



**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 2017

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	Note	2017	2016 (Restated)	2015 (Restated)
Cash, amounts due from banks and balances with the National Bank of Hungary		399,124	928,846	1,326,197
Placements with other banks, net of allowance for placement losses		978,098	915,654	647,724
Financial assets at fair value through profit or loss	4.	303,927	168,188	180,717
Securities available-for-sale	5.	1,735,902	1,484,522	1,462,660
Loans, net of allowance for loan losses	6.	2,145,046	1,902,937	1,679,184
Investments in subsidiaries, associates and other investments	7.	967,414	668,869	657,531
Securities held-to-maturity	8.	1,043,779	858,150	824,801
Property and equipment		65,286	62,361	63,440
Intangible assets		32,877	27,767	32,438
Investments properties		2,374	2,267	2,294
Other assets		<u>98,055</u>	<u>133,571</u>	<u>152,604</u>
<b>TOTAL ASSETS</b>		<b><u>7,771,882</u></b>	<b><u>7,153,132</u></b>	<b><u>7,029,590</u></b>
Amounts due to banks and Hungarian Government, deposits from the National Bank of Hungary and other banks		694,533	646,271	829,122
Deposits from customers	9.	5,192,869	4,745,051	4,323,239
Liabilities from issued securities	10.	60,304	104,103	150,231
Financial liabilities at fair value through profit or loss		79,545	96,668	144,592
Subordinated bonds and loans		210,539	238,258	233,241
Other liabilities		<u>108,835</u>	<u>110,358</u>	<u>266,063</u>
<b>TOTAL LIABILITIES</b>		<b><u>6,346,625</u></b>	<b><u>5,940,709</u></b>	<b><u>5,946,488</u></b>
Share capital		28,000	28,000	28,000
Retained earnings and reserves		1,406,797	1,193,132	1,064,255
Treasury shares		<u>(9,540)</u>	<u>(8,709)</u>	<u>(9,153)</u>
<b>TOTAL SHAREHOLDERS' EQUITY</b>		<b><u>1,425,257</u></b>	<b><u>1,212,423</u></b>	<b><u>1,083,102</u></b>
<b>TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY</b>		<b><u>7,771,882</u></b>	<b><u>7,153,132</u></b>	<b><u>7,029,590</u></b>

	Note	2017	2016
Interest Income	12.	244,976	314,410
Interest Expense	12.	<u>69,321</u>	<u>141,571</u>
<b>NET INTEREST INCOME</b>	12.	<b><u>175,655</u></b>	<b><u>172,839</u></b>
Provision for impairment on loan and placement losses	6.	7,775	13,632
<b>NET INTEREST INCOME AFTER PROVISION FOR POSSIBLE LOAN AND PLACEMENT LOSSES</b>		<b><u>167,880</u></b>	<b><u>159,207</u></b>
Net profit from fees and commissions		176,404	163,477
Net operating income		178,518	120,929
Other administrative expenses		<u>252,385</u>	<u>250,139</u>
<b>PROFIT BEFORE INCOME TAX</b>		<b><u>270,417</u></b>	<b><u>193,474</u></b>
Income tax expense		<u>18,867</u>	<u>21,096</u>
<b>NET PROFIT FOR THE YEAR</b>		<b><u>251,550</u></b>	<b><u>172,378</u></b>
Earnings per share (in HUF)			
Basic		<u>902</u>	<u>619</u>
Diluted		<u>902</u>	<u>619</u>
 <i>The comprehensive income items are as follows:</i>			
		<b>2017</b>	<b>2016</b>
<b>NET PROFIT FOR THE YEAR</b>		<b><u>251,550</u></b>	<b><u>172,378</u></b>
<b>Items that may be reclassified subsequently to profit or loss:</b>			
Fair value adjustment of securities available-for-sale		18,174	1,951
Deferred tax (9%) related to securities available-for-sale		(1,636)	(371)
Effect of the tax rate-modification related to securities available-for-sale (19%→9%)		<u>-</u>	<u>5,758</u>
<b>Total</b>		<b><u>16,538</u></b>	<b><u>7,338</u></b>
<b>NET COMPREHENSIVE INCOME</b>		<b><u>268,088</u></b>	<b><u>179,716</u></b>

