Annual Report 2011

ING Bank N.V. Hungary Branch

The English language version of the Annual Report of ING Bank N.V. Hungary Branch is the non-certified translation of the original and official Hungarian Annual Report and therefore it is considered solely to serve for information purposes only. The source for the 2011 English language Annual Report is the Hungarian language version amended with the Independent Auditors' Report.

Az ING Bank N.V. Magyarországi Fióktelepe 2011-es éves beszámolójának angol nyelvű szövege az eredeti magyar nyelven elkészített éves beszámoló nem hiteles fordítása, ezért az angol nyelvű szöveg csak és kizárólag tájékoztató jellegű anyagnak minősül. A 2011-es éves beszámoló hiteles forrása a könyvvizsgálói záradékkal ellátott magyar nyelvű szöveg.

BALANCE SHEET – Assets

Data in HUF million

Description	Opening data 31 Dec 2010	Current year data 31 Dec 2011
1. Liquid assets	**62 572**	**27 187**
2. Government securities	**125 440**	**136 241**
a) trading securities	125 562	136 310
b) investment securities	0	0
2/A Valuation difference on government securities	**-122**	**-69**
3. Receivables from financial institutions	**35 375**	**8 959**
a) on demand	1 446	2 587
b) other receivables from financial services	33 865	6 241
ba) current receivables	33 865	6 241
Of which: - from related parties	8 008	6 111
- from other related parties	0	0
- from the National Bank of Hungary	0	0
- from clearing house	2 028	115
bb) long-term receivables	0	0
Of which: - from related parties	0	0
- from other related parties	0	0
- from the National Bank of Hungary	0	0
- from clearing house	0	0
c) from investment services	64	131
Of which: - from related parties	9	5
- from other related parties	0	0
- from clearing house	54	117
3/A Valuation difference on receivables from financial institutions	**0**	**0**
4. Receivables from customers	**165 726**	**171 048**
a) from financial services	165 619	170 966
aa) current receivables	69 272	109 103
Of which: - from related parties	1 433	498
- from other related parties	0	0
ab) long-term receivables	96 347	61 863
Of which: - from related parties	589	558
- from other related parties	0	0
b) from investment services	107	82
Of which: - from related parties	0	17
- from other related parties	0	0
ba) receivables from stock exchange investment services	0	0
bb) receivables from OTC investment services	0	0
bc) customer receivables from investment service activities	103	74
bd) receivables from the clearing house	0	0
be) receivables from other investment services	4	8
4/A Valuation difference on receivables from customers	**0**	**0**
5. Debt securities	**0**	**0**
a) issued by local governments or other government institutions	0	0
aa) trading securities	0	0
ab) investment securities	0	0
b) issued by other entities	0	0
ba) trading securities	0	0
Of which: - issued by related parties	0	0
- issued by other related parties	0	0
- redeemed treasury shares	0	0
bb) investment securities	0	0
Of which: - issued by related parties	0	0
- issued by third parties	0	0
5/A Valuation difference on debt securities	**0**	**0**
6. Shares and other securities with variable yields	**0**	**0**
a) trading shares and participations	0	0
Of which: - issued by related parties	0	0
- issued by other related parties	0	0
b) variable-yield securities	0	0
ba) trading securities	0	0
bb) investment securities	0	0
6/A Valuation difference on shares and other variable-yield securities	**0**	**0**

Description	Opening data 31 Dec 2010	Current year data 31 Dec 2011
7. Investment shares and participations	**73**	**73**
a) investment shares and participations	73	73
Of which: - participation in financial institutions	0	0
b) adjustment of investment shares and participations	0	0
Of which: - participation in financial institutions	0	0
7/A Valuation difference on investment shares and participations	**0**	**0**
8. Shares and participations in related parties	**0**	**0**
a) investment shares and participations	0	0
Of which: - participation in financial institutions	0	0
b) adjustment of investment shares and participations	0	0
Of which: - participation in financial institutions	0	0
9. Intangible assets	**227**	**210**
a) intangible assets	227	210
b) adjustment of intangible assets	0	0
10. Tangible assets	**627**	**567**
a) tangible assets held for financial services and investment purposes	336	275
aa) property	162	128
ab) technical equipment, machines, fixtures, vehicles	95	143
ac) capital expenditures	79	4
ad) advance payments on capital expenditures	0	0
b) tangibles assets not held for financial services and investment purposes	291	292
ba) property	0	0
bb) technical equipment, machines, fixtures, vehicles	291	292
bc) capital expenditures	0	0
bd) advance payments on capital expenditures	0	0
c) adjustment of tangible assets	0	0
11. Own shares	**0**	**0**
12. Other assets	**1 996**	**1 274**
a) stocks	9	11
b) other receivables	1 987	1 263
Of which: - from related parties	21	27
- from other related parties	0	0
12/A Valuation difference on other receivables	**0**	**0**
12/B Positive valuation difference on derivatives	**13 307**	**30 396**
13. Prepaid expenses and accrued income	**3 142**	**3 947**
a) accrued income	3 095	3 888
b) prepaid expenses	47	59
c) deferred expenses	0	0
Total assets	**408 485**	**379 902**
Of which: - CURRENT ASSETS	308 069	313 242
- FIXED ASSETS	97 274	62 713

Budapest, 25 May 2012

Dr. István Salgó
Chief Executive Officer

Gyula Réthy
Chief Financial Officer

BALANCE SHEET – Equity and Liabilities

Data in HUF million

Description	Opening data 31 Dec 2010	Current year data 31 Dec 2011
1. Liabilities to financial institutions	**216 850**	**174 055**
a) on demand	4 647	6 932
b) fixed-term liabilities from financial services	212 155	167 109
ba) current liabilities	212 082	167 069
Of which: - to related parties	148 422	140 189
- to other related parties	0	0
- to the National Bank of Hungary	0	0
- to clearing houses	0	0
bb) long-term liabilities	73	40
Of which: - to related parties	0	0
- to other related parties	0	0
- to the National Bank of Hungary	0	0
- to clearing houses	0	0
c) from investment services	48	14
Of which: - to related parties	44	14
- to other related parties	0	0
- to clearing houses	0	0
1/A Valuation difference on liabilities to financial institutions	**0**	**0**
2. Liabilities to customers	**116 733**	**124 607**
a) savings deposits	0	0
aa) on demand	0	0
ab) current liabilities	0	0
ac) long-term liabilities	0	0
b) other liabilities from financial services	116 125	124 605
ba) on demand	74 430	88 873
Of which: - to related parties	6 940	8 054
- to other related parties	0	0
bb) current liabilities	41 695	35 732
Of which: - to related parties	9 506	8 863
- to other related parties	0	0
bc) long-term liabilities	0	0
Of which: - to related parties	0	0
- to other related parties	0	0
c) from investment services	608	2
Of which: - to related parties	592	0
- to other related parties	0	0
ca) liabilities from stock exchange investment services	0	0
cb) liabilities from OTC transactions	0	0
cc) liabilities from investment services	608	2
cd) liabilities from clearing house	0	0
ce) liabilities from other investment services	0	0
2/A Valuation difference on liabilities to customers	**0**	**0**
3. Liabilities from issued securities	**0**	**0**
a) issued bonds	0	0
aa) current liabilities	0	0
Of which: - to related parties	0	0
- to other related parties	0	0
ab) long-term liabilities	0	0
Of which: - to related parties	0	0
- to other related parties	0	0
b) other issued debt securities	0	0
ba) current liabilities	0	0
Of which: - to related parties	0	0
- to other related parties	0	0
bb) long-term liabilities	0	0
Of which: - to related parties	0	0
- to other related parties	0	0
c) documents not qualifying as debt securities, treated as securities	0	0
ca) trading securities	0	0
Of which: - to related parties	0	0
- to other related parties	0	0
cb) long-term liabilities	0	0
Of which: - to related parties	0	0
- to other related parties	0	0

