

Sustainability Report

2016 / 2017



About us

OTP banka Hrvatska d.d. is the eighth largest bank on the Croatian banking market. Around a thousand employees work with around 400,000 retail and corporate clients in a wide network of over one hundred branches and 250 ATMs.

The bank seat is in Zadar, while business centers are located in Zagreb, Pula, Sisak, Dubrovnik and Osijek. OTP banka is in 100-percent ownership of OTP Bank Nyrt Hungary. It is a member of OTP Group that operates in nine countries of Central and Eastern Europe – Hungary (seat), Bulgaria, Montenegro, Croatia, Romania, Russia, Slovakia, Serbia and Ukraine.



OTP banka in numbers

*in HRK thousands

	2016	2017
TOTAL AFTER-TAX PROFIT*	123,418	52,188
REVENUES*	975,159	899,182
ASSETS*	15,749,107	19,599,039
LOANS *	11,837,013	12,020,897
DEPOSITS*	12,619,633	13,209,424
CAPITAL ADEQUACY RATE	16.74%	16.94%
MARKET SHARE	3.98%	4.89%

BANKING SYSTEM POSITION
(according to assets)

2016 / 2017

8th



Bank's principal activities

Foreign exchange operations in Croatia;

Cash financing intermediation;

Acceptance of all types of deposits;

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

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

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

Issuance and management of payment instruments (including cards);

Foreign credit operations and payment transactions; and

Domestic payment operations.

Our products and services

Retail: accounts and service packages, cards, loans, online services, savings

Small enterprises and craftsmen: accounts and payment operations, cards, loans, online services, savings

Corporate: accounts and payment operations, deposits, cards, loans, online services

Financial markets: treasury, securities, financial instruments custody

Vision and mission

On the market, in society and local communities, we act and operate responsibly, in order to contribute to their development. We want to be a bank of significant market influence. Open, with attractive market approach and responsible operations, we are the most desirable partner to our clients.

Vision

We want to be a modern bank, constantly investing in innovations and technology advancement. We utilize our open corporate culture to encourage employees to realize their plans ambitiously. This approach will strengthen our market influence, by growing market shares in desired segments and regions.

We will be recognized by responsible conduct with all stakeholders, while our open approach, reputation and attractive market approach will secure that we are a desirable partner to clients in the center of our attention.

Mission

To our most important partners – clients, employees and shareholders – we instill confidence in our capability of contributing to their goals with our secure and stable operations. We are constantly developing modern, high-quality and competitive products and services.





We are aware of our **responsibility** for the development and growth of economy and society, local communities in which we operate and for the wellbeing of our stakeholders

Introduction of the CEO

Dear readers,

A new sustainability and social responsibility report of OTP banka Hrvatska is in front of you, pertaining to two years of our operations, 2016 and 2017. These years have been filled with business challenges for us. We have strived, as before, to lead our operations based on sustainability and responsibility principles, as well as consider our impact on economy, society and environment in our business and development planning. As a significant bank in Croatia and part of a strong banking group in the CEE, we are aware of our responsibility for the growth and development of economy and society, our local communities and for the wellbeing of all our stakeholders.

Financial industry, and banks in particular, are faced with great challenges of adjusting their operations to new regulation, social trends, economic movements, public policies and technology development. We are aware of our impacts and roles, and we discuss this with our stakeholders. We listen carefully to their insights and consider joint conclusions motivation for stable and secure operations, open approach, responsible decision-making and availability of our products and services.

Along with investing into our regular operations, in 2017 we commenced our biggest market and organizational change. Taking over Splitska banka in May 2017 began the process of integration aimed at creating the fourth biggest bank in Croatia with around 11 percent market share. This means that we are transforming into a stronger national player, maintaining our significant role in the coastal regions. Integration process seeks full commitment of our resources and great investments into building a new, sustainable organization. Full integration of the bank is planned for the end of 2018.

Nevertheless, we remained focused on our market development, along with increase of market shares which confirms our client trust and their high evaluation of our responsibility. On the market, we have also tried to respond to fast development of technology and social trends. At the same time, we developed innovative solutions and intensified relations with all our stakeholders. We continued to develop new products and services for internet and mobile banking, and to improve operational flexibility. Our commitment to economy and entrepreneurship is shown in open cooperation and individual approach to different sectors, securing quality financing for their projects.

Building quality relations with our clients, suppliers, business partners, local communities, interest groups and civil sector organizations we have continued to build our reputation as a partner and corporate citizen. Stakeholders expect the bank to responsibly manage its impacts. As a significant local employer, we are aware that our employees are also our neighbors, that we share life with their families and friends. We strive to secure encouraging and stable work environment in which our employees can develop their potential. In this reporting period we continued to implement our employee awarding program, dedicated to sustainability in this round. We also continued to secure own energy sources, by building a new solar power plant in Pula, which joined earlier constructed plants in Dubrovnik and Zadar. We continued our community investments through "Green Light for..." program, and signed Diversity Charter Croatia. Our progress is continuously tested in CSR Index. We are glad that all our efforts in implementing, promoting and communicating responsible practices were recognized in the expert community, which awarded us with "Shine" award for our communication of CSR.

We are continuously faced with different traditional and new risks and we strive to manage them thoughtfully and responsibly, aware that our business activities and decisions always affect our stakeholders, their development and wellbeing. This description of our impacts can serve as a transparent source of data about the bank, insight into our governance and our efforts to be responsible and sustainable.

Balázs Békeffy
CEO



The background of the slide features a close-up view of a boat's interior. In the upper portion, there is a bright, glowing yellow and green light reflecting off a surface, possibly water or a polished deck. Below this, a wooden deck is visible, with several thick, white ropes with red flecks coiled and draped across it. A circular metal fitting or cleat is also visible on the ropes. The overall color palette is dominated by the warm tones of the wood and the vibrant, ethereal light at the top.

Sustainability strategy

*Long term strategy
of the bank **strives to
advance stakeholder
relations and invest in
community development***

Management and directors meet regularly, and hold larger, so-called planning conferences once or twice a year, focusing on dialogue on the topics important for bank development.

For the strategic period 2016-2019 increase rates of retail sector were planned to maintain market share in deposits and increase market share in loans. Apart from market dynamics, technology news and development are always a special challenge for the bank. Main goals of digitalization were directed at development of mobile and internet banking, improvements in support processes, and advancements in consumer lending digitalization. In accordance to this, business sustainability demanded additional optimizations of the business network. Third business goal in the retail segment pertained to increasing sales efficiency.

Technology advancements of products and processes implemented in 2016 secured preconditions for further portfolio growth in 2017 by strengthening bank's competitiveness, with accent on cooperation with mid-sized companies which were, in accordance with macroeconomic trends, expected to boost their investment and business activities. Plans were based on market

recovery and expected annual GDP growth, encouraged by high rate of business related to tourism, as well as positive effect of EU membership and increased use of structural funds.

Following its corporate values and commitment to responsible, open and fair operations, the bank continued its operations in this period. Long term strategy of the bank strives to advance stakeholder relations and invest in community development. We also continued to monitor and decrease our environmental impact through renewable energy projects and use them to increase our knowledge and experience in similar projects in our portfolio. We base our future success on strengthening our corporate culture of responsibility.

In planning its future and securing sustainability on the Croatian market, OTP banka is determined to realize constant growth, organically or via acquisitions. Led by this direct of the group it belongs to, it announced intention to buy and integrate Splitska banka at the end of 2016. The reporting period was, especially 2017, along with mentioned business and sustainability goals, marked by this merger, significant and complex project that occupied many OTP banka's resources.

Sustainability goals

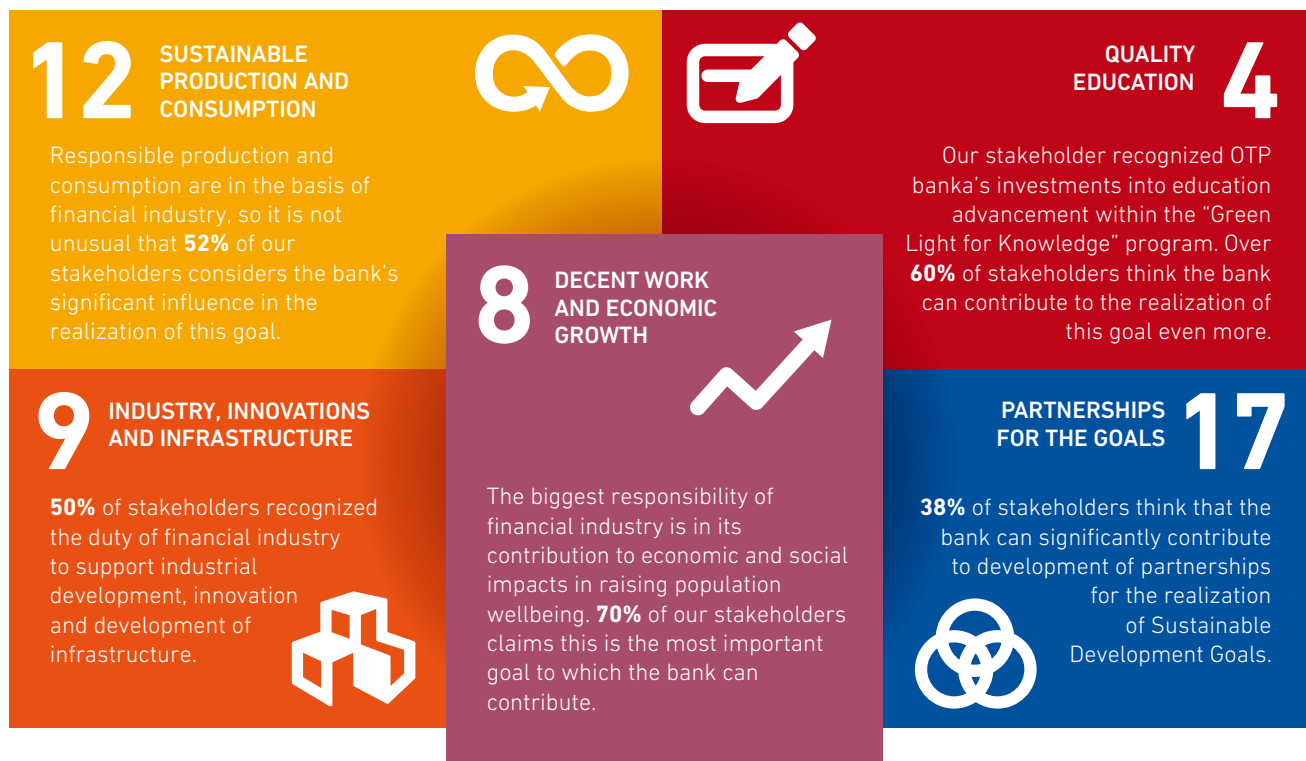
GOALS	PROJECTS	PROGRESS	LOOK AHEAD – DEVELOPMENT PLANS
Develop awareness of the importance of social responsibility among employees	Eureka, volunteering actions, participation in financial literacy initiatives		<ul style="list-style-type: none"> > Continue with development of existing projects > Strengthen financial literacy initiatives
Strengthen client loyalty based on bank responsibility	Secure availability of products and services for clients (online channels, CRM system), loyalty program, investment in local/domicile communities		<ul style="list-style-type: none"> > Advance channels of communication with clients > Strengthen financial literacy initiatives > Strengthen cooperation with local communities
Strengthen corporate values and corporate culture of the bank	Internal collaborative projects		<ul style="list-style-type: none"> > Corporate identity revision (values, mission, vision) > Corporate brand management plan > Corporate culture development project
Develop joint initiatives with stakeholders to improve responsible practices	Eureka, internal collaborative projects		<ul style="list-style-type: none"> > Participation in sustainability promoting partnership programs > Diversity policy
Decrease own environmental impact and increase energy efficiency	Solar power plants, change in energy sources, waste management, resource efficiency		<ul style="list-style-type: none"> > Development of environmental management > Strengthening of responsibility in supply chain > "Green" initiatives, initiation and participation