	<b>2017</b>	<b>2016 Restated</b>	<b>2015 Restated</b>
Profit before income tax	270,417	193,474	46,354
Income tax paid	-	(264)	(3,823)
Depreciation and amortization	20,529	21,907	21,355
Provision for impairment	(78,627)	24,985	84,974
Share-based payment	3,598	3,530	3,810
Unrealised losses on fair value adjustment of securities available-for-sale and held for trading	(18,335)	(9,970)	(12,096)
Unrealised losses on fair value adjustment of derivative financial instruments	12,458	(14)	(13,701)
Net changing in assets and liabilities in operating activities	<u>(22,370)</u>	<u>134,658</u>	<u>161,938</u>
<b>Net cash provided by operating activities</b>	<b><u>187,670</u></b>	<b><u>368,306</u></b>	<b><u>288,811</u></b>
<b>Net cash used in investing activities</b>	<b><u>(663,249)</u></b>	<b><u>(306,402)</u></b>	<b><u>(404,620)</u></b>
<b>Net cash used in financing activities</b>	<b><u>(56,833)</u></b>	<b><u>(420,496)</u></b>	<b><u>(408,060)</u></b>
<b>Net decrease in cash and cash equivalents</b>	<b><u>(532,412)</u></b>	<b><u>(358,592)</u></b>	<b><u>(523,869)</u></b>
<b>Cash and cash equivalents at the beginning of the year</b>	<b><u>880,266</u></b>	<b><u>1,238,858</u></b>	<b><u>1,762,727</u></b>
<b>Cash and cash equivalents at the end of the period</b>	<b><u>347,854</u></b>	<b><u>880,266</u></b>	<b><u>1,238,858</u></b>

SEPARATE STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY FOR THE YEAR ENDED  
31 DECEMBER 2017 (in HUF mn)

	Share Capital	Capital reserve	Share-based payment reserve	Retained earnings and reserves	Put option reserve	Treasury Shares	Total
<b>Balance as at 1 January 2016</b>	<b><u>28,000</u></b>	<b><u>52</u></b>	<b><u>24,707</u></b>	<b><u>1,094,964</u></b>	<b><u>(55,468)</u></b>	<b><u>(9,153)</u></b>	<b><u>1,083,102</u></b>
Net profit for the year	-	-	-	172,378	-	-	172,378
Other comprehensive income	-	-	-	7,338	-	-	7,338
Share-based payment	-	-	3,530	-	-	-	3,530
Payments to ICES holders	-	-	-	(3,943)	-	-	(3,943)
Sale of treasury shares	-	-	-	-	-	12,426	12,426
Loss on sale of treasury shares	-	-	-	(4,226)	-	-	(4,226)
Acquisition of treasury shares	-	-	-	-	-	(11,982)	(11,982)
Dividend for the year 2015	-	-	-	(46,200)	-	-	(46,200)
<b>Balance as at 31 December 2016</b>	<b><u>28,000</u></b>	<b><u>52</u></b>	<b><u>28,237</u></b>	<b><u>1,220,311</u></b>	<b><u>(55,468)</u></b>	<b><u>(8,709)</u></b>	<b><u>1,212,423</u></b>
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)
Dividend for the year 2016	-	-	-	(53,200)	-	-	(53,200)
<b>Balance as at 31 December 2017</b>	<b><u>28,000</u></b>	<b><u>52</u></b>	<b><u>31,835</u></b>	<b><u>1,430,378</u></b>	<b><u>(55,468)</u></b>	<b><u>(9,540)</u></b>	<b><u>1,425,257</u></b>

**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 currency of the Bank is the Hungarian Forint ("HUF").

Some of the accounting principles prescribed for statutory purposes is different from those generally recognized in international financial markets. Due to the fact that the Bank is listed on international and national stock exchanges, the Bank is obliged to present its financial position in accordance with the International Financial Reporting Standards ("IFRS"). Certain adjustments have been made to the Bank's Hungarian separate statutory accounts in order to present the separate financial position and results of operations of the Bank in accordance with all standards and interpretations approved by the International Accounting Standards Board ("IASB"), which are referred to as IFRS.

The separate financial statements have been prepared in accordance with IFRS as adopted by the European Union (the "EU"). IFRS as adopted by the EU do not currently differ from IFRS as issued by the IASB, except for portfolio hedge accounting under IAS 39 Financial Instruments: Recognition and Measurement ("IAS 39") which has not been approved by the EU. As the Bank does not apply portfolio hedge accounting under IAS 39, there would be no impact on these separate financial statements, had it been approved by the EU before the preparation of these financial statements.