Description	Opening data 31 Dec 2010	Current year data 31 Dec 2011
4. Other liabilities	**10 537**	**14 249**
a) current liabilities	10 537	14 249
Of which: - to related parties	6 029	7 210
- to other related parties	0	0
- for financial institutions operating as co-operatives: cash contribution of members	0	0
b) long-term liabilities	0	0
Of which: - to related parties	0	0
- to other related parties	0	0
4/A Negative valuation difference on derivatives	**16 016**	**17 544**
5. Accrued expenses and deferred income	**2 882**	**3 796**
a) deferred income	622	614
b) accrued expenses	2 257	3 180
c) deferred extraordinary revenues and negative goodwill	3	2
6. Provisions	**1 822**	**2 006**
a) provisions for pensions and severance payment	0	0
b) provisions for contingent and future liabilities (commitments)	22	2
c) general risk provisions	1 209	1 209
d) other provisions	591	795
7. Subordinated debt	**0**	**0**
a) subordinated loan capital	0	0
Of which: - to related parties	0	0
- to other related parties	0	0
b) for financial institutions operating as co-operatives: other cash contribution of members	0	0
c) other subordinated debt	0	0
Of which: - to related parties	0	0
- to other related parties	0	0
8. Issued capital	**2**	**2**
Of which: - participation redeemed at face value	0	0
9. Issued but unpaid capital (-)	**0**	**0**
10. Capital reserve	**43 643**	**43 643**
a) difference of the nominal value and issuing price of shares and	0	0
b) other	43 643	43 643
11. General reserve	**0**	**0**
12. Retained earnings (+-)	**0**	**0**
13. Tied-up reserves	**0**	**0**
14. Revaluation reserve	**0**	**0**
a) revaluation reserve on value adjustments	0	0
b) fair value reserve	0	0
15. Profit or loss for the year (+-)	**0**	**0**
Total equity and liabilities	***408 485***	***379 902***
Of which: - CURRENT LIABILITIES	360 063	330 415
- LONG-TERM LIABILITIES	73	40
- EQUITY	43 645	43 645

Contingent liabilities	365 385	430 951
Future liabilities	1 675 338	1 524 706
Contingent receivables	9	9
Future receivables	1 683 229	1 532 070

Budapest, 25 May 2012

Dr. István Salgó
Chief Executive Officer

Gyula Réthy
Chief Financial Officer

PROFIT AND LOSS STATEMENT

Data in HUF million

	Description	Opening data 31 Dec 2010	Current year data 31 Dec 2011
1.	**Interest and similar income received**	**24 092**	**30 748**
	a) on fixed-interest debt securities	15 155	20 283
	Of which: - from related parties	0	0
	- from other related parties	0	0
	b) other interest and similar income received	8 937	10 465
	Of which: - from related parties	988	392
	- from other related parties	0	0
2.	**Interest payable and similar expenditures**	**5 264**	**9 115**
	Of which: - from related parties	2 243	4 094
	- from other related parties	0	0
	INTEREST MARGIN (1-2)	**18 828**	**21 633**
3.	**Revenues from securities**	**47**	**44**
	a) revenues from trading shares and securities	0	0
	b) revenues from participations in related parties	0	0
	c) revenues from other participations	47	44
4.	**Commissions and fees received or due**	**6 453**	**4 164**
	a) from the revenues from other financial services	4 085	2 674
	Of which: - from related parties	614	660
	- from other related parties	0	0
	b) from the revenues from investment services	2 368	1 490
	Of which: - from related parties	364	279
	- from other related parties	0	0
5.	**Commissions and fees paid or payable**	**2 946**	**1 141**
	a) from the expenditures on other financial services	2 053	539
	Of which: - from related parties	166	100
	- from other related parties	0	0
	b) from the expenditures on investment services	893	602
	Of which: - from related parties	11	10
	- from other related parties	0	0
6.	**Net profit/loss on financial operations [6.a)-6.b)+6.c)-6.d)]**	**-5 518**	**-6 096**
	a) from the revenues from other financial services	1 656	1 581
	Of which: - from related parties	256	307
	- from other related parties	0	0
	- valuation difference	0	0
	b) from the expenditures on other financial services	5 378	11 307
	Of which: - to related parties	3	0
	- to other related parties	0	0
	- valuation difference	0	0
	c) from the revenues from investment services	11 309	13 044
	Of which: - from related parties	12	0
	- from other related parties	0	0
	- reversal of the impairment of trading securities	0	0
	- valuation difference	0	0
	d) from the expenditures on investment services	13 105	9 414
	Of which: - to related parties	1 033	86
	- to other related parties	0	0
	- impairment of trading securities	0	0
	- valuation difference	0	0
7.	**Other revenues from operations**	**708**	**4 356**
	a) revenues from other than financial and investment services	368	3 885
	Of which: - from related parties	180	320
	- from other related parties	0	0
	b) other revenues	340	471
	Of which: - from related parties	19	2
	- from other related parties	0	0
	- reversal of impairment of stocks	0	0

	Description	Opening data 31 Dec 2010	Current year data 31 Dec 2011
8.	**General administrative expenses**	**6 965**	**7 222**
	a) payments to personnel	3 210	3 327
	aa) payroll	2 339	2 419
	ab) payments to personnel	194	210
	Of which: - social security costs	24	26
	= pension related costs	6	10
	ac) social security and similar deductions	677	698
	Of which: - social security costs	633	652
	= pension related costs	562	573
	b) material type expenditures (materials and supplies)	3 755	3 895
9.	**Depreciation**	**261**	**352**
10.	**Other expenditures on operations**	**2 979**	**5 246**
	a) expenditures on other than financial and investment services	224	3 753
	Of which: - to related parties	2	107
	- to other related parties	0	0
	b) other expenditures	2 755	1 493
	Of which: - to related parties	0	3
	- to other related parties	0	0
	- impairment of stocks	0	0
11.	**Impairment of receivables and risk provision for commitments and contingent liabilities**	**35**	**3**
	a) impairment of receivables	34	3
	b) risk provisions for contingent liabilities and for (future) commitments	1	0
12.	**Reversal of impairment of receivables and use of risk provision made for commitments and contingent liabilities**	**484**	**41**
	a) reversal of impairment of receivables	406	21
	b) use of risk provision made for commitments and contingent liabilities	78	20
	12/A Difference between general risk reserve allocated and used	0	0
13.	**Impairment of investment debt securities and shares and participations in related parties and other related parties**	**0**	**0**
14.	**Reversal of impairment of investment debt securities and shares and participations in related parties and other related parties**	**0**	**0**
15.	**Profit or loss on ordinary activities**	**7 816**	**10 178**
	Of which: - PROFIT ON FINANCIAL AND INVESTMENT SERVICES	7 672	10 046
	Of which: - PROFIT ON OTHER THAN FINANCIAL INVESTMENT	144	132
16.	**Extraordinary revenues**	**1**	**1**
17.	**Extraordinary expenditures**	**1 073**	**1 018**
18.	**Extraordinary profit/loss (16-17)**	**-1 072**	**-1 017**
19.	**Profit before tax (+/-15+/-18)**	**6 744**	**9 161**
20.	Tax liability	732	1 961
21.	**Profit after tax (+/-19-20)**	**6 012**	**7 200**
22.	**General provision made and used (+/-)**	**0**	**0**
23.	**Dividends paid from retained earnings**	**0**	**0**
24.	**Dividends paid (approved)**	**6 012**	**7 200**
	Of which: - to related parties	6 012	7 200
	- to other related parties	0	0
25.	**Profit or loss for the year (+21-/+22+23-24)**	**0**	**0**

Budapest, 25 May 2012

Dr. István Salgó
Chief Executive Officer

Gyula Réthy
Chief Financial Officer

Notes to the Financial Statements

31 December 2011

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NOTES TO THE FINANCIAL STATEMENTS 31 DECEMBER 2011

1. GENERAL NOTES

ING Bank Rt was established in Hungary in 1991 by ING Bank N.V., a company with headquarters in Amsterdam. In Hungary, this Bank was the first registered financial institution with exclusively foreign ownership, providing a full range of commercial (corporate) banking and limited retail banking services. Pursuant to legislative amendments, “Rt” – the abbreviation referring to the form of business – was replaced by “Zrt” in the Bank’s name and the change was registered by the Court of Registration on 2 May 2006.

On 8 August 2008, ING Bank N.V. established a branch in Hungary called ING Bank N.V. Magyarországi Fióktelepe, in English ING Bank N.V. Hungary Branch (hereinafter referred to as “Branch”), which was registered by the Court of Registration on 5 September 2008.

The Bank’s issued capital was HUF 18 589 million on 30 September 2008, and it fully consisted of foreign shares, namely 185 886 registered shares with a nominal value of HUF 100 000 (i.e. one hundred thousand forints) each. ING RÜK Regionális Ügyviteli Központ Kft. (ING Regional Operating Center Co.) and ING Duna Szolgáltató Kft. (ING Duna Servicing Co.) owned HUF 361 million and HUF 563 million, respectively, of the issued capital on 30 September 2008. All three Companies were fully owned by the Dutch ING Bank N.V. (official address: Bijlmerplein 888, 1102 MG, Amsterdam).

The legal structure described above – where ING Bank N.V. was the direct and sole owner of the Companies – enabled the merger of ING Bank Zrt., ING RÜK Regionális Ügyviteli Központ Kft. and ING Duna Szolgáltató Kft. with ING Bank N.V. The merger was implemented in accordance with the provisions of the Dutch Civil Code and Directive 2005/56/EC of the European Parliament and of the Council on cross-border mergers of limited liability companies and the Hungarian law (Act CXL of 2007) implementing that Directive. The decision on the merger was recorded by ING Bank N.V., as the acquiring company, and Bank Zrt., ING RÜK Regionális Ügyviteli Központ Kft. and ING Duna Szolgáltató Kft., as the companies being acquired, in a merger agreement dated 8 August 2008. The agreement also specified that the date of transformation would be 30 September 2008 and therefore the last financial year of the acquired companies ended on 30 September 2008. The merger was approved by the Dutch Chamber of Commerce on 2 October 2008.

