	**8**	**10**
Net charge to profit or loss (Note 10)	-	(2)
Balance at 31 December	**8**	**8**

28. OTHER LIABILITIES

	31/12/2022	31/12/2021
Liabilities in respect of opening of accounts (escrow accounts)	98	129
Liabilities in respect of credit card operations	79	122
Accrued expenses – uninvoiced	62	39
Accrued expenses for bonuses and other employee benefits	56	57
Salaries and contributions payable	33	31
Accrued expenses for saving deposits insurance	20	17
Funds in the calculation	17	11
Liability for payments of deposits previously credited to income	13	12
Obligations to clients for unallocated cash	8	-
Value added tax liability	5	4
Obligations to the CNB for sold EUR coins in pre-supply	4	-
Liabilities towards suppliers	2	24
Advances received	1	1
Liabilities for fees	1	1
Other liabilities	8	11
	407	**459**

29. SHAREHOLDERS' EQUITY AND RESERVES

SHARE CAPITAL

As of 31 December 2022 the share capital of the Bank consisted of 19,968,774 ordinary shares (2021: 19,968,774 ordinary shares), with a nominal value of HRK 200 each, which represents HRK 3,993,755 thousand of equity capital of the Bank (2021: HRK 3,993,755 thousand). All ordinary shares provide equal rights and carry one vote per share.

In 2022 the Bank has paid dividend for 2021 in amount HRK 300 million (2021: HRK 251 milion). During 2022, the Bank received dividends from the subsidiary OTP Nekretnine d.o.o. in the amount of HRK 3 million and from Georg d.o.o. in the amount of HRK 1 million The Bank's subsidiaries in the Republic of Croatia did not have any dividend payments during 2021 to the Bank.

SHARE PREMIUM

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

RESERVES

Other reserves

	31/12/2022	31/12/2021
Statutory reserves	305	305
Legal reserves	200	200
Other reserves	3	3
	508	**508**

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

The Bank's other reserves refer to collected funds for bonds of the Republic of Croatia (Big Bonds from 2004).

Fair value reserves

	31/12/2022	31/12/2021
Reserve for measuring fair value of financial asset at fair value through other comprehensive income - equity instruments	55	38
Reserve for measuring fair value of financial asset at fair value through other comprehensive income - debt instruments	(128)	91
Expected credit losses on financial asset at fair value through other comprehensive income (Note 17)	10	12
Actuarial gains on provisions for severance pay (Note 27)	1	-
Total fair value reserves:	**(62)**	**141**

Fair value reserve comprises unrealized gains and losses from the change in the fair value of financial assets through other comprehensive income.

Movement in the fair value reserves is as following:

29. SHAREHOLDERS' EQUITY AND RESERVES (continued)

Equity instruments

	2022	2021
Balance as of 1 January	**38**	**35**
Increase in reserves	21	3
Tax	(4)	-
Balance as of 31 December of the current year	**55**	**38**

Debt instruments

	2022	2021
Balance as of 1 January	**91**	**117**
(Decrease) in reserves	(267)	(31)
Tax	48	5
Balance as of 31 December of the current year	**(128)**	**91**

Retained earnings

Retained earnings refer to the cumulative gains of the Bank retained in previous years adjusted for the dividend paid in 2022. In 2022 the Bank has paid dividend in amount HRK 300 milion (2021: HRK 251 million). Movement of retained earnings is presented in Statement of changes in shareholders' equity.

30. CONTINGENT LIABILITIES AND COMMITMENTS

	31/12/2022	31/12/2021
Guarantees	2,383	1,912
Letters of credit	118	73
Approved unused facilities and global lines	9,412	9,268
Factoring	573	838
Binding letters of intent	-	9
	12,486	**12,100**
Provisions for loss allowance for contingent liabilities and commitments	(77)	(75)
	12,409	**12,025**

2022

Movement of gross carrying amount:

	Stage 1	Stage 2	Stage 3	POCI	Total
Balance as of 31 December 2021	**11,478**	**586**	**35**	**1**	**12,100**
Net new approvals / (derecognition)	478	(132)	40	-	386
Transfer to Stage 1	95	(94)	(1)	-	-
Transfer to Stage 2	(199)	214	(15)	-	-
Transfer to Stage 3	(4)	(58)	62	-	-
Balance as of 31 December 2022	**11,848**	**516**	**121**	**1**	**12,486**

Movement in loss allowance for expected credit losses:

	Stage 1	Stage 2	Stage 3	POCI	Total
Balance as of 31 December 2021	**51**	**13**	**11**	**-**	**75**
Net new approvals / (derecognition)	(2)	(1)	10	-	7
Transfer to Stage 1	4	(3)	(1)	-	-
Transfer to Stage 2	(2)	5	(3)	-	-
Transfer to Stage 3	-	(1)	1	-	-
Increase due to change of risk parameters	(6)	1	-	-	(5)
Balance as of 31 December 2022	**45**	**14**	**18**	**-**	**77**

30. CONTINGENT LIABILITIES AND COMMITMENTS (continued)

2021

Movement of gross carrying amount:

	Stage 1	Stage 2	Stage 3	POCI	Total
Balance as of 31 December 2020	**9,176**	**498**	**42**	**1**	**9,717**
Net new approvals / (derecognition)	2,302	88	(7)	-	2,383
Transfer to Stage 1	-	-	-	-	-
Transfer to Stage 2	-	-	-	-	-
Transfer to Stage 3	-	-	-	-	-
Balance as of 31 December 2021	**11,478**	**586**	**35**	**1**	**12,100**

Movement in loss allowance for expected credit losses:

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

31. CASH AND CASH EQUIVALENTS

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

	31/12/2022	31/12/2021
Cash and balances with Croatian National Bank *(Note 13)*	10,959	7,121
Loans and receivables from banks	127	-
	11,086	**7,121**

Changes in liabilities arising from financing activities:

2022	Lease liabilities IFRS 16	Other borrowed funds
Opening balance	176	1.355
Cash flow	(37)	1.409
Non-monetary items:		
Interest	-	11
Exchange differences	-	1
Increase in liabilities	32	-
Closing balance	**171**	**2,776**
2021	**Lease liabilities IFRS 16**	**Other borrowed funds**
Opening balance	180	979
Cash flow	(37)	379
Non-monetary items:		
Interest	-	(3)
Exchange differences	-	-
Increase in liabilities	33	-
Closing balance	**176**	**1,355**

32. 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 6,878 million (2021: HRK 6,501 millions) and is composed of the Common Equity Tier capital and additional capital. Additional capital amounts to HRK 452 million (2021: HRK 0 million). The capital adequacy ratio is 19.58% (2021: 20.91%).

During 2022, the Bank met and complied with all of the regulatory requirements defining the maintenance of a sufficient level of capital to cover all risks and required capital buffers. The Bank confirmed its strong and stable capital position.

In accordance with Article 92 of Regulation (EU) No. 575/2013, the prescribed minimum capital ratios are the following:

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

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

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

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

Based on the CNB Decision, the Bank has been identified as Other Systemically Important Credit Institution (OSI Credit Institution) on a consolidated and individual basis. Consequently, the Bank is also obliged to maintain a buffer rate for the OSI Credit Institution amounting to 1.5% of the total amount of risk exposure in the form of ordinary share capital on an individual basis. However, as the Bank's parent credit institution is regarded as an OSI Credit Institution which is the EU's parent credit institution and to which the buffer layer for the OSI Credit Institution is applied on a consolidated basis, and the buffer rate that the Bank must maintain is 1.5%. The stated buffer rate for the Bank is the sum of the buffer rate applied to the group on a consolidated basis (0.5%) and 1% of the total amount of risk exposure.

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

32. CAPITAL RISK MANAGEMENT (continued)

Capital

	31/12/2022	31/12/2021
Share capital	3,994	3,994
Share premium	171	171
Retained earnings (excluding profit for the year)	1,654	1,654
Other reserves	508	649
Transitional adjustments to ordinary share capital*	269	129
Deductions under EBA requirements*	(171)	(96)
Common Equity Tier 1 capital *	**6,425**	**6,501**
Core capital*	**6,425**	**6,501**
Regulatory capital*	**6,878**	**6,501**
Risk-weighted assets and other risk components*	**35,126**	**31,087**
Common Equity Tier 1 capital ratio*	18.29%	20.91%
Core capital ratio*	18.29%	20.91%
Total capital ratio*	19.58%	20.91%

** data for 2022 are unaudited, and for 2021 audited*

33. CREDIT RISK

The Bank is exposed to credit risk, which is the risk that the counterparty will not be able to settle in full the amounts owed as they fall due. The Bank structures the levels of credit risk it undertakes by placing limits on the amount of risk accepted in relation to a single borrower, or a group of borrowers and industry segments. The Bank monitors the risks and reviews them on an annual or more frequent basis. The exposure to credit risk for all assets is limited by the carrying amount of each asset reported in the statement of financial position. The exposure to credit risk of derivative financial instruments 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 regularly analysing the ability of the borrowers and potential borrowers to repay interest and principal and by revising the credit limits, where necessary, or obtaining collateral, corporate or personal guarantees.

As the year 2020 was marked by COVID 19 pandemic and devastating earthquakes, the Bank was acted in accordance with EBA guidelines by approving moratoriums and other types of restructuring using the appropriate classification, both upon approval and in ex-post evaluation. During 2021, regular monitoring of the moratorium and regularity in repayment after the expiration in the segment of legal entities and citizens continued and in 2022, after a one-year regular repayment of the placement, there was a reclassification from Stage 3 to Stage 2. The above resulted in a significant reduction of expected credit losses, especially in the housing loan portfolio.

ASSETS	Note	31/12/2022		31/12/2021	
		Gross exposure	Net exposure	Gross exposure	Net exposure
Cash and balances with the Croa-tian National Bank	13	10,578	10,576	8,595	8,590
Loans and receivables from banks	14	140	139	35	35
Financial assets at fair value through profit or loss	15	182	182	92	92
Loans and receivables from cus-tomers	16	39,911	37,815	34,655	32,300
Debt securities at fair value through other comprehensive in-come	17b	4,566	4,566	5,818	5,818
Financial assets measured at amortized cost	18	849	840	365	352
Other financial assets	23	375	319	160	108
		56,601	**54,437**	**49,720**	**47,295**

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

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

	31/12/2022	31/12/2021
Guarantees and letters of credit	2,501	1,985
Approved unused facilities and other liabilities	9,985	10,115
	12,486	**12,100**

33. CREDIT RISK (continued)

An overview of macroeconomic factors

Variable	ECL-scenario	Weight	2022	2023	2024	2025	2026	Long-term rate
GDP	Forecast	20%	6.6%	2.4%	3.9%	3.5%	3.5%	2.4%
	Mild stress	60%	6.4%	0.6%	2.4%	3.0%	3.0%	2.4%
	Severe stress	20%	6.4%	-4.7%	-0.4%	2.0%	2.0%	2.4%
Export	Forecast	20%	21.4%	4.1%	6.7%	6.1%	6.0%	4.0%
	Mild stress	60%	20.9%	1.0%	4.0%	5.1%	5.1%	4.0%
	Severe stress	20%	20.9%	-8.0%	-0.6%	3.4%	3.3%	4.0%
Consumption	Forecast	20%	6.7%	2.4%	3.8%	3.5%	3.4%	2.2%
	Mild stress	60%	6.5%	0.4%	2.1%	2.9%	2.9%	2.2%
	Severe stress	20%	6.5%	-4.9%	-1.3%	1.8%	1.8%	2.2%
Investment	Forecast	20%	7.5%	4.6%	7.6%	6.9%	6.8%	4.6%
	Mild stress	60%	7.0%	0.8%	4.5%	5.8%	5.8%	4.6%
	Severe stress	20%	7.0%	-9.8%	-1.2%	3.8%	3.8%	4.6%
Real estate prices (nominal)	Forecast	20%	12.6%	6.7%	4.8%	5.0%	4.9%	2.8%
	Mild stress	60%	12.5%	5.0%	1.6%	3.3%	3.9%	2.8%
	Severe stress	20%	12.5%	1.4%	-5.3%	0.1%	2.2%	2.8%
Employment	Forecast	20%	3.6%	2.3%	1.5%	1.9%	1.7%	0.7%
	Mild stress	60%	3.5%	1.4%	-0.1%	1.1%	1.3%	0.7%
	Severe stress	20%	3.5%	-0.8%	-3.5%	-0.3%	0.4%	0.7%
Unemployment (change of rate)	Forecast	20%	-22.5%	-15.3%	-16.2%	-16.4%	-16.0%	-11.5%
	Mild stress	60%	-22.0%	-10.1%	-9.3%	-13.3%	-14.0%	-11.5%
	Severe stress	20%	-22.0%	3.0%	5.7%	-7.7%	-10.0%	-11.5%
Wages (nominal)	Forecast	20%	6.5%	4.6%	3.8%	4.2%	4.0%	3.5%
	Mild stress	60%	6.5%	4.2%	2.6%	3.7%	3.8%	3.5%
	Severe stress	20%	6.5%	3.6%	-0.5%	3.1%	3.2%	3.5%