**NOTE 2: SIGNIFICANT EVENTS DURING THE YEAR ENDED 31 DECEMBER 2017**

- 1) **Capital increase at OTP Real Estate Lease**
- 2) **Capital increase at Air Invest Asset Management Ltd.**
- 3) **Capital increase at OTP banka Hrvatska**
- 4) **Acquisition at Croatia**
- 5) **Acquisition at Romania**
- 6) **Acquisition at Serbia**
- 7) **Capital increase at OTP Faktoring Ltd.**

See details about the events above in Note 7.

**NOTE 3: POST BALANCE SHEET EVENTS**

- 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.**

See details in Note 7.

**5) Transition to application of IFRS 9**

IFRS 9 "Financial Instruments" was a replacement for IAS 39 "Financial Instruments: Recognition and Measurement" contains requirements relating to the recognition and measurement, impairment, derecognition and hedge accounting in general.

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

	<b>2017</b>	<b>2016</b> <b>(Restated)</b>	<b>2015</b> <b>(Restated)</b>
<i><u>Held for trading securities:</u></i>			
Hungarian government interest bearing			
Treasury Bills	93,806	15,639	7,768
Government bonds	64,570	10,857	12,613
Securities issued by credit institutions	16,793	13,396	-
Corporate shares	9,506	209	356
Hungarian government discounted Treasury			
Bills	1,169	97	366
Mortgage bonds	-	82	94
Other securities	<u>17,790</u>	<u>3,816</u>	<u>510</u>
	<b><u>203,634</u></b>	<b><u>44,096</u></b>	<b><u>21,707</u></b>
Accrued interest	<u>3,081</u>	<u>516</u>	<u>433</u>
<b>Total</b>	<b><u>206,715</u></b>	<b><u>44,612</u></b>	<b><u>22,140</u></b>
<i><u>Derivative financial instruments designated as held for trading:</u></i>			
Interest rate swaps designated as held for trading	34,911	38,413	33,869
CCIRS <sup>1</sup> and mark-to-market CCIRS swaps designated as held for trading	21,314	43,538	102,125
Foreign currency swaps designated as held for trading	24,436	23,385	14,352
Other derivative transactions <sup>2</sup>	<u>16,551</u>	<u>18,240</u>	<u>8,231</u>
	<b><u>97,212</u></b>	<b><u>123,576</u></b>	<b><u>158,577</u></b>
<b>Total</b>	<b><u>303,927</u></b>	<b><u>168,188</u></b>	<b><u>180,717</u></b>

<sup>1</sup> CCIRS: Cross Currency Interest Rate Swap

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



**NOTE 5: SECURITIES AVAILABLE-FOR-SALE (in HUF mn)**

	2017	2016
Government bonds	1,190,235	1,040,541
Mortgage bonds	149,987	266,938
Interest bearing treasury bills	142,988	-
Other securities	234,150	163,949
- <u>listed securities</u>	<u>116,541</u>	<u>72,820</u>
<i>in HUF</i>	78,762	36,348
<i>in foreign currency</i>	37,779	36,472
- <u>non-listed securities</u>	<u>117,609</u>	<u>91,129</u>
<i>in HUF</i>	48,410	48,522
<i>in foreign currency</i>	69,199	42,607
<b>Subtotal</b>	<b><u>1,717,360</u></b>	<b><u>1,471,428</u></b>
Accrued interest	<u>18,628</u>	<u>13,094</u>
Provision for impairment	<u>(86)</u>	<u>-</u>
<b>Securities available-for-sale total</b>	<b><u>1,735,902</u></b>	<b><u>1,484,522</u></b>

**NOTE 6: LOANS, NET OF ALLOWANCE FOR LOAN LOSSES (in HUF mn)**

	2017	2016
Short-term loans and promissory notes (within one year)	1,081,438	934,288
Long-term loans and promissory notes (over one year)	<u>1,127,978</u>	<u>1,053,829</u>
<b>Loans gross total</b>	<b><u>2,209,416</u></b>	<b><u>1,988,117</u></b>
Accrued interest	<u>5,138</u>	<u>6,155</u>
Provision for impairment on loan losses	<u>(69,508)</u>	<u>(91,335)</u>
<b>Total</b>	<b><u>2,145,046</u></b>	<b><u>1,902,937</u></b>

**Partial write-off**

OTP Bank applies partial write-off for loans based on the definitions and prescriptions of financial instruments in accordance with IAS 39. 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.