Stakeholder engagement

Employees' opinion. Within our regular business activities, the bank conducts stakeholder analyses and engages stakeholders in projects and programs of strategic importance. In regular process of employee satisfaction determination conducted at the beginning of the reporting period, employees were asked to state their opinion on the bank's material topics. A total of 404 employees participated in the survey, which is 35 percent of bank employees. They estimated material topics according to their importance and impact on stakeholders and surroundings, but also on the sustainability of the bank itself. Employees recognized the biggest importance and impact in the following areas: client satisfaction and trust, employee satisfaction, strength and stability of the bank, IT security in banking data and electronic channels, creating added value for products and services, availability and quality of products and services, and transparent and ethical business. These areas largely correspond with those clients marked highly important, expressed in regular client surveys: availability and quality of products and services, stability, business security, trust and transparency.

Material topics were checked in special stakeholder survey, along with their opinions on the UN Sustainable Development Goals to which the bank can contribute. Materiality was considered within these goals, and in the next report we will be able to describe the way we set our business and sustainability goals within this framework.

Sustainable Development Goals. According to our stakeholders' opinion, these are the SDGs to which the bank can contribute the most:



Materiality test. Around 50 representatives of different stakeholder groups – clients, suppliers and partners, regulators and authorities, local communities, expert and interest associations, NGOs and media – participated in the survey about OTP banka's material topics. They estimated that OTP banka has the biggest impact on economic and social development in Croatia through **investments in the local community, forming local partnerships and joint actions as well as through philanthropy (7.74/10)**. This material topic was at the same time estimated as the area in which the bank manages impacts the most successfully.

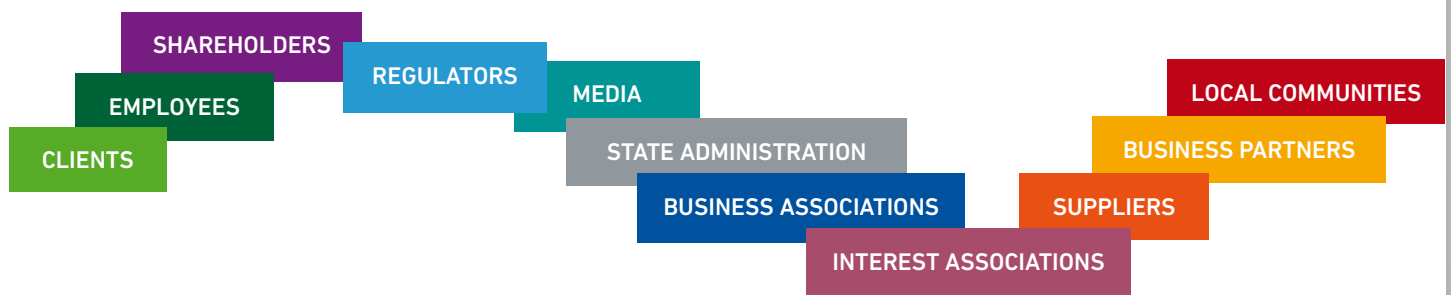
Availability of financial products and services was estimated as significant impact in economic aspect (7.48), while estimated of the bank's capacity to secure availability have been marked equally high. At the same time, they expect the bank to continue to expand its portfolio, especially in the segment of products available to MSE. **Education and**

financial literacy are topics of great importance to stakeholders (7.04). This area is very important to the financial industry, and stakeholders expect financial institutions to invest more in the development of financial literacy, estimating there is still significant room for improvement. Topic related to availability is **entrepreneurship empowerment** (importance 6.86), partly connected with availability of products and services, but also pertaining to innovative development of products and services that would cover entrepreneurial needs, as well as stronger individualization in sectors whose success depends on availability of financing.

Relations with employees (6.84) is a traditional material topic in large organizations. Stakeholders stated that the bank manages it successfully and is within a group of companies that should be taken as examples of responsibility for employees and creation of encouraging work environment, as well as strengthening of own potential as an attractive employer. Somewhat lower importance was given to bank's **impact on economic growth and support to economy** (6.44), although they have been more critical towards the bank's success in goal realization in this material area. Taking the context in consideration, it can be concluded that stakeholders have high expectations from the banking sector and its role in the development of the Croatian economy.

Technology development (6.2) is an important issue for the development of banking industry, and can affect all other material topics. Stakeholders do not perceive this topic equally important as the before mentioned, considering responsibility of the banking sector in traditional context of availability, impact, support and development of literacy. However, this topic is extremely important for the bank because it develops new possibilities of operations and directly influences development of products and services, their availability and prices, as well as channel of communication with the stakeholders. Stakeholder estimated that technology development is the issue the bank needs to address more. Issue of **energy efficiency and climate change** is not directly connected by the stakeholders with financial sector, so they do not consider it especially material for the bank (5.54). Taking in consideration that the bank had mostly secondary impacts in this field, but possibly extremely important nevertheless, since banks decide on financing industrial, infrastructural and energy projects, additional efforts need to be invested in communication of the financial sector in responsible environmental management.

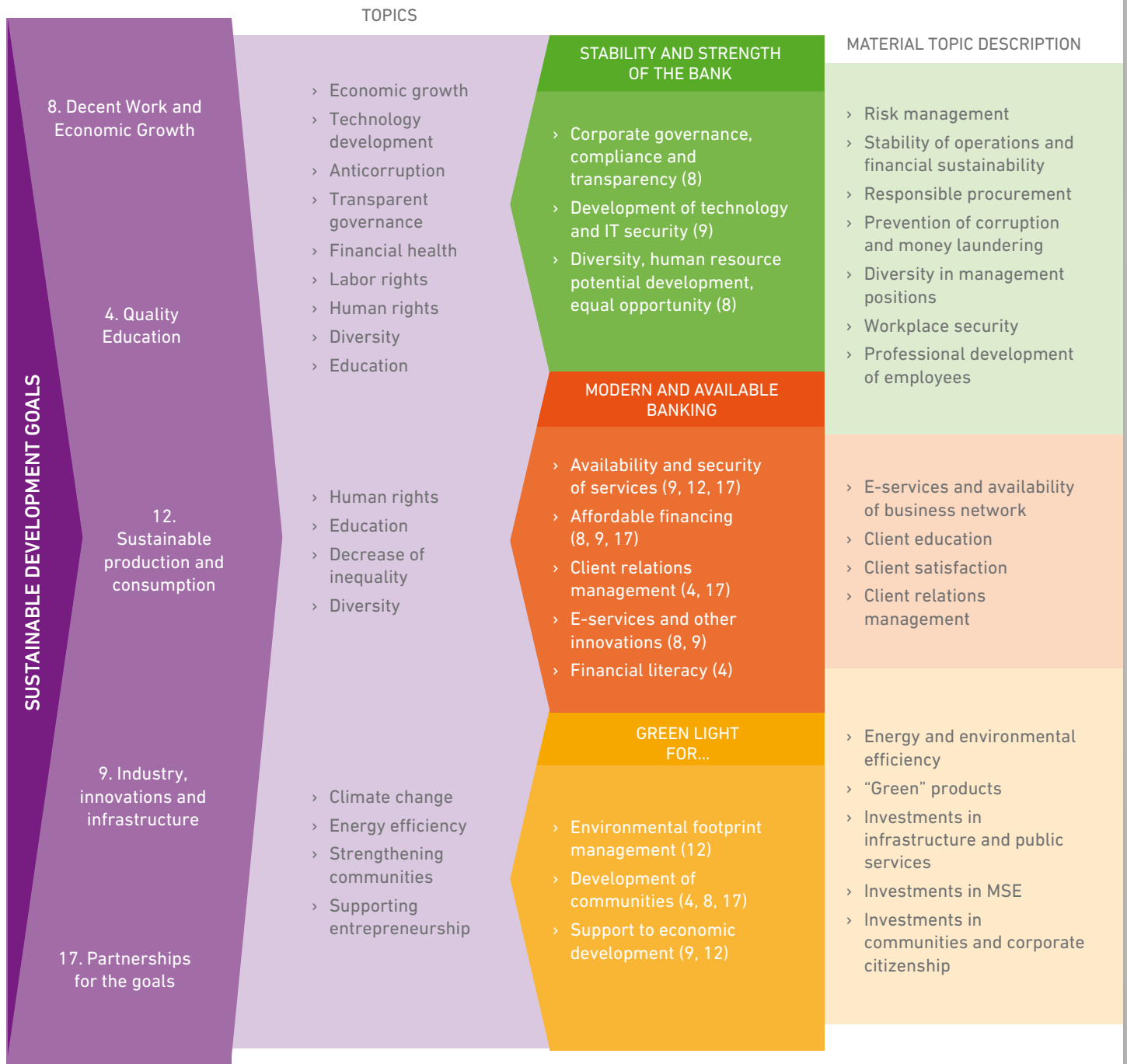
Since banking is an extremely highly regulated business, stakeholders do not consider its influence on economy and society in **anticorruption** efforts high (5.36). This opinion can be caused partly by their perception that corruption issues are mostly generated in different types of organizations.



