



OTP BANK PLC.

**SEPARATE CONDENSED
FINANCIAL STATEMENTS IN ACCORDANCE
WITH INTERNATIONAL FINANCIAL
REPORTING STANDARDS AS ADOPTED
BY THE EUROPEAN UNION**

FOR THE YEAR
ENDED 31 DECEMBER 2018

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	Note	2018	2017
Cash, amounts due from banks and balances with the National Bank of Hungary		360,855	399,124
Placements with other banks, net of allowance for placement losses		1,074,840	978,098
Financial assets at fair value through profit or loss	4.	155,042	303,927
Financial assets at fair value through other comprehensive income	5.	1,451,905	1,735,902
Loans	6.	2,618,863	2,145,046
Investments in subsidiaries, associates and other investments	7.	1,177,573	967,414
Securities at amortised cost	8.	1,431,789	1,043,779
Property and equipment		70,442	65,286
Intangible assets		39,883	32,877
Investment properties		2,333	2,374
Deferred tax assets		1,241	7,991
Derivative financial assets designated as fair value hedge		12,221	10,148
Other assets		<u>109,201</u>	<u>79,916</u>
TOTAL ASSETS		<u>8,506,188</u>	<u>7,771,882</u>
Amounts due to banks and Hungarian Government, deposits from the National Bank of Hungary and other banks		738,036	694,533
Deposits from customers	9.	5,741,498	5,192,869
Liabilities from issued securities	10.	46,694	60,304
Financial liabilities at fair value through profit or loss		32,231	-
Derivative financial liabilities designated as held for trading		82,838	79,545
Derivative financial liabilities designated as hedge accounting relationships		6,925	17,179
Other liabilities		236,570	193,360
Subordinated bonds and loans		<u>110,454</u>	<u>108,835</u>
TOTAL LIABILITIES		<u>6,995,246</u>	<u>6,346,625</u>
Share capital		28,000	28,000
Retained earnings and reserves		1,484,906	1,406,797
Treasury shares		<u>(1,964)</u>	<u>(9,540)</u>
TOTAL SHAREHOLDERS' EQUITY		<u>1,510,942</u>	<u>1,425,257</u>
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		<u>8,506,188</u>	<u>7,771,882</u>

	Note	2018	2017
Interest Income	12.	290,733	244,976
Interest Expense	12.	<u>(83,778)</u>	<u>(69,321)</u>
NET INTEREST INCOME	12.	<u>206,955</u>	<u>175,655</u>
Provision for impairment on loan and placement losses	6.	(7,822)	(7,775)
NET INTEREST INCOME AFTER PROVISION FOR IMPAIRMENT ON LOAN AND PLACEMENT LOSSES		<u>199,133</u>	<u>167,880</u>
Net profit from fees and commissions		178,217	176,404
Net operating income		84,438	178,518
Other administrative expenses		(277,155)	(252,385)
PROFIT BEFORE INCOME TAX		<u>184,633</u>	<u>270,417</u>
Income tax expense		<u>(11,191)</u>	<u>(18,867)</u>
NET PROFIT FOR THE PERIOD		<u>173,442</u>	<u>251,550</u>
Earnings per share (in HUF)			
Basic		<u>621</u>	<u>902</u>
Diluted		<u>621</u>	<u>902</u>

The comprehensive income items are as follows:

	2018	2017
NET PROFIT FOR THE PERIOD	<u>173,442</u>	<u>251,550</u>
Items that may be reclassified subsequently to profit or loss:		
Fair value adjustment of financial assets at fair value through other comprehensive income	(28,640)	18,174
Deferred tax (9%) related to financial assets at fair value through other comprehensive income	2,543	(1,636)
Derivative financial instruments designated as cash flow hedge	<u>949</u>	<u>-</u>
Total	<u>(25,148)</u>	<u>16,538</u>
NET COMPREHENSIVE INCOME	<u>148,294</u>	<u>268,088</u>