For the calculation of expected credit losses under the aggregate method, the Bank uses an internal model in accordance with IFRS 9 using PL (probability of default), LGL (loss given default) and EAD (risk exposure) parameters for impairment. Risk parameters also depend on macroeconomic scenarios. The expected loss (EL) is calculated separately for each scenario and the final estimate of the expected loss (EL) is a weighted average of the expected loss in case of different scenarios.
When formulating the scenario, GDP and 7 other macroeconomic variables are used, such as exports, consumption, investments, employment, changes in the average salary, real estate prices. 5 scenarios are formed (1-3 - not stressful; 4-5 - stressful) where the first three are based on the model; the other two are technical scenarios resulting from the forecast made by the OTP Research Centre. Each variable is projected for the next 3 to 5 years, which is not long enough to project the expected credit loss (EL) of long-term loans, so a long-term rate was created for this purpose.

33. CREDIT RISK (continued)

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

	2022	2021
Total principal	363	347
ECL	103	93

The table of movements inside forborne portfolio:

	31.12.2022		31.12.2021	
	Principal exposure	ECL	Principal exposure	ECL
Facilities that have cured since modification (transfer from Stage 3 to Stage 2)	441	55	61	10
Reverted to Stage 3	8	4	8	4

The following tables provide a summary of the Bank's forborne assets:

31/12/2022

	Forborne Stock			ECL				
Portfolio	Performing principal	Non-performing principal	Total principal	Stage 2	Stage 3	Total forborne	Forbearance ratio	Coverage
Corporate	347	388	735	72	237	309	4.1%	42.0%
MSE	7	10	17	0	9	9	1.5%	52.9%
Retail Consumer	187	162	349	40	105	145	3.6%	41.5%
Retail Housing	299	42	341	29	20	49	3.2%	14.4%
Total	**840**	**602**	**1,442**	**141**	**371**	**512**	**3.6%**	**35.5%**

31/12/2021

	Forborne Stock			ECL				
Portfolio	Performing principal	Non-performing principal	Total principal	Stage 2	Stage 3	Total forborne	Forbearance ratio	Coverage
Corporate	46	579	625	4	365	368	4.2%	58.9%
MSE	12	13	25	1	11	11	2.5%	45.3%
Retail Consumer	120	279	400	21	153	174	4.2%	43.5%
Retail Housing	15	370	385	1	114	115	4.2%	30.0%
Total	**193**	**1.242**	**1,435**	**27**	**642**	**669**	**4.2%**	**46.6%**

33. CREDIT RISK (continued)

Collateral and other forms of credit risk insurance

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

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

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

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

As of 31 December 2022, the total value of collateral held by the Bank as collateral for loans and advances and contingent liabilities and commitments amounts to HRK 42,813 million (2021: HRK 38,628 million).

Total allocated value of collaterals as of 31 December 2022 amounts to HRK 21,629 million (2021: HRK 19,207 million).

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

2022	Maximum credit risk exposure (gross exposure)	Total allocated market value of collateral	Deposits	Real estate	Guaran-tees	Other	Maximum ex-posure after deducting the market value of collateral	Available collateral value (above gross exposure)
Cash and balances with the Croatian National Bank	10,578	-	-	-	-	-	10,578	-
Loans and receivables from banks	140	-	-	-	-	-	140	-
Financial assets at fair value through profit or loss	182	-	-	-	-	-	182	-
Loans and receivables from customers	39,911	20,609	136	16,832	3,355	286	19,302	20,396
Financial assets that are valued through other compre-hensive income	4,566	-	-	-	-	-	4,566	-
Financial assets measured at amortized cost	849	-	-	-	-	-	849	-
Other financial assets	375	-	-	-	-	-	375	-
Total credit risk exposure of balance sheet items	**56,601**	**20,609**	**136**	**16,832**	**3,355**	**286**	**35,992**	**20,396**
Guarantees and letters of credit	2,501	513	26	478	-	9	1,988	663
Approved unused facilities and global lines	9,985	507	9	278	211	9	9,478	125
Total credit risk exposure of off-balance sheet items	**12,486**	**1,020**	**35**	**756**	**211**	**18**	**11,466**	**788**
Total credit risk exposure	**69,087**	**21,629**	**171**	**17,588**	**3,566**	**304**	**47,458**	**21,184**

33. CREDIT RISK (continued)

Collateral and other forms of credit risk insurance (continued)

2021	Maximum credit risk exposure (gross exposure)	Total allocated market value of collateral	Deposits	Real estate	Guaran-tees	Other	Maximum ex-posure after deducting the market value of collateral	Available collateral value (above gross exposure)
Cash and balances with the Croatian National Bank	8,595	-	-	-	-	-	8,595	-
Loans and receivables from banks	35	-	-	-	-	-	35	-
Financial assets at fair value through profit or loss	92	-	-	-	-	-	92	-
Loans and receivables from customers	34,655	17,970	142	14,575	2,490	763	16,685	18,432
Financial assets that are valued through other compre-hensive income	5,818	-	-	-	-	-	5,818	-
Financial assets measured at amortized cost	365	-	-	-	-	-	365	-
Other financial assets	160	-	-	-	-	-	160	-
Total credit risk exposure of balance sheet items	**49,720**	**17,970**	**142**	**14,575**	**2,490**	**763**	**31,750**	**18,432**
Guarantees and letters of credit	1,985	443	17	417	-	9	1,542	879
Approved unused facilities and global lines	10,115	794	16	407	244	127	9,321	110
Total credit risk exposure of off-balance sheet items	**12,100**	**1,237**	**33**	**824**	**244**	**136**	**10,863**	**989**
Total credit risk exposure	**61,820**	**19,207**	**175**	**15,399**	**2,734**	**899**	**42,613**	**19,421**

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

- Deposits
- Real estate
- Guarantees
- Other

33. CREDIT RISK (continued)

Deposits

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

Real estate

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

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

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

Furthermore, since they are non-purpose, mortgage loans have additional restrictions on the amount, term and LTV indicator of maximum up to 62.5% (exceptionally up to 80%, but only for the premium segment of clients) on the best locations (Prime 1 and 2), and a maximum of 43.5% (exceptionally up to 62.5% as 'overrride') on Non prime locations and a maximum of 40% (without exceptions) on Sub prime locations.

Guarantees

The Bank accepts the following guarantees to secure its claims, each of which may be absolute (unconditional) or contingent (conditional):
- Bank guarantee/confirmed letter of credit
- Company guarantee
- Personal guarantee (guarantors)/joint guarantee (co-debt).
- Special forms of guarantee
  - Guarantee by the Croatian Agency for SMEs, Innovations and Investments (HAMAG)
  - Guarantee by the Government of the Republic of Croatia and the Croatian National Bank
  - Guarantee by OECD member states, their central banks
  - Guarantee of local self-government units of the Republic of Croatia
  - Guarantee by HBOR (including insurance policy) and international development banks.

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

Other

The Bank also accepts the following types of collateral for its claims:
- machines
- equipment
- personal and commercial vehicles
- stocks
- airplanes
- naval vessels, floating and stationary coastal structures, yachts and boats, inland navigation vessels
- other movable property (patents, trademarks, and similar)
- securities
- cessions

33. CREDIT RISK (continued)

Other (continued)

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

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

	Note	31/12/2022	31/12/2021
Current account with the Croatian National Bank	13	8,897	4,541
Obligatory reserve with the Croatian National Bank	13	1,358	2,205
Treasury bills of the Ministry of Finance	17	-	1,053
Bonds of the Ministry of Finance	17	2,637	3,314
Bonds of the Ministry of Finance	18	549	-
Loans and receivables from customers	16	6,544	4,302
Total asset:		**19,985**	**15,415**
Other borrowed funds	27	467	564
Total liabilities:		**467**	**564**

Concentration of assets and liabilities* with respect to territorial division

	Croatia	Hungary	Other	Total
As at 31 December 2022				
Assets	51,780	2,134	523	54,437
Contingent liabilities	12,323	28	58	12,409
	64,103	**2,162**	**581**	**66,846**

	Croatia	Hungary	Other	Total
As at 31 December 2021				
Assets	43,911	1,410	1,974	47,295
Contingent liabilities	11,957	19	49	12,025
	55,868	**1,429**	**2,023**	**59,320**

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

34. MARKET RISK

MARKET RISK IN TRADING BOOK

Market risk is the effect of external influences on the value of positions in the Bank's portfolio due to changes in prices or fluctuations in the financial markets. Market risk, by that definition, consists of:

- Currency risk
- Interest rate risk and
- Price risk

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

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

The products included in the Trading Book are as follows:

- FX spot
- FX forward
- FX swap
- Money market transactions (loans and deposits)
- Bonds (Republic of Croatia)
- Interest rate swaps (IRS)

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

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

Value at Risk (VaR)

VaR is an estimate of the maximum amount that a portfolio, with a defined level of confidence and for a defined period, can lose from its value. VaR is calculated for a holding period of one day and with a confidence level of 99%, using a historical simulation method based on a 252-day observation period.

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

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

Fluctuations of VaR indicator

2022	Minimum	Average	Maximum	End of year
Interest rate risk				
FI	0.00	0.05	0.88	0.00
MM	0.00	0.01	0.04	0.00
Currency risk	0.00	0.11	1.06	0.00
Total VaR	**0.00**	**0.32**	**2.13**	**0.00**

34. MARKET RISK (continued)

Value at Risk (VaR) (continued)

Fluctuations of VaR indicator (continued)

2021.	Minimum	Average	Maximum	End of year
Interest rate risk				
FI	0.06	0.19	0.35	0.16
MM	0.01	0.14	0.50	0.01
Currency risk	0.00	0.10	0.43	0.01
Total VaR	**0.19**	**0.71**	**1.45**	**0.33**

FOREIGN EXCHANGE (FX) RISK IN TRADING BOOK

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

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

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

2022	Minimum	Average	Maximum	End of year
EUR	0.0	39.2	228.1	0.0
USD	0.0	0.3	3.8	0.0
CHF	0.0	0.2	0.9	0.0
Global foreign exchange position	0.0	40.3	231.6	0.0

2021	Minimum	Average	Maximum	End of year
EUR	0.2	56.8	377.1	1.9
USD	0.0	0.3	1.8	0.1
CHF	0.0	0.2	0.7	0.0
Global foreign exchange position	1.7	58.5	378.5	2.7

Taking into account the transition to the euro as the domicile currency from 1 January 2023, the Bank has taken a more conservative position regarding the exposure of the foreign currency position in the trading book, and at the end of the year there is no open foreign currency position. The Asset and Liability Management Department is responsible for managing the Bank's remaining foreign exchange position, which is the difference between the Bank's total foreign exchange position (as measured by the regulatory VR report) and the Treasury Department's open foreign exchange position. Due to the fact that in accordance with internal rules, Asset and Liability Management Department has no limit for foreign currency risk exposure, the subject position is closed daily.