The assets and liabilities of the acquired companies were transferred by ING Bank N.V. to the Branch as capital contribution, of which HUF 2 million was endowed capital and the rest was other equity contribution. The endowed capital is presented as issued capital, while the other capital contribution is recorded as capital reserve in the books of the Branch, the value of capital reserve being the value of the transferred assets less liabilities. The founder of the Branch is ING Bank N.V. (seat: Bijlmerplein 888, 1102 MG, Amsterdam and was registered by the Registry of the Chamber of Commerce and Industry of Amsterdam under no. 33031431).

The goal of ING Bank N. V. is to remain, through its branch, a recognized integrated financial service provider in the Hungarian money and capital markets. It places great emphasis on constantly providing quality services which can also meet the needs of a wide range of customers and on introducing new (innovative) products. The intention to achieve these objectives is accompanied with the expectation of ensuring adequate profitability, greatly relying on other members of ING Group that are present in Hungary. This ambition is fully in line with the strategy of ING Group, whose global organizational structure was (is) designed to enable - as an integrated financial service provider- to exploit efficiently the cross-selling opportunities inherent in the activities of the banking business line and the other service providers belonging to the group.

The ING Group announced the complete separation of its bank and insurance operations in October 2009, aiming to finish the separation by the end of 2013. ING Group has been preparing for the structural changes under Readiness project from 2010. In respect of Hungary the project aims physical separation, cancellation and simplification of common operational processes. In 2011 the project did not have any significant impact on the Bank’s performance.

The IT environment of the Branch

GBS system

One of the owner's aims is to standardize the applied systems and processes within ING, therefore ING entities operating in different countries use the same integrated system called GBS. Six countries - including Hungary - from the Central Eastern European region operate on the same GBS platform. This also means that the developments and upgrades are co-ordinated by central IT in Amsterdam, to ensure synchronised operations, which is considered to be one of the efforts towards standardization.

The business events related to the banking products are recorded in this computer system, and the basis of the Hungarian trial balance complying with the requirements of the accounting law is the trial balance generated by this system. As a specific characteristic of the system, the impact of events which became known after 31 December, but before the date of drawing up the balance sheet and affect the preceding year cannot be entered into the system as a data for the preceding year. Therefore, the data of the "leafed through" Hungarian trial balance are adjusted by using those data recorded in the journal which pertain to the events that become known in the relevant period and affect the preceding financial year.

EXACT system

The Branch records the accounting entries related to general financial activities (receivables, payables, costs, tangible assets, taxes, etc.) in the Exact Globe 2003 Enterprise system.

System generating the integrated trial balance of the Branch

The entire general ledger, as well as the balance sheet and profit and loss account, which are based on the general ledger, are generated as part of a partial internal consolidation carried out by setting off the balances recorded in the two accounting systems. As a result of the method followed by the Branch, the annual financial statements are not only supported by the consolidated Hungarian trial balance, but also by a trial balance generated by the integrated computer system (of the parent company); matching this trial balance to the Hungarian classification of accounts, the journals recording the entries to be adjusted at the time of closing due to chronological differences, and the detailed annexes prepared for the Hungarian trial balance. As supporting documents of the annual financial statements, these documents constitute a unified whole.

The Accounting Policies of the Branch

The Branch summarizes the general and special accounting relationships and the rules of account keeping and financial reporting in its accounting policies based on the methods and valuation procedures laid down in Act C of 2000 on Accounting and Government Decree 250 of 24/12/2000 on the specific obligations of lending institutions and financial enterprise relating to drawing up the annual financial statements and keeping the accounts. In conformity with the individual needs and special form of operation of the Branch, these rules provide a disciplined framework for keeping the accounts during the year and drawing up parts of the financial statements. The accounting policies are reviewed and updated every year.

The accounting policies set out the rules of:

- reporting;
- the valuation of assets and liabilities;
- asset and liability counting;
- cost calculations;
- the recognition of forward, option and swap transactions, and the definition and separate treatment of hedging transactions;
- the management of cash and valuables;
- the management, recording and accountability of supporting documents and forms subject to strict accounting and the checking thereof;
- the settlement of accounts between the branch and the parent company.

Reporting rules

The reporting rules include the definition of the method of keeping the accounts and the contents of the annual financial statements, including the notes and the business report.

With regard to the applicable requirements of Act C of 2000 on Accounting and Government Decree 250 of 24.12.2000 (on the specific obligations of lending institutions and financial enterprise relating to drawing up the annual financial statements and keeping the accounts), as amended, the Branch draws up annual financial statements following the closing of the calendar year to give a view of its operations, equity, financial position and profitability. Pursuant to the regulations applying to lending institutions, the Branch uses double-entry bookkeeping and calculates profit or loss by applying the turnover cost method. The Branch draws up its balance sheet in accordance with Annex 1 to the Government Decree, its profit and loss account with Annex 2 (Profit and Loss Account 1 vertical structure), and its cash flow statement with Annex 3 (required cash flow structure version A)

In respect of 31 December 2011, the date of drawing up the balance sheet was 5 January 2012.

The internal accounting rules of the Branch are designed to ensure that the information needs of the Hungarian Financial Supervisory Authority and the Hungarian central bank (NBH) can be met at any time of the year. The Branch closes its asset and equity & liabilities accounts, expenditure and profit and loss accounts and calculates their balances as at the last day of each month and prepares a trial balance and a summary of contingencies recorded in Account Class 0 to support the reports prepared for the Hungarian Financial Supervisory Authority and the Hungarian central bank (NBH) during the year.

At the quarterly closing, receivables are rated individually on the basis of count results and by observing the requirements of the accounting law, and all justified impairment losses are recognized to the extent defined in the chapter on the special valuation requirements of the Rules for the Valuation of Assets and Liabilities.

Valuation policies

The Branch applies the fair value basis to financial instruments where the accounting law and the Government Decree provide an opportunity to do so. For all assets and liabilities that are not subject to valuation at fair value, the Company uses the historic cost basis.

Fair value method

The Branch uses the fair value method of valuation in compliance with the rules laid down in Articles 59/A to 59/F of the accounting law and 9/A to 9/F of Government Decree 250 of 2000, in accordance with the detailed requirements described in the accounting policies. The main aspects are summarized below:

The Branch applies the rules of valuation at fair value to the following financial instruments:

Securities (securities held for trading and available for sale)
Derivative transactions

<u>Securities held for trading</u>

Interest bearing securities held for trading are recorded in groups and valued at average purchase price, which are re-valued by the GBS system every day on the basis of market prices. The valuation difference shows whether the fair values of these assets exceed or remain below their historic cost (purchase price). Any gains or losses arising on valuation and the historic cost (purchase price) are added up to calculate the book value of these assets to equal their fair value.

The Branch discloses the valuation difference over or below the purchase price of the securities classified as financial instruments held for trading as revenues from and expenditures on trading activities, within the revenues from and expenditures on financial services.

<u>Securities available for sale</u>

Securities available for sale are recorded in groups and valued at average purchase price in the same way as securities held for trading.

Pursuant to the decision of the management of the Branch, marketable securities are re-valued at fair value.

In the case of securities available for sale, the valuation difference shows the fair value exceeding the historic cost (purchase price). It can only be positive, and it is not part of the book value of these assets. The Branch recognizes this valuation difference in the revaluation reserve. If the fair value of an asset is below the historic cost (purchase price) at the time of the valuation, then the valuation difference must be written off against the revaluation reserve of the valuation at fair value and an impairment loss must be recognized if the fair value decreases permanently and significantly.

Derivative transactions

The Branch applies the rules of valuation at fair value to the following derivative transactions:

- forward transactions
- swap transactions
- forward rate agreements (FRA)
- interest rate swaps (IRS)

Financial assets acquired in derivative transactions (forward contracts, option contracts, interest rate swaps, HUF/FX swaps, foreign exchange swaps) are entered into the books at contracted price and re-valued by the Branch at their fair value recognised as revenues from or expenditures on investment services. In this case, the historic cost is the total of the contracted price and the valuation difference, which equals the fair value.

For derivatives, the Company recognizes any revaluation gain as receivable and any revaluation loss as liability for each contract and presents these as individual entries.

Gains arising from revaluation are recognised as revenue from investment services. Losses arising from revaluation are recognised as expenditure on investment services.