	Share Capital	Capital reserve	Share-based payment reserve	Retained earnings	Other comprehensive income	Other reserves	Put option reserve	Treasury Shares	Total
Balance as at 1 January 2017	<u>28,000</u>	<u>52</u>	<u>28,237</u>	<u>1,132,360</u>	<u>53,662</u>	<u>34,289</u>	<u>(55,468)</u>	<u>(8,709)</u>	<u>1,212,423</u>
Net profit for the year	-	-	-	251,550	-	-	-	-	251,550
Other comprehensive income	-	-	-	-	16,538	-	-	-	16,538
Share-based payment	-	-	3,598	-	-	-	-	-	3,598
Payments to ICES holders	-	-	-	(1,519)	-	-	-	-	(1,519)
Sale of treasury shares	-	-	-	-	-	-	-	12,679	12,679
Loss on sale of treasury shares	-	-	-	(3,302)	-	-	-	-	(3,302)
Acquisition of treasury shares	-	-	-	-	-	-	-	(13,510)	(13,510)
Transfer to general reserve	-	-	-	(25,155)	-	25,155	-	-	-
Dividend for the year 2016	-	-	-	<u>(53,200)</u>	-	-	-	-	<u>(53,200)</u>
Balance as at 31 December 2017	<u>28,000</u>	<u>52</u>	<u>31,835</u>	<u>1,300,734</u>	<u>70,200</u>	<u>59,444</u>	<u>(55,468)</u>	<u>(9,540)</u>	<u>1,425,257</u>
Effect of transition to application of IFRS 9	-	-	-	(5,364)	389	-	-	-	(4,975)
Balance as at 1 January 2018 in accordance with IFRS 9	<u>28,000</u>	<u>52</u>	<u>31,835</u>	<u>1,295,370</u>	<u>70,589</u>	<u>59,444</u>	<u>(55,468)</u>	<u>(9,540)</u>	<u>1,420,282</u>
Net profit for the year	-	-	-	173,442	-	-	-	-	173,442
Other comprehensive income	-	-	-	-	(25,148)	-	-	-	(25,148)
Share-based payment	-	-	3,797	-	-	-	-	-	3,797
Payments to ICES holders	-	-	-	(1,256)	-	-	-	-	(1,256)
Sale of treasury shares	-	-	-	(6,431)	-	-	-	21,814	15,383
Acquisition of treasury shares	-	-	-	-	-	-	-	(14,238)	(14,238)
Transfer to general reserve	-	-	-	(17,344)	-	17,344	-	-	-
Dividend for the year 2017	-	-	-	<u>(61,320)</u>	-	-	-	-	<u>(61,320)</u>
Balance as at 31 December 2018	<u>28,000</u>	<u>52</u>	<u>35,632</u>	<u>1,382,461</u>	<u>45,441</u>	<u>76,788</u>	<u>(55,468)</u>	<u>(1,964)</u>	<u>1,510,942</u>

SEPARATE CONDENSED STATEMENT OF CASH FLOWS
FOR YEAR ENDED 31 DECEMBER 2018
 (UNAUDITED) (in HUF mn)

	2018	2017
Profit before income tax	184,633	270,417
Net accrued interest	1,586	(4,682)
Depreciation and amortization	21,232	20,529
Release of provision for impairment	(2,525)	(78,627)
Share-based payment	3,797	3,598
Unrealised losses on fair value adjustment of securities at fair value through profit or loss and held for trading	(13,528)	(18,335)
Unrealised gains on fair value adjustment of derivative financial instruments	16,903	12,458
Net change in assets and liabilities in operating activities	<u>63,185</u>	<u>(14,234)</u>
Net cash provided by operating activities	<u>275,283</u>	<u>191,124</u>
Net cash used in investing activities	<u>(316,268)</u>	<u>(669,430)</u>
Net cash used in financing activities	<u>(3,511)</u>	<u>(54,106)</u>
Net decrease in cash and cash equivalents	<u>(44,496)</u>	<u>(532,412)</u>
Cash and cash equivalents at the beginning of the year	<u>347,854</u>	<u>880,266</u>
Cash and cash equivalents at the end of the period	<u>303,358</u>	<u>347,854</u>

NOTE 1: ORGANIZATION AND BASIS OF FINANCIAL STATEMENTS

1.1. General information

These interim condensed financial statements had been prepared in accordance with the prescriptions of IAS 34.

1.2. Accounting

The Bank maintains its accounting records and prepares its statutory accounts in accordance with the commercial, banking and fiscal regulations prevailing in Hungary.

The presentation and the functional currency of the Bank is the Hungarian Forint (“HUF”).

The Bank followed the same accounting policies and methods of computation in the interim financial statements as compared with the most recent annual financial statements, except changes as a result of applying IFRS 9 “Financial Instruments”.