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

34. MARKET RISK (continued)

TOTAL FOREIGN EXCHANGE (FX) RISK

	HRK	EUR*	USD*	Other currencies*	Total
As at 31 December 2022					
Assets					
Cash and balances with the Croatian National Bank	11,868	272	62	113	12,315
Loans and receivables from other banks	-	-	139	-	139
Financial assets at fair value through profit or loss	91	219	18	-	328
Loans and receivables from customers	15,503	22,266	38	8	37,815
Equity securities at fair value through other comprehensive income	6	1	109	-	116
Debt securities at fair value through other comprehensive income	2,486	263	407	1,410	4,566
Investment at amortized cost	456	384	-	-	840
Investment in subsidiaries	318	-	-	-	318
Property and equipment	325	-	-	-	325
Right-of-use assets	165	-	-	-	165
Investment property	84	-	-	-	84
Intangible assets	90	-	-	-	90
Deferred tax assets	98	-	-	-	98
Other assets	257	86	-	-	343
Total assets	**31,747**	**23,491**	**773**	**1,531**	**57,542**
Liabilities					
Amounts due to other banks	94	1,081	22	4	1,201
Amounts due to customers	23,705	18,552	2,212	744	45,213
Other borrowed funds	146	2,629	1	-	2,776
Financial liabilities at fair value through profit or loss	59	139	-	-	198
Provisions	468	32	-	-	500
Income tax liability	136	-	-	-	136
Lease liabilities classified under IFRS 16	13	158	-	-	171
Other Liabilities	393	13	1	-	407
Total Liabilities	**25,014**	**22,604**	**2,236**	**748**	**50,602**
Net foreign exchange position	**6,733**	**887**	**(1,463)**	**783**	**6,940**

* currency clause in the stated currency is included

34. MARKET RISK (continued)

TOTAL FOREIGN EXCHANGE (FX) RISK (continued)

	HRK	EUR*	Total EUR and HRK	USD*	Other currencies*	Total
As at 31 December 2022						
Assets						
Cash and balances with the Croatian National Bank	11,868	272	12,140	62	113	12,315
Loans and receivables from other banks	-	-	-	139	-	139
Financial assets at fair value through profit or loss	91	219	310	18	-	328
Loans and receivables from customers	15,503	22,266	37,769	38	8	37,815
Equity securities at fair value through other comprehensive income	6	1	7	109	-	116
Debt securities at fair value through other comprehensive income	2,486	263	2,749	407	1,410	4,566
Investment at amortized cost	456	384	840	-	-	840
Investment in subsidiaries	318	-	318	-	-	318
Property and equipment	325	-	325	-	-	325
Right-of-use assets	165	-	165	-	-	165
Investment property	84	-	84	-	-	84
Intangible assets	90	-	90	-	-	90
Deferred tax assets	98	-	98	-	-	98
Other assets	257	86	343	-	-	343
Total assets	**31,747**	**23,491**	**55,238**	**773**	**1,531**	**57,542**
Liabilities						
Amounts due to other banks	94	1,081	1,175	22	4	1,201
Amounts due to customers	23,705	18,552	42,257	2,212	744	45,213
Other borrowed funds	146	2,629	2,775	1	-	2,776
Financial liabilities at fair value through profit or loss	59	139	198	-	-	198
Provisions	468	32	500	-	-	500
Income tax liability	136	-	136	-	-	136
Lease liabilities classified under IFRS 16	13	158	171	-	-	171
Other Liabilities	393	13	406	1	-	407
Total Liabilities	**25,014**	**22,604**	**47,618**	**2,236**	**748**	**50,602**
Net foreign exchange position	**6,733**	**887**	**7,620**	**(1,463)**	**783**	**6,940**

* currency clause in the stated currency is included

The open balance foreign currency position is completely closed with FX derivative instruments that do not carry interest rate risk, therefore no sensitivity calculations are required.

34. MARKET RISK (continued)

TOTAL FOREIGN EXCHANGE (FX) RISK (continued)

	HRK	EUR*	USD*	Other currencies*	Total
As at 31 December 2021					
Assets					
Cash and balances with the Croatian National Bank	7,365	439	438	1,078	9,320
Loans and receivables from other banks	-	23	12	-	35
Financial assets at fair value through profit or loss	147	213	39	-	399
Loans and receivables from customers	15,011	17,140	140	9	32,300
Equity securities at fair value through other comprehensive income	6	-	86	-	92
Debt securities at fair value through other comprehensive income	3,017	1,471	415	915	5,818
Investment at amortized cost	285	-	67	-	352
Investment in subsidiaries	318	-	-	-	318
Property and equipment	299	-	-	-	299
Right-of-use assets	172	-	-	-	172
Investment property	86	-	-	-	86
Intangible assets	102	-	-	-	102
Deferred tax assets	42	-	-	-	42
Income tax receivables	5	-	-	-	5
Other assets	131	4	-	-	135
Total assets	**26,986**	**19,290**	**1,197**	**2,002**	**49,475**
Liabilities					
Amounts due to other banks	128	684	-	4	816
Amounts due to customers	18,906	17,038	2,621	782	39,347
Other borrowed funds	184	1,170	1	-	1,355
Financial liabilities at fair value through profit or loss	56	24	-	-	80
Provisions	445	22	7	-	474
Lease liabilities classified under IFRS 16	23	153	-	-	176
Other Liabilities	447	10	1	1	459
Total Liabilities	**20,189**	**19,101**	**2,630**	**787**	**42,707**
Net foreign exchange position	**6,797**	**189**	**(1,433)**	**1,215**	**6,768**

34. MARKET RISK (continued)

TOTAL FOREIGN EXCHANGE (FX) RISK (continued)

	HRK	EUR*	Total EUR and HRK	USD*	Other currencies*	Total
As at 31 December 2021						
Assets						
Cash and balances with the Croatian National Bank	7,365	439	7,804	438	1,078	9,320
Loans and receivables from other banks	-	23	23	12	-	35
Financial assets at fair value through profit or loss	147	213	360	39	-	399
Loans and receivables from customers	15,011	17,140	32,151	140	9	32,300
Equity securities at fair value through other comprehensive income	6	-	6	86	-	92
Debt securities at fair value through other comprehensive income	3,017	1,471	4,488	415	915	5,818
Investment at amortized cost	285	-	285	67	-	352
Investment in subsidiaries	318	-	318	-	-	318
Property and equipment	299	-	299	-	-	299
Right-of-use assets	172	-	172	-	-	172
Investment property	86	-	86	-	-	86
Intangible assets	102	-	102	-	-	102
Deferred tax assets	42	-	42	-	-	42
Income tax receivables	5	-	5	-	-	5
Other assets	131	4	135	-	-	135
Total assets	**26,986**	**19,290**	**46,276**	**1,197**	**2,002**	**49,475**
Liabilities						
Amounts due to other banks	128	684	812	-	4	816
Amounts due to customers	18,906	17,038	35,944	2,621	782	39,347
Other borrowed funds	184	1,170	1,354	1	-	1,355
Financial liabilities at fair value through profit or loss	56	24	80	-	-	80
Provisions	445	22	467	7	-	474
Lease liabilities classified under IFRS 16	23	153	176	-	-	176
Other Liabilities	447	10	457	1	1	459
Total Liabilities	**20,189**	**19,101**	**39,290**	**2,630**	**787**	**42,707**
Net foreign exchange position	**6,797**	**189**	**6,986**	**(1,433)**	**1,215**	**6,768**

* currency clause in the stated currency is included
The open balance foreign currency position is completely closed with FX derivative instruments that do not carry interest rate risk, therefore no sensitivity calculations are required.

34. MARKET RISK (continued)

INTEREST RATE RISK IN TRADING BOOK

Interest rate risk is the risk of changes in the fair value of a financial instrument due to changes in market interest rates.The Bank is allowed to trade / hold only those interest rate risk instruments for which there is valid approval of the Management Board, at the proposal of the Asset and Liability Management Committee of OTP Bank Nyrt, and if there are valid and sufficient limits.

Interest rate risk limits limit the Treasury's exposure to bonds, interest rate swaps (IRSs), Forward rate agreements (FRAs), repo deals and other derivative transactions containing interest rate risk.

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

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

In 2020, in order to better monitor interest rate risk by type of transaction, the limit structure was changed and BPV values were monitored and calculated separately (below is the view for MM and FI desk). Considering the market conditions in which the growth of interest rates is present, at the end of 2022 the Bank minimized the interest risk in the Trading Book.

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

MM desk

31/12/2022	1W-1Y	1Y-10Y	10y-15Y	Total
EUR	0.08	0.00	0.00	0.08
HRK	0.00	0.00	0.00	0.00
USD	0.00	0.00	0.00	0.00
Other	0.00	0.00	0.00	0.00
Total	**0.08**	**0.00**	**0.00**	**0.08**

FI desk

31/12/2022	1W-1Y	1Y-10Y	10y-15Y	Total
EUR	0.00	0.00	0.00	0.00
HRK	0.00	0.00	0.00	0.00
USD	0.00	0.00	0.00	0.00
Other	0.00	0.00	0.00	0.00
Total	**0.00**	**0.00**	**0.00**	**0.00**

34. MARKET RISK (continued)

INTEREST RATE RISK IN TRADING BOOK (continued)

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

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

INTEREST RATE RISK IN BANKING BOOK

Interest rate sensitivity of assets and liabilities

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

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

Bank separately manages the interest rate risk arising from the trading book items from the interest rate risk arising from the following transactions included in the banking book:

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

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

34. MARKET RISK (continued)

INTEREST RATE RISK IN BANKING BOOK (continued)

Interest rate sensitivity of assets and liabilities (continued)

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

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

- Economic value of equity (EVE)
  The present value of equity, and the change in the present value of equity between the base scenario and the interest rate shock scenarios are determined on the basis of transaction level cash flows discounted by the risk-free yield curve for each currency.
  Cash flows of on- and off- interest bearing assets (with the exclusion of non-performing loans) and liabilities are projected without commercial margin. Contractual repricing characteristics are modified according to the behavioural assumptions, taking into account the restriction on the average duration of retail, corporate and municipal non-maturing deposits being a maximum of 5 years.
  When calculating the total impact on EVE, the positive effects are weighted by 50%. For each currency, the lower limit of the post-shock interest rate is applied, depending on the maturity, starting from –100 basis points for current maturities. This lower limit increases by 5 basis points per year and eventually reaches 0% for maturities of 20 years and over.

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

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

Interest rate risk management as required by the Croatian National Bank

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

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

These reports are prepared separately for each significant currency, on an individual and consolidated basis.

The Bank calculates the aggregate change in EVE for each interest rate shock scenario where the amount in a currency that gives a positive change in EVE is weighted at a weight of 50%.