In their comments on the material topics of the bank, stakeholders expressed opinions of the impact of the financial sector and the bank itself to the development of society and economy in Croatia. Some of the most mentioned expectations are: need to invest more in financial literacy of the population, enabling more available products and services in a responsible manner, more attention to development of entrepreneurship, financing projects, engaging in consulting services for entrepreneurs. Stakeholders also think that the banks should make their decision-making procedures more simple, fast and flexible, and strengthen approach to clients. They recognize the role of the bank as a significant corporate citizen and expect its participation in local community development, in partnerships and different kinds of investments. Bank as a financial advisor on one hand, and technology advancement on the other can enable balanced and sustainable development in the future. All stakeholder comments were taken in consideration in determining our own sustainable development goals.

Material topics


Estimated material topics were put in a framework of pertaining Sustainable Development Goals. Through three aspects, we aimed to describe three main areas of the bank's major impacts: securing stability to adequately manage economic impacts, developing modern and available banking to contribute to vital and responsible growth, and managing direct and indirect impacts on the development of society, as well as preservation of environment.





Stability and strength of the bank

*Each of our **values** is based on clear set of our **beliefs** which generate the **rules** of our behaviour and are deeply entwined in the **decisions** we bring*



Our values

Our values speak of the way we approach ourselves, our clients, shareholders, business partners and communities in which we live and work. Each of our values is based on clear set of our beliefs which generate the rules of our behaviour and are deeply entwined in the decisions we bring. Our organization culture is based on work environment in which the management clearly communicates all expectations, employees are cooperative, respectful towards each other and know that their results are valued and appreciated.

Stability

We secure stable employment and perspective work environment. We respect the trust of invested capital and secure that our operations comply with the highest standards of risk assessment and protection of owner's interest. Stable operations provide constant high quality of services for clients and sensible management of their deposits. Communities in which operate are guaranteed good entrepreneur stability and attractive business partnership.

Responsibility

Cooperation between our employees is based on personal and team responsibility towards the bank, colleagues, clients and all other stakeholders. In all strategic decisions we are led by a sense of responsibility towards owner's investment as if it was our own. Clients trust the bank and our conservative approach to managing their assets. We invest in sustainable economic and social development, in our communities. We take care of the environment.

Security

Our employees enjoy personal safety and trust the bank to invest into the development of security. We respect standards which secure the owner's trust in our wise management of the bank's assets. Client security and safety of their deposits is a principle we respect in operations and organization of the bank. We secure constant source of revenue to our communities thus increasing their financial and social security.

Openness

We develop culture of dialogue and respect employees' opinions. We communicate openly on all issues. Constant dialogue with our owner secures exchange of ideas and their complete understanding of our operations. Personal and courteous approach to the clients, with clear communication on which product best fit their needs, secures not only openness, but trust as well. We participate in economic and social life of communities and create open dialogue.

Availability

We are an organization of open doors. We foster simple communication and dialogue between all employees on all levels. Our management is quickly and easily accessible which simplifies our operations. Communication with the owner is simple, regular and open. They are available when we need direction or advice. Our clients can manage their finance in time and manner that best suits their needs. With technology development we secure complete availability. We are a part of the community and participate in its life. Our doors are open.

We joined the initiative to foster diversity



Precondition for the development of diversity is openness, one of OTP banka's corporate values. Culture of dialogue, respect for opinions of each employee, open communication, exchanging ideas with the owners, gaining trust of clients and participation in local community life all pertains to this value. Applying openness in our operations influences our capability to recognize diversity and use its advantages in the development of our operations. Another value – availability – includes and enables diversity in OTP banka as well. It means application of open-door policies, simplicity of communication and inclusion of employees regardless of their position, management availability, regular dialogue with owners, availability to clients and development of technologies that enable it. Applying these principles, we multiply opportunities to exchange opinions with our stakeholders – if we pay attention and understand, we increase capability of building individual relations which will be recognized, foremost with our clients.

Signing Diversity Charter at the end of 2017, OTP banka joined a European community gathering more than 8,000 signatories from 22 countries, thus opening new channels and potential for its organization, employees and community. The initiative is a platform gathering organizations that will share knowledge, learn from one another, and apply different tools aimed at promotion of diversity. This means continuous advancement of organization environments aimed at increasing efficiency of organizations and each individual.

Diversity Charter in Croatia follows successful models from other European countries, based on a set of voluntarily accepted principles with the purpose to promote diversity, non-discrimination, inclusion and equal opportunity in the workplace.

Organizational excellence can be achieved only if the organization gives enough attention to its human resources, giving them the opportunity to think freely and ununiformly. Harmony between organizational and employee values is preferable, and can be best influenced by those that bring inspiration, motivation, ambition, enthusiasm, those that want to propose changes and participate in them, those open and available. These kinds of employees build cultures of the most successful company, nurturing diversities.

Corporate governance

Croatian OTP banka was managed by a four-member Management Board for the most of this reporting period. It was headed by CEO Balázs Békeffy and Board members Helena Banjad, in charge of credit, market and operating risks monitoring and management, Zorislav Vidović, in charge of treasury, finance, corporate banking and group management system, and Slaven Celić, in charge of retail, marketing and corporate communication. Slaven Celić was OTP banka Board member by May 1, 2017, after which the bank was managed by three-member Board.

OTP Bank shows full trust in local management and nurtures talents in all its group members – here it is shown by the fact that three out of four OTP banka Board members are long-term employees of the bank and its predecessors. Concerning diversity in management bodies, it is important to note that 42 percent of management positions in OTP banka are taken by women.



Corporate governance as the basis for OTP banka operations stipulates responsible and ethical demeanor towards all stakeholders on the market. Our system is set on transparent, responsible and fair operations based on clear procedures and instructions. Along with granting loans and managing savings, OTP banka constantly strives to improve the quality of its service, especially taking in consideration risk management, protection of client stakes and responsible financing. The bank regularly reports to stakeholders about all these business aspects.

Corporate Governance Code defines goals and basic principles of governance, duties and obligation of management positions, conflict of interest and role of audit as mechanism securing successful governance. In its operations, the bank is also led by Rulebook on Conflict of Interest Prevention, own Corporate Governance Code, Ethical Code and Ethical Statement adopted in 2015, which stipulate ethical principles applied by the bank in operations – basic moral demands, principles of professionalism, relations with clients, colleagues and competitors, as well as principles of corporate governance and social responsibility.

Risk management

The bank manages risks applying procedures and methods to determine, measure, estimate, manage and monitor risks, including reporting on possible risks. Risk policy is aligned with bank strategy, while the bank has policies and procedures for risk management, updated and monitored in practice.

The bank recognizes and manages the following risks:

- › Capital risk
- › Credit risk
- › Market risks (currency risk, interest risk)
- › Liquidity risk
- › Operating risk
- › Other risks the bank is exposed to in its operations

Bank activities in operating risk management is in line with rules and best management practices, regularly audited in accordance with changes. Rules for Operating Risk Management is framework for operating risk management in the bank, as well as Guide for Operating Risk Management. The bank also has a Contingency Plan and Handbook on Risk Communications, which determine system of operation contingency in extraordinary events.

Risk Management Sector includes Direction for Quantitative Analyses, Market and Operating Risk as an independent organizational unit in charge of suggesting management framework for operating risk, as well as analyses, documenting and reporting on operating risk events, and assistance and support to all bank units in understanding structured management of operating risk.

Domestic banking market has been marked by recovery of credit activities in the private sector, but also problems with direct and indirect exposure to Agrokor and suppliers in 2017. Problems in Agrokor significantly decreased profitability of domestic banking sector compared to 2016, when return on equity came close to two-figure levels, and halted positive trends of NPL decrease. Nevertheless, level of system capitalization remained high, as well as the degree of its resilience to eventual shocks.

Concerning risks from climate change, the bank recognizes its responsibility for environmental footprint management and helping its stakeholders do the same. This is seen in energy consumption management in its administrative buildings as well as in the offer of affordable loans for clients to do the same.

Anti-corruption

Anti-corruption measures are included in internal acts like the Ethical Code and Rulebook on Conflict of Interest Prevention, while special estimate of risk from corruption was not implemented in the reporting period. Ethical Statement which is an integral part of the Ethical Code is available on OTP banka website. All Board members and employees are obligated to follow principles and values proscribed by the Code, which the document is available to employs on bank intranet and website. Operating principles stipulated by the Ethical Code is communicated to business partners and suppliers as well; those that operate on bank's behalf are obligated to follow them as well.

Ethical Code proscribes that donations can be secured only in line with the law and internal rules and policies. In this process, anti-corruption principle is also considered. In accordance with OTP Group guidelines, the bank does not provide political contributions to the state or to political parties. There have been no cases of corruption in the bank in the reporting period.

Prevention of terrorism and money laundry

Compliance in OTP banka is also secured in application of mechanisms proscribed by the Policy on Prevention of Money Laundry and Terrorism. They are used to determine the identity of any client demanding any service and cannot perform any payment actions for the client that has not been identified in accordance with the law. The bank invests efforts to secure identification of clients and keeping records in accordance with EU Directives and national legislature. Aiming to prevent money laundry, the bank set up internal procedures guaranteeing timely reporting of suspect transactions to authorities. In order to secure this, special attention is given to quality education of employees.

Bank's memberships

- › Croatian Banking Association
- › Croatian Employers' Association
- › Money and Short Term Securities Market
- › Croatian SWIFT Group
- › The Zagreb Stock Exchange

Personal memberships of bank's experts

- › ACI Hrvatska
- › Croatian IT Assembly
- › European Payments Council's Cards Working Group

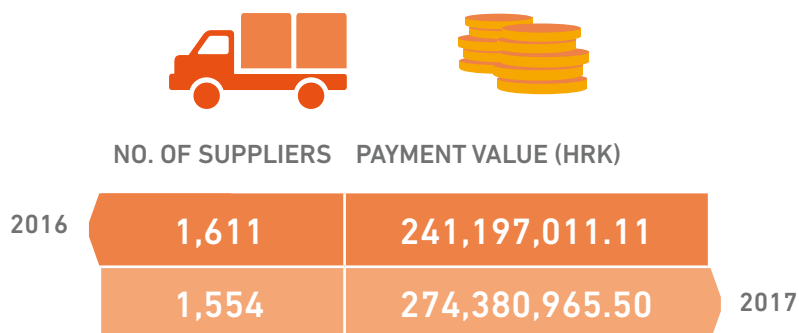
Suppliers and procurement

Department of Procurement, Maintenance and Workplace Safety oversees planning budget for space maintenance as well as for equipment and services procurement. Procurement process and supplier relations are defined by the Procurement Rulebook, CAPEX, OPEX procedures and rules of procurement of OTP banka and its daughter companies.

