



OTP BANK PLC.

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

FOR THE NINE MONTH PERIOD
ENDED 30 SEPTEMBER 2018

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	Note	30 September 2018	31 December 2017	30 September 2017
Cash, amounts due from banks and balances with the National Bank of Hungary		323,069	399,124	436,666
Placements with other banks, net of allowance for placement losses		1,199,534	978,098	952,333
Financial assets at fair value through profit or loss	4.	174,794	303,927	290,872
Financial assets at fair value through other comprehensive income	5.	1,661,695	1,735,902	1,663,684
Loans	6.	2,550,985	2,145,046	2,171,476
Investments in subsidiaries, associates and other investments	7.	973,787	967,414	825,048
Securities at amortised cost	8.	1,377,314	1,043,779	1,004,991
Property and equipment		65,580	65,286	62,196
Intangible assets		35,088	32,877	24,035
Investment properties		2,344	2,374	2,353
Deferred tax assets		3,796	7,991	14,897
Derivative financial assets designated as fair value hedge		12,456	10,148	8,419
Other assets		<u>122,756</u>	<u>79,916</u>	<u>91,425</u>
TOTAL ASSETS		<u>8,503,198</u>	<u>7,771,882</u>	<u>7,548,395</u>
Amounts due to banks and Hungarian Government, deposits from the National Bank of Hungary and other banks		923,927	694,533	748,496
Deposits from customers	9.	5,549,016	5,192,869	4,944,372
Liabilities from issued securities	10.	48,643	60,304	63,195
Financial liabilities at fair value through profit or loss		32,040	-	-
Derivative financial liabilities designated as held for trading		108,590	79,545	75,519
Derivative financial liabilities designated as hedge accounting relationships		8,853	17,179	19,489
Other liabilities		247,998	193,360	254,070
Subordinated bonds and loans		<u>111,539</u>	<u>108,835</u>	<u>109,793</u>
TOTAL LIABILITIES		<u>7,030,606</u>	<u>6,346,625</u>	<u>6,214,934</u>
Share capital		28,000	28,000	28,000
Retained earnings and reserves		1,449,928	1,406,797	1,315,179
Treasury shares		<u>(5,336)</u>	<u>(9,540)</u>	<u>(9,718)</u>
TOTAL SHAREHOLDERS' EQUITY		<u>1,472,592</u>	<u>1,425,257</u>	<u>1,333,461</u>
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		<u>8,503,198</u>	<u>7,771,882</u>	<u>7,548,395</u>

**SEPARATE CONDENSED STATEMENT OF PROFIT OR LOSS AND COMPREHENSIVE
INCOME FOR THE NINE MONTH PERIOD ENDED 30 SEPTEMBER 2018
(UNAUDITED) (in HUF mn)**

	Note	Nine month period ended 30 September 2018	Nine month period ended 30 September 2017	Year ended 31 December 2017
Interest Income	12.	205,630	182,482	244,976
Interest Expense	12.	(65,168)	(51,775)	(69,321)
NET INTEREST INCOME	12.	<u>140,462</u>	<u>130,707</u>	<u>175,655</u>
Provision for impairment on loan and placement losses	6.	(7,506)	(796)	(7,775)
NET INTEREST INCOME AFTER PROVISION FOR IMPAIRMENT ON LOAN AND PLACEMENT LOSSES		<u>132,956</u>	<u>129,911</u>	<u>167,880</u>
Net profit from fees and commissions		133,649	132,337	176,404
Net operating income		79,670	105,717	178,518
Other administrative expenses		(198,071)	(192,734)	(252,385)
PROFIT BEFORE INCOME TAX		<u>148,204</u>	<u>175,231</u>	<u>270,417</u>
Income tax expense		(8,446)	(12,130)	(18,867)
NET PROFIT FOR THE PERIOD		<u>139,758</u>	<u>163,101</u>	<u>251,550</u>
Earnings per share (in HUF)				
Basic		<u>501</u>	<u>585</u>	<u>902</u>
Diluted		<u>501</u>	<u>585</u>	<u>902</u>

The comprehensive income items are as follows:

	Nine month period ended 30 September 2018	Nine month period ended 30 September 2017	Year ended 31 December 2017
NET PROFIT FOR THE PERIOD	<u>139,758</u>	<u>163,101</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	(30,230)	14,614	18,174
Deferred tax (9%) related to financial assets at fair value through other comprehensive income	2,473	(1,315)	(1,636)
Derivative financial instruments designated as cash flow hedge	<u>(1,331)</u>	<u>-</u>	<u>-</u>
Total	<u>(29,088)</u>	<u>13,299</u>	<u>16,538</u>
NET COMPREHENSIVE INCOME	<u>110,670</u>	<u>176,400</u>	<u>268,088</u>