In accordance with the Decision on the Supervisory Reports of Credit Institutions, the Bank shall immediately inform the Croatian National Bank:

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

34. MARKET RISK (continued)

INTEREST RATE RISK IN BANKING BOOK (continued)

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

An overview of the Bank's sensitivity to interest rate fluctuations measured in accordance with regulatory reporting requirements at 31 December 2022 is indicated in the table below:

Scenarios	EVE
Regulatory +200 bp	**(298)**
Regulatory -200 bp	(28)
Parallel shock growth	**(274)**
Parallel shock falls	(102)
Steepener	28
Flattener	(143)
Shock of short-term interest rate growth	(156)
Shock of falling short-term interest rates	76
Regulatory capital	**6,878**
(CHANGE IN ECONOMIC VALUE - regulatory shock / REGULA-TORY CAPITAL) * 100	4.33%
Share capital	6,426
(CHANGE IN ECONOMIC VALUE - 6 additional shocks / SHARE CAPITAL) * 100	**4.26%**

**data for 2022 are unaudited*

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

Scenarios	EVE
Regulatory +200 bp	**(384)**
Regulatory -200 bp	75
Parallel shock growth	**(438)**
Parallel shock falls	74
Steepener	(189)
Flattener	50
Shock of short-term interest rate growth	(100)
Shock of falling short-term interest rates	92
Regulatory capital	6,501
(CHANGE IN ECONOMIC VALUE - regulatory shock / REGULA-TORY CAPITAL) * 100	**5.90%**
Share capital	6,501
(CHANGE IN ECONOMIC VALUE - 6 additional shocks / SHARE CAPITAL) * 100	**6.74%**

The table below shows the average effective interest rates for interest-bearing financial assets and financial liabilities during 2021 and 2022 and on the last day of 2021 and 2022:

34. MARKET RISK (continued)

INTEREST RATE RISK IN BANKING BOOK (continued)

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

	Interest rate 31 December 2022	Interest rate 2022	Interest rate 31 December 2021	Interest rate 2021
	Average interest rate on the last day of the year:		Average interest rate on the last day of the year:	
	2022	2021	2022	2021
	%	%	%	%
Cash and balances with the Croatian National Bank	0.0	0.0	0.0	0.0
Loans and receivables from other banks	0.6	(0.1)	4.9	(0.5)
Loans and receivables from customers	3.2	3.4	3.2	3.3
Debt securities at fair value through other comprehensive income	2.7	1.4	6.2	1.9
Investments at amortized cost	2.7	3.9	2.6	3.1
Amounts due to other banks	0.1	(0.3)	2.0	(0.4)
Amounts due to customers	0.0	0.0	0.0	0.0
Other borrowed funds	2.5	0.9	4.4	1.2

PRICE RISK IN TRADING BOOK

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

35. LIQUIDITY RISK

Liquidity risk management

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

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

35. LIQUIDITY RISK (continued)

Liquidity risk management (continued)

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

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

Highly liquid financial assets include:

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

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

Review of the fluctuations of liquid assets as at 31 December 2022 and 31 December 2021 is indicated in the table below:

	31/12/2022	31/12/2021
Giro account	8,887	4,536
Mandatory maintenance of the HRK mandatory reserve with the CNB	(414)	(945)
Foreign currency settlement account with the Croatian National Bank	10	5
Mandatory maintenance of the foreign currency mandatory reserve with the CNB	(60)	(9)
Liquid assets on accounts with the Croatian National Bank	**8,423**	**3,587**
Current accounts with foreign banks	321	1,816
Current accounts with domestic banks	2	34
Short-term placements with other banks	141	35
Liquid assets placed with banks	**464**	**1,885**
Bonds of the Republic of Croatia	2,637	3,314
Foreign country bonds	519	536
Treasury bills of the Republic of Croatia	-	1,053
Treasury bills of the National Bank of Hungary	1,410	915
Total liquid assets placed in securities measured at fair value through other comprehensive income	**4,566**	**5,818**
Bonds of the Republic of Croatia	549	-
Total liquid assets placed in securities measured at amortized cost but eligible for credit operations with the CNB	**549**	**-**
Total liquid assets	**14,002**	**11,290**

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

35. LIQUIDITY RISK (continued)

Liquidity risk management (continued)

Maturity structure of securities representing the Bank's liquidity reserve as at 31 December 2022 and 31 December 2021 is indicated in the tables below:

31/12/2022	Total	Up to 1 year	1 to 3 years	3 to 5 years	Over 5 years
Bonds of the Republic of Croatia	3,186	809	822	578	977
Foreign government bonds	519	157	362	-	-
Treasury bills of the Republic of Croatia	-	-	-	-	-
Treasury bills of the Republic of Croatia	1,410	1,410	-	-	-
Liquid assets placed in securities	**5,115**	**2,376**	**1,184**	**578**	**977**
31/12/2021	**Total**	**Up to 1 year**	**1 to 3 years**	**3 to 5 years**	**Over 5 years**
Bonds of the Republic of Croatia	3,314	424	1,144	1,108	638
Foreign government bonds	536	-	536	-	-
Treasury bills of the Republic of Croatia	1,053	1,053	-	-	-
Treasury bills of the Republic of Croatia	915	915	-	-	-
Liquid assets placed in securities	**5,818**	**2,392**	**1,680**	**1,108**	**638**

Bank assets are considered encumbered if they are pledged or subject to any form of contract to secure, hedge or enhance the lending of any balance sheet or off-balance sheet transactions from which they cannot be freely withdrawn (for example, to pledge for funding sources). Pledged assets subject to withdrawal restrictions, such as assets requiring prior approval prior to withdrawal or replacement with other assets, are considered encumbered. As at 31 December 2022, the Bank had no impaired asset burden (2021: HRK 2,205 million on the basis of the mandatory reserve). Existing sources of financing were sufficient to cover the Bank's liquidity needs.

Liquidity risk measures

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

- regulatory limits
- internal limits

The Bank has the obligation to maintain the following regulatory liquidity indicators:

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

35. LIQUIDITY RISK (continued)

Mandatory reserve

As at 31 December 2022, the mandatory reserve rate was 1% of the prescribed basis and decreased by 8% compared to 31 December 2021 as a result of harmonization with the ECB regulation. The basis of the calculation is the balance sheet balance on a certain day of deposits (excluding repo transactions) and debt securities with a maturity of up to 2 years. The accounting period is the last day of the month that comes two months before the month in which the maintenance period begins.

Pursuant to regulatory provisions, from December 2022, the reserve requirement is fully maintained in local currency on accounts within the TARGET2 system. Until December 2022, the allocation of the HRK mandatory reserve component amounted to 70%, while the allocation of the foreign currency mandatory reserve component amounted to 0%. In addition to the prescribed 70% of the mandatory reserve requirement in HRK on the account of the CNB, banks were obliged to maintain the remaining 30% through the average daily balance on settlement accounts and on accounts for coverage of negative balances on settlement accounts in the National Clearing System. This includes 75% of the foreign currency mandatory reserve required to be held by the Bank in HRK and added to the HRK mandatory reserve.

The banks maintained the total foreign currency mandatory reserve with an average daily balance:

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

Banks also had the obligation to maintain at least 2% (of the total foreign currency portion of the mandatory reserve requirement) in their own foreign currency euro settlement account with the CNB, or own PM account within the TARGET2-HR system.

The Croatian National Bank during 2022 did not pay a fee on HRK mandatory reserves. Interest rate to applied to the special account for a portion of the foreign currency reserve requirement that the Bank is obliged to maintain (PM account within the TARGET2-HR system) is the reference interest rate of the European Central Bank (maximum 0%).

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

Pursuant to the Decision on minimum required foreign currency claims, until 29 December 2022 the Bank was required to maintain the prescribed ratio between certain short-term foreign currency receivables and foreign currency liabilities on a daily basis.

Since August 2022, the minimum prescribed ratio between short-term foreign currency receivables and foreign currency liabilities was 8.5% (decreased from 17%). The regulatory requirement in question was abolished as of 30 December as a result of harmonization with the regulatory framework of the European Central Bank due to the introduction of the euro.

The maintenance of the stated ratio as at 31 December 2022 and 31 December 2021 for the Bank is indicated in the table below:

	31/12/2022	31/12/2021
Short-term foreign currency claims	**2,561**	**4,420**
Foreign currency liabilities	**24,363**	**21,917**
Minimum required foreign currency claims (%)	**10.51%**	**20.17%**
Regulatory limit	8.50%	17.00%
Internal minimum	8.75%	17.25%
Internal optimum	9.25%	17.75%

35. LIQUIDITY RISK (continued)

Liquidity coverage ratio

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

The liquidity coverage ratio (LCR) request as at 31 December 2022 and 31 December 2021 for the Bank is indicated in the table below:

	31/12/2022		31/12/2021	
	Amount	Weighted amount	Amount	Weighted amount
Liquidity buffer (HQLA)	**13,955**	**13,953**	**9,329**	**9,300**
Cash and reserves with the Central Bank	10,212	10,212	4,216	4,216
Total 1st and 2nd degree assets	3,743	3,741	5,113	5,084
Total net liquidity outflows	**50,256**	**6,756**	**43,521**	**5,136**
Inflows	**4,072**	**3,473**	**4,045**	**3,314**
Cash receivables from non-financial clients	1,159	623	1,403	735
Cash receivables from financial clients	1,396	1,396	1,558	1,558
Other inflows	1,517	1,454	1,084	1,021
Outflows	**54,328**	**10,229**	**47,566**	**8,450**
Retail deposits	34,714	558	29,922	2,405
Non-operational deposits	10,918	6,098	8,551	4,460
Other liabilities	8,696	3,573	9,093	1,585
Liquidity coverage ratio (%)_LCR	**207%**		**181%**	
Regulatory limit	100%		100%	
Internal minimum	110%		110%	
Internal optimum	120%		120%	

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

- minimizing credit risk or loss risk due to default of the security issuer (or guarantor) by (i) pre-determining and constantly monitoring the issuers whose securities have already been purchased or can be purchased and (ii) diversifying the portfolio and limiting the investment by issuer so that the potential losses of individual securities are minimized,
- minimizing the risk of the market value of the securities in the portfolio decreasing due to changes in general interest rates, taking into account (i) that the portfolio is structured so that the securities mature in order to meet the cash requirements for current operations, avoiding the need to sell securities on the open market before maturity with a high transaction cost and (ii) investing operating assets primarily in short-term securities (limiting the maximum maturity or duration of the portfolio),
- not opening currency risks related to the portfolio of liquid foreign currency assets,

35. LIQUIDITY RISK (continued)

Liquidity coverage ratio (continued)

- achieving a competitive rate of return, given the constraints on credit, interest rate and currency risk mitigation and liquidity goals,
- portfolio diversification to reduce the risk of loss resulting from the concentration of assets in a particular type, currency, country or economic sector,
- assessing the marketability of the portfolio primarily through the possibility of collateralizing with the Croatian National Bank or the European Central Bank and then by examining the market situation of professional services at the Bank.

Requirement for stable sources of funding

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

Changes in net stable funding ratio requirements (NSFR) as at 31 December 2022 (unaudited) and 31 December 2021 (audited) for the Bank is indicated in the table below:

	31/12/2022	31/12/2021
Items providing stable funding sources	**45,792**	**38,876**
Items requiring stable funding sources	**31,708**	**27,912**
Net stable funding ratio requirements (%)_NSFR	**144%**	**139%**
Regulatory limit	100%	100%
Internal minimum	110%	110%
Internal optimum	120%	120%

**data for 2022 are unaudited*

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

The aforementioned internal liquidity indicators are monitored through ALCO and daily reports in accordance with the defined reporting dynamics.

Stress testing

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

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

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

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

35. LIQUIDITY RISK (continued)

Stress testing (continued)

The table below represent the maturity analysis of discounted assets and liabilities as at 31 December 2022.