**NOTE 6: LOANS, NET OF ALLOWANCE FOR LOAN LOSSES (in HUF mn) [continued]**

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

	2017		2016	
<b>Retail loans</b>	<b>675,409</b>	<b>31%</b>	<b>631,096</b>	<b>32%</b>
Retail consumer loans	334,301	15%	272,530	14%
Retail mortgage backed loans <sup>1</sup>	178,228	8%	211,057	11%
Micro and small enterprises loans	162,880	7%	147,509	7%
<b>Corporate loans</b>	<b>1,534,007</b>	<b>69%</b>	<b>1,357,021</b>	<b>68%</b>
Loans to medium and large corporates	1,489,028	67%	1,323,220	67%
Municipality loans	44,979	2%	33,801	1%
<b>Total</b>	<b><u>2,209,416</u></b>	<b><u>100%</u></b>	<b><u>1,988,117</u></b>	<b><u>100%</u></b>

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

	2017	2016
In HUF	58%	62%
In foreign currency	<u>42%</u>	<u>38%</u>
<b>Total</b>	<b><u>100%</u></b>	<b><u>100%</u></b>

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

	2017	2016
<b>Balance as at 1 January</b>	<b>91,335</b>	<b>99,663</b>
Reclassification	(1,397)	-
Provision for the period	76,050	47,249
Release of provision	(87,202)	(54,752)
Impairment gain	1,922	-
Partial write-off	<u>(11,200)</u>	<u>(825)</u>
<b>Balance as at 31 December</b>	<b><u>69,508</u></b>	<b><u>91,335</u></b>

**NOTE 7: INVESTMENTS IN SUBSIDIARIES (in HUF mn)**

	2017	2016
Investments in subsidiaries:		
Controlling interest	1,502,999	1,305,273
Other investments	<u>3,261</u>	<u>3,513</u>
	<b><u>1,506,260</u></b>	<b><u>1,308,786</u></b>
Provision for impairment	<u>(538,846)</u>	<u>(639,917)</u>
<b>Total</b>	<b><u>967,414</u></b>	<b><u>668,869</u></b>

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

	2017	2016
<b>Balance as at 1 January</b>	<b>639,917</b>	<b>591,781</b>
Reclassification	(35,872)	-
Provision for the period	44,771	48,136
Release of provision	<u>(109,970)</u>	<u>-</u>
<b>Balance as at 31 December</b>	<b><u>538,846</u></b>	<b><u>639,917</u></b>

<sup>1</sup> incl. housing loans

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

On 16 February 2017 the registered capital of OTP Real Estate Lease has increased to HUF 214,000,000 as the Budapest Metropolitan Court has registered the capital transaction.

On 1 June 2017 the registered capital of Air-Invest Asset Management LLC has increased to HUF 400,000,000 as the Budapest Metropolitan Court has registered the capital transaction.

On 6 June 2017 the registered capital of OTP banka Hrvatska has increased to HRK 3,993,754,800 as the Registry Court of Croatia.

On 2 May 2017, based on the acquisition agreement on purchasing 100% shareholding of Splitska banka d.d., member of Société Générale Group signed on 20 December 2016 between OTP banka Hrvatska, the Croatian subsidiary of OTP Bank and Société Générale Group, the financial closure of the transaction has been completed. Splitska banka is the 5th largest player on the Croatian 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 the market share of OTP Group will rise to approximately 10% in Croatia.

In July 2017 OTP Bank Romania S.A., the Romanian subsidiary of OTP Bank signed an acquisition agreement on purchasing a 99.28% shareholding held in the Romanian Banca Romaneasca S.A. by National Bank of Greece S.A and certain other Romanian exposures held by different subsidiaries of National Bank of Greece S.A. The Competition Office has approved the transaction. The financial closing of the deal is subject to the necessary regulatory approvals by the central bank.