IFRS 9 “Financial Instruments” replaces IAS 39 “Financial Instruments: Recognition and Measurement” for annual reporting periods commencing on or after 1 January 2018. It contains changes to the requirements relating to the recognition and measurement, impairment, derecognition and hedge accounting.

Effect of transition to IFRS 9 on CET1 capital is not significant in case of the separate financial statements.

IAS 39	IFRS 9	Opening balance according to IAS 39	Reclassification	Remeasurement due to reclassification	Remeasurement due to impairment				Opening balance according to IFRS 9
					Stage 1	Stage 2	Stage 3	POCI	
Placements with other banks	Placements with other banks	<u>978,098</u>	<u>-</u>	<u>-</u>	<u>(1,257)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>976,841</u>
Loans measured at amortised cost	Loans measured at amortised cost	2,145,046	(19,650)	-	(1,350)	(1,902)	(5,679)	2,021	2,118,486
	Loans mandatorily measured at fair value	<u>-</u>	<u>19,650</u>	<u>1,408</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>21,058</u>
Loans total	Loans total	<u>2,145,046</u>	<u>-</u>	<u>1,408</u>	<u>(1,350)</u>	<u>(1,902)</u>	<u>(5,679)</u>	<u>2,021</u>	<u>2,139,544</u>
Held for trading securities	Held for trading securities	206,715	-	-	-	-	-	-	206,715
Available for sale securities	Securities mandatorily measured at fair value through profit or loss	-	20,005	-	-	-	-	-	20,005
Available for sale securities	Securities at fair value through other comprehensive income	1,735,902	(20,005)	-	(2,380)	-	-	-	1,713,517
Held to maturity securities	Securities at amortised cost	<u>1,043,779</u>	<u>-</u>	<u>-</u>	<u>(1,477)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,042,302</u>
Securities total	Securities total	<u>2,986,396</u>	<u>-</u>	<u>-</u>	<u>(3,857)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>2,982,539</u>
	Amounts due to banks	694,533	(20,011)	-	-	-	-	-	674,522
Amounts due to banks	Financial liabilities designated as fair value through profit or loss	<u>-</u>	<u>20,011</u>	<u>1,465</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>21,476</u>
Total	Total	<u>5,415,007</u>	<u>-</u>	<u>(57)</u>	<u>(6,464)</u>	<u>(1,902)</u>	<u>(5,679)</u>	<u>2,021</u>	<u>5,402,926</u>
<i>Provision for loan commitments and financial guarantees</i>	<i>Provision for loan commitments and financial guarantees</i>	10,007	-	-	(3,911)	(240)	120	-	5,976

NOTE 2: SIGNIFICANT EVENTS DURING THE YEAR ENDED 31 DECEMBER 2018

- 1) Capital increase at OTP banka Srbija
- 2) Capital increase at OTP Banka Slovensko
- 3) Capital increase at OTP Bank Romania SA
- 4) Capital increase at Bank Center No. 1. Ltd.
- 5) Acquisition in Albania
- 6) Acquisition in Bulgaria
- 7) Acquisition in Serbia
- 8) Capital increase at DSK Bank

See details about the event above in Note 7.

NOTE 3: SIGNIFICANT EVENTS AFTER THE REPORTING PERIOD

- 9) Acquisition in Moldova

See details about the event above in Note 7.

NOTE 4: FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS (in HUF mn)

	2018	2017
<i>Securities held for trading:</i>		
Government bonds	10,538	64,570
Other non-interest bearing securities	7,169	9,187
Hungarian government discounted Treasury Bills	1,059	1,169
Mortgage bonds	972	-
Corporate shares and investments	371	319
Hungarian government interest bearing Treasury Bills	-	93,806
Other bonds	<u>2,093</u>	<u>34,583</u>
Subtotal	<u>22,202</u>	<u>203,634</u>
Accrued interest	<u>120</u>	<u>3,081</u>
Total	<u>22,322</u>	<u>206,715</u>
<i>Securities mandatorily measured at fair value through profit or loss:</i>		
Shares in investment funds	15,880	-
Bonds	<u>4,753</u>	-
	<u>20,633</u>	-
Accrued interest	<u>25</u>	-
Subtotal	<u>20,658</u>	-
<i>Held for trading derivative financial instruments:</i>		
Interest rate swaps	46,359	34,911
Foreign currency swaps	33,816	24,436
CCIRS and mark-to-market CCIRS ¹ swaps	17,078	21,314
Other derivative transactions ²	<u>14,809</u>	<u>16,551</u>
Subtotal	<u>112,062</u>	<u>97,212</u>
Total	<u>155,042</u>	<u>303,927</u>