	Up to 1 month	1 to 3 months	3 months to 1 year	1 to 3 years	Over 3 years	Undefined	Total
As at 31 December 2022							
Assets							
Cash and balances with Croatian National Bank	12,315	-	-	-	-	-	12,315
Loans and receivables from banks	139	-	-	-	-	-	139
Financial assets at fair value through profit or loss	6	12	22	6	137	145	328
Loans and receivables from customers	2,253	1,765	6,910	8,647	18,240	-	37,815
Equity instruments at fair value through other comprehensive income	-	-	-	-	-	116	116
Debt securities at fair value through other comprehensive income	1,410	-	966	1,185	1,005	-	4,566
Financial asset measured at amortised cost	1	1	149	23	666	-	840
Investments in subsidiaries	-	-	-	-	-	318	318
Property and equipment	-	-	-	-	-	325	325
Right-of-use assets	3	9	23	77	53	-	165
Investment property	-	-	-	-	-	84	84
Intangible assets	-	-	-	-	-	90	90
Deferred tax assets	-	-	-	-	-	98	98
Other Assets	343	-	-	-	-	-	343
Total assets	**16,470**	**1,787**	**8,070**	**9,938**	**20,101**	**1,176**	**57,542**
Liabilities							
Amounts due to other banks	1,201	-	-	-	-	-	1,201
Amounts due to customers	40,235	1,346	3,065	356	211	-	45,213
Other borrowed funds	26	16	63	121	2,550	-	2,776
Financial liabilities at fair value through profit or loss	25	12	21	7	133	-	198
Provisions for liabilities and charges	28	24	40	17	383	8	500
Lease liabilities classified under IFRS 16	3	9	23	79	57	-	171
Income tax liabilities	-	-	136	-	-	-	136
Other liabilities	407	-	-	-	-	-	407
Total liabilities	**41,925**	**1,407**	**3,348**	**580**	**3,334**	**8**	**50,602**
Net liquidity gap	**(25,455)**	**380**	**4,722**	**9,358**	**16,767**	**1,168**	**6,940**

35. LIQUIDITY RISK (continued)

Stress testing (continued)

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

	Up to 1 month	1 to 3 months	3 months to 1 year	1 to 3 years	Over 3 years	Undefined	Total
As at 31 December 2021							
Assets							
Cash and balances with Croatian National Bank	9,320	-	-	-	-	-	9,320
Loans and receivables from banks	35	-	-	-	-	-	35
Financial assets at fair value through profit or loss	28	12	40	27	120	172	399
Loans and receivables from cus-tomers	2,313	1,148	4,018	7,744	17,077	-	32,300
Equity instruments at fair value through other comprehensive in-come	-	-	-	-	-	92	92
Debt securities at fair value through other comprehensive in-come	915	304	1,173	1,680	1,746	-	5,818
Financial asset measured at amor-tised cost	-	1	67	146	138	-	352
Investments in subsidiaries	-	-	-	-	-	318	318
Property and equipment	-	-	-	-	-	299	299
Right-of-use assets	3	10	22	73	64		172
Investment property	-	-	-	-	-	86	86
Intangible assets	-	-	-	-	-	102	102
Deferred tax assets	-	-	-	-	-	42	42
Income tax receivables	-	-	5	-	-	-	5
Other Assets	135	-	-	-	-	-	135
Total assets	**12,749**	**1,475**	**5,325**	**9,670**	**19,145**	**1,111**	**49,475**
Liabilities							
Amounts due to other banks	139	677	-	-	-	-	816
Amounts due to customers	33,322	1,856	3,454	521	194	-	39,347
Other borrowed funds	9	23	89	143	1,091	-	1,355
Financial liabilities at fair value through profit or loss	11	12	32	2	23	-	80
Provisions for liabilities and charges	8	31	87	20	9	319	474
Lease liabilities classified under IFRS 16	3	9	22	74	68	-	176
Other liabilities	459	-	-	-	-	-	459
Total liabilities	**33,951**	**2,608**	**3,684**	**760**	**1,385**	**319**	**42,707**
Net liquidity gap	**(21,202)**	**(1,133)**	**1,641**	**8,910**	**17,760**	**792**	**6,768**

35. LIQUIDITY RISK (continued)

Stress testing (continued)

Table below present undiscounted cash flows for financial liabilities.

	Up to 1 month	1 to 3 months	3 months to 1 year	1 to 3 years	Over 3 years	Total
As at 31 December 2022						
Liabilities						
Amounts due to other banks	1,201	-	-	-	-	1,201
Amounts due to customers	40,236	1,346	3,066	359	213	45,220
Other borrowed funds	26	34	151	380	2,803	3,394
Financial liabilities at fair value through profit or loss	25	12	21	7	133	198
Other liabilities	406	-	-	-	-	406
Total Liabilities	**41,894**	**1,392**	**3,238**	**746**	**3,149**	**50,419**
As at 31 December 2021						
Liabilities						
Amounts due to other banks	139	677	-	-	-	816
Amounts due to customers	33,322	1,857	3,456	525	197	39,357
Other borrowed funds	9	24	98	162	1,114	1,407
Financial liabilities at fair value through profit or loss	11	12	32	2	23	80
Other liabilities	459	-	-	-	-	459
Total Liabilities	**33,940**	**2,570**	**3,586**	**689**	**1,334**	**42,119**

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

36. OPERATIONAL RISK

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

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

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

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

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

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

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

The year 2022 was marked by calm of the pandemic modeled by COVID-19 and the energy crisis. The business continuity plan for the pandemic scenario has been updated in accordance with the development of the situation while situation with energy crisis is regurarly monitored.

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

37. RELATED PARTY TRANSACTIONS

The Bank is the parent of the OTP Bank Group in Croatia. The Bank considers to be immediately related to its key shareholders and their subsidiaries; its subsidiaries and associates; the investment funds managed by one of its subsidiaries, OTP invest d.o.o.; Supervisory Board members, Management Board members; key management personnel, close family members of the Management Board members; and entities controlled, jointly controlled or significantly influenced by members of the Supervisory Board, Management Bord, key management personnel and their close family members, in accordance with the definition contained in International Accounting Standard 24 *"Related Party Disclosures"* (IAS 24).

As at 31 December 2022, the Bank holds shares in the following open-end investment funds managed by OTP Invest d.o.o: OTP balanced fund, OTP index fund, OTP e-start fund, OTP global fund, OTP absolute fund and OTP Start fund in the total amount of HRK 128 million (2021: HRK 133 million).

At the end of 2022 and during 2022, balances and the underlying transactions with related parties, excluding investments in subsidiaries and fund investments (Notes 15 and 19), were as follows:

	31/12/2022		31/12/2021	
	Receivables	**Liabilities**	**Receivables**	**Liabilities**
OTP Bank Nyrt Hungary	318	3,420	81	753
SKB Banka	-	36	267	21
OTP Bank Serbia	4	-	-	-
OTP Bank Romania S.A.	1	-	1	-
DSK Bank	-	1	-	7
OTP Financing Malta	-	-	-	789
Crnogorska komercijalna banka	-	-	15	-
Zelena nekretnina	-	5	-	1
OTP Group Hungary	**323**	**3,462**	**364**	**1,571**
OTP Leasing d.d.	49	102	55	29
OTP Nekretnine d.o.o.	1	72	1	36
OTP Invest d.o.o.	-	10	-	12
Cresco d.o.o.	-	5	4	1
Georg d.o.o.	-	-	-	1
SB Leasing d.o.o. u lik-vidaciji	-	-	-	4
OTP Group Croatia	**50**	**189**	**60**	**83**
*Supervisory Board, Man-agement Bord and Key Management of the Bank and subsidiaries**	14	34	12	31
Total	**387**	**3,685**	**436**	**1,685**

**Amounts include receivables and liabilities for loans, deposits and interest and other.*

37. RELATED PARTY TRANSACTIONS (continued)

	2022.		2021.	
	Income*	Expenses*	Income*	Expenses*
OTP Bank Nyrt Hungary	340	280	101	109
OTP Financing Malta	-	3	-	-
SKB Banka	-	1	1	1
Shiwaforce	-	1	-	-
OTP Group Hungary	**340**	**285**	**102**	**110**
OTP Nekretnine d.o.o.**	4	19	-	19
OTP Leasing d.d.**	6	2	3	2
OTP Invest d.o.o.	1	1	1	1
Georg d.o.o.***	1	-	-	-
Cresco d.o.o.	-	-	1	-
OTP Osiguranje d.d.	-	-	6	1
OTP Group Croatia	**12**	**22**	**11**	**23**
*Supervisory Board, Man-agement Bord and Key Management of the Bank and its related parties**	-	33	-	26
Ukupno	**352**	**340**	**113**	**159**

* includes income and expenses on loans, deposits, salary compensations and other contracted income
** costs of OTP Nekretnine and OTP Leasing include invoiced costs for assets managed under IFRS 16 and the income includes the dividend revenues
*** dividend income included in income

Remuneration paid to key management of the Bank and its related parties for 2022 amounted to HRK 32 million (2021: HRK 25 million) and are comprised of short-term benefits in amount of HRK 26 million (2021: HRK 23 million) and long-term benefits in cash in amount of HRK 6 million (2021: HRK 2 million).

As at 31 December 2022 the amount of deferred compensation liabilities to key management from previous years is HRK 11 million (2021: HRK 10 million). Included in key management personnel are Management Board members of the Bank and Senior management of the Bank.

Remuneration paid to Supervisory Board members for 2022 amounted to HRK 1 million (2021: HRK 1 million).

38. FUNDS MANAGED ON BEHALF OF THIRD PARTIES

The Bank manages funds on behalf of third parties, which consist mainly of custody services and 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 2022, funds managed by the Bank on behalf of third parties amounted to HRK 183 million (2021: HRK 182 million).

As at 31 December 2022, the total portfolio of securities of domestic and foreign clients the Bank has under custody, including domestic pension and investment funds, amounted to HRK 75,941 million (2021: HRK 77,341 million), of which HRK 4,958 million refers to Bank's subsidiaries (2021: HRK 5,124).

	31/12/2022	31/12/2021
OTP Bank Nyrt Hungary	3,994	3,994
OTP Invest d.o.o.	964	1,130
	4,958	**5,124**

39. FAIR VALUE OF FINANCIAL ASSETS AND LIABILITIES

The fair value of financial instruments is the amount for which an asset could be exchanged or a liability settled, between knowledgeable willing parties in an arm's-length transaction. Where available, fair value is based on quoted market prices. However, market prices for a significant portion of financial instruments of the Bank are not readily available. In circumstances where quoted market prices are not readily available, fair value is estimated using alternative techniques or financial assets are measured at cost, amortised cost or indexed cost.

Valuation techniques and assumptions for the purposes of measuring fair value

The fair values of financial assets and financial liabilities are determined as follows:

- fair values of financial assets and financial liabilities with standard terms and conditions and traded on active liquid markets are determined by reference to quoted market prices (includes listed redeemable notes, bills of exchange, debentures and perpetual notes);

- fair values of other financial assets and financial liabilities (excluding derivative financial instruments) are determined in accordance with generally accepted pricing models based on discounted cash flow analysis using prices from observable current market transactions and dealer quotes for similar instruments;

- fair values of derivative financial 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 derivative financial instruments;

- interest rate swaps are measured at the present value of future cash flows estimated and discounted based on the applicable yield curves derived from quoted interest rates.

Financial instruments that are measured subsequent to initial recognition at fair value are grouped into three levels based on the degree to which the fair value is observable:

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities.

- Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from the prices).

- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

39. FAIR VALUE OF FINANCIAL ASSETS AND LIABILITIES (continued)

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

2022	Level 1	Level 2	Level 3	Total
Financial assets at fair value through profit or loss (Note 15)				
Units in open-end investment funds	-	128	-	128
VISA International preferred stock	-	-	18	18
Currency swaps and forward contracts	-	39	-	39
Interest rate swaps	-	143	-	143
	-	**310**	**18**	**328**
Financial assets at fair value through other comprehensive income (Note 17a and 17b)				
Listed investments				
Debt securities of Republic of Croatia	2,637	-	-	2,637
Debt securities of Foreign countries	519			519
Equity securities	42	-	70	112
Unlisted investments				
Treasury bills of National Bank of Hungary	-	1,410	-	1,410
Equity securities	-	-	4	4
	3,198	**1,410**	**74**	**4,682**
	3,198	**1,720**	**92**	**5,010**
Financial liabilities at fair value through profit or loss				
Currency swaps and forward contracts	-	58	-	58
Interest rate swaps	-	139	-	139
Option	-	1	-	1
	-	**198**	**-**	**198**
	3,198	**1,522**	**92**	**4,812**

39. FAIR VALUE OF FINANCIAL ASSETS AND LIABILITIES (continued)

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

2021	Level 1	Level 2	Level 3	Total
Financial assets at fair value through profit or loss (Note 15)				
Units in open-end investment funds	-	133	-	133
Bonds of Republic of Croatia (listed)	129	-	-	129
VISA International preferred stock	-	-	39	39
Currency swaps and forward contracts	-	66	-	66
Interest rate swaps	-	26	-	26
Loans	-	-	6	6
	129	**225**	**45**	**399**
Financial assets at fair value through other comprehensive income (Note 17a and 17b)				
Listed investments				
Debt securities of Republic of Croatia	3,315	-	-	3,315
Debt securities of Foreign countries	536	-	-	536
Equity securities	41	-	47	88
Unlisted investments				
Treasury bills of Republic of Croatia	-	1,053	-	1,053
Treasury bills of National Bank of Hungary	-	915	-	915
Equity securities	-	-	4	4
	3,892	**1,968**	**51**	**5,911**
	4,021	**2,193**	**96**	**6,310**
Financial liabilities at fair value through profit or loss				
Currency swaps and forward contracts	-	54	-	54
Interest rate swaps	-	24	-	24
Option	-	2	-	2
	-	**80**	**-**	**80**
	4,021	**2,113**	**96**	**6,230**

39. FAIR VALUE OF FINANCIAL ASSETS AND LIABILITIES (continued)

Fair value of financial assets and financial liabilities of the Bank measured at fair value

Bank's financial assets are measured at fair value at the end of each reporting period. The table below provides the information about the fair value measurement of financial assets and liabilities (valuation techniques and the inputs to the techniques used).

Financial assets / financial liabilities	Fair value as at		Fair value level	Valuation method and key inputs	Significant unobservable inputs	Unobservable inputs in relation to fair value
	2022	2021				
1) Share in open-end investment funds (Note 15)	Which are held for trading: Assets: 128	Which are held for trading: Assets: 133	Level 2	The quoted purchase price by the fund established on the basis of net assets of the funds.	Not applicable	Not applicable
2) Currency swaps and forward contracts (Note 15)	Assets: 39 Liabilities: 58	Assets: 66 Liabilities: 54	Level 2	Discounted cash flow. Future cash flow is estimated by the forward rates available at the end of the reporting period and contracted forward rates, discounted using a rate reflecting the counterparty credit risk.	Not applicable	Not applicable
3) Interest rate swaps (Note 15)	Held for trading Assets: 139 Liabilities: 139 Fair value hedge: Assets: 4 Liabilities: - Embedded derivative financial instruments - Options: Assets: - Liabilities: 1	Held for trading Assets: 26 Liabilities: 20 Fair value hedge: Assets: - Liabilities: 4 Embedded derivative financial instruments - Options: Assets: - Liabilities: 2	Level 2	Discounted cash flow. Future cash flow is estimated by forward rates (from the yield curve available at the end of the reporting period) and contracted interest rates, discounted using a rate that reflects the counterparty credit risk.	Not applicable	Not applicable
4) Debt securities listed (Note 15 and Note 17)	Debt securities held for trading and are quoted in Croatia - issued by the Republic of Croatia: -	Debt securities held for trading and are quoted in Croatia - issued by the Republic of Croatia: 129	Level 1	Prices quoted on an active market.	Not applicable	Not applicable
	Debt securities that are valued through other comprehensive income - issued by the Republic of Croatia: 2,637 - issued by foreign countries: 519	Debt securities that are valued through other comprehensive income - issued by the Republic of Croatia: 3,314 - issued by foreign countries: 536	Level 1	Prices quoted on an active market.	Not applicable	Not applicable

39. FAIR VALUE OF FINANCIAL ASSETS AND LIABILITIES (continued)

Fair value of financial assets and financial liabilities of the Bank measured at fair value (continued).

Financial assets / financial liabilities	Fair value as at		Fair value level	Valuation method and key inputs	Significant unobservable inputs	Unobservable inputs in relation to fair value
	2022	2021				
5) Equity securities (Note 17)	Listed in Croatia - shares: - Listed abroad - shares: 42	Listed in Croatia - shares: - Listed abroad - shares: 41	Level 1	Prices quoted on an active market.	Not applicable	Not applicable
	Listed in Croatia - shares: 3 Listed abroad: - shares: 85	Listed in Croatia - shares: 3 Listed abroad: - shares: 83	Level 3	Prices quoted on an active market. Quoted ordinary share prices adjusted for conversion factor and estimated risk	Not applicable	Not applicable
	Unlisted: - shares: 4	Unlisted: - shares: 4	Level 3	Internally developed model based on residual income	Not applicable	Not applicable
6) Debt securities that are unlisted (Note 17)	Treasury bills issued by the Republic of Croatia: - Treasury bills of National Bank of Hungary: 1,410	Treasury bills issued by the Republic of Croatia: 1,053 Treasury bills of National Bank of Hungary: 915	Level 2	Discounted cash flow. Discounted by applying a rate that reflects the market interest rate, including the counterparty credit risk.	Not applicable	Not applicable
7) Loans (Note 15)	Loans: -	Loans: 6	Level 3	Discounted cash flow. Discounted by applying the effective interest rate.	Not applicable	Not applicable

Movement of Level 3 Financial Instruments at Fair Value

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

Balance at 1 January 2021	**199**
Total gains and losses recognized in other comprehensive income	3
Total gains and losses recognized in profit and loss	(106)
Balance at 31 December 2021	**96**
Balance at 1 January 2022	**96**
Total gains and losses recognized in other comprehensive income	23
Total gains and losses recognized in profit and loss	(27)
Balance at 31 December 2022	**92**

39. FAIR VALUE OF FINANCIAL ASSETS AND LIABILITIES (continued)

Financial instruments not measured at fair value

In arriving at the fair value of these financial instruments certain assumptions, estimates and methods were used. Because of the relatively short period to maturity, the fair values of Loans and receivables from banks and Amounts due to other banks are considered not to differ significantly from their carrying amounts. For investments measured at amortized cost, corporate bonds with longer maturities are valued at quoted prices on the market or the price is derived by discounting cash flows, while for corporate bills of exchange, due to shorter maturities, it is assumed that the fair value does not differ significantly from their carrying amount.

The fair values of Loans and receivables from customers and Amounts due to customers were estimated using the expected future cash flows using as the discount rate the current average market rate for identical loans and deposits. Partly recoverable and fully irrecoverable loans and receivables were not considered in measuring the fair value because their recoverable amount is assumed to reflect their fair price. Because of the specific features of the credit lines provided by HBOR and their restricted transferability as well as the standardised terms and conditions HBOR applies to all commercial banks, the carrying amount of the credit lines is assumed to reflect their fair values.

Balance at 31/12/2022			Fair value			
	Note	Carrying amount	Level 1	Level 2	Level 3	Total
Financial asset						
Loans and receivables from banks	14	139	-	-	139	**139**
Loans and receivables from customers	16	37,815	-	-	38,133	**38,133**
Investments at amortized cost	18	840	519	-	291	**810**
Financial liabilities						
Liabilities to other banks	24	1,201	-	-	1,201	**1,201**
Liabilities to customers	25	45,213	-	-	45,207	**45,207**
Other borrowed funds	26	2,776	-	-	2,867	**2,867**

Balance at 31/12/2021			Fair value			
	Note	Carrying amount	Level 1	Level 2	Level 3	Total
Financial asset						
Loans and receivables from banks	14	35	-	-	35	**35**
Loans and receivables from customers	16	32,300	-	-	32,688	**32,688**
Investments at amortized cost	18	352	-	-	371	**371**
Financial liabilities						
Liabilities to other banks	24	816	-	-	816	**816**
Liabilities to customers	25	39,347	-	-	39,346	**39,346**
Other borrowed funds	26	1,355	-	-	1,367	**1,367**

40. SUBSEQUENT EVENTS

Act on the introduction of the euro as the official currency in the Republic of Croatia

On 13 May 2022, the Croatian Parliament, as the highest legislative body of the Republic of Croatia, adopted the Law on the introduction of the euro as the official currency in the Republic of Croatia (the Law). The law was published on 20 May in the Official Gazette No. 57 (OG 57/2022).

Conversion of all closing balances of kuna receivables and liabilities in the Bank's balance sheet as well as balances of all kuna off-balance sheet receivables and liabilities of the Bank as of 31 December 2022 was implemented in accordance with the Law dated 1 January 2023 year at the legally prescribed fixed conversion rate of HRK 7.53450 for one euro.

During the conversion to the euro, the bank applied all the provisions prescribed by the Law and adhered to the Code of Ethics for the introduction of the euro, which determines the procedures of business entities for the purpose of a reliable and transparent introduction of the euro in the Republic of Croatia, with the aim of creating trust and a safe environment for consumers.

Also, since 1 January 2023 the Bank has been operating fully harmonized with the Act and from that date all balances and transactions of assets, liabilities, capital as well as all transactions in the profit and loss account and other comprehensive income are reported in euro as the domicile currency.

Appendix - Supplementary financial statements and reports for the Croatian National Bank

For the year ended 31 December 2022

Pursuant to the Accounting Act of the Republic of Croatia, the Croatian National Bank adopted a Decision on the structure and content of the Annual Financial Statements of credit institutions (Official Gazette 42/2018, 122/2020, 119/2021 and 108/2022).

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

Statement of profit or loss – unaudited

In millions HRK	In accordance with Croatian National Bank decision 2022	According to IFRS 2022	Difference 2022	In accrodance with Croatian National Bank decision 2021	Accounting standards for banks in Croatia 2021	Difference 2021
Interest income	1,442	1,384	58	1,216	1,184	32
(Interest expense)	(214)	(48)	(166)	(54)	(28)	(26)
(Expenses on share capital repayable on de-mand)	-	-	-	-	-	-
Dividend income	5	-	5	1	-	1
Fee and commission income	614	614	-	493	493	
(Fee and commission expense)	(151)	(151)	-	(124)	(124)	-
Gains or (-) losses on derecognition of financial assets and liabilities not measured at fair value through profit or loss, net	(6)	(6)	-	(10)	(10)	-
Gains or (-) losses on financial assets and liabil-ities held for trading, net	177	75	102	179	184	(5)
Gains or (-) losses on non-trading financial as-sets mandatory at fair value through profit or loss, net	(4)	(4)	-	47	49	(2)
Gains or (-) losses on financial assets and liabil-ities designated at fair value through profit or loss, net	-	-	-	-	-	-
Gains or (-) losses from hedge accounting, net	8	-	8	2	-	2
Exchange differences [gain or (-) loss], net	(29)	(29)	-	(44)	(47)	3
Gains or (-) losses on derecognition of invest-ments in subsidiaries, joint ventures and asso-ciates, net	-	-	-	-	-	-
Gains or (-) losses on derecognition of non-financial assets, net	-	-	-	-	-	-
Other operating income	12	21	(9)	58	44	14
(Other operating expenses)	(16)	-	(16)	(49)	-	(49)
Total operating income, net	**1,838**	**1,856**	(18)	**1,715**	**1,745**	(30)

Statement of profit or loss – unaudited (continued)