OTP banka Srbija a.d. Novi Sad, the Serbian subsidiary of OTP Bank signed an acquisition agreement on purchasing 100% shareholding held in the Serbian Vojvodjanska banka a.d. („VOBAN”) and NBG Leasing d.o.o. and certain other Serbian exposures held by the Group of the National Bank of Greece S.A. The agreed consideration for the share capital of VOBAN and NBG Leasing amounts to EUR 125 million. VOBAN-is the 9th biggest player on the Serbian 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 the Serbian market share of OTP Group will rise to 5.7%, and will become the 7th largest bank in the country. The financial closure of the transaction has been completed on 1 December 2017. The integration process is expected to be completed in the second quarter of 2019.

On 12 December 2017 capital of OTP Faktoring Ltd. has increased with HUF 24 billion, the registered capital and the capital reserve has increased with HUF 200,000,000 and HUF 23,800,000,000. The registered capital has increased to HUF 500,000,000.

On 4 January 2018 the registered capital of the Serbian subsidiary of OTP Bank was increased to RSD 31,607,808,040 from RSD 16,701,370,660.

On 8 January 2018 the registered capital of the Slovakian subsidiary of OTP Bank was increased to EUR 111,580,508.84 from EUR 88,539,106.84.

On 9 January 2018 the registered capital of the Romanian subsidiary of OTP Bank was increased to RON 1,379,252,880 from RON 1,254,252,720.

On 16 January 2018 the registered capital of Bank Center No. 1 Ltd. has increased to HUF 11,500,000,000.

**NOTE 8: SECURITIES HELD-TO-MATURITY (in HUF mn)**

	2017	2016
Government bonds	1,021,441	837,256
Mortgage bonds	<u>4,746</u>	<u>4,778</u>
<b>Subtotal</b>	<b><u>1,026,187</u></b>	<b><u>842,034</u></b>
Accrued interest	<u>17,592</u>	<u>16,116</u>
<b>Total</b>	<b><u>1,043,779</u></b>	<b><u>858,150</u></b>

**NOTE 9: DEPOSITS FROM CUSTOMERS (in HUF mn)**

	2017	2016
Within one year:		
In HUF	4,266,829	3,777,547
In foreign currency	<u>901,876</u>	<u>936,403</u>
	<b><u>5,168,705</u></b>	<b><u>4,713,950</u></b>
Over one year:		
In HUF	<u>22,633</u>	<u>26,831</u>
	<b><u>22,633</u></b>	<b><u>26,831</u></b>
<b>Subtotal</b>	<b><u>5,191,338</u></b>	<b><u>4,740,781</u></b>
Accrued interest	<u>1,531</u>	<u>4,270</u>
<b>Total</b>	<b><u>5,192,869</u></b>	<b><u>4,745,051</u></b>

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

	2017		2016	
<b>Retail deposits</b>	<b>3,181,424</b>	<b>61%</b>	<b>2,904,762</b>	<b>61%</b>
Household deposits	2,562,571	49%	2,372,751	50%
Deposits micro and small enterprises	<u>618,853</u>	<u>12%</u>	<u>532,011</u>	<u>11%</u>
<b>Corporate deposits</b>	<b>2,009,914</b>	<b>39%</b>	<b>1,836,019</b>	<b>39%</b>
Deposits to medium and large corporates	1,476,760	28%	1,425,572	30%
Municipality deposits	<u>533,154</u>	<u>10%</u>	<u>410,447</u>	<u>9%</u>
<b>Total</b>	<b><u>5,191,338</u></b>	<b><u>100%</u></b>	<b><u>4,740,781</u></b>	<b><u>100%</u></b>

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

	2017	2016
Within one year:		
In HUF	12,930	18,494
In foreign currency	<u>6,818</u>	<u>36,002</u>
	<b><u>19,748</u></b>	<b><u>54,496</u></b>
Over one year:		
In HUF	40,538	49,432
In foreign currency	<u>1</u>	<u>198</u>
	<b><u>40,539</u></b>	<b><u>49,630</u></b>
<b>Subtotal</b>	<b><u>60,287</u></b>	<b><u>104,126</u></b>
Accrued interest	<u>17</u>	<u>(23)</u>
<b>Total</b>	<b><u>60,304</u></b>	<b><u>104,103</u></b>

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

*(a) Contingent liabilities and commitments*

	2017	2016
Commitments to extend credit	1,046,860	897,808
Guarantees arising from banking activities	612,099	444,501
<i>from this: Payment undertaking liabilities (related to issue of mortgage bonds) of OTP Mortgage Bank</i>	<u>278,960</u>	<u>128,812</u>
Legal disputes (disputed value)	5,231	5,095
Confirmed letters of credit	90	139
Other	<u>159,119</u>	<u>118,306</u>
<b>Total</b>	<b><u>1,823,399</u></b>	<b><u>1,465,849</u></b>

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 1,207 million and HUF 362 million as at 31 December 2017 and 31 December 2016, respectively.