SEPARATE STATEMENT OF CHANGES IN EQUITY FOR THE NINE MONTH PERIOD
ENDED 30 SEPTEMBER 2018 (UNAUDITED) (in HUF mn)

	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>1,123,208</u>	<u>53,662</u>	<u>43,441</u>	<u>(55,468)</u>	<u>(8,709)</u>	<u>1,212,423</u>
Net profit for the year	-	-	-	163,101	-	-	-	-	163,101
Other comprehensive income	-	-	-	-	13,299	-	-	-	13,299
Share-based payment	-	-	2,528	-	-	-	-	-	2,528
Payments to ICES holders	-	-	-	(356)	-	-	-	-	(356)
Sale of treasury shares	-	-	-	-	-	-	-	12,501	12,501
Loss on sale of treasury shares	-	-	-	(3,325)	-	-	-	-	(3,325)
Acquisition of treasury shares	-	-	-	-	-	-	-	(13,510)	(13,510)
Transfer to general reserve	-	-	-	(16,310)	-	16,310	-	-	-
Dividend for the year 2016	-	-	-	<u>(53,200)</u>	-	-	-	-	<u>(53,200)</u>
Balance as at 30 September 2017	<u>28,000</u>	<u>52</u>	<u>30,765</u>	<u>1,213,118</u>	<u>66,961</u>	<u>59,751</u>	<u>(55,468)</u>	<u>(9,718)</u>	<u>1,333,461</u>
Balance as at 1 January 2018	<u>28,000</u>	<u>52</u>	<u>31,835</u>	<u>1,291,245</u>	<u>70,200</u>	<u>68,933</u>	<u>(55,468)</u>	<u>(9,540)</u>	<u>1,425,257</u>
Effect of transition to application of IFRS 9	-	-	-	(7,507)	2,754	-	-	-	(4,753)
Balance as at 1 January 2018 in accordance with IFRS 9	<u>28,000</u>	<u>52</u>	<u>31,835</u>	<u>1,283,738</u>	<u>72,954</u>	<u>68,933</u>	<u>(55,468)</u>	<u>(9,540)</u>	<u>1,420,504</u>
Net profit for the year	-	-	-	139,758	-	-	-	-	139,758
Other comprehensive income	-	-	-	-	(29,088)	-	-	-	(29,088)
Share-based payment	-	-	2,605	-	-	-	-	-	2,605
Payments to ICES holders	-	-	-	(117)	-	-	-	-	(117)
Sale of treasury shares	-	-	-	(3,954)	-	-	-	11,019	7,065
Loss on sale of treasury shares	-	-	-	-	-	-	-	(6,815)	(6,815)
Transfer to general reserve	-	-	-	(13,976)	-	13,976	-	-	-
Dividend for the year 2017	-	-	-	<u>(61,320)</u>	-	-	-	-	<u>(61,320)</u>
Balance as at 30 September 2018	<u>28,000</u>	<u>52</u>	<u>34,440</u>	<u>1,344,129</u>	<u>43,866</u>	<u>82,909</u>	<u>(55,468)</u>	<u>(5,336)</u>	<u>1,472,592</u>

	Nine month period ended 30 September 2018	Nine month period ended 30 September 2017	Year ended 31 December 2017
Profit before income tax	148,204	175,231	270,417
Net accrued interest	(6,397)	4,332	(4,682)
Depreciation and amortization	15,388	15,562	20,529
Release of provision for impairment	(2,156)	(7,208)	(78,627)
Share-based payment	2,605	2,528	3,598
Unrealised (losses)/gains on fair value adjustment of securities at fair value through other comprehensive income and securities at fair value through profit or loss	(12,278)	1,849	(18,335)
Unrealised (losses)/gains on fair value adjustment of derivative financial instruments	75,992	7,894	12,458
Net change in assets and liabilities in operating activities	<u>(115,692)</u>	<u>(252,778)</u>	<u>(14,234)</u>
Net cash provided by / (used in) operating activities	<u>105,666</u>	<u>(52,590)</u>	<u>191,124</u>
Net cash used in investing activities	<u>(360,111)</u>	<u>(443,138)</u>	<u>(669,430)</u>
Net cash provided by / (used in) financing activities	<u>173,108</u>	<u>4,394</u>	<u>(54,106)</u>
Net decrease in cash and cash equivalents	<u>(81,337)</u>	<u>(491,334)</u>	<u>(532,412)</u>
Cash and cash equivalents at the beginning of the year	<u>347,854</u>	<u>880,266</u>	<u>880,266</u>
Cash and cash equivalents at the end of the period	<u>266,517</u>	<u>388,932</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.