Department of Procurement, Maintenance and Workplace Safety is responsible for procurement of materials, services and equipment as well as equipment for office automation, telecommunication technology, bank's technology, for property which is subject to central procurement (computer hardware, UPS and telephone network, network tools and services, tools, office technology, telecommunications, technological tools and accessories, tools for banking technology, tools for banking security, cars and vans, signs and advertisements, furniture and other fixed assets, educational tools, stamps as fixed assets) and material stocks that are subject to central procurement (computer supplies, paper for special forms/shipments, bank forms including payment slips and strictly carrying forms, blank cards, rubber stamps). For the procurement of IT equipment, procurement team cooperates with IT Direction in order to obtain their approval. Supply of technical equipment for branch offices is organized on the basis of standard equipment list that is accepted by the group. Supply of office materials and bank forms and their distribution are arranged with contractual suppliers, due to which warehouses are not used; they are delivered to units that ordered supply. Ordering and distribution of materials is organized once a month for each business center.

Framework contracts are signed with long term suppliers in those cases when supplier takes the responsibility to supply the bank during a determined or undetermined period, with agreed price or depending on agreed conditions. Offers can be collected in tenders as well. For orders that are not covered by contracts, requests are sent for an offer to addresses of at least three suppliers, or when this is not possible, it is enough to collect two offers. For certain types of equipment or work materials not key for bank's core business, signing the contract on services or maintenance with the producer or service agency is often most favorable.

For large purchases, negotiations are conducted and agreements are made in order to utilize the purchasing power of the bank, and to ensure that purchases of goods and services represent the best value for the bank. Investments and procurements worth over EUR 50,000 must go through two phases of approval, and every phase must be approved by authorized body. The first phase pertains to approval of initiation of investment and decision on supplier selection. The second phase relates to approval of results of conducted procurement. The bank can bring the decision on its own for procurements worth under EUR 50,000, in compliance with internal regulations.



In the reporting period, the bank contracted around a hundred suppliers, most of them from Croatia, with several contracts with foreign suppliers, mostly from Hungary. All contractual suppliers are evaluated annually in accordance with supply capacities, quality of materials/products/services provided, service after sale, technical capabilities, performance, business reputation, financial reputation, communication, geographical situation and available workforce.

Along with existing conditions, in tenders the bank seeks additional information about the ownership structure and connected companies as a precondition for participation. Committee for evaluation of submitted offers in issued tenders can include bank's external experts as well. In every tender, the bank carefully scans the market and evaluates offers based on several criteria (most often price, quality and cooperation with the bank). The bank does not evaluate suppliers based on environmental and social criteria or demand abiding to them in contracts, apart from

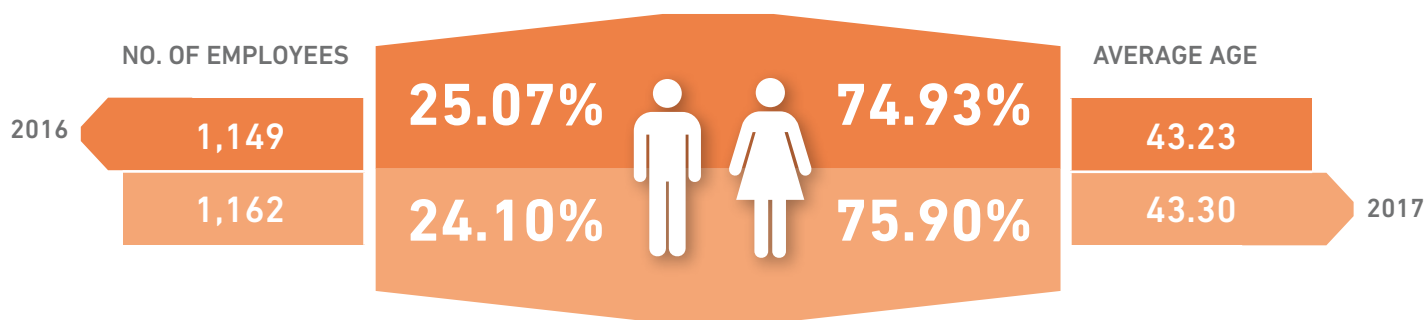
tenders, which can seek some of these criteria met (number of employees, references, characteristics of the offer etc.). Reason for this is a relatively modest network of suppliers for some services in Croatia.

There were no significant changes in the procurement system or selection of suppliers in the reporting period. Changes in the supply chain mostly pertain to procedures and approval phases for goods and services, depending on their value. Procurement approvals are regulated by the Procurement Rulebook, CAPEX, OPEX procedures and rules of procurement of OTP banka and its daughter companies.



“OTPeople”

Expert and successful employees make our bank special. With its organizational culture, values and market approach, the bank builds belief that everything that makes it special is there because of its employees.



Internal structure and operations organization is a very dynamic area of business, which poses permanent goals before out managers and employees, like change management, (re)defining authorities and responsibilities of organizational units and workplaces, increasing individual and organizational efficiency and permanent planning of work capacities to secure optimum number, level of knowledge, skills and competences.

In accordance with the law, employees are free to establish trade unions, and the bank had two in the reporting period. Trade unions and the bank work together to encourage appropriate level of cooperation in information, consulting and bringing joint decisions on mutual relations, but also in other issues important for socio-economic status of employees. Trade unions and the bank as employer maintain relations based on professionalism, mutual understanding and appreciation, and agreeing on optimum solutions for employees and employer.

All benefits that the bank offers are consummated equally by employees with permanent and those with time limited contracts – annual physical check-up, eye exams, Christmas and annual bonuses, material gifts, gifts for children by the age of 15, financial aid for ill employees and assistance for families of deceased employees. During the reporting period, the bank did not apply collective agreement or had special pension plan for employees. The shortest deadline for information on substantial changes is eight days before coming in power. There were no cases of discrimination in the workplace in the reporting period.

Employees can express their satisfaction with working environment in annual internal survey, which was conducted in early 2017 for 2016, and was postponed for 2017 due to Splitska banka integration process. Instead, in 2017 employees had the opportunity to participate in so-called “pulse check” survey. Three were conducted in 2017, asking employees about their understanding of the process, its communication and informing. Research showed increase of

satisfaction with the level of informing, use of internal bi-weekly newsletter as primary source of information on the integration process as well as trust in integration process ultimate success. Results also showed increase in understanding of phases of the process at a particular time. Comments underlined importance of communication and collaboration and need to obtain more prices information about the process, which was a subject of improvements during this entire period.

Results of the regular employee satisfaction survey show high average level of satisfaction with total share of 93% those that give average grades 3-4 and 4-5, and significantly lower level of dissatisfaction with 7% share, grading with 1-2 and 2-3. Compared with results from 2015, employee expectations are positively tone, where the share of employees expecting positive changes increased by 1%, while participants did not express pessimistic attitude related to this.

General expression of satisfaction was determined through employee response in particular areas, with a total of 55% of (very) satisfied and 16% of (very) dissatisfied employees, as well as 29% of undetermined in expressing opinions. The biggest level of satisfaction is expressed by management (65%), while the biggest level of dissatisfaction and undetermined (34%) pertains to salaries and rewards.

Salaries, benefits and rewards

EMPLOYEE COSTS (in HRK thousands)	2014	2015	2016	2017
Employee salaries	118,200	133,747	132,684	136,831
Other employee costs	75,076	44,982	55,473	156,969
TOTAL	193,276	178,729	188,157	293,800
Operating costs	196,586	212,896	202,472	223,976
Amortization	32,268	35,914	36,911	39,488

We have set up a motivating, comprehensible, selective and flexible compensation system. This system takes in consideration values that contribute to individual and organizational success. It is used to develop a culture based on employee achievements, following and developing talents, as well as encouraging loyalty, excellence and creativity.

Our salary system was built on a defined number of different profile or job groups and pertaining workplace structures. Each position is evaluated through pertaining salary grades with defined salary span. This area of human resource management was additionally improved through the development of competence evaluation system, which is an additional tool for managers to objectively assess their employees' work. Individual salaries can change in annual or temporary revision of salaries in accordance with the planned budget.

There is no difference in salaries, rewards or workplace descriptions for men and women in OTP banka.

AWARDS AND BONUSES FOR CONTRIBUTION TO BANK BUSINESS

	2016	2017
According to procedure for awarding employees' participation in projects	148	170
According to procedure for awarding results in retail	349	359
According to procedure for payment of annual performance bonus	308	309
According to procedure for awarding results in soft collection	10	0
According to procedure for awarding results in NPL collection	6	6
According to procedure for awarding ideas	0	0
According to procedure for keeping employees		24
Total	821	868
%	71.45	74.69

Performance review

Regular performance reviews have been introduced in 2015 as pilot program and were continued in the reporting period. In 2016, 100 percent of employees received reviews, and were graded with 4.28 in average, while in 2017 again 100 percent of bank employees were reviewed, with 4.46 average grade.

OTP banka also introduced reviews using the 360-degree feedback method in order to identify levels of management and leadership skills, as well as openness to constructive feedback for sector and direction directors. The questionnaire contains developed grading scale and covers competences (listening, planning, goal setting, team work, motivation, leadership) and behaviors.

Every participant receives feedback on their skills, while the employer gets information on identified traits and development needs. Consultants engaged in the process developed a Personal Development Plan which defines focus behaviors and activities to develop competences.

The bank does not organize special programs for lifelong learning or implements a lifelong learning strategy.

Legacy planning guidelines

To avoid unpreparedness for unannounced and unexpected changes on key positions, it is key to invest in individual development plans in order to develop competences employees will need to take over more challenging functions. Legacy plans bring benefits to employees as well as the to the bank, because they secure management continuity, maintain and develop bank's intellectual capital for the future. Therefore, the bank prepared Guidelines for Legacy Planning in which it underlined important factors of the project and provided milestones for easier implementation. Well designed and communicated plan for filling key positions secures uninterrupted transition in short terms. Legacy maps are not plans to replace employees on key positions; they are a sophisticated approach securing employee development and their readiness for changes before they occur.

Web portal for employees

Web portal for employees simplifies and accelerates process for approving holidays and paid vacations, secures various examinations and decreases administration costs (e-mails, printing notices, postal delivery etc.). This is a fast and efficient way of communication between employees and their managers regarding these topics.

Christmas plays for children of OTP and Splitska banka employees

With support of OTP and Splitska banka management boards, Christmas plays have been organized in 2016 and in 2017 for the children of both banks' employees in Dubrovnik, Osijek, Pula, Split, Zadar and Zagreb.