¹ CCIRS: Cross Currency Interest Rate Swap

² incl.: FX, equity, commodity and index futures; FX forward; commodity and equity swap; FRA; FX option

NOTE 5: FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME (in HUF mn)

	2018	2017
Government bonds	869,811	1,190,235
Mortgage bonds	224,965	149,987
Interest bearing treasury bills	234,399	142,988
Other securities	105,716	234,150
- <u>listed securities</u>	<u>34,725</u>	<u>116,541</u>
<i>in HUF</i>	-	78,762
<i>in foreign currency</i>	34,725	37,779
- <u>non-listed securities</u>	<u>70,991</u>	<u>117,609</u>
<i>in HUF</i>	23,451	48,410
<i>in foreign currency</i>	47,540	69,199
Subtotal	<u>1,434,891</u>	<u>1,717,360</u>
Accrued interest	17,014	18,628
Provision for impairment	-	(86)
Securities at fair value through other comprehensive income total	<u>1,451,905</u>	<u>1,735,902</u>

An analysis of the change in the provision for impairment is as follows:

	2018	2017
Balance as at 1 January	86	-
Change as a result of applying IFRS 9	(86)	-
Reclassification	-	96
Release of provision	-	(10)
Closing balance	<u>-</u>	<u>86</u>

NOTE 6: LOANS (in HUF mn)

Loans mandatorily measured at fair value through profit or loss

	2018	2017
Gross loans	32,759	-
Fair value adjustment	<u>(156)</u>	<u>-</u>
Total	<u>32,603</u>	<u>-</u>
Accrued interest	<u>142</u>	<u>-</u>
Loans mandatorily measured at fair value through profit or loss total	<u>32,745</u>	<u>-</u>

Loans measured at fair value through profit or loss are mandatorily measured at fair value through profit or loss.

Loans measured at amortised cost, net of allowance for loan losses

	2018	2017
Short-term loans and promissory notes (within one year)	1,317,656	1,081,438
Long-term loans and promissory notes (over one year)	<u>1,330,274</u>	<u>1,127,978</u>
Loans gross total	<u>2,647,930</u>	<u>2,209,416</u>
Accrued interest	<u>4,441</u>	<u>5,138</u>
Provision for impairment on loan losses	<u>(66,253)</u>	<u>(69,508)</u>
Loans measured at amortised cost, net of allowance for loan losses total	<u>2,586,118</u>	<u>2,145,046</u>
Loans total	<u>2,618,863</u>	<u>2,145,046</u>

Partial write-off

OTP Bank applies partial write-off for loans based on the definitions and prescriptions of financial instruments in accordance with IFRS 9. If OTP Bank has no reasonable expectations regarding a financial asset (loan) to be recovered, it will be written off partially at the time of emergence. A loan will be partially written off if it has matured or was terminated by the Bank.

The gross amount and impairment loss of the loans shall be written off in the same amount to the estimated maximum recovery amount while the net carrying value is being unchanged. In these cases there is no reasonable expectation from the clients to complete contractual cash flows therefore OTP Bank does not accrue interest income in case of partial write-off. Whole amount of accrued interest being part of the amortized cost, recognized as income up to the partial write-off, will be written off.

Loan receivables legally demanded from clients are equal to the full amount of receivables before the partial write-off.

An analysis of the gross loan portfolio by type, before provision for impairment on loan losses, is as follows:

	2018		2017	
Retail loans	547,277	20%	512,529	23%
Retail consumer loans	397,911	15%	334,301	15%
Retail mortgage backed loans ¹	149,366	5%	178,228	8%
Corporate loans	2,100,653	79%	1,696,887	77%
Loans to corporates	2,003,392	75%	1,651,908	75%
Municipality loans	<u>97,261</u>	<u>4%</u>	<u>44,979</u>	<u>2%</u>
Loans at amortised cost total	<u>2,647,930</u>	<u>99%</u>	<u>2,209,416</u>	<u>100%</u>
Loans at fair value total	<u>32,603</u>	<u>1%</u>	<u>-</u>	<u>-</u>
Gross loans total	<u>2,680,533</u>	<u>100%</u>	<u>2,209,416</u>	<u>100%</u>