Amounts in HUF million before tax	Opening balance according to IAS 39 as at 1 January 2018	Remeasurement due to reclassification	Remeasurement due to impairment	Opening balance according to IFRS 9 as at 1 January 2018
Placements with other banks	978,098	-	(1,257)	976,841
Loans	2,145,049	1,408	(8,932)	2,137,525
Securities	2,986,481	-	(3,943)	2,982,538
Off-balance sheet items	(10,007)	-	4,030	(5,977)
Amounts due to banks	<u>694,533</u>	<u>1,465</u>	<u>-</u>	<u>695,998</u>
Total	<u><u>-</u></u>	<u><u>(57)</u></u>	<u><u>(10,102)</u></u>	<u><u>-</u></u>

NOTE 2: SIGNIFICANT EVENTS DURING THE NINE MONTH PERIOD ENDED 30 SEPTEMBER 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

See details about the event above in Note 7.

NOTE 3: POST BALANCE SHEET EVENTS

There was no significant post balance sheet event.

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

	30 September 2018	31 December 2017
<i>Securities held for trading:</i>		
Government bonds	18,587	64,570
Corporate shares and investments	10,040	9,506
Securities issued by credit institutions	1,348	16,793
Hungarian government discounted Treasury Bills	1,166	1,169
Hungarian government interest bearing Treasury Bills	-	93,806
Other securities	<u>5,543</u>	<u>17,790</u>
Subtotal	<u>36,684</u>	<u>203,634</u>
Accrued interest	<u>185</u>	<u>3,081</u>
Total	<u>36,869</u>	<u>206,715</u>
<i>Derivative financial instruments:</i>		
Interest rate swaps designated as held for trading	56,725	34,911
Foreign currency swaps designated as held for trading	41,269	24,436
CCIRS and mark-to-market CCIRS ¹ swaps designated as held for trading	15,921	21,314
Other derivative transactions ²	<u>24,010</u>	<u>16,551</u>
Subtotal	<u>137,925</u>	<u>97,212</u>
Total	<u>174,794</u>	<u>303,927</u>

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

	30 September 2018	31 December 2017
Government bonds	1,015,664	1,190,235
Mortgage bonds	281,415	149,987
Interest bearing treasury bills	224,735	142,988
Other securities	121,705	234,150
- <i>listed securities</i>	<u>33,672</u>	<u>116,541</u>
<i>in HUF</i>	-	78,762
<i>in foreign currency</i>	33,672	37,779
- <i>non-listed securities</i>	<u>88,033</u>	<u>117,609</u>
<i>in HUF</i>	40,016	48,410
<i>in foreign currency</i>	48,017	69,199
Subtotal	<u>1,643,519</u>	<u>1,717,360</u>
Accrued interest	18,176	18,628
Provision for impairment	-	(86)
Securities at fair value through other comprehensive income total	<u>1,661,695</u>	<u>1,735,902</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) [continued]

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

	30 September 2018	31 December 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>86</u>	<u>86</u>

NOTE 6: LOANS (in HUF mn)

Loans measured at fair value through profit or loss

	30 September 2018	31 December 2017
Gross loans	31,863	-
Fair value adjustment	<u>(156)</u>	-
Total	<u>31,707</u>	<u>-</u>
Accrued interest	<u>145</u>	-
Loans measured at fair value through profit or loss total	<u>31,852</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

	30 September 2018	31 December 2017
Short-term loans and promissory notes (within one year)	1,254,168	1,081,438
Long-term loans and promissory notes (over one year)	<u>1,328,927</u>	<u>1,127,978</u>
Loans gross total	<u>2,583,095</u>	<u>2,209,416</u>
Accrued interest	<u>4,909</u>	<u>5,138</u>
Provision for impairment on loan losses	<u>(68,871)</u>	<u>(69,508)</u>
Loans measured at amortised cost, net of allowance for loan losses total	<u>2,519,133</u>	<u>2,145,046</u>
Loans total	<u>2,550,985</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.