Professional development and education

We want our employees to continuously educate themselves, increase their knowledge, develop skills and competences to be successful on their position or to take over new ones in the future, with increased demands and responsibilities. We support their development, plan education determining priorities, organize internal workshops, meeting and conferences, connect theories and practice, motivate employees to transfer their knowledge to colleagues and raise their awareness that any form of education is a reward at the same time.

In order to implement professional orientation and development cycles in practice, we expect proactive approach from our employees and openness to gaining new knowledge and skills, readiness to take tasks and responsibilities, as well as future business challenges. Our activities are directed at developing our education and training system platform, as well as career management process.

Numerous in-house educations were held for different profiles of bank employees. Some of the most interesting are:

- › Mental mapping and creative thinking is a workshop directed at realizing advantages, possibilities and manners of creative thinking and techniques of creative thinking, developing mental maps and their application in business practice.
- › Coaching skills in the workplace – goal of the workshop is to introduce employees to coaching techniques and their application in leadership and management. Apart from being a powerful leadership technique, coaching can be applied in monitoring work, setting goals and evaluating results.
- › Seven habits of successful people – certified workshop based on eponymous world bestseller by Stephen R. Covey. The program is based on the principles of efficiency, which enables us to reach wanted results in all areas of life, helps us adjust our paradigms with efficiency principles and teaches us how to train them into habits. Participants were able to learn about taking initiative in work, align priorities, communicate better, find creative solutions in cooperation with others, set and create organizational vision, mission and values.
- › Strategic thinking and planning – workshop that provided independent strategy setting still in accordance with company strategy. Training was aimed at increasing the level of strategy understanding and gaining independence in turning goals in results, actions and tasks for team members, as well as raise awareness of the importance of strategy, vision and values for bringing good decision, realizing better results and gaining better market position.
- › SDI team workshop was organized to improve team work, increase quality of cooperation between company units and direct potentials into goal realization. SDI is a tool for individual and group profiling intended for people whose job is to develop others or want to change relations with others. Participants were able to learn how different motivation systems and individual perception affect team relations, how to realize own strengths, improve communication in the team and decrease silo effect, recognize potential individual barriers for realization of team goals, upgrade team work and manage conflicts.

Gender	Hours in in-house trainings				Hours in external trainings			
	2016	2017	2016	2017	2016	2017	2016	2017
Top management	12	0	4	0	752.5	363	471.5	141.5
Middle management	16.5	60	17	23.5	629	183	349.5	165
Employees	610	569.5	2,058	3,207.5	2,286.5	1,829	4,225.5	4,795.5

“Eureka” program continues

Idea awarding is conducted in campaigns, each in set time and with set topic. Topics can be various, depending on current issues or areas in which we seek improvements. Each employee idea is evaluated according to set groups and individual criteria, grading scale and difficulty factor. Third cycle of awarding ideas in OTP banka “Eureka” program was organized in 2016, with the topic of social responsibility. A total of 14 ideas were submitted, which the jury analyzed carefully, and selected three to award.

Luka Čirjak’s idea “Looking green, acting green” contains several component solutions. One is directed at development of “green” mobility and decreasing bank’s impact by supporting bicycle commuting. The second solution pertains to investments in renewable energy and energy efficiency in cooperation with energy sector partner, and it pertains to installation of filling stations for electric vehicles. In this segment, the idea continues to develop into the development of credit lines for the purchase of hybrid and electric vehicles.



Ana Klarić Kuluz joined several aspects of responsibility with her idea “We are here for you”. The idea proposed a more intensive transfer to e-communication with clients to decrease resource consumption, as well as a stronger digitalization and e-archiving documents. In the segment of social actions, she proposed several projects aimed at alleviating cooperation with the bank for socially sensitive groups like pensioners with low income or unemployed clients. In this segment, education on bank offers of reprogramming loans is equally important.

Željka Stapić’s idea was directed at cooperation with Environmental Protection Fund’s energy efficiency sector and authorized certifiers to educate citizens on the benefits of investments into energy efficiency. Idea joins cooperation with contractors using eco-friendly materials with loan products specially aimed at EE projects.

Attracting talented students

Importance of scholarships to find future experts is multiple. Individual thus gains financial safety, as well as certainty in finding a job while still studying. The bank is enabled to increase the number of highly educated employs of deficit vocations and to cooperate with educational institutions to become reputable as an employer of choice.

Target population of the program are students of undergraduate university studies, primarily of majors that are sought after on the labor market. The right to participate in the tender is open to students that satisfy general conditions and specific criteria to determine talents, while selection is based on employment procedure through three selection rounds (testing, interview and selection).

This scholarship tender was open for students in October 2016. HR Direction received six applications, three students entered selection, while determining the list of candidates followed to grant one excellence scholarship of HRK 4,000 a month and two scholarships of HRK 1,600 a month.

OTP banka volunteers

Croatian Network of Volunteer Centers has been organizing manifestation entitled "Croatia volunteers" since 2011, aiming to mobilize a great number of volunteers on national level and underline the importance of volunteer work for development of a society in which every individual has the right and responsibility to contribute and be valued for their contribution.

The manifestation is held annually at the end of May and gathered 194 organizations with over 4,500 volunteers in 2016, including OTP banka's. Many of our colleagues decided to spend their free time usefully. Participating in different volunteering activities, many individuals, association, institutions and companies joined the action to promote volunteering.



OTP banka team on "Wings for Life World Run"





Every year in May since 2015, OTP banka team participates in global "Wings for Life World Run" race, which is being held at the same time on around thirty locations across the globe, including Zadar. Collected funds are entirely used by Wings for Life foundation to finance modern research of spinal injuries.





OTP banka team grows each year; in 2016 it gathered 46 members that ran a total of 500.65 kilometers, i.e. 10.88 kilometers per member. In 2017 the team numbered 65 members with total of 747.17 kilometers passed, i.e. 11.49 kilometers per member. Both years these results put OTP banka team among the top 100 teams according to the number of participants and distance passed.



Diversity as a strength

Employees according to gender, age, work places and type of contract, 2016 and 2017

2016	Age						
	<30	30-49	50>				
Permanent contract	23	658	409	271	819	1,090	0
Limited time contract	25	32	2	17	42	59	0
Total	48	690	411	288	861	1,149	15
		Offices		Network			
		452		697			

2017	Age						
	<30	30-49	50>				
Permanent contract	39	660	380	262	817	1,079	0
Limited time contract	36	45	3	18	65	83	0
Total	75	703	383	280	882	1,162	15
		Offices		Network			
		455		707			

Newly employed and employee turnover

EMPLOYEE TURNOVER – according to type		2016		2017	
		Departures	Arrivals	Departures	Arrivals
REGION	Northern and Central Dalmatia	28	42	23	39
	Northwestern Croatia	14	14	13	14
	Slavonia	1		2	
	Dubrovnik and Southern Dalmatia	6	7	13	12
	Istria	11	5	10	9
	TOTAL	60	68	61	74

ARRIVALS

– according to age

REGION	2016					2017				
	>25	25-34	35-44	45-54	<55	>25	25-34	35-44	45-54	<55
Northern and Central Dalmatia	1	34	6	–	1	5	20	11	3	–
Northwestern Croatia	2	9	2	–	1	3	9	2	–	–
Slavonia	–	–	–	–	–	–	3	1	–	–
Dubrovnik and Southern Dalmatia	–	6	1	–	–	1	11	–	–	–
Istria	–	1	4	–	–	–	6	3	–	–
TOTAL	3	50	13	–	2	9	46	16	3	–

DEPARTURES

– according to age

REGION	2016					2017				
	>25	25-34	35-44	45-54	<55	>25	25-34	35-44	45-54	<55
Northern and Central Dalmatia	1	7	7	1	12	–	10	2	4	7
Northwestern Croatia	2	6	3	1	2	–	7	2	1	3
Slavonia	–	–	1	–	–	–	–	1	1	–
Dubrovnik and Southern Dalmatia	–	3	–	–	3	1	2	1	2	7
Istria	–	2	2	–	7	–	1	1	1	7
TOTAL	3	18	13	2	24	1	20	7	9	24

EMPLOYEE TURNOVER

– according to gender

REGION	ARRIVALS				DEPARTURES			
	2016	2016	2017	2017	2016	2016	2017	2017
Northern and Central Dalmatia	14	28	11	28	6	22	8	15
Northwestern Croatia	7	7	4	10	4	10	6	7
Slavonia	–	–	–	–	–	1	–	2
Dubrovnik and Southern Dalmatia	–	7	–	12	1	5	3	10
Istria	1	4	–	9	2	9	4	6
TOTAL	22	46	15	59	13	47	21	40

LOST DAYS

Number of lost days due to illness

2016

261

2017

261

WORK RELATED ACCIDENTS

Gender

Work related accidents

No of lost days related to accidents at work

No of fatal accidents

2016



0

6

0

166

0

0

2017



1

11

10

422

0

0

PARENTAL LEAVE

Gender

Employees using parental leave in the reporting period

Number of employees that returned to work after parental leave

2016



0

63

0

27

2017



0

57

0

20

The rate of employee return and remained in the bank after the return from parental leave in 2016 and 2017 was 100 percent.





Modern and available banking

*Bank is available in **any place** and at **any time** to retail clients, in accordance with strategic goal of business digitalization, **via e-channels** – internet and mobile banking*

OTP and Splitska banka integration specifics strongly marked entire 2017, half of this reporting period. In such circumstances, it was crucial for our management and employees to secure quality and reliable service to clients, participating at the same time in complex processes for integration of two large banks.

Depending on the nature of their business, clients operate with Retail Sector and Corporate Sector, through five business centers and directions aimed at specific segments of products and their sale. Bank is available in any place and at any time to retail clients, in accordance with strategic goal of business digitalization, via e-channels – internet and mobile banking. In this period business clients got the same benefit with the introduction of mobile banking for this segment.

All clients have over a hundred branch office of the bank at their disposal, while some of them are situated in special state protection areas in order to secure availability of banking services to clients that live in low populated areas and those in need of economic growth.

		2014	2015	2016	2017
BUDGET CONTRIBUTIONS	 VALUE ADDED TAX	5,522,058.22	7,541,481.28	9,805,959.27	11,550,147.69
	 PROFIT TAX	25,300,387.22	6,088,109.58 -25,300,387.22	0.00 -6,088,109.58	22,420,388.94 0.00
	 INCOME TAX AND CONTRIBUTIONS	62,028,238.00	78,854,143.00	71,363,472.92	72,409,026.82
	 REAL ESTATE TAX	114,866.00	78,041.00	220,324.05	200,443.98
TOTAL (HRK)		92,965,549.44	67,261,387.64	75,301,646.66	106,580,007.43

On the way to the fourth largest bank



Beginning of May 2017 was marked by important events for OTP banka: it closed transaction by which it became 100-percent owner of Splitska banka. The acquisition was announced with signing of the purchase and sales contract in December 2016, after which it went through usual processes of regulatory approvals.