¹ incl. housing loans

NOTE 6: LOANS (in HUF mn) [continued]

An analysis of the loan portfolio by currency is as follows:

	2018	2017
In HUF	57%	58%
In foreign currency	<u>43%</u>	<u>42%</u>
Total	<u>100%</u>	<u>100%</u>

An analysis of the change in the provision for impairment on loan losses is as follows:

	2018	2017
Balance as at 1 January	69,508	91,335
Change as a result of applying IFRS 9	8,931	-
Reclassification	26	(1,397)
Provision for the period	102,203	79,422
Release of provision	(104,855)	(85,280)
Portional write-off	(3,444)	(3,372)
Partial write-off	<u>(6,116)</u>	<u>(11,200)</u>
Closing balance	<u>66,253</u>	<u>69,508</u>

NOTE 7: INVESTMENTS IN SUBSIDIARIES (in HUF mn)

	2018	2017
Investments in subsidiaries:		
Controlling interest	1,712,635	1,502,999
Other investments	<u>1,013</u>	<u>3,261</u>
	<u>1,713,648</u>	<u>1,506,260</u>
 Provision for impairment	 <u>(536,075)</u>	 <u>(538,846)</u>
Total	<u>1,177,573</u>	<u>967,414</u>

An analysis of the change in the provision for impairment is as follows:

	2018	2017
Balance as at 1 January	538,846	639,917
Reclassification	-	(35,871)
Provision for the period	39,430	44,770
Release of provision	(34,994)	-
Use of provision	<u>(7,207)</u>	<u>(109,970)</u>
Closing balance	<u>536,075</u>	<u>538,846</u>

NOTE 7: INVESTMENTS IN SUBSIDIARIES (in HUF mn) [continued]

The registered capital of the Serbian subsidiary (OTP banka Srbija a.d. Novi Sad) of OTP Bank was increased to RSD 31,607,808,040 from RSD 16,701,370,660 and the ownership ratio of OTP Bank Plc. represents 99.04% currently.

The registered capital of the Slovakian subsidiary (OTP Banka Slovensko a.s.) of OTP Bank was increased to EUR 111,580,508.84 from EUR 88,539,106.84 and the ownership ratio of OTP Bank Plc. represents 99.58% currently.

The registered capital of the Romanian subsidiary (OTP Bank Romania SA) of OTP Bank was increased to RON 1,509,252,960 from RON 1,254,252,720.

The registered capital of Bank Center No. 1 Ltd. has increased to HUF 11,500,000,000. Accordingly, the ownership ratios have been modified as follows: OTP Bank Plc. 72.43%, INGA Kettő Ltd. 27.57%.

OTP Bank signed an acquisition agreement on purchasing 88.89% shareholding of Banka Societe Generale Albania SH. A. („SGAL”), the Albanian subsidiary of Société Générale Group. With a market share of nearly 6%, SGAL is the 5th largest bank on the Albanian banking market and as a universal bank it has been active in the retail and corporate segment as well. The financial closing of the transaction is expected in Q4 2018 subject to obtaining all the necessary regulatory approvals.

DSK Bank EAD, the Bulgarian subsidiary of OTP Bank signed an acquisition agreement on purchasing 99.74% shareholding of Societe Generale Expressbank AD („SGEB”), the Bulgarian subsidiary of Société Générale Group, and other local subsidiaries held by SGEB. With a market share of approximately 6.7% Societe Generale Expressbank is the 7th largest bank on the Bulgarian banking market and as a universal bank it has been active in the retail and corporate segment as well. As a result of the acquisition OTP Group will further strengthen its market position in Bulgaria. The financial closing of the transaction is expected in Q4 2018 subject to obtaining all the necessary regulatory approvals.

OTP Bank signed an acquisition agreement on purchasing 100% shareholding of Societe Generale Banka Srbija a.d. („SGS”), the Serbian subsidiary of Societe Generale Group and all subsidiaries held by SGS. With a market share of 8.4% based on total assets, SGS is the 4th largest bank on the Serbian banking market and as a universal bank it has been active in the retail and corporate segment as well.

OTP Bank signed an acquisition agreement on purchasing 87.85% shareholding of Mobiasbanca – Groupe Societe Generale S.A. („SGMB”), the Moldovan subsidiary of Societe Generale Group. With a market share of 13.3%, SGMB is the 4th largest bank on the Moldovan banking market and as a universal bank it has been active in the retail and corporate segment as well. The financial closure of the transaction is expected in the coming months subject to obtaining all the necessary regulatory approvals.