In millions HRK	In accordance with Croatian National Bank decision 2022	According to IFRS 2022	Difference 2022	In accrodance with Croatian National Bank decision 2021	Accounting standards for banks in Croatia 2021	Difference 2021
(Administrative expenses)	(795)	(838)	43	(722)	(782)	60
(Cash contributions to resolution committees and deposit insurance schemes)	(28)	-	(28)	(36)	-	(36)
(Depreciation)	(146)	(146)	-	(151)	(151)	-
Modification gains or (-) losses, net	-	-	-	-	-	-
(Provisions or (-) reversal of provisions)	(78)	(78)	-	(46)	(44)	(2)
(Impairment or (-) reversal of impairment on financial assets not measured at fair value through profit or loss)	106	103	3	16	12	4
(Impairment or (-) reversal of impairment of in-vestments in subsidiaries, joint ventures and associates)	-	-	-	-	-	-
(Impairment or (-) reversal of impairment on non-financial assets)	-	-	-	(7)	-	(7)
Negative goodwill recognised in profit or loss	-	-	-	-	-	-
Share of the profit or (-) loss of investments in subsidiaries, joint ventures and associates accounted for using the equity method	-	-	-	-	-	-
Profit or (-) loss from non-current assets and disposal groups classified as held for sale not qualifying as discontinued operations	-	-	-	-	-	-
Profit or (–) loss before tax from continuing operations	**897**	**897**	-	**769**	**780**	(11)
(Tax expense or (-) income related to profit or loss from continuing operations)	(222)	(222)	-	(149)	(149)	-
Profit or (–) loss after tax from continuing operations	**675**	**675**	-	**620**	**631**	(11)
Profit or (-) loss after tax from discontinued oper-ations	**-**	**-**	**-**	**11**	**-**	**11**
Profit or (-) loss before tax from discontinued operations	-	-	-	11	-	11
(Tax expense or (-) income related to discontin-ued operations)	-	-	-	-	-	-
Profit or (-) loss for the year	**675**	**675**	-	**631**	**631**	-
Attributable to minority interest (non-controlling interests)	-	-	-	-	-	-
Attributable to owners of the parent	675	675	-	631	631	-

Statement of other comprehensive income – unaudited

In millions HRK	In accordance with Croatian National Bank decision 2022	According to IFRS 2022	Difference 2022	In accrodance with Croatian National Bank decision 2021	Accounting standards for banks in Croatia 2021	Difference 2021
Profit or (–) loss for the year	**675**	**675**	**-**	**631**	**631**	**-**
Other comprehensive income (3. + 15.)	**(203)**	**(203)**	**-**	**(30)**	**(30)**	**-**
Items not to be reclassified to profit or loss (from 4. to 10. + 13. + 14.)	18	18	-	3	3	-
Tangible assets	-	-	-	-	-	-
Intangible assets	-	-	-	-	-	-
Actuarial gains or (-) losses on defined benefit pension plans	1	1	-	-	-	-
Non-current assets and disposal groups held for sale	-	-	-	-	-	-
Share of other recognised income and expense of entities accounted for using the equity method	-	-	-	-	-	-
Fair value changes of equity instruments measured at fair value through other comprehensive income	21	21	-	3	3	-
Gains or (-) losses from hedge account-ing of equity instruments at fair value through other comprehensive income, net	-	-	-	-	-	-
Fair value changes of equity instruments measured at fair value through other comprehensive income (hedged item)	-	-	-	-	-	-
Fair value changes of equity instruments measured at fair value through other comprehensive income (hedging in-strument)	-	-	-	-	-	-
Fair value changes of financial liabilities at fair value through profit or loss at-tributable to changes in their credit risk	-	-	-	-	-	-
Income tax relating to items that will not be reclassified	(4)	(4)	-	-	-	-
Items that may be reclassified to profit or loss (from 16. to 23.)	(221)	(221)	-	(33)	(33)	
Hedges of net investments in foreign operations (effective portion)	-	-	-	-	-	-
Foreign currency translation	-	-	-	-	-	-
Cash flow hedges (effective portion)	-	-	-	-	-	-
Hedging instruments (not designated elements)	-	-	-	-	-	-
Debt instruments at fair value through other comprehensive income	(269)	(269)	-	(38)	(38)	-

Statement of other comprehensive income – unaudited (condinued)

In millions HRK	In accordance with Croatian National Bank decision 2022	According to IFRS 2022	Difference 2022	In accrodance with Croatian National Bank decision 2021	Accounting standards for banks in Croatia 2021	Difference 2021
Non-current assets and disposal groups held for sale	-	-	-	-	-	-
Share of other recognised income and expense of investments in subsidiaries, joint ventures and associates	-	-	-	-	-	-
Income tax relating to items that may be reclassifies to profit or (-) loss	48	48	-	5	5	-
Total comprehensive income for the year (1. + 2.; 25. + 26.)	**472**	**472**	**-**	**601**	**601**	**-**
Attributable to minority interest (non-controlling interest)	-	-	-	-	-	-
Attributable to owners of the parent	**472**	**472**	**-**	**601**	**601**	**-**

Unaudited presentation of the reconciliation of items presented in the Statement of profit or loss and Statement of other comprehensive income presented as part of the Annual Report and items presented in accordance with the CNB Decision:

Penalty interest income is presented as part of Interest income position in accordance with the Decision while in the Annual Report they are presented as part of Other operating income.

In accordance with the Decision, interest income from financial assets held for trading, interest income from non-traded financial assets that are mandatory measured at fair value through profit or loss, and interest income on derivatives are presented in Interest income position, while in the Annual Report they are shown in Gains or losses on non-trading financial assets mandatory at fair value through profit or loss.

In accordance with the Decision, penalty interest expenses are presented in the position interest expenses, while in the Annual Report these expenses are presented in the item other operating expenses.

In accordance with the Decision, interest expenses from financial liabilities held for trading and derivatives used as a hedging instrument are presented in Interest expense, while in the Annual Report they are presented in the item Gains or losses on financial assets and liabilities held for trading.

In accordance with the Decision, dividend income from investments in equity securities and income from investments in related companies, which are presented in the Annual Report under other operating income, are presented in the position of dividend income.

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

Other operating income position according to the Annual Report includes income from collection of written-off receivables, penalty interest income, income from dividend of equity instruments, and includes costs of sold real estate, which according to the Decision are not included in this position.

In accordance with the Decision part of the other expenses is presented as part of the Other operating expenses while in the Annual Report all other expenses and operating expenses are shown in the position of Other operating expenses, except for the costs of sold real estate, which are in the Annual Report included in other operating income together with income from the sale of real estate.

In accordance with the Decision, administrative expenses (excluding other business expenses) and employee expenses are presented in the administrative position, while in the Annual Report all employee expenses and other operating costs are shown in separate positions. According to the Decision, the costs of monetary contributions to recovery committees and deposit insurance systems are presented in a separate position, while in the Annual Report they are included in other operating expenses.

Statement of financial position – unaudited

Assets	In accordance with Croatian National Bank decision 2022	According to IFRS 2022	Difference 2022	In accrodance with Croatian National Bank decision 2021	Accounting standards for banks in Croatia 2021	Difference 2021
Cash, cash balances at central banks and other demand deposits	**10,956**	**12,454**	**(1,498)**	**7,115**	**9,355**	**(2,240)**
Cash on hand	1,739	1,739	-	730	730	-
Cash balances at central banks	8,896	10,254	(1,358)	4,540	6,746	(2,206)
Other demand deposits	321	461	(140)	1,845	1,879	(34)
Financial assets held for trading	**177**	**182**	**(5)**	**221**	**221**	**-**
Derivatives	177	182	(5)	92	92	-
Equity instruments	-	-	-	-	-	-
Debt securities	-	-	-	129	129	-
Loans and advances	-	-	-	-	-	-
Non-trading financial assets mandatory at fair value through profit or loss	**146**	**146**	**-**	**178**	**178**	**-**
Equity instruments	146	146	-	172	172	-
Debt securities	-	-	-	-	-	-
Loans and advances	-	-	-	6	6	-
Financial assets designated at fair value through profit or loss	**-**	**-**	**-**	**-**	**-**	**-**
Debt securities	-	-	-	-	-	-
Loans and advances	-	-	-	-	-	-
Financial assets at fair value through other comprehensive income	**4,682**	**4,682**	**-**	**5,910**	**5,910**	**-**
Equity instruments	116	116	-	92	92	-
Debt securities	4,566	4,566	-	5,818	5,818	-
Loans and advances	-	-	-	-	-	-
Financial assets at amortised cost	**40,555**	**38,655**	**1,900**	**35,069**	**32,652**	**2,417**
Debt securities	840	840	-	352	352	-
Loans and advances	39,715	37,815	1,900	34,717	32,300	2,417
Derivatives – Hedge accounting	4	-	4	-	-	-
Fair value changes of the hedged items in portfolio hedge of interest rate risk	-	-	-	-	-	-
Investments in subsidiaries, joint ventures and associates	318	318	-	318	318	-
Tangible assets	543	574	(31)	528	557	(29)
Intangible assets	121	90	31	130	102	28
Tax assets	98	98	-	42	47	(5)
Other assets	25	343	(318)	27	135	(108)
Non-current assets and disposal groups clas-sified as held for sale	-	-	-	-	-	-
Total assets	**57,625**	**57,542**	**83**	**49,538**	**49,475**	**63**

Statement of financial position – unaudited (continued)

Liabilities	In accordance with Croatian National Bank decision 2022	According to IFRS 2022	Difference 2022	In accrodance with Croatian National Bank decision 2021	Accounting standards for banks in Croatia 2021	Difference 2021
Financial liabilities held for trading	**174**	**198**	**(24)**	**73**	**78**	**(5)**
Derivatives	174	198	(24)	73	78	(5)
Short positions	-	-	-	-	-	-
Deposits	-	-	-	-	-	-
Debt securities issued	-	-	-	-	-	-
Other financial liabilities	-	-	-	-	-	-
Financial liabilities designated at fair value through profit or loss	**1**	**-**	**1**	**2**	**2**	**-**
Deposits	-	-	-	-	-	-
Debt securities issued	-	-	-	-	-	-
Other financial liabilities	1	-	1	2	2	-
Financial liabilities measured at amortised cost	**49,292**	**49,190**	**102**	**41,603**	**41,518**	**85**
Deposits	49,098	49,190	(92)	41,426	41,518	(92)
Debt securities issued	-	-	-	-	-	-
Other financial liabilities	194	-	194	177	-	177
Derivatives – Hedge accounting	-	-	-	4	-	4
Fair value changes of the hedged items in portfolio hedge of interest rate risk	-	-	-	-	-	-
Provisions	513	500	13	486	474	12
Tax liabilities	145	136	9	2	-	2
Share capital repayable on demand	-	-	-	-	-	-
Other liabilities	560	578	(18)	600	635	(35)
Liabilities included in disposal groups classified as held for sale	-	-	-	-	-	-
Total liabilities	**50,685**	**50,602**	**83**	**42,770**	**42,707**	**63**
Equity	3,994	3,994	-	3,994	3,994	-
Share premium	171	171	-	171	171	-
Equity instruments issued other than capital	-	-	-	-	-	-
Other equity	-	-	-	-	-	-
Accumulated other comprehensive income	(62)	(62)	-	141	141	-
Retained earnings	1,654	2,329	(675)	1,323	1,954	(631)
Revaluation reserves	-	-	-	-	-	-
Other reserves	508	508	-	508	508	-
(-) Treasury shares	-	-	-	-	-	-
Profit or loss attributable to owners of the parent company	675	-	675	631	-	631
(-) Interim dividends	-	-	-	-	-	-
Minority interests (Non-controlling interests)	-	-	-	-	-	-
Total equity	**6,940**	**6,940**	**-**	**6,768**	**6,768**	**-**
Total liabilities and equity	**57,625**	**57,542**	**83**	**49,538**	**49,475**	**63**

Statement of financial position – unaudited (continued)

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

Assets

In the Annual Report, the CNB's other deposits are presented in the Cash and balances with Croatian National Bank, while loans and receivables from banks are presented separately. In accordance with the Decision these positions are presented as part of Financial assets at amortized cost in Loans and advances.
In accordance with the Decision, the calculation assets by derivative financial instruments are presented in Other assets, derivative financial instruments that are used as a hedging instrument, but do not comply with the application of hedge accounting, are, according to the Decision, shown in the derivative position - hedge accounting, while in the Annual Report they are presented in the position of Financial assets measured at fair value through profit or loss.
In accordance with the Decision, receivables for credit cards together with penalty interest rates for credit cards are presented as part of the Loans and advances at amortized cost, while in the Annual Report they are partly presented in the position of Other assets at amortized cost, and partly in Loans and advances at amortized cost.
In accordance with the Decision, liabilities on loan payment accounts are presented as a part of Other liabilities, while in the Annual Report they are presented as a part of the Loans and advances at amortized cost.
In accordance with the Decision, receivables from fees and penalty interest fees, paid advances, customer's receivables and other receivables are presented as a part of Loans and advances at amortized cost, while in the Annual Report they are partly stated as position Other assets at amortized cost.
In accordance with the Decision, all investments in affiliated companies are presented in the position of Investments in subsidiaries, joint ventures and associates, while in the Annual Report they are presented as a Assets held for sale.
In accordance with the Decision, the position of tangible assets includes investments in real estate that are presented in a separate note in the Annual Report, and part of the tangible assets for which the conditions for reclassification to assets intended for sale have been met, which is disclosed in the Annual Report.
Investments in other people's assets are shown in the position of intangible assets in accordance with the Decision, while in the Annual Report these investments are shown in the position of property, plant and equipment within the scope of tangible assets.