Integration of OTP and Splitska banka is unique in the history of banking in Croatia, merging two relatively same sized banks, with interesting comparative advantages, which operate in the entire Croatia. That alone meant that this will not be an integration seen ever before. A completely new organization is necessary to fit the size of the new bank, as well as setting up processes that would support a strong and ambitious system. Choosing what is best of both banks is the principle, as well as using the integration process to develop new solutions that might not still exist in banks as they are now.

Up to the integration, and during the reporting period, both banks operate as separate legal entities. After the integration is completed, the new bank will be called OTP banka Hrvatska and will have its seat in Split. Banking network that will be formed will be one of the largest in Croatia, in seven business centers in Croatia, and with large ATM network. Uniting the best qualities of both banks will secure higher standards of banking services for our clients and their financial needs.

By autumn 2018, a strong universal bank will be formed, fourth largest on the market with 11-percent market share and over half a million clients. With stronger capital base, the future bank will enable better opportunities to finance economy, local and infrastructure projects.

Market participation

Integration of the two banks has been approved by all authorized regulators. There have been no cases of market competition breach in the reporting period. As for non-compliance with regulations concerning economy, reports for 2016 and 2017 of the compliance functions and Compliance Department record a court dispute initiated by Croatian Association for Consumer Protection citing non-compliance with Consumer Protection Act, i.e. contracting unfair clause on consumer loans with currency clause and variable interest rate. In addition, report for 2016 stated non-compliance with the Consumer Protection Act after a client failed to receive response in regulated time.

Developing client relations

Our clients

Detailed information on all products, services and fees are available to clients on OTP banka website, as well as in all branch offices. In order to increase availability of information, the bank presents its products and services on the website in detail, states terms and conditions for contracting, all fees charged, and documents needed. For every loan client can use informative credit calculator, and deposit calculator for all savings models. There have been no cases of non-compliance with product labeling regulation in the reporting period.



**CURRENT ACCOUNTS
(NO. OF CONTRACTS)**



**GYRO ACCOUNTS
(NO. OF CONTRACTS)**



**ISSUED BANKING
CARDS (DEBIT,
CREDIT, PREPAID)**



**INTERNET
BANKING USERS**



**MOBILE BANKING
USERS**



**OTPPetica LOYALTY
PROGRAM MEMBERS**

	2015	2016	2017
CURRENT ACCOUNTS (NO. OF CONTRACTS)	305,960	307,610	302,685
GYRO ACCOUNTS (NO. OF CONTRACTS)	86,958	87,538	90,988
ISSUED BANKING CARDS (DEBIT, CREDIT, PREPAID)	387,729	384,167	383,645
INTERNET BANKING USERS	56,420	60,638	66,030
MOBILE BANKING USERS	19,864	32,515	48,971
OTPPetica LOYALTY PROGRAM MEMBERS	-	-	12,195

Relations with clients of strategic importance

In accordance with digitalization and optimization strategy, implementation of customer relationship management software (CRM) was recognized as a project of strategic importance. The system came in full use in June 2017, and application shows excellent results in providing wider and joint view of client data, contacts with them, portfolio management results for organization units, setting and monitoring realization of goals and a series of other functionalities that will enrich client services and managing relations with clients.

Using e-mail distribution service, we upgraded existing system of sending monthly e-newsletter to OTP banka clients. Integrating different online channels and contents as well as screen responsiveness enables us to bring news from the bank to clients in a fresh and interesting way.

By mid-April 2016 we upgraded OTP m-banking application, and in October that same year enabled access to e-Citizens system simply and securely for clients using internet banking.

Unique loyalty program OTPetica

In February 2017, OTP banka launched its loyalty program OTPetica, multifunctional application that enables users to collect points and win awards, with education on banking products and services.

Application is free of charge for OTP banka clients and can be accessed via internet or mobile banking. Users collect points by participating in selected challenges; by using bank's products and following educational contents on them in the application. Points collected by participating in challenges or answering questions can be exchanged for awards of OTP banka partners.

OTPetica is simple, enabling clients to educate themselves on the banking products, directing them to contents on the bank's website where they can learn more about them. In this manner, the program does not only rely on the number of uses but encourages active interest and participation to collect points.

At the beginning of October 2017, Hungarian OTP Bank organized internal conference on digitalization in Keckemet, which gathered participants from all OTP Group members. Digital Fair was held during the conference where members had the opportunity to present their innovations and digital solutions. OTP banka Hrvatska presented OTPetica and OTP m-business application and won the award for the best breakout products for its digital loyalty program OTPetica.



Subsidized housing loans

In September 2017, OTP banka enabled contracting housing loans with state subventions in cooperation with Agency for Transaction and Mediation in Immovable Properties (APN). Clients that are not older than 45 and do not own a home, or their partner/spouse does not, or those that do own a home ready to sell to purchase a bigger one could apply for a loan. Subsidized housing loans were granted with currency clause in euro or without currency clause in kuna, with favorable interest rates, no processing fees and expenses for real estate valuation which were taken over by the bank. Housing loans with state subventions were granted up to the amount of HRK 100,000, i.e. HRK 1,500 EUR/m² with minimal repayment period of 15 years.

Lower interest rates for retail loans

During 2016 and 2017, OTP banka continued to decrease interest rates for all existing and new citizens' loans with variable interest rates, following the changes in national referent interest rate (NRS1) to which the bank pegs its retail loans. Parameters which can influence the change of variable interest rates in consumer lending are referent interest rates (like EURIBOR or LIBOR), consumer price index, premium on credit risk of the Republic of Croatia and other that abide legal conditions. Since Croatia did not apply its own referent interest rate that could be applied equally as international rates, Croatian Banking Association has, in accordance with public information of the Croatian National bank, defined national referent interest rate of average financing cost for the Croatian banking sector (NRS).

Fast and simple payments for thousands of INmusic festivalgoers

Cashless and contactless payments was there to help festivalgoers on 2016 and 2017 INmusic edition to enjoy music and avoid standing in lines. As the festival partner, the bank secured the used of contactless festival cards and all contactless banking cards on festival stands.

Apart from simple and easy purchase, some of the advantages of cashless and contactless payments are immediate top ups of festival card on over 30 locations in the festival and festival camp, easy and fast refunds on the same locations and in bank branches in the days after the festival with IDs and bills issued with the festival card purchase.

INmusic festival is the biggest Croatian open-air festival visited by tens of thousands of foreign and Croatian music lovers. Payment system OTP banka introduced in the festival is among the best graded features of the festival each year.



Mobile banking for businesses

Since mid-July 2016, OTP banka offers mobile banking for businesses, OTP m-business. This is a specially developed application which is partly an equivalent to existing eLEMENT@internet banking application. The interface is responsive for mobile phone use, and functionalities include the most used online payment and viewing transactions.

OTP m-business application is available to all business subjects and can be contracted in any OTP banka branch office. Client needs a smartphone with Android or iOS for the use, access to Internet and available storage on the device. The application can be used in Croatian and English.

Client satisfaction

According to data also submitted to the Croatian National Bank, OTP banka completely solved all inquiries and reclamations in 2016 and 2017, and their numbers were maintained on the same levels as in the previous period. Apart from Contact Centre and branch offices, clients can address the bank via its Facebook page as well.

RECLAMATIONS	2016	2017
Total number	4,741	3,185
Number of justified reclamations	1,655	1,916

The bank conducts client satisfaction survey, from this reporting period on according to a new methodology. Using the program Net Promoter, the bank measures brand perception, client experience, loyalty and probability of recommendations, on a scale of 1 to 10. Total results an organization can record vary between -100 and 100. OTP banka recorded a score of 79 for 2016 and 78 for 2017.

Sales Direction organizes mystery shopping process biannually, to examine the level of sales process standardization. Secret shoppers visit branches, seeking information from commercialists according to defined scenarios. Results for both 2016 and 2017 showed high level of client satisfaction with received information and recommendations, while the element of relations building remained on levels from previous periods. There were no cases of non-compliance with regulations and voluntary codes concerning marketing communications, breaches of client privacy or loss of personal data.

Our contribution to financial literacy

Participating in “Financial Literacy” project

OTP banka joined “Financial Literacy” project organized by Croatian Chamber of Economy in cooperation with CFSSA and trade associations within the Financial Institutions, Business Information and Economic Analyses Sector in CCE. The project pertains to educations and presentations for students in five high schools in cooperation with the City of Zagreb, as well as educations for high schoolers and students during World and European Money Week in Osijek, Rijeka, Split, Varaždin and Zagreb.

Our Cvjetni trg branch manager Tomislav Jurić held a lecture in Commercial School in Zagreb on banking operations with special accent on services available to younger populations, as well as a lecture for teachers with accent on personal finance. Within this project, CCE prepared educational brochure entitled “Banks and Basic Concepts of Banking”.

18th Financial Breakfast held in Split and Zagreb

Financial Breakfast gathering entitled “Croatia and Euro – When, How and Why?” organized by Splitska and for the first time OTP banka, was traditionally held in two largest Croatian cities, gathering eminent economic experts, businessmen and clients. The gathering was held on November 9, 2017 in Croatian National Theatre in Split and on November 10 in Zagreb’s Mimara Museum.

The discussion gathering Maruška Vizek, Velimir Šonje, Zdeslav Šantić and Josip Berket in Split pertained to expectations but also possible threats to introduction of euro. Discussion on the same topic in Zagreb included Maruška Vizek, Velimir Šonje, Marijana Ivanov, Zdeslav Šantić and Petar Vlaić. Both discussions were moderated by Boris Mišević and they showed different standpoints which lead to conclusion that eurozone entrance will be challenging, both for economic policy creators and domestic businesses.



Educational workshop “Internet Safety”

Within the European Money Week, OTP banka held an educational workshop entitled “Internet Safety” on March 17, 2016 in multimedia hall of the Zadar City Library. Head of the IT Safety Department Marijo Sutlović introduced participants to basic concepts of safe behavior online, as well as with protection the bank provides for the users of internet banking. He explained which information the bank can ask for from clients, and which it

will never demand, as well as types of internet frauds connected to financial operations. Finally, participants were advised on personal computer, card and mobile payments protection.