At the time of closing a transaction, the Branch derecognizes the valuation difference of derivative contracts for trading purposes recognized earlier either as an item reducing the revenue from investment services, if the difference is positive, or as an item reducing the expenditures on investment services, if the difference is negative.

As the Branch does not enter into derivative contracts for hedging purposes, no such transaction appears in its books.

Detailed description of applied procedures

Securities

The Branch values securities on the basis of market yields published daily by Kepler Capital Markets, an independent leading European broker company. These yields are converted to prices with the help of an application developed by the local IT function. A Bloomberg algorithm is applied for the conversion of yields to prices to ensure consistency between the Front Office system used for bond transactions and the GBS system.

Financial instruments (forward, swap, FRA)

Like bonds, the above money market instruments are valued in the GBS system. As this system does not calculate net present value, it is calculated by an application developed for the ING Central European Region. As a basis of this calculation, GBS provides the value of accumulated interest and the auxiliary application calculates additional adjustments (MtM add-on) to establish the net present value. The yield curves used for the calculation of NPVs are taken from the ING Summit system. Input data for constructing yield curves are fed into Summit from the GMDB (Global Market Database). Zero coupon yield curves are derived from par yield curves for both Summit and the regional application to provide a basis for NPV calculation. These are used to calculate discount factors and NPVs.

Interest rate swaps

Interest rate swaps are recorded in the Summit system. As this product is processed in Amsterdam, the market values are taken from the BEST data warehouse operated in Amsterdam. Valuation is based on the zero coupon yield curves derived from the par yield curves constructed in the Summit system.

Historic cost method of valuation – other valuation rules

The Branch applies the historic cost method of valuation for those assets and liabilities where the rules of valuation at fair value are not applied.

Securities held to maturity

As the fair value method cannot be used for the valuation of financial assets held to maturity, the Branch applies the rules of the historic cost method of valuation. If the book value of an asset permanently and significantly exceeds its market value, the Company recognizes impairment loss for the given asset. If the book value decreases below the original historic cost as a result of impairment losses recognized earlier and the reasons for lower valuation do not exist any more, then the impairment loss must be reversed to an extent which is not higher than the amount of impairment loss recognized earlier.

The Branch considers a difference permanent, if it exists for one year. Significant difference is defined by the Company as 15%.

Other valuation rules

Inventories are valued based on the FIFO method. Inventories are impaired if they have to be scrapped, have been damaged or have become obsolete.

Under the accounting law, impairment loss must be recognised on the basis of the valuation of loans, bank deposits and other receivables at the balance sheet date if the debtor's credit rating has worsened and recovery by the date of maturity is uncertain. When the debtor's credit rating improves, the impairment loss recognized earlier may be reversed. The valuation of receivables (rating, writing off) is governed by the Special Valuation Requirements – Prudent Policies on Lending Activities and the individual decision making powers defined therein.

Reserves

Corresponding to the guidelines and principles by the Founder the Branch applies two further modification items related to valuation. In addition these items are shown in our books as market valuation difference or provisions. The above corrections in valuation are performed in order to show the value of off-balance sheet assets, liabilities and derivative deals as accurately as possible.

The applied reserves are as follows:

- Bid-offer reserve (shown as valuation difference)
- Credit valuation adjustment (shown as provision)

The method and reserve calculation has changed during the years. The former reserve for hedging the transfer risk was built into the calculation of credit valuation adjustment, whereby the transfer risk reserve was terminated at year-end in 2011.

The Branch regards interest to be contingent at the end of the year, if it is receivable on a *pro rata* basis over the reporting period and decreases due but not received before the balance sheet preparation date, or if it is receivable on a *pro rata* basis over the reporting period but does not decrease due before the balance sheet preparation date and the underlying receivable is rated other than "pass" or "watch".

The Branch regards interest to be contingent before the end of the year, if the amount receivable has not been received within 30 days or the principal receivable is rated other than "pass" or "watch".

Futures and forwards (HUF/FX, FX swap, FRA) and swaps made on the Stock Exchange or traded OTC are recorded as contingencies at the contractual future or forward price until the maturity date specified in the contract. Upon maturity, futures and forwards and the forward component of swap transactions are recognised based on rules applicable to spot sales transactions.

Pursuant to the decision of the Branch, foreign exchange denominated assets and liabilities are re-valued on a daily basis using the official foreign exchange rates published by NBH.

Intangible and tangible assets are written off on a straight line basis over the useful life of the asset. The basis of recognition is the historic cost of the asset (the same as the acquisition value). The residual value is determined for each asset in view of its useful life and information available at the time of commissioning. The Company recognizes amortization and depreciation once a month, before the monthly closing, in both the detailed and the aggregate records. Amortisation starts at the date of capitalization and is recognised up to derecognition when the asset is disposed of. Small value assets (which cost below HUF 100 000) are fully written off at the time of acquisition as defined in the corporate tax act.

If the book value of an asset decreases below its historic cost as a result of the write-offs (extraordinary amortization of intangible assets, extraordinary depreciation of tangible assets, impairment loss of other assets), and the reasons for undervaluation no longer exist, the write-offs must be eliminated. Any recognized extraordinary amortization/depreciation of intangible and tangible assets or the impairment loss of other assets must be reduced to revalue the asset to market value, which may not exceed the historic cost of the asset or, for tangibles and intangibles, the net value of the asset. The amount reversed may not exceed that of the recognized extraordinary depreciation/ amortization or impairment loss.

The amortisation and depreciation rates developed on the basis of expected service life and used for capitalized intangible and tangible assets are the following:

	31 December 2010	31 December 2011
Software user licences	33	33
Other concessions, licenses and similar rights	17	17
Servers	33	33
Computers (PCs)	33	33
Other IT equipment	33	33
*Communication equipment	33	33
*Other technical equipment	20	20
**Office furniture, office equipment and other equipment	14.5	14.5
Vehicles	25	25 or 33
***Improvements on third party property	6-17	Closing date of depreciation = August 31, 2014

* In 2010 the two asset groups was shown in one aggregate line, while in 2011 we present them separately to get a better transparency.
** In 2010 it was shown as other equipment but its name was completed due to the detailed presentation
*** From 1st of January 2011 the Branch recognizes the depreciation rate of improvements on third party property in alignment with the maturity of lease agreement.

Other information

The Branch does not have an obligation to prepare consolidated financial statements as at 31 December 2011.

The owner ING Bank N. V. Amsterdam includes in its consolidated financial statements prepared in compliance with the International Accounting Standards accepted by the European Union all shareholdings exceeding 50% – including the Branch – fully. The annual report for the year 2010 is available at www.ing.com.

The owner of ING Bank N. V. Amsterdam, ING Groep N.V. Amsterdam includes our owner in its consolidated financial statements prepared in accordance with similar principles. The annual report for the year 2011 is available at www.ing.com.

Accounting services

Person responsible for leading and managing the accounting tasks performed in the year 2011

Gyöngyi Steiner — 1028 Budapest, Noémi utca 21.
registration number: 167986

Auditing the annual financial statements of the Branch

The Branch is qualified as an enterprise under the accounting law and, as such, it must have its annual financial statements audited by an auditor.

The annual financial statements of the Branch are audited by Ernst & Young Könyvvizsgáló Kft. (company registration number: 01-09-267553).

Auditor:

- Gabriella Virágh — Address: 1032 Budapest, Kiscelli út 74.
Mother's name: Erzsébet Kiss

The fee for auditing the financial statements for the present financial year is HUF 21 million, including VAT. The Branch recognised HUF 3 million as cost of other services provided by the auditor in the reporting period.

The annual financial statements are signed by:

- Dr. István Salgó — ING Bank N.V Hungarian Branch
Chief Executive Officer
1023 Budapest, Apostol u. 8.

- Gyula Réthy — ING Bank N.V Hungarian Branch
Chief Financial Officer
1028 Budapest, Harmatcsepp u. 11.

2. Specific Notes

The chapter "Specific Notes" contains notes to specific items in the Bank's balance sheet and profit and loss account.

Tangible assets and intangible assets

Under intangible assets, the Branch records concessions, licenses and similar rights, and user licenses for intellectual products. The tangible assets serving the banking activities include IT equipment, while the tangible assets serving non-banking activities include motor vehicles and works of art. Tangible assets do not include any land and buildings and related property rights.