Liabilities

Pursuant to the Decision, derivatives relating to hedge accounting are presented in a separate position, while in the Annual Report they are presented under Financial liabilities held for trading.
In accordance with the Decision, bearer deposits are stated in the position of Other Liabilities measured at amortized cost, while in the Annual Report they are stated as part of the Liabilities due to customers.
Lease liabilities (IFRS 16) and fee liabilities are recognized in accordance with the Decision in the position of Other financial liabilities measured at amortized cost, while in the Annual Report they are presented under Other liabilities.
In accordance with the Decision, calculation liabilities by derivative financial instruments are presented in the position of Other financial liabilities, while in the Annual Report they are presented within derivative financial liabilities.
In accordance with the Decision, loans received from financial institutions, other short-term and long-term loans and issued subordinated debt instruments are presented in separate positions, while in the Annual Report they are presented within the aggregate position of Other liabilities.
In accordance with the Decision, liabilities for the payment of previously written-off deposits are presented as part of the Provisions, while in the Annual Report they are presented within the positions of Other liabilities.
The position of tax liabilities in accordance with the Decision shows liabilities for value added tax and other tax liabilities, which are shown in the Annual Report under the position of other liabilities, and receivables for value added tax which are shown in the Annual Report under other assets.

Equity

In accordance with the Decision, the profit for year is presented in a separate position, while in the Annual Report it is presented as part of the Retained earnings.

Statement of changes in equity – unaudited

2022	Capital	Share premium	Equity instruments issued other than Capital	Other equity	Accumulated other comprehensive income	Retained earnings	Revaluation reserves	Other reserves	(-) Treasury shares	Profit or (-) loss attributable to owners of the parent	(-) Interim dividends	Non-controlling interest		Total
												Accumulated Other Comprehensive Income	Other items	
Opening balance [before restatement]	**3,994**	**171**	**-**	**-**	**141**	**1,323**	**-**	**508**	**-**	**631**	**-**	**-**	**-**	**6,768**
Effects of corrections of errors	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Effects of changes in accounting policies	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Opening balance [current period] (1. + 2. + 3.)	**3,994**	**171**	**-**	**-**	**141**	**1,323**	**-**	**508**	**-**	**631**	**-**	**-**	**-**	**6,768**
Issuance of ordinary shares	-	-	-	-	-	-	**-**	**-**	**-**	**-**	-	-	-	-
Issuance of preference shares	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Issuance of other equity instruments	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Exercise or expiration of other equity instruments issued	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Conversion of debt to equity	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Capital reduction	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Dividends	-	-	-	-	-	(300)	-	-	-	-	-	-	-	(300)
Purchase of treasury shares	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Sale or cancellation of treasury shares	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Reclassification of financial instruments from equity to liability	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Reclassification of financial instruments from liability to equity	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Transfers among components of equity	-	-	-	-	-	631	-	-	-	(631)	-	-	-	-
Equity increase or (-) decrease resulting from business combi-nations	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Share based payments	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Other increase or (-) decrease in equity	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Total comprehensive income for the year	-	-	-	-	(203)	-	-	-	-	675	-	-	-	472
Closing balance [current period] (from 4 to 20)	**3,994**	**171**	**-**	**-**	**(62)**	**1,654**	-	**508**	**-**	**675**	**-**	**-**	**-**	**6,940**

Statement of changes in equity – unaudited (continued)

2021	Capital	Share premium	Equity instruments issued other than Capital	Other equity	Accumulated other comprehensive income	Retained earnings	Revaluation reserves	Other reserves	(-) Treasury shares	Profit or (-) loss attributable to owners of the parent	(-) Interim dividends	Non-controlling interest		Total
												Accumulated Other Comprehensive Income	Other items	
Opening balance [before restatement]	**3,994**	**171**	**-**	**-**	**171**	**1,322**	**-**	**508**	**-**	**251**	**-**	**-**	**-**	**6,417**
Effects of corrections of errors	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Effects of changes in accounting policies	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Opening balance [current period] (1. + 2. + 3.)	**3,994**	**171**	**-**	**-**	**171**	**1,322**	**-**	**508**	**-**	**251**	**-**	**-**	**-**	**6,417**
Issuance of ordinary shares	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Issuance of preference shares	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Issuance of other equity instruments	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Exercise or expiration of other equity instruments issued	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Conversion of debt to equity	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Capital reduction	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Dividends	-	-	-	-	-	(251)	-	-	-	-	-	-	-	(251)
Purchase of treasury shares	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Sale or cancellation of treasury shares	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Reclassification of financial instruments from equity to liability	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Reclassification of financial instruments from liability to equity	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Transfers among components of equity	-	-	-	-	-	251	-	-	-	(251)	-	-	-	-
Equity increase or (-) decrease resulting from business combi-nations	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Share based payments	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Other increase or (-) decrease in equity	-	-	-	-	(1)	1	-	-	-	-	-	-	-	-
Total comprehensive income for the year	-	-	-	-	(29)	-	-	-	-	631	-	-	-	602
Closing balance [current period] (from 4. to 20.)	**3,994**	**171**	**-**	**-**	**141**	**1,323**	-	**508**	**-**	**631**	**-**	**-**	**-**	**6,768**

Statement of cash flows – unaudited

	2022	2021
Operating activities – indirect method		
Profit/(loss) before tax	897	780
Adjustments		
Impairment and provisions	(21)	41
Depreciation	146	151
Net unrealised (gains)/losses on financial assets at fair value through statement of profit or loss	102	(91)
Loss/(profit) from the sale of tangible assets	-	(13)
Other non-cash items	(1,273)	(1,069)
Changes in assets and liabilities from operating activities		
Deposits with the Croatian National Bank	843	(292)
Deposits with financial institutions and loans to financial institutions	(138)	(12)
Loans and advances to other clients	(5,352)	(2,704)
Securities and other financial instruments at fair value through other comprehensive income	962	(312)
Securities and other financial instruments held for trading	206	18
Securities and other financial instruments at fair value through statement of profit of loss, not traded	-	-
Securities and other financial instruments at fair value through statement of profit or loss	28	155
Securities and other financial instruments at amortized cost	(471)	(121)
Other assets from operating activities	(218)	64
Deposits from financial institutions	446	(1,722)
Transaction accounts of other clients	7,244	5,568
Savings deposits of other clients	(614)	290
Time deposits of other clients	(1,005)	(701)
Derivative financial liabilities and other traded liabilities	118	(44)
Other liabilities from operating activities	(138)	22
Interest received from operating activities [indirect method]	1,360	1,222
Dividends received from operating activities [indirect method]	1	-
Interest paid from operating activities [indirect method]	(39)	(33)
(Income taxes paid)	(92)	(107)
Net cash flow from operating activities	**2,992**	**1,090**
Investing activities		
Cash receipts from the sale / payments for the purchase of tangible and intangible assets	(119)	32
Cash receipts from the sale / payments for the purchase of investments in branches, associates and joint ventures	-	(3)
Cash receipts from the sale / payments for the purchase of securities and other financial instruments held to maturity	-	-
Dividends received from investing activities	4	-
Other receipts/payments from investing activities	-	-

Statement of cash flows – unaudited (continued)

	2022	2021
Net cash flow from investing activities	**(115)**	**29**
Financing activities		
Net increase/(decrease) in loans received from financing activities	1,372	342
Net increase/(decrease) of debt securities issued	-	-
Net increase/(decrease) of Tier 2 capital instruments	-	-
Increase of share capital	-	-
(Dividends paid)	(300)	(251)
Other receipts/(payments) from financing activities		-
Net cash flow from financing activities	**1,072**	**91**
Net increase/(decrease) of cash and cash equivalents	**3,949**	**1,210**
Cash and cash equivalents at the beginning of period	**7,121**	**5,854**
Effect of exchange rate fluctuations on cash and cash equivalents	16	57
Cash and cash equivalents at the end of period	**11,086**	**7,121**

Unaudited presentation of the reconciliation of items presented in the Statement of cash flows as part of the Annual Report and items presented in accordance with the CNB Decision:
Impairment and provisions position in the report in accordance with the Decision is presented into the following four items in the Annual Report: Net (gains)/losses from impairment of financial assets, Impairment of tangible assets, assets intended for sale and assets taken over, Provision for legal cases and off-balance sheet items and Other provisions.
The item "Profit / loss from the sale of tangible assets" includes "(Gains) from the sale and write-off of property and equipment" and "(Gains) from the sale of assets held for sale" from the Annual Report.

In accordance with the Decision, the position Other non-cash items includes interest income from the position Interest income, interest expenses from the position Interest expense, reversal of estimated costs from the position Revenue from reversal of accrued expenses, inventory write-offs and other operating income and expenses in the position Other non-cash items, other income and expenses, exchange rate differences in the position Exchange rate differences and realized gain on the sale of financial assets measured at fair value through other comprehensive income in the position Net (gains) on financial assets measured at fair value through other comprehensive income " and the realized profit from the sale of financial assets measured at amortized cost in the position "Net (gains)/ losses from financial assets measured at amortized cost.

The item Financial assets and liabilities at fair value through profit or loss as presented in the Annual report is presented in accordance with the Decision as four separate items: Securities and other financial instruments held for trading, Securities and other financial instruments that are not actively traded but are measured at fair value through profit or loss, Securities and other financial instruments that are obligatorily carried at fair value through profit or loss and Derivative financial liabilities and other liabilities held for trading.
The item Amounts due to customers as presented in the Annual report is presented in accordance with the Decision as three separate items: Transaction accounts of other clients, Savings deposits of other clients and Time deposits of other clients.
In accordance with the Decision, other banking institutions are presented as part of the Deposits from financial institutions, while in the Annual report they are presented as part of Loans and receivables from customers position.
The Other liabilities from business activities position in accordance with the Decision is presented in two items in the Annual report: Other liabilities and Payments from provisions for liabilities and charges.

The Cash receipts from the sale / (payments for the purchase) of tangible and intangible assets position in accordance with the Decision is presented in the Annual report as Purchases of tangible and intangible assets, Proceeds from sale of tangible and intangible assets and Proceeds from sale of repossessed real estate and Proceeds from the sale of assets classified as business that will not continue.
The position "Dividends received from investment activities" in the Annual Report is divided into two items in accordance with the Decision: "Dividends received from business activities" and "Dividends received from investment activities".
The item Net increase / (decrease) of loans received from financing activities in accordance with the Decision is divided into two items in the Annual Report: Repayment of lease liabilities (IFRS 16) and Increase of other borrowed funds.