World Savings Day marked in OTP banka

For many years OTP banka has been celebrating World Savings Day inviting kindergarten and school children to visit its branches across Croatia in the week of October 31. Branch managers then find the time to simply explain what banks and bankers do, as well as to stress the importance of savings and careful money management from early age. They answered many interesting questions and prepared presents for the children. With its "Green Light for Knowledge" program, OTP banka encourages education and science, so World Savings Day is always an occasion to invest in financial literacy of the youngest.



Little school of investments with OTP Invest

Investment funds are becoming a significant choice in deciding about personal asset management, taking in consideration the level of risk investors are ready to take. In cooperation with OTP Invest, OTP banka made a video "Little school of investments", which can be seen on OTP banka website and its YouTube channel, bringing more information on investment funds and investment options.

Business in numbers

Retail banking

LOANS – RETAIL (HRK)	31/12/15	31/12/16	31/12/17
Northwestern Croatia	1,726,754,000	1,825,454,000	1,903,167,000
Istria and Primorje	1,181,573,000	1,187,864,000	1,261,474,000
Northern and Central Dalmatia	1,796,045,000	1,827,153,000	2,014,061,000
Dubrovnik and Southern Dalmatia	1,414,357,000	1,428,670,000	1,529,670,000
Slavonia	640,103,000	655,490,000	678,898,000
TOTAL	6,758,832,000	6,924,631,000	7,387,270,000

DEPOSITS – RETAIL (HRK)	31/12/15	31/12/16	31/12/17
Northwestern Croatia	1,019,392,000	922,893,000	910,544,000
Istria and Primorje	2,771,224,000	2,766,481,000	2,816,642,000
Northern and Central Dalmatia	3,677,233,000	3,657,991,000	3,654,077,000
Dubrovnik and Southern Dalmatia	2,818,543,000	2,854,705,000	2,833,463,000
Slavonia	271,682,000	211,971,000	191,855,000
INTERNET	5,184,000	3,399,000	2,717,000
TOTAL	10,563,258,000	10,417,439,000	10,409,299,000

Corporate banking

GROSS LOAN WALLET (HRK)	31/12/15	31/12/16	31/12/17
Large systems	1,304,101	1,280,454	1,259,198
Northwestern Croatia	284,619	458,694	520,671
Istria and Primorje	821,537	930,871	897,076
Northern and Central Dalmatia	356,696	403,179	415,470
Dubrovnik and Southern Dalmatia	346,509	481,997	494,370
Slavonia	187,812	281,707	314,291
TOTAL	3,301,274	3,836,902	3,901,076


A'VISTA DEPOSITS (HRK)	31/12/15	31/12/16	31/12/17
Large systems	16,203	10,982	200,168
Northwestern Croatia	200,780	252,499	337,383
Istria and Primorje	317,849	412,588	510,650
Northern and Central Dalmatia	220,101	253,808	404,636
Dubrovnik and Southern Dalmatia	133,337	152,162	194,102
Slavonia	84,433	84,302	111,162
TOTAL	972,703	1,166,341	1,758,101

TERM DEPOSITS (HRK)	31/12/15	31/12/16	31/12/17
Large systems	3,954	3,992	8,278
Northwestern Croatia	38,338	36,418	45,153
Istria and Primorje	204,877	182,010	147,191
Northern and Central Dalmatia	80,507	85,278	76,089
Dubrovnik and Southern Dalmatia	84,500	102,667	78,050
Slavonia	7,205	2,437	7,586
TOTAL TERM DEPOSITS	419,381	412,802	362,347

A hand holding a glowing lightbulb against a bokeh background of warm lights. The background is filled with out-of-focus circular lights in shades of yellow, orange, and blue, creating a soft, dreamy atmosphere. The hand is positioned in the lower right, holding the lightbulb which is the central focus of the image.

Green Light for...

*Socially **responsible** projects aimed at community relations building are **united** under “Green Light for...” brand, in which the bank develops initiatives to **support** sports, education, science, culture, healthcare, entrepreneurship*



OTP banka operates on social responsibility principles, seen foremost in transparent operations, from loan granting to savings and risk management, but also in project aimed at contributing to the development of local communities in which, specific in its regional character, OTP banka operates. The bank strives to encourage and maintain stakeholder dialogue, aware that its operations affect more than a thousand employees, many suppliers, clients and local communities.

Socially responsible projects aimed at community relations building are united under “Green Light for...” brand, in which the bank develops initiatives to support sports, education, science, culture, healthcare, entrepreneurship. Managing this program means having to carefully listen to the needs of communities in which the bank operates. Additionally, each of our employees can suggest projects and initiatives to which the bank can contribute.

Policies and procedures open the possibility to all to suggest creating special loan lines for encouraging enterprises, launch initiatives to decrease environmental footprint, or suggest volunteering possibilities.

Supporting entrepreneurship

OTP banka takes special care of micro, small and medium-sized entrepreneurs, securing products and services that would back their development and growth. The bank thus offers packages intended for small entrepreneurs and special credit lines for them in its portfolio.

Credit lines for small entrepreneurs

OTP banka strives to support small entrepreneurs developing a series of products and services intended for farmers and offering special loans for apartment renters and entrepreneurs in tourism. In cooperation with local self-government, ministries and CBRD, OTP banka participates in projects financing entrepreneurial projects in agriculture, tourism and SMEs in general. One of the examples for this is Sisak-Moslavina County project “Entrepreneurial loans” with anti-recession (refinancing unfavorable loans from the previous period) and developmental impact (encouraging new investments with accent on production projects). Implementation goals are development of favorable business surroundings and easy access to financing for SMEs, startups and other businessmen wanting to start or develop businesses.

In cooperation with CBRD, OTP banka approved placements worth HRK 71,690,082 in 2016, while this volume grew in 2017 to HRK 86,571,831. In cooperation with ministries and local self-government, the bank granted loans worth HRK 16,834,203 in 2016 and HRK 65,189,237 in 2017.

Special lines for entrepreneurs recorded increase of interest from entrepreneurs from different sectors. For the need of entrepreneurship in tourism, the bank granted loans worth HRK 18.2 million, which this volume increased to HRK 22.5 million in 2017. In agricultural segment, 2016 recorded loans worth HRK 17.2 million, with increase to HRK 30 million in 2017.

“Gold Worthy”: the best family farms in 2016

OTP banka was the partner to Večernji list and Ministry of Agriculture in project “Gold Worthy”, awarding the best family farms in 2016. The idea of the project is to award the best, tell their positive stories, show the importance of agriculture in Croatia, and encourage competitiveness. A hundred farms were nominated, leading 21 of those and three “young lions” in the finals. OTP banka secured cash prizes – HRK 30,000 for the first, HRK 20,000 for the second and HRK 10,000 for the third place, as well as HRK 10,000 for best start-up family farm.

The best family farm in Croatia is owned by Umihdana Šahdanović from Polja Čepić in Istrian municipality of Kršan, where she herds montafon cows and produces cheese. The second place was taken by Dubravko Pernjak from Kolan on the Island of Pag, who has a herd of 535 Pag's autochthon sheep and produces sheep cheese, while the owner of cow farm from Dubrava near Vrbovec Emina Burek received the third prize. The best young farmer is Josip Pintar from Gornji Kosinj in Lika, farming sweet potato and Lika potato, and owning a herd of 80 sheep and nine angus bovines.

SME banking

LOANS – MSE (HRK)	31/12/15	31/12/16	31/12/17
Northwestern Croatia	75,186	108,414	128,293
Istria and Primorje	82,472	80,758	109,740
Northern and Central Dalmatia	92,326	94,353	120,931
Dubrovnik and Southern Dalmatia	54,761	60,456	69,624
Slavonia	52,907	60,917	77,952
TOTAL	357,652	404,898	506,540





DEPOSITS – MSE (HRK)	31/12/15	31/12/16	31/12/17
Northwestern Croatia	75,266	84,408	146,662
Istria and Primorje	132,920	175,445	279,640
Northern and Central Dalmatia	118,794	120,034	252,496
Dubrovnik and Southern Dalmatia	109,785	123,745	198,647
Slavonia	12,870	18,735	75,291
TOTAL	449,634	522,367	952,736

Green bank

OTP banka strives to decrease its environmental impact in different ways, develop energy efficiency projects and improve own waste management system. Although it is not a big polluter compared to production industries, it recognizes impacts on resource efficiency and waste management as areas it must manage.

The bank monitors energy consumption, water withdrawal and waste management in order to efficiently manage these impacts. Considering these impacts let to not only internal initiatives to improve own environmental impact, but also initiatives to create products which will help clients do the same.

Consumption of resources in OTP banka

	ELECTRICITY (MWh) 	FUEL OIL (l) 	GAS (m ³) 	HOT WATER (kWh) 
2014	4,953	38,600	30,753	103,502
2015	5,570	30,650	39,971	287,137
2016	5,754	21,800	38,935	359,407
2017	5,860	18,400	41,558	365,428

Monitoring and managing resource consumption are approached strategically; during branch office refurbishments we install devices of higher energy class, as well as replace fuel oil systems with inverter AC systems.

OTP banka's solar power plants

Following the intention to decrease its environmental impact and use favorable potentials from locations in which it operates, OTP banka Management Board launched the project of solar power plant construction in 2015.

The first power plant was constructed on OTP banka's building in Dubrovnik in August 2015; the same year, solar power plant construction on the HQ in Zadar was launched and became operative in 2016, while in 2017, the bank launched its third solar power plants, on business center in Pula. Dubrovnik plant has 25 kW power and produces 32 MWh of electricity a year, the one in Zadar is of 21 kW in power and produces 27 MWh of electricity annually, while the solar power plant in Dubrovnik is of 30 kW in power, producing 40 MWh of electricity in a year.

Solar power plant in Zadar was realized through a contact on joint financing of the project aimed at renewable source energy used with the Fund for Environmental Protection and Energy Efficiency, where the fund financed 40 percent of justified costs of this investment. All produced



electricity is used for the need of in-house consumers. Investment in RES directly contributes to environmental protection, through the decrease of own carbon footprint. Construction was initiated in bank's coastal locations due to high insulation. With this project, OTP banka is one of the first companies and the first bank in Croatia to use energy from own generation for use in its office buildings.

E-mobility

The bank recognized possibility to use electric automobiles, which would decrease negative impact on the environment and use benefits from lower maintenance costs. In 2017, we considered the purchase of e-vehicle for local needs in Zadar, and the realization is planned in 2018. In the future, the bank plans to acquire e-vehicles for its fleet, while the rest of diesel fueled cars would be replaced by petrol fueled.