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

(b) *Fair value of derivative instruments*

	<b>Fair value</b>	
	<b>2017</b>	<b>2016</b>
<b>Interest rate swaps classified as held for trading</b>		
Positive fair value of interest rate swaps classified as held for trading	34,911	38,413
Negative fair value of interest rate swaps classified as held for trading	(30,871)	(33,031)
<b>Foreign exchange swaps classified as held for trading</b>		
Positive fair value of foreign exchange swaps classified as held for trading	24,436	23,385
Negative fair value of foreign exchange swaps classified as held for trading	(14,326)	(13,351)
<b>Interest rate swaps designated as fair value hedge</b>		
Positive fair value of interest rate swaps designated in fair value hedge	6,639	6,887
Negative fair value of interest rate swaps designated in fair value hedge	(17,179)	(20,607)
<b>CCIRS classified as held for trading</b>		
Positive fair value of CCIRS classified as held for trading	21,314	43,538
Negative fair value of CCIRS classified as held for trading	(22,759)	(36,189)
<b>CCIRS designated as fair value hedge</b>		
Positive fair value of CCIRS designated in fair value hedge	3,509	999
Negative fair value of CCIRS designated in fair value hedge	-	(827)
<b>Other derivative contracts classified as held for trading</b>		
Positive fair value of other derivative contracts classified as held for trading	16,551	18,240
Negative fair value of other derivative contracts classified as held for trading	(11,589)	(14,097)
<b>Derivative financial assets total</b>	<b><u>107,360</u></b>	<b><u>131,462</u></b>
<b>Derivative financial liabilities total</b>	<b><u>(96,724)</u></b>	<b><u>(118,102)</u></b>
<b>Derivative financial instruments total</b>	<b><u>10,636</u></b>	<b><u>13,360</u></b>

As at 31 December 2017 the Bank has derivative instruments with positive fair values of HUF 107,360 million and negative fair values of HUF 96,724 million. Corresponding figures as at 31 December 2016 are HUF 131,462 million and HUF 118,102 million.

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)**

	<b>2017</b>	<b>2016</b>
<i>Interest Income:</i>		
Loans	120,959	125,110
Placements with other banks, net of allowance for placement losses	47,776	102,317
Securities available-for-sale	30,100	35,766
Securities held-to-maturity	44,737	41,327
Amounts due from banks and balances with National Bank of Hungary	1,403	9,830
Rental income from operation of investment properties	<u>1</u>	<u>60</u>
<b>Total Interest Income</b>	<b><u>244,976</u></b>	<b><u>314,410</u></b>
<i>Interest Expense:</i>		
Amounts due to banks and deposits from the National Bank of Hungary, other banks and the Hungarian Government	56,850	103,633
Deposits from customers	9,244	22,853
Liabilities from issued securities	151	1,329
Subordinated bonds and loans	3,033	13,721
Expenses from operation of investment properties	<u>43</u>	<u>35</u>
<b>Total Interest Expense</b>	<b><u>69,321</u></b>	<b><u>141,571</u></b>
<b>NET INTEREST INCOME</b>	<b><u>175,655</u></b>	<b><u>172,839</u></b>

**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.:**

	<b>2017</b>	<b>2016</b>
Fees and commissions received from OTP Mortgage Bank Ltd. relating to the loans	14,254	15,890
Loans sold to OTP Mortgage Bank Ltd. (including interest)	447	565
The gross book value of the loans sold	399	565

**Transactions related to OTP Factoring Ltd.:**

	<b>2017</b>	<b>2016</b>
The gross book value of the loans	13,774	32,700
Provision for loan losses on the loans sold	7,398	11,799
Loans sold to OTP Factoring Ltd. (including interest)	4,914	18,710
Loss on these transaction (recorded in the separate financial statements as loan and placement loss)	1,462	2,191

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