Gross value of tangible and intangible assets

Figures in HUF m

Description	31 December 2010	Purchase	Sale	Capitali-zation	Other change (reclassifi-cation, discarding)	31 December 2011
Intangible assets	**461**	**253**	**0**	**112**	**-19**	**583**
Other concessions, licenses and similar rights*	0	0	0	0	0	0
Software user licences	461	253	0	112	-19	583
Tangible assets	**863**	**397**	**69**	**236**	**-1**	**954**
Tangible assets serving banking activities directly	*500*	*211*	*5*	*143*	*-1*	*562*
Improvements on third party property	226	14	0	0	0	240
IT equipment	94	87	1	0	15	195
Other equipment, fittings	101	42	4	0	-16	123
Investment	79	68	0	143	0	4
Tangible assets serving banking activities indirectly	*363*	*186*	*64*	*93*	*0*	*392*
Vehicles	346	93	64	0	0	375
Works of art	17	0	0	0	0	17
Investments	0	93	0	93	0	0
Total	**1 324**	**650**	**69**	**348**	**-20**	**1 537**

* value below HUF 1 million

Accumulated depreciation of tangible assets and accumulated amortization of intangible assets

Figures in HUF m

Description	31 December 2010	Ordinary deprecia-tion/amor-tization	Sale	Capitali-zation	Other change (reclassifi-cation, discarding)	31 December 2011
Intangible assets	**234**	**146**	**0**	**0**	**-7**	**373**
Other concessions, licenses and similar rights*	0	0	0	0	0	0
Software user licences	234	146	0	0	-7	373
Tangible assets	**236**	**206**	**39**	**0**	**-16**	**387**
Tangible assets serving banking activities directly	*164*	*141*	*2*	*0*	*-16*	*287*
Improvements on third party property	64	48	0	0	0	112
IT equipment	45	59	1	0	1	104
Other equipment, fittings	55	34	1	0	-17	71
Investment	0	0	0	0	0	0
Tangible assets serving banking activities indirectly	*72*	*65*	*37*	*0*	*0*	*100*
Vehicles	72	65	37	0	0	100
Works of art	0	0	0	0	0	0
Investments	0	0	0	0	0	0
Total	**470**	**352**	**39**	**0**	**-23**	**760**

* value below HUF 1 million

Net value of tangible and intangible assets

Figures in HUF m

Description	31 December 2010	Changes	Sale	Capitali-zation	Other change (reclassifi-cation, discarding)	31 December 2011
Intangible assets	**227**	**107**	**0**	**112**	**-12**	**210**
Other concessions, licenses and similar rights*	0	0	0	0	0	0
Software user licences	227	107	0	112	-12	210
Tangible assets	**627**	**191**	**30**	**236**	**15**	**567**
Tangible assets serving banking activities directly	*336*	*70*	*3*	*143*	*15*	*275*
Improvements on third party property	162	-34	0	0	0	128
IT equipment	49	28	0	0	14	91
Other equipment, fittings	46	8	3	0	1	52
Investment	79	68	0	143	0	4
Tangible assets serving banking activities indirectly	*291*	*121*	*27*	*93*	*0*	*292*
Vehicles	274	28	27	0	0	275
Works of art	17	0	0	0	0	17
Investments	0	93	0	93	0	0
Total	**854**	**298**	**30**	**348**	**3**	**777**

* value below HUF 1 million

Until 31 December 2011, HUF 112 million software user licences had been capitalized. The Branch invested the amount above HUF 100 million into developments to its existing systems, software upgrades and renewal of licences. At the end of the year, intangible assets included HUF 42 million non-capitalized acquisitions.

HUF 87 million new IT equipment (servers) and HUF 42 million technical equipment were purchased, in addition HUF 14 million were spent on improvements on third party properties.

During the year 11 company cars were purchased at a value of HUF 93 million, and 13 company cars were sold at a book value of HUF 27 million.

Provisions made and used in the reporting period

At 31 December 2011 the total value of the provisions in the books of the Branch was HUF 2 006 million.

At 31 December 2010, the books of the Branch included HUF 22 million provisions for contingent and future liabilities related to derivative deals out of which HUF 20 million was released in 2011. As a consequence at the end of 2011 the total provision for derivative deals amounted to HUF 2 million.

At 31 December 2010, the other provision comprised of the following items: HUF 334 million for transfer risk reserve, HUF 163 million for future office rent, HUF 89 million amortization costs of third party properties improvements and HUF 5 million for redundancies due to reorganization. In the reporting period the Branch made additional provisions amounted to HUF 131 million for future rent, while HUF 21 million was used. HUF 25 million provision was used related to the amortization costs. Due to redundancies the Branch built further provision with value of HUF 86 million, at the same time the Company released and used provision in the amount of HUF 2 and 3 million respectively.

The reserve methodology adopted by the parent company was modified at the end of 2011. Reserve made for insolvency (credit valuation adjustment) was shown as market valuation difference on derivative deals in previous years. On the one hand the modified new CVA is not available at product level any more, on the other hand it covers the transfer risk as well, so from the end of 2011, it is displayed as provision. The separate transfer risk reserve was terminated and as before it was built into the method of CVA. Based on the above we made provisions for hedging the losses from insolvency in the amount of HUF 372 million, and as well released entirely the provision previously built due to the changes for transfer risk with value of HUF 334 million in 2011.

The Bank has not made provisions for general risks from the year 2001. No further provisions for general risks were made or used following the transformation and the foundation of the Branch.

Provisions made and released in the reporting period:

Figures in HUF m

Description	31 December 2010	Increase (made)	Decrease		31 December 2011
			released	used	
Provisions for pension and severance pay	0	0	0	0	0
Provisions for contingent and future liabilities	22	0	20	0	2
Provisions for general risks	1 209	0	0	0	1 209
Other provisions	591	589	336	49	795
Total	**1 822**	**589**	**356**	**49**	**2 006**

Impairment loss recognised and reversed in the reporting period

Impairment loss recognized and reversed in the reporting period were as follows:

Figures in HUF m

Description	31 December 2010	Increase (made)	Decrease		31 December 2011
			released	used	
Impairment of debtors	33	2	20	0	15
Impairment of investment services	231	1	1	0	231
Impairment of other receivables	0	0	0	0	0
Impairment of shares	0	0	0	0	0
Impairment of debt securities	0	0	0	0	0
Total	**264**	**3**	**21**	**0**	**246**

The Branch recorded HUF 3 million impairment loss with respect to doubtful receivables and the HUF 21 million previous years' impairment was released in 2011.

Items under special evaluation rules

Breakdown of book value of receivables, securities and off-balance sheet items under special evaluation rules by asset qualification categories:

Figures in HUF m

Description	Problem-free	Monitoring	Below average	Doubtful	Bad	Total
Government securities	**136 310**	**0**	**0**	**0**	**0**	**136 310**
Historic cost	136 310	0	0	0	0	136 310
Loss on value	0	0	0	0	0	0
Receivables from financial institution	**8 959**	**0**	**0**	**0**	**0**	**8 959**
Historic cost	8 959	0	0	0	0	8 959
Loss on value	0	0	0	0	0	0
Receivables from customers	**169 450**	**1 541**	**0**	**0**	**57**	**171 048**
Historic cost	169 450	1 556	0	0	288	171 294
Loss on value	0	15	0	0	231	246
Contingent liabilities	**430 775**	**174**	**0**	**0**	**0**	**430 949**
Historic cost	430 775	176	0	0	0	430 951
Provision	0	2	0	0	0	2
Future liabilities	**1 524 706**	**0**	**0**	**0**	**0**	**1 524 706**
Historic cost	1 524 706	0	0	0	0	1 524 706
Provision	0	0	0	0	0	0

Owned securities and shares

Owned government securities held for trading

Portfolio held for trading

Figures in HUF m

Description of security	Nominal value	Book value	Valuation difference	Market value
2012/B	3 607	3 594	-1	3 593
2012/C	1 603	1 579	-1	1 578
2013/D	1 092	1 073	*0	1 073
2013/E	2 802	2 759	-6	2 753
2014/C	76	71	*0	71
2014/D	1	1	*0	1
2015/A	45	43	*0	43
2016/C	1 760	1 566	-27	1 539
2017/A	36	32	-1	31
2017/B	1 075	961	-9	952
2019/A	60	50	*0	50
2020/A	2	2	*0	2
2022/A	48	40	-1	39
2023/A	987	750	-22	728
2028/A	33	26	-1	25
Total	**13 227**	**12 547**	**-69**	**12 478**

* value below HUF 1 million

Figures in HUF m

Description of security	Nominal value	Book value	Accrued interest	Market value
D120111	5 228	5 112	104	5 216
D120208	8	8	*0	8
D120215	16	16	*0	16
D120229	3 818	3 756	18	3 774
D120307	15 017	14 700	120	14 820
D120502	36 580	35 485	170	35 655
D120627	7 030	6 750	21	6 771
D120822	871	828	1	829
D121017	42	39	*0	39
D121212	115	107	*0	107
MNB120104	57 084	56 930	110	57 040
MNB120111	32	32	*0	32
Total	**125 841**	**123 763**	**544**	**124 307**

* value below HUF 1 million

Portfolio held-to-maturity

The Branch had no held-to-maturity portfolio at year-end 2010.