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

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

	30 September 2018		31 December 2017	
Retail loans	542,242	21%	512,529	23%
Retail consumer loans	385,981	15%	334,301	15%
Retail mortgage backed loans ¹	156,261	6%	178,228	8%
Corporate loans	2,040,853	78%	1,696,887	77%
Loans to corporates	1,966,520	75%	1,651,908	75%
Municipality loans	<u>74,333</u>	<u>3%</u>	<u>44,979</u>	<u>2%</u>
Loans at amortised cost total	2,583,095	99%	2,209,416	100%
Loans at fair value total	<u>31,707</u>	<u>1%</u>	<u>-</u>	<u>-</u>
Gross loans total	<u>2,614,802</u>	<u>100%</u>	<u>2,209,416</u>	<u>100%</u>

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

	30 September 2018	31 December 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:

	30 September 2018	31 December 2017
Balance as at 1 January	69,508	91,335
Change as a result of applying IFRS 9	8,931	-
Reclassification	-	(1,397)
Provision for the period	68,964	76,050
Release of provision	(74,011)	(85,280)
Partial write-off	<u>(4,521)</u>	<u>(11,200)</u>
Closing balance	<u>68,871</u>	<u>69,508</u>

NOTE 7: INVESTMENTS IN SUBSIDIARIES (in HUF mn)

	30 September 2018	31 December 2017
Investments in subsidiaries:		
Controlling interest	1,499,400	1,502,999
Other investments	<u>3,260</u>	<u>3,261</u>
	<u>1,502,660</u>	<u>1,506,260</u>
Provision for impairment	<u>(528,873)</u>	<u>(538,846)</u>
Total	<u>973,787</u>	<u>967,414</u>

¹ incl. housing loans

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

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

	30 September 2018	31 December 2017
Balance as at 1 January	538,846	639,917
Reclassification	-	(35,871)
Provision for the period	-	44,770
Release of provision	(2,767)	(109,970)
Use of provision	<u>(7,206)</u>	<u>-</u>
Closing balance	<u>528,873</u>	<u>538,846</u>

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 1,379,252,880 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.

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

	30 September 2018	31 December 2017
Government bonds	1,340,748	1,021,441
Mortgage bonds	<u>4,718</u>	<u>4,746</u>
Subtotal	<u>1,345,466</u>	<u>1,026,187</u>
Accrued interest	<u>33,807</u>	<u>17,592</u>
Provision for impairment	<u>(1,959)</u>	<u>-</u>
Total	<u>1,377,314</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:

	30 September 2018	31 December 2017
Balance as at 1 January	-	-
Change as a result of applying IFRS 9	1,477	-
Provision for the period	721	-
Release of provision	<u>(239)</u>	<u>-</u>
Closing balance	<u>1,959</u>	<u>-</u>

NOTE 9: DEPOSITS FROM CUSTOMERS (in HUF mn)

	30 September 2018	31 December 2017
Within one year:		
In HUF	4,596,939	4,266,829
In foreign currency	<u>902,530</u>	<u>901,876</u>
	<u>5,499,469</u>	<u>5,168,705</u>
Over one year:		
In HUF	<u>48,491</u>	<u>22,633</u>
	<u>48,491</u>	<u>22,633</u>
Subtotal	<u>5,547,960</u>	<u>5,191,338</u>
Accrued interest	<u>1,056</u>	<u>1,531</u>
Total	<u>5,549,016</u>	<u>5,192,869</u>

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

	30 September 2018		31 December 2017	
Retail deposits	2,815,548	51%	2,562,571	49%
Household deposits	2,815,548	51%	2,562,571	49%
Corporate deposits	2,732,412	49%	2,628,767	51%
Deposits to corporates	2,169,147	39%	2,095,613	41%
Municipality deposits	<u>563,265</u>	<u>10%</u>	<u>533,154</u>	<u>10%</u>
Total	<u>5,547,960</u>	<u>100%</u>	<u>5,191,338</u>	<u>100%</u>

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

	30 September 2018	31 December 2017
Within one year:		
In HUF	12,572	12,930
In foreign currency	<u>4,967</u>	<u>6,818</u>
	<u>17,539</u>	<u>19,748</u>
Over one year:		
In HUF	31,082	40,538
In foreign currency	<u>-</u>	<u>1</u>
	<u>31,082</u>	<u>40,539</u>
Subtotal	<u>48,621</u>	<u>60,287</u>
Accrued interest	<u>22</u>	<u>17</u>
Total	<u>48,643</u>	<u>60,304</u>