The registered capital of the Bulgarian subsidiary of OTP Bank was increased to BGN 1,327,482,000 from BGN 153,984,000. The Bulgarian Court of Registration registered the capital increase at 27 December 2018.

NOTE 8: SECURITIES AT AMORTISED COST (in HUF mn)

	2018	2017
Government bonds	1,408,031	1,021,441
Mortgage bonds	<u>4,708</u>	<u>4,746</u>
Subtotal	<u>1,412,739</u>	<u>1,026,187</u>
Accrued interest	<u>20,718</u>	<u>17,592</u>
Provision for impairment	<u>(1,668)</u>	<u>-</u>
Total	<u>1,431,789</u>	<u>1,043,779</u>

NOTE 8: SECURITIES AT AMORTISED COST (in HUF mn) [continued]

An analysis of the change in the provision for impairment is as follows:

	2018	2017
Balance as at 1 January	-	-
Change as a result of applying IFRS 9	1,477	-
Provision for the period	875	-
Release of provision	<u>(684)</u>	<u>-</u>
Closing balance	<u>1,668</u>	<u>-</u>

NOTE 9: DEPOSITS FROM CUSTOMERS (in HUF mn)

	2018	2017
Within one year:		
In HUF	4,787,625	4,266,829
In foreign currency	<u>904,245</u>	<u>901,876</u>
	<u>5,691,870</u>	<u>5,168,705</u>
Over one year:		
In HUF	<u>48,100</u>	<u>22,633</u>
	<u>48,100</u>	<u>22,633</u>
Subtotal	<u>5,739,970</u>	<u>5,191,338</u>
Accrued interest	<u>1,528</u>	<u>1,531</u>
Total	<u>5,741,498</u>	<u>5,192,869</u>

An analysis of deposits from customers by type is as follows:

	2018		2017	
Retail deposits	2,943,431	51%	2,562,571	49%
Household deposits	2,943,431	51%	2,562,571	49%
Corporate deposits	2,796,539	49%	2,628,767	51%
Deposits to corporates	2,339,855	41%	2,095,613	41%
Municipality deposits	<u>456,684</u>	<u>8%</u>	<u>533,154</u>	<u>10%</u>
Total	<u>5,739,970</u>	<u>100%</u>	<u>5,191,338</u>	<u>100%</u>

NOTE 10: LIABILITIES FROM ISSUED SECURITIES (in HUF mn)

	2018	2017
Within one year:		
In HUF	9,397	12,930
In foreign currency	<u>4,817</u>	<u>6,818</u>
	<u>14,214</u>	<u>19,748</u>
Over one year:		
In HUF	32,460	40,538
In foreign currency	<u>-</u>	<u>1</u>
	<u>32,460</u>	<u>40,539</u>
Subtotal	<u>46,674</u>	<u>60,287</u>
Accrued interest	<u>20</u>	<u>17</u>
Total	<u>46,694</u>	<u>60,304</u>

NOTE 11: OFF BALANCE SHEET ITEMS AND DERIVATIVE FINANCIAL INSTRUMENTS
(in HUF mn)

(a) *Contingent liabilities and commitments*

	2018	2017
Commitments to extend credit	1,313,715	1,046,860
Guarantees arising from banking activities	828,843	612,099
<i>from this: Payment undertaking liabilities (related to issue of mortgage bonds) of OTP Mortgage Bank</i>	<i>472,213</i>	<i>278,960</i>
Legal disputes (disputed value)	3,772	5,231
Confirmed letters of credit	96	90
Other	<u>191,907</u>	<u>159,119</u>
Total	<u>2,338,333</u>	<u>1,823,399</u>

At the balance sheet date the Bank was involved in various claims and legal proceedings of a nature considered normal to its business. The level of these claims and legal proceedings corresponds to the level of claims and legal proceedings in previous years.

The Bank believes that the various asserted claims and litigations in which it is involved will not materially affect its financial position, future operating results or cash flows, although no assurance can be given with respect to the ultimate outcome of any such claim or litigation. Provision due to legal disputes was HUF 691 million and HUF 1,207 million as at 31 December 2018 and 31 December 2017, respectively.