Securities traded on a stock exchange and in OTC markets in a breakdown by balance sheet item

The table below shows the book values of securities listed in a stock exchange and included in the assets disclosed in the balance sheet in a breakdown by balance sheet items:

Figures in HUF m

Securities traded on a stock exchange and in OTC markets	Current assets		Fixed assets
	Traded on a stock exchange	OTC	
Hungarian government bonds	12 547	0	0
Discount treasury bills	66 801	0	0
NBH bond	0	56 962	0
Total	**79 348**	**56 962**	**0**

The Branch does not have any foreign securities.

Owned shares held for investment

Figures in HUF m

Description of share	Face value	Historic cost	Market value
GIRO Zrt.	20	20	20
Hitelgarancia Alapítvány	22	22	22
Garantiqa Hitelgarancia Zrt.	10	10	10
Budapesti Értéktőzsde Zrt.	13	21	21
Magyar SEPA Egyesület *	*0	*0	*0
Shares held as investment *	*0	*0	*0
Total	**65**	**73**	**73**

* value below HUF 1 million

Certain items of assets and liabilities in the balance sheet in a breakdown by maturity

The table below shows in a breakdown by maturity the Branch's receivables and payables arising from financial services provided for a definite period:

Figures in HUF m

Description of balance sheet item	Maturity within 3 months	Maturity over 3 months but within 1 year	Maturity over 1 year	Maturity over 5 years	Total
Receivables	**98 129**	**17 215**	**50 373**	**11 490**	**177 207**
From credit institutions	6 241	0	0	0	**6 241**
From customers	91 888	17 215	50 373	11 490	**170 966**
Payables	**184 623**	**18 178**	**40**	**0**	**202 841**
To credit institutions	148 995	18 074	40	0	**167 109**
To customers	35 628	104	0	0	**35 732**

Subordinated debts including subordinated loan capital

As the Company operates as a branch, subordinated debt is not applicable.

Items relating to headquarters, other branches and other related parties

Figures in HUF m

Description	Founder	Other branch	Other related party	Total
Receivables from financial institutions within one year	0	6 111	0	**6 111**
Receivables from financial institutions arising from investment services	0	5	0	**5**
Receivables from customers arising from financial services within one year	0	0	498	**498**
Receivables from customers arising from financial services over one year	0	0	558	**558**
Receivables from customers arising from investment services within one year	0	0	17	**17**
Other receivables within one year	0	24	3	**27**
Liabilities to financial institutions within one year	133 432	6 233	534	**140 189**
Liabilities to financial institutions arising from investment services	0	14	0	**14**
Liabilities to customers on demand	0	0	8 054	**8 054**
Current liabilities to customers	0	0	8 863	**8 863**
Liabilities to customer from investment services	0	0	*0	***0**
Other liabilities within one year	7 201	1	8	**7 210**
Other interest and similar income received	92	38	262	**392**
Interest payable and similar charges	3 066	468	560	**4 094**
Commissions received from the revenues from other financial services	291	118	251	**660**
Commissions received from the revenues from investment services	53	32	194	**279**
Commissions paid on the expenditures on other financial services	20	56	24	**100**
Commissions paid on the expenditures on investment services	0	4	6	**10**
Revenues from other financial services	0	0	307	**307**
Expenditures on investment services	86	0	0	**86**
Revenues from other than financial and investment services	45	108	167	**320**
Other revenues	0	0	2	**2**
Other expenditures on other than financial and investment services	0	0	107	**107**
Other expenditures	2	0	1	**3**
Dividends approved	7 200	0	0	**7 200**

* value below HUF 1 million

Prepayments and accruals

The amount of prepaid expenses and accrued income on the balance sheet on 31 December 2011 was HUF 3 947 million (and HUF 3 142 million on 31 December 2010). Accrued expenses and deferred income amounted to HUF 3 796 million on 31 December 2011 (and HUF 2 882 million at 31 December 2010). The details are as follows:

Prepaid expenses and accrued income

Figures in HUF m

Description	31 December 2010	31 December 2011
Accrued income	**3 095**	**3 888**
Interest receivable from Central Bank and financial institutions	85	147
Interest receivable from customers	361	467
Interest receivable on securities	1 295	977
Interest receivable from interest rate swaps	913	2 009
Other accrued income	441	288
Prepaid expenses	**47**	**59**
Prepaid expenses	47	59
Total of accrued income and prepaid expenses	**3 142**	**3 947**

Accrued expenses and deferred income

Figures in HUF m

Description	31 December 2010	31 December 2011
Deferred income	**622**	**614**
Deferred commission income	547	539
Deferred guarantee fees	75	75
Accrued expenses	**2 257**	**3 180**
Interest payable to financial institutions	166	246
Interest payable to customers	115	179
Interest payable in connection with interest rate swaps	955	1 637
Other accrued payables	1 021	1 118
Deferred extraordinary revenues	**3**	**2**
Deferred extraordinary revenues	3	2
Total of accrued expenses and deferred income	**2 882**	**3 796**

Changes in shareholders' equity during the year

Figures in HUF m

Description	31 December 2010	Changes in 2011		31 December 2011
		Increase	Decrease	
Issued capital / Dotation capital	2	2	0	2
Capital reserve	43 643	0	0	43 643
General reserve	0	0	0	0
Retained earnings / losses	0	0	0	0
Revaluation reserve	0	0	0	0
Profit or loss for the year	0	0	0	0
Shareholders' equity	**43 645**	**0**	**0**	**43 645**

Endowment capital (Issued capital)

The endowed capital of the Branch amounted to HUF 2 million on 31 December 2011 and is made up of HUF 1 million paid up by the Owner and HUF 1 million of the capital reserve of the acquired Companies transferred to the endowed capital pursuant to the decision of the Founder.

Capital reserve

The capital reserve contains the acquired companies' issued capital, general reserve, retained earnings and profit (or loss) registered as capital contribution at the time of the branch transformation, that amount has not been changed since the merger.

Retained earnings

Retained earnings amounted to zero, the retained earnings (losses) of the acquired Companies were transferred to the capital reserve after the merger and the profit after tax of 31 December 2010 was paid out to the Founder as dividends.

General reserve

Under Article 3/A (2) of Act CXII of 1996, the Branch is not required to make a general reserve, and therefore no general reserve appears in the books.

Liabilities from investment services

The table below shows those amounts from investment services which are due to customers whose bank accounts are managed either by the Branch or another credit institution.

Figures in HUF m

Name of bank account manager	31 December 2010	31 December 2011
Branch	649	15
Other credit institution	7	1
Total	**656**	**16**

Contingent liabilities and contingent assets

Contingent liabilities

Figures in HUF m

Description	31 December 2010	31 December 2011
Issued guarantee	65 607	86 263
Unused credit facility	299 778	344 688
Promised guarantees	0	0
Liabilities arising from litigations	0	0
Total of contingent liabilities	**365 385**	**430 951**

Future liabilities

Figures in HUF m

Description	31 December 2010	31 December 2011
Spot transactions	154 479	123 867
Forward transactions	1 490 062	1 360 329
Security purchase commitment	9 297	10 441
Assigned transactions	8 420	10 742
Forward rate agreements	126	268
Interest rate swaps	12 954	19 059
Term deposit lending	0	0
Total of future liabilities	**1 675 338**	**1 524 706**

Contingent receivables

Figures in HUF m

Description	31 December 2010	31 December 2011
Receivables subject to litigation	9	9
Total of contingent receivables	**9**	**9**

Future receivables

Figures in HUF m

Description	31 December 2010	31 December 2011
Spot transactions	155 179	123 703
Forward transactions	1 485 302	1 372 139
Security sale commitment	2 843	5 640
Assigned transactions	8 422	10 742
Forward rate agreements	200	399
Interest rate swaps	12 883	19 447
Term deposit placement	18 400	0
Total of future receivables	**1 683 229**	**1 532 070**

Other contingent assets and liabilities

Figures in HUF m

Description	31 December 2010	31 December 2011
Third party securities	1 581 484	1 156 172
Guarantee received	5 537	5 891
Securities received	285 274	226 156
Nominal value of FRA purchase	165 000	100 000
Nominal value of FRA sale	215 000	100 000
Nominal value of interest rate swaps	123 402	181 942

Total of third party securities

Figures in HUF m

Type of security	Total nominal value	Place of storage				
		Clearing house	Third party premises	Treasury	Demate-rialized	Printed
Deposited securities	1 147 072	1 144 804	53	2 215	1 095 121	51 951
Consignment securities	9 100	9 095	0	5	9 095	5
Total as at 31 December 2011	**1 156 172**	**1 153 899**	**53**	**2 220**	**1 104 216**	**51 596**
Total as at 31 December 2010	**1 581 484**	**1 579 136**	**120**	**2 228**	**1 541 422**	**40 062**