In 2017, the bank also launched the project to construct e-vehicle filling station in cooperation with the City of Zadar and HEP. Completion of the project is planned for 2019.

Sunny loans

Back in 2012, the bank introduced "Sunny loans", housing loans for low energy homes and adaptation of real estates with a goal of improving energy efficiency, construction, completion or adaptation, or purchase of apartments or houses with B, A and A+ energy certificate have been in the bank's offer since 2012.

Besides housing loans, the bank also offers loans for improvement of energy efficiency by financing costs of projects, gas installing, water filtering systems, adjustments on real estate affecting energy consumption, purchase or installation of solar collectors for own needs or for electricity generation for HROTE, financing AC systems, installing outside joinery with insulation glass, thermo-facades, reconstruction of roofs, installation of wind generators and other similar works directed at energy and environmental efficiency. A year later, these loans were offered to SMEs as investment loans for the purchase and installation of solar systems for energy production and based on the electricity purchase contract.

Interest in these loans increased in 2016, when clients were offered affordable interest rate of 2.99 percent (285 loans worth HRK 198 million granted). It halved in 2017, to 134 granted loans worth HRK 96 million. In comparison, in 2014, 208 loans were granted to citizens worth HRK 126.4 million, and 207 loans worth HRK 119.8 million in 2015.

Waste and water management

Collected hazardous and non-hazardous waste quantities increase in the reporting period, as a result of inventory and clearing the archives of former Banco Popolare Croatia, which OTP banka merged in 2014. In OTP banka paper is collected separately and handed over for recycling to authorized company.

There were no water sources significantly impacted by water withdrawal, and the bank did not recycle used water.

	TOTAL HAZARDOUS AND NON-HAZARDOUS WASTE (kg)	TOTAL NON-HAZARDOUS WASTE (kg)	TOTAL HAZARDOUS WASTE (kg)
2014	38,494,40		
2015	59,948,50	57,220,00	1,025,00
2016	94,122,00	87,613,00	6,509,00
2017	120,932,00	108,300,00	12,632,00



RECYCLED PAPER AND CARDBOARD (t)

2016	63.97
2017	60.54



WATER WITHDRAWN (m³)

2014	9,018
2015	11,107
2016	12,863
2017	13,054

TOTAL ENVIRONMENTAL PROTECTION INVESTMENTS

	TOTAL HAZARDOUS AND NON-HAZARDOUS WASTE (HRK)	ENERGY CERTIFICATES (HRK)	EDUCATION (HRK)	SOLAR PP (HRK)		
				DUBROVNIK	ZADAR	PULA
2014	20,692.94	0.00	0.00	336,186.25	5,500.00	
2015	23,228.13	29,450.00	3,000.00	25,410.84	15,000.00	
2016	14,942.50				297,966.09	11,500.00
2017	67,540.37					384,673.50

There were no cases of non-compliance with environmental regulation in the reporting period.

Better society

“Shine” award to OTP banka

OTP banka is the only bank among ten companies presented with “Shine” award for affirmation and visibility of CSR and sustainability in digital media in 2017. Based on the conducted national research including 203 companies, and researching 81 of them, Croatian Employers’ Association, Global Compact Croatia, business initiative “Good Croatian” for promotion of CSR practices and M.E.P. publishing selected ten companies as examples of excellent communication of CSR practices.



Award committee conducted quantitative and qualitative content analysis on company websites and social media and other communication channels. OTP banka Hrvatska was recognized as one of the companies with advanced CSR practices, which invests in communities and promotes responsibility within its “Green Light for...” program.

Helping disadvantaged students and pupils

OTP banka has been providing scholarships and other assistance for students of disadvantaged economic background in its program entitled “Green Light for Knowledge”. In the past seven years, the bank secured more than HRK 4 million in scholarships and other donations for improved education conditions and investments in education.

In the academic year 2015/16 it provided scholarships worth in total HRK 500,000 for 84 students from cities of Zadar, Sisak, Benkovac, as well as Župa dubrovačka, Nuštar, Jakšić and Kneževi Vinogradi municipalities. In academic year 2016/17, 77 disadvantaged students from Zadar, Sisak, Čakovac, Benkovac, Župa dubrovačka and Nuštar municipalities and students from the University of Zadar received scholarships.

Scholarships are awarded via tenders, with material and social position as well as general success of the student as criteria. The project is implemented in partnership with local authorities, which means that the bank as partner joined their existing scholarship programs in each academic year.

Green Light for a Better Society

A total of HRK 2.2 million were awarded to projects aimed at increasing life quality in communities via OTP banka’s donation tender “Green Light for... a Better Society”. In 2016, 52 projects were selected to distribute the fund of HRK 400,000, while the same amount was granted in total to 44 selected projects in 2017.



Criteria used by the committee for the estimation of project are impact on society and community, development or youth, long term sustainability and project reach, feasibility of goals and long-term benefit for users, as well as possibility for involvement of OTP banka volunteers in the project, but also secondary impacts like raising awareness, informing or education on the particular issue.

Projects that stand out:

Čok Kindergarten from Tkon received donation on our tender for the project of traditional drywall construction school in the category of cultural, historic and traditional heritage protection. The idea of the project is to introduce the youngest generations to this heritage, the way it was formed and how new ones can be built as cultural property. Kindergarten children learned basic concepts of drywall construction, as well as about the use of tools in drywall construction. Around 20 meters of wall is to be finished within the project on the Glagolitic Path via Čokovac.

For the project entitled "Wrestling is Life", **Wrestling Club "Slatina"** received donation on the banks tender as well. The club was founded in 1972 and recorded good results in domestic and international competitions throughout its history. For the last several years, the club is at the top of Croatian wrestling and has been proclaimed the most successful club in Slatina and Virovitica-Podravina County. The club raised several representatives in younger and senior categories. Club members participate on all domestic and international wrestling tournaments.

"Krka" eco-association from Knin implemented the project of placing eco-stands for books with the assistance of OTP banka. On five locations in Knin – Eko-info center, "Cricket" Kindergarten, playground in the city center, Golubić Elementary School and St. Bartholomew association – citizens can deposit books instead of throwing them away, take a book and bring it back after reading. Books that are not deposited in the eco-stands are donated to the city library, school libraries and eco-libraries for books and toys.

OTP banka helped in the organization of **Blind in Theatre**, tenth international festival of theatre for the blind and visually impaired. The festival gathered theatre groups from Montenegro, Germany, USA, United Kingdom and Croatia. Apart from plays, its diverse program included performances, discussions, an exhibition, book promotion and short film projection. International festival of theatre for the blind and visually impaired is held every other year in Zagreb. Plays gather blind and visually impaired actors, while affirmed theatre professionals help with the productions. The festival includes exhibitions, round tables and other events with topic of creative expression of this part of the population.

Green Light for Culture

Cooperation with summer theatre festivals continues

In both 2016 and 2017, OTP banka donated HRK 180,000 for drama premiers on Dubrovnik Summer Festival. "The Coffee Shop" and "Držić – Enemy's Victoria" were staged on Stradun and in the Art School park, with sold out performances during a number of festival days. "Story of a Soldier", "Grižula", "Ondine", "Oresty", "Arkulin", "Miser", "On the Terrace", "The Government Inspector", "Kate Kapuralica", "Uncle Maroje", "Dubrovnik Trilogy" are only several out of numerous plays which, with the support of OTP banka, enriched the drama program of Dubrovnik Summer Festival.

2016 and 2017



The bank also cooperates with Croatian National Theatre in Zadar on the organization of Zadar Culture Summer, supporting the organization of Zadar Jazz&Blues on the terrace of Antique Glass Museum. The festival brought performances of Fred Wesley & The New JBs, Saskia Laroo and NO BS! Brass Band in 2016 and Joyce Elaine Yuille, Wawau Adler Jazz Guitar & Damir Kukuruzović Django Group and Gangbé Brass Band in the summer of 2017.



HRVATSKO NARODNO KAZALIŠTE ZADAR

22. ZADARSKO KAZALIŠNO LJETO

22nd ZADAR SUMMER THEATRE FESTIVAL

29. 6. - 4. 8. 2016.

SVEČANO OTVARANJE
OPENING CEREMONY
29. 6. 2016.

MUZEJ ANTIČKOG STAKLA
MUSEUM OF ANCIENT GLASS
21:30h / 9:30pm

concert
MATIJA DEDIĆ, piano (CRO)
MATIJA SVIRA ARSENA

GRAD ZADAR, REPUBLIKA HRVATSKA, OTPbanka, SUPERNOVA

Vasko Lipovac: Retrospective

Retrospective exhibit of the great Vasko Lipovac was open mid-September 2017 in Klovičevi dvori Gallery in Zagreb. This unique event shows the artist as a significant representative of Croatian and European modernism of the second half of 20th century. Apart from offering insight into authors work through all phases, this exhibit presented many previously unexhibited artists works.

The author of the exhibit was esteemed art historian Zvonko Maković, it was curated by Ana Medić, and the organization was helped by Splitska and OTP banka.



Green Light for Sport

In 2016 and 2017, OTP banka was a partner of sporting and education project "Active Croatia". Under the auspices of Croatian President Kolinda Grabar-Kitarović and in cooperation with Central State Office for Sports, the project gathers experts in kinesiology, nutrition and medicine, as well as numerous celebrities and sportsmen. Joint trainings and education programs are held within the project in cities across Croatia, including more than 25,000 people so far.

Many sports clubs and sportsmen received donations from OTP banka within its annual donation tender, while the bank sponsors several federations and clubs gathering basketball and water polo players, wrestlers, sailmen, rowers and other sportsmen.



Report profile

Our third two-year sustainability report follows our plans, activities and sustainability goal fulfillment in 2016 and 2017. Developed according to core version of the Global Reporting Initiative Standard, it follows the report published for 2014/2015. External assurance was not sought, and the bank will consider this in the next reporting periods.

OTP banka's sustainability report for 2016/2017 announces an important change in information that will follow in its next report; integration of Splitska banka in the autumn of 2018, OTP banka Hrvatska will become a more significant subject on the Croatian banking and financial market and greater corporate citizen, which will reflect on our strategies, policies and impact management practices.

Looking back, we believe that this report has offered progress in terms of volume and relevance of information in comparison to the last one. Our permanent dedication to openness and availability gives you the option to not only consider our impacts, but to offer your opinion on them. We will gladly consider it and include suggestions of our stakeholders into our future reports.

All questions about this report can be adressed to:

OTP banka Hrvatska d.d.
Marketing and Coporate Commnunications Direction
Domovinskog rata 3
23 000 Zadar

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