(b) *Fair value of derivative instruments*

	Fair value	
	2018	2017
Interest rate swaps classified as held for trading		
Positive fair value of interest rate swaps classified as held for trading	46,359	34,911
Negative fair value of interest rate swaps classified as held for trading	(29,776)	(30,871)
Foreign exchange swaps classified as held for trading		
Positive fair value of foreign exchange swaps classified as held for trading	33,816	24,436
Negative fair value of foreign exchange swaps classified as held for trading	(26,654)	(14,326)
Interest rate swaps designated as fair value hedge		
Positive fair value of interest rate swaps designated in fair value hedge	4,467	6,639
Negative fair value of interest rate swaps designated in fair value hedge	(6,050)	(17,179)
CCIRS classified as held for trading		
Positive fair value of CCIRS classified as held for trading	17,078	21,314
Negative fair value of CCIRS classified as held for trading	(17,164)	(22,759)
CCIRS designated as fair value hedge		
Positive fair value of CCIRS designated in fair value hedge	4,003	3,509
Negative fair value of CCIRS designated in fair value hedge	(352)	-
Interest rate swaps designated as cash flow hedge		
Positive fair value of interest rate swaps designated in cash flow hedge	3,751	-
Negative fair value of interest rate swaps designated in cash flow hedge	(523)	-
Other derivative contracts classified as held for trading		
Positive fair value of other derivative contracts classified as held for trading	14,809	16,551
Negative fair value of other derivative contracts classified as held for trading	<u>(9,244)</u>	<u>(11,589)</u>
Derivative financial assets total	<u>124,283</u>	<u>107,360</u>
Derivative financial liabilities total	<u>(89,763)</u>	<u>(96,724)</u>
Derivative financial instruments total	<u>34,520</u>	<u>10,636</u>

As at 31 December 2018 the Bank has derivative instruments with positive fair values of HUF 124,283 million and negative fair values of HUF 89,763 million. Corresponding figures as at 31 December 2017 and 31 December 2018 are HUF 107,360 million and HUF 96,724 million.

**NOTE 11: OFF BALANCE SHEET ITEMS AND DERIVATIVE FINANCIAL INSTRUMENTS
(in HUF mn) [continued]**

Positive fair values of derivative instruments designated as hedge accounting relationships are included in other assets, while positive fair values of derivative instruments classified as held for trading are included in financial assets at fair value through profit or loss. Negative fair values of hedging derivative instruments are included in other liabilities, negative fair values of derivatives held for trading are included in the negative fair value of derivative financial instruments classified as held for trading line.

NOTE 12: NET INTEREST INCOME (in HUF mn)

	2018	2017
<i>Interest Income:</i>		
Loans	141,536	120,960
Placements with other banks, net of allowance for placement losses	69,947	47,776
Securities fair value through other comprehensive income	31,628	30,100
Securities at amortised cost	47,342	44,737
Amounts due from banks and balances with National Bank of Hungary	<u>280</u>	<u>1,403</u>
Total Interest Income	<u>290,733</u>	<u>244,976</u>
<i>Interest Expense:</i>		
Amounts due to banks and deposits from the National Bank of Hungary, other banks and the Hungarian Government	(53,993)	(56,893)
Deposits from customers	(26,634)	(9,244)
Liabilities from issued securities	(157)	(151)
Subordinated bonds and loans	<u>(2,994)</u>	<u>(3,033)</u>
Total Interest Expense	<u>(83,778)</u>	<u>(69,321)</u>
NET INTEREST INCOME	<u>206,955</u>	<u>175,655</u>

NOTE 13: RELATED PARTY TRANSACTIONS (in HUF mn)

The Bank enters into transactions for services with a number of subsidiaries. Such transactions are conducted at rates which approximate market conditions.

Related party transactions can be detailed as follows:

Transactions related to OTP Mortgage Bank Ltd.:

	2018	2017
Fees and commissions received from OTP Mortgage Bank Ltd. relating to the loans	12,792	14,254
Loans sold to OTP Mortgage Bank Ltd. (including interest)	402	447
The gross book value of the loans sold	398	399

Transactions related to OTP Factoring Ltd.:

	2018	2017
The gross book value of the loans	13,654	13,774
Provision for loan losses on the loans sold	8,348	7,398
Loans sold to OTP Factoring Ltd. without recourse (including interest)	4,747	4,914
Loss on these transaction (recorded in the separate financial statements as loan and placement loss)	559	1,462

The underlying mortgage rights were also transferred to OTP Factoring Ltd.