Third party securities deposited

Figures in HUF m

Type of security	Total nominal value	Place of storage				
		Clearing house	Third party premises	Treasury	Demate-rialized	Printed
Foreign government bonds	32 570	32 570	0	0	920	31 650
Investment notes	22 431	22 431	0	0	12 699	9 732
Discount treasury bills	38 289	38 289	0	0	38 289	0
Corporate bonds	5 033	5 033	0	0	2 914	2 119
Debenture bonds	49 301	49 301	0	0	49 301	0
Compensation notes*	0	0	0	0	0	0
Hungarian government bonds	855 935	855 935	0	0	849 997	5 938
Shares	143 394	141 126	53	2 215	140 882	2 512
Capital notes	119	119	0	0	119	0
Total as at 31 December 2011	**1 147 072**	**1 144 804**	**53**	**2 215**	**1 095 121**	**51 951**
Total as at 31 December 2010	**1 555 882**	**1 553 539**	**120**	**2 223**	**1 517 427**	**38 455**

* value below HUF 1 million

Third party securities on consignment

Figures in HUF m

Type of security	Total nominal value	Place of storage				
		Clearing house	Third party premises	Treasury	Demate-rialized	Printed
Investment notes	342	342	0	0	342	0
Discount treasury bills	2 510	2 510	0	0	2 510	0
Hungarian government bonds	6 243	6 243	0	0	6 243	0
Shares	5	*0	0	5	0	5
Total as at 31 December 2011	**9 100**	**9 095**	**0**	**5**	**9 095**	**5**
Total as at 31 December 2010	**25 602**	**25 597**	**0**	**5**	**23 995**	**1 607**

* value below HUF 1 million

Details of assets received as security or collateral

Securities and collaterals are only entered into the books of the Branch in connection with financial services.

Figures in HUF m

Description of security	31 December 2010	31 December 2011
Cash	671	456
Securities	4 743	2 475
Assignment of receivables	8 100	6 720
Mortgages	24 360	30 477
Other securities (corporate guarantee)	247 400	186 028
Total	**285 274**	**226 156**

Suspended interests

No suspended interest existed as at 31 December 2011 (nor in 2010).

Contractual value, split by maturity and expected impact on profit or loss of open forward contracts

Spot transactions

Spot foreign exchange purchases and sale transactions are recorded in Account Class 0 amounted to HUF 123 867 million on 31 December 2011, calculated at the applicable MNB exchange rate (on 31 December 2010 the value of these transactions was HUF 154 479 million at MNB exchange rate). These transactions matured by the date of the balance sheet preparation.

Forward transactions

The Branch records forward transactions until their maturity in Account Class 0. At the end of 2011, the year-end value of forward foreign exchange transactions and foreign exchange swap transactions calculated at the applicable MNB exchange rate were HUF 1 360 329 million (on 31 December 2010, the value of these transactions was HUF 1 490 062 million). The rules of the fair value method of valuation were used to recognize the results of these transactions.

The table below shows forward transactions in a breakdown by maturity:

Figures in HUF m

Maturity	Maturity within 3 months	Maturity over 3 months but within 1 year	Maturity over 1 year	Maturity over 5 years	Total
Total as at 31 December 2011	1 052 557	298 810	8 962	0	1 360 329
Total as at 31 December 2010	1 228 606	248 178	13 278	0	1 490 062

Future liabilities from forward rate agreements

Future liabilities of sold forward rate agreements are also recorded in Account Class 0, and their value was HUF 268 million on 31 December 2011 (on 31 December 2010 was HUF 126 million).

Figures in HUF m

Maturity	Maturity within 3 months	Maturity over 3 months but within 1 year	Maturity over 1 year	Maturity over 5 years	Total
Total as at 31 December 2011	259	9	0	0	268
Total as at 31 December 2010	94	32	0	0	126

Interest rate swaps

As a result of interest rate swaps, HUF 19 059 million forward liabilities are recorded as off-balance sheet item at the end of the year 2011 (on 31 December 2010 HUF 12 954 million).

Figures in HUF m

Maturity	Maturity within 3 months	Maturity over 3 months but within 1 year	Maturity over 1 year	Maturity over 5 years	Total
Total as at 31 December 2011	3 063	7 161	8 478	357	19 059
Total as at 31 December 2010	1 650	4 069	6 401	834	12 954

Forward securities transactions

The Branch records forward securities transactions in Account Class 0 at contractual value. On 31 December 2011, the contractual value of the forward purchases of securities were HUF 10 441 million (on 31 December 2010 HUF 9 297 million). These transactions were matured by the date of the balance sheet preparation.

Assigned transactions

The Branch records the assigned transactions as contingent liabilities in Account Class 0, which value was HUF 10 742 million on 31 December 2011 (on 31 December 2010 HUF 8 420 million).

Fair value of derivatives

As a result of applying the fair value method of valuation, the following revaluations had to be taken into account at 31 December 2011, and the following revaluation differences were recognized in the profit until 31 December 2011:

Revaluation gain on derivatives

Figures in HUF m

Description	31 December 2010	31 December 2011	Impact of revaluation on profit
FX swap transactions	9 343	17 066	7 723
Forward transactions	3 288	11 638	8 350
Forward rate agreements	194	521	327
Interest rate swaps	482	1 171	689
Total	**13 307**	**30 396**	**17 089**

Revaluation loss on derivatives

Figures in HUF m

Description	31 December 2010	31 December 2011	Impact of revaluation on profit
FX swap transactions	11 689	10 421	-1 268
Forward transactions	3 688	5 475	1 787
Forward rate agreements	188	405	217
Interest rate swaps	451	1 243	792
Total	**16 016**	**17 544**	**1 528**

The aggregate impact of using fair valuation method for derivative transactions was HUF 15 561 million increase in profit on 31 December 2011 (as at 31 December 2010 a HUF 4 407 million aggregate decrease impact was).

At the time of closing the balance sheet, the books of the Branch did not include any real repurchase transactions, securities lending and borrowing agreements (nor in 2010).

Revenues from and expenditures on investment services

Figures in HUF m

Description	31 December 2010	31 December 2011
Revenues from investment services	**13 677**	**14 534**
Commissions on custody	1 492	1 049
Revenue from brokerage activities	876	441
Revenue from securities trading	8 520	6 759
Fair value of revenue from securities held for trading	82	121
Revenue from foreign exchange forward transactions	0	3 648
Revenue from interest rate swaps	794	1 586
Revenue from forward rate agreements	1 913	930
Expenditures on investment services	**13 998**	**10 016**
Commissions paid on custody	276	254
Expenditure on brokerage activities	617	348
Expenditure on securities trading	8 550	6 859
Fair value of expenditure on securities held for trading	170	69
Expenditure on foreign exchange forward transactions	1 543	0
Expenditure on interest rate swaps	890	1 726
Expenditure on forward rate agreements	1 952	760

Operational expenses

Operational expenses rose with an overall 5% coming from 4-4% increase in payments to personnel and material type expenditures respectively as well as 35 % growth in depreciation. Compared to 2010 the cost structure did not change significantly, the personnel and material type of expenditures represent 44% and 51% proportion, while the depreciation takes 5%.

The 4% increase of payments to personnel was caused by a 4% rise in payroll costs and the 4% increase of related social charges respectively. The increased payroll costs are explained by executing modest salary increase during 2011. In the number of employees there was no significant change compared to the previous period.

The material type expenditures show an increase, mostly caused by other services used. The substantial part of these costs is EUR-based and in the course of 2011 the HUF/EUR rate was much higher than last year, resulting in an increased cost level.

Depreciation rose by 35% driven by the procurement of IT equipment and new cars in 2011. Within the total costs the portion of depreciation is not significant, however the sharp increase contributed to the increased overall cost level.

Figures in HUF m

Description	31 December 2010	31 December 2011
Payroll	2 339	2 419
Payments to personnel	194	210
Social security and similar deductions	677	698
Total of payments to personnel	**3 210**	**3 327**
Material costs	88	95
Material type services used	760	753
Other services used	2 894	3 036
Other costs	13	11
Material type expenditures	**3 755**	**3 895**
Depreciation charge	**261**	**352**
Total costs	**7 226**	**7 574**

Extraordinary revenues and expenditures

Figures in HUF m

Description	31 December 2010	31 December 2011
Extraordinary revenues	**1**	**1**
Extraordinary expenditures	**1 073**	**1 018**
Amounts transferred free of charge	470	2
Forgiven receivables	1	1
Donations	602	1 015

Balance sheet structure

The balance sheet total of the Branch in the reporting period was HUF 380 billion, which represents a 6.9% percent decrease compared to the balance sheet total of 31 December 2010. The majority of the assets are current assets (82%), mainly government securities, receivables from customers and liquid assets. Receivables from customers represent 45% of the total assets.

The proportion of short-term liabilities is 87% out of the total liabilities, and the portion of long-term liabilities is 1%. 46% of the balance sheet are liabilities towards lending institutions, 33% are short-term deposits of customers.