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

(a) *Contingent liabilities and commitments*

	30 September 2018	31 December 2017
Commitments to extend credit	1,243,178	1,046,860
Guarantees arising from banking activities	701,141	612,099
<i>from this: Payment undertaking liabilities (related to issue of mortgage bonds) of OTP Mortgage Bank</i>	375,262	278,960
Legal disputes (disputed value)	3,916	5,231
Confirmed letters of credit	95	90
Other	<u>188,951</u>	<u>159,119</u>
Total	<u>2,137,281</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 734 million and HUF 1,207 million as at 30 September 2018 and 31 December 2017, respectively.

(b) *Fair value of derivative instruments*

	Fair value	
	30 September 2018	31 December 2017
Interest rate swaps classified as held for trading		
Positive fair value of interest rate swaps classified as held for trading	56,725	34,911
Negative fair value of interest rate swaps classified as held for trading	(35,392)	(30,871)
Foreign exchange swaps classified as held for trading		
Positive fair value of foreign exchange swaps classified as held for trading	41,269	24,436
Negative fair value of foreign exchange swaps classified as held for trading	(40,637)	(14,326)
Interest rate swaps designated as fair value hedge		
Positive fair value of interest rate swaps designated in fair value hedge	7,401	6,639
Negative fair value of interest rate swaps designated in fair value hedge	(5,245)	(17,179)
CCIRS classified as held for trading		
Positive fair value of CCIRS classified as held for trading	15,921	21,314
Negative fair value of CCIRS classified as held for trading	(15,930)	(22,759)
CCIRS designated as fair value hedge		
Positive fair value of CCIRS designated in fair value hedge	5,043	3,509
Negative fair value of CCIRS designated in fair value hedge	(409)	-
Interest rate swaps designated as cash flow hedge		
Positive fair value of interest rate swaps designated in cash flow hedge	12	-
Negative fair value of interest rate swaps designated in cash flow hedge	(3,199)	-
Other derivative contracts classified as held for trading		
Positive fair value of other derivative contracts classified as held for trading	24,010	16,551
Negative fair value of other derivative contracts classified as held for trading	<u>(16,631)</u>	<u>(11,589)</u>
Derivative financial assets total	<u>150,381</u>	<u>107,360</u>
Derivative financial liabilities total	<u>(117,443)</u>	<u>(96,724)</u>
Derivative financial instruments total	<u>32,938</u>	<u>10,636</u>

As at 30 June 2018 the Bank has derivative instruments with positive fair values of HUF 150,381 million and negative fair values of HUF 117,443 million. Corresponding figures as at 31 December 2017 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)

	Nine month period ended 30 September 2018	Nine month period ended 30 September 2017	Year ended 31 December 2017
<i>Interest Income:</i>			
Loans	105,510	89,186	120,960
Placements with other banks, net of allowance for placement losses	41,889	36,146	47,776
Securities fair value through other comprehensive income	23,203	22,450	30,100
Securities at amortised cost	34,794	33,501	44,737
Amounts due from banks and balances with National Bank of Hungary	<u>234</u>	<u>1,199</u>	<u>1,403</u>
Total Interest Income	<u>205,630</u>	<u>182,482</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	(40,782)	(41,915)	(56,893)
Deposits from customers	(22,077)	(7,428)	(9,244)
Liabilities from issued securities	(75)	(146)	(151)
Subordinated bonds and loans	<u>(2,234)</u>	<u>(2,286)</u>	<u>(3,033)</u>
Total Interest Expense	<u>(65,168)</u>	<u>(51,775)</u>	<u>(69,321)</u>
NET INTEREST INCOME	<u>140,462</u>	<u>130,707</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.:

	30 September 2018	30 September 2017
Fees and commissions received from OTP Mortgage Bank Ltd. relating to the loans	9,666	10,832
Loans sold to OTP Mortgage Bank Ltd. (including interest)	395	336
The gross book value of the loans sold	391	305

Transactions related to OTP Factoring Ltd.:

	30 September 2018	30 September 2017
The gross book value of the loans	10,307	10,192
Provision for loan losses on the loans sold	6,229	5,247
Loans sold to OTP Factoring Ltd. without recourse (including interest)	3,358	3,679
Loss on these transaction (recorded in the separate financial statements as loan and placement loss)	720	1,266

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