Foreign currency denominated assets and liabilities expressed in HUF and HUF denominated assets and liabilities within assets and liabilities

Figures in HUF m

Description	Assets 31 December 2010	Assets 31 December 2011	Liabilities 31 December 2010	Liabilities 31 December 2011
FX (expressed in HUF)	133 493	132 148	175 475	211 690
HUF	274 992	247 754	233 010	168 212
Total	**408 485**	**379 902**	**408 485**	**379 902**

HUF denominated assets and liabilities

The value of HUF denominated assets dropped by 10% (from HUF 275 billion to 248 billion). The value of securities continued to increase (form HUF 125 billion to 136 billion), 55% of the HUF denominated assets are government securities.

HUF denominated liabilities decreased by 28% (from HUF 233 billion to 168 billion). Customer related balances sums up to 37% of the total.

FX denominated assets and liabilities

The value of FX denominated assets remained at previous year's level (from HUF 133 billion to 132 billion). FX denominated lending to customers was basically unchanged to 2010, while the FX denominated interbank placements slightly dropped.

The value of the FX denominated liabilities increased (from HUF 175 billion to 212 billion), because of the increase both in FX denominated interbank liabilities and FX denominated deposits from customers.

Highlighted items from the balance sheet

Figures in HUF m

Description	31 December 2010	31 December 2011
Liquid assets	62 572	27 187
Loans denominated in HUF*	41 531	46 658
Loans denominated in FX*	124 088	124 308
Interbank lending denominated in HUF*	26 538	475
Interbank lending denominated in FX*	7 327	5 766
Securities held for trading	125 440	136 241
Customer deposits denominated in HUF*	64 689	61 993
Customer deposits denominated in FX*	51 436	62 612
Interbank borrowings denominated in HUF*	91 591	22 311
Interbank borrowings denominated in FX*	120 564	144 798

* items arising from financial services

The balance sheet is analysed on the basis of the highlighted balance sheet items. Essentially, the changes in the balance sheet structure were influenced by four balance sheet lines: significant changes can be observed in liquid assets, receivables from financial institutions and positive valuation difference on derivative deals under assets and in short-term liabilities toward financial institutions under liabilities. The value of liquid assets and receivables from financial institutions were reduced by more than 50% and 75%, respectively. Compared to the period used for comparison, liabilities towards financial institutions decreased by 20%.

The drop of liquid assets is explained by the significant decrease in short-term money market placements contracted with National Bank of Hungary.

The activity in general corporate lending remained stable in 2011, following its dynamic growth experienced in the previous years. Short term loans increased to a larger extent, while loans with over 1 year maturity decreased with a greater intensity. This can be explained by the higher portions of overdraft among receivables as well as some large amounts of loans are being matured in 2012.
Loans given in HUF increased slightly, while foreign currency debts did not change compared to the base period. The proportion of foreign currency loans is significantly higher at the end of 2011 than the local loans.

HUF denominated interbank borrowings were much lower than in the preceding year, which meant a decline in liabilities to financial institutions.

Liabilities from financial services towards customers rose by 7%. The growth in customer deposits denominated in foreign currencies was higher than the reduction in HUF denominated customer deposits. Liabilities toward customers are distributed evenly between HUF and FX. Our customers continue to prefer short-term deposits and current account deposits over long-term deposit facilities.

The value of receivables and liabilities from investment services and the movement therein reflect changes in unsettled securities, which may cause significant variances depending on daily turnover figures. At the end of 2011 the balance of receivables is significantly lower, while the balance of liabilities is higher than it was in the previous period.

Considering the different sectors of the economy, our corporate customers mainly belong to the processing, energy and retail industries sector similar to the preceding years.

The revaluation difference on derivatives show considerable fluctuations in terms of composition and market rates of foreign exchange forward and swap transactions. At the end of 2011, the valuation difference of transactions under forward and swap was increased significantly compared to those of previous year. The valuation difference of forward rate agreements and interest rate swap deals increased as a result of the greater numbers of transactions.

Profitability

The Branch’s profit after tax as at 31 December 2011, thus showed a 20% increase compared to the profit of the preceding year.

Profitability was influenced by the following factors:

The net interest result rose by 15%, which is explained by 28% and 73% increase in interest received and interest paid respectively. During 2011 in money market the increase in reference rates was a general trend, accordingly the interest of reference rate linked products has risen, which caused the increase in revenue. The rise in government securities yields contributed to the increase in interest income received. The explanation of growth in interest expenditures – similarly to revenues – was the increasing interest rates experienced in the market and in the course of 2011 the average balance of borrowings was greater than in previous year. The increase in paid interest was influenced by the fact that a significant part of liabilities are denominated in FX and due to the weakening of domestic currency in 2011 the interest expenditures expressed in HUF has been increased.

Our dividends earned on shares amounted to HUF 44 million in 2011.

Our net commissions earned until 31 December 2011 amounted to HUF 3 023 million, which is 14% lower than the gain from commissions in 2010 (HUF 3 507 million). The mandatory private pension fund system was nationalized in the summer 2011, which led to a reduction in commissions having a severe negative impact in the result of custody management and equity market business lines.

The loss from net result of financial services increased by 10% compared to the loss of 2010, which comes from the valuation difference related to the valuation of derivative transactions at fair value. Within revenues and expenditures on investment services the proportion of securities trading is quite significant. The Branch realized a loss in 2011 as well as in 2010, which amounted to 100 million and 30 million HUF respectively. We reached a HUF 139 million loss on interest swap transactions, which was above by 45% the HUF 96 million loss realized in 2010.

Other revenues and expenditures from business operations increased significantly. The reason of the increase is that the Branch has recorded one of its services obtained and recharged towards customers as intermediated services for 2011 business year (earlier these items were shown under received and paid commissions). The change in other expenditure did not follow in parallel the increase in other revenues since the additional tax imposed on credit institutions – according to the law – was classified from other expenditure to tax liabilities.

General costs grew only by 5% compared to the preceding period. Their detailed analysis can be found in the section on costs in a breakdown by operational expenses.

The amounts transferred free of charge significantly decreased, while the film sponsorship increased substantially, hereby the extraordinary expenses remained flat compared to the previous year.

Interest received by geographical region

Figures in HUF m

Description	Domestic	Within EU	Other	Total
Interest received on securities	20 283	0	0	20 283
Other interest received	9 223	1 199	43	10 465
Total as at 31 December 2011	**29 506**	**1 199**	**43**	**30 748**
Total as at 31 December 2010	**22 319**	**1 743**	**30**	**24 092**

Key indices

Description		31 December 2010	31 December 2011
Return on Equity (ROE)	Profit after tax / shareholders' equity	13.8	16.5
Return on Assets (ROA)	Profit after tax / total assets	1.5	1.9
Quick ratio	Liquid assets + securities / current liabilities	54.8	52.3
Capitalisation ratio	Shareholders' equity / total liabilities	10.7	11.5
Fixed asset ratio	Fixed assets / total assets	23.8	16.5
Gross margin of fixed assets	shareholders' equity / fixed assets	44.9	69.6

3. Informative Notes

Data of employees

Number of employees

	31 December 2010	31 December 2011
Actual number of staff on 31 December	214	213
Annual statistical number of staff	217	220
- of which: part-time employees	9	9

Payroll costs of employees in a breakdown by employee groups

Payroll costs in a breakdown by employee groups:

Figures in HUF m

Description of employee group	31 December 2010	31 December 2011
Payroll costs of full-time employees	2 288	2 361
Payroll costs of part-time employees	51	58
Total	**2 339**	**2 419**

Other payments to personnel

Figures in HUF m

Description	31 December 2010	31 December 2011
Meal, working clothes, relocation and vehicle cost reimbursement, allowances, travelling to and from work	27	25
Other payments (entertainment expenses, per diem, life insurance, etc.)	44	40
Non-repayable support provided by employer	1	17
Fringe benefits	122	128
Total	**194**	**210**

Payments, advancements and loans to directors, supervisory board members and senior executives

As the Company operates as a branch, it does not have a Board of Directors and a Supervisory Board.

Items adjusting the corporate tax base

In 2011, the corporate tax base determined in the general ledger was reduced by HUF 2 391 million and increased by HUF 1 073 million to reach the corporate tax base in line with corporate tax act.

The corporate tax liability calculated for the year 2011 was HUF 445 million, of which HUF 1 262 million was paid in advance. The Branch supported film production in a value of 1 000 million HUF in 2011. The bank tax paid by the Branch amounted to HUF 1 516 million in the reporting period. In addition the Branch was not subject to the credit institution tax in 2011.

Pursuant to the decision of the owner, the full amount of the profit after tax was paid out as dividends.

Figures in HUF m

Description	31 December 2010	31 December 2011
Profit before tax	**6 744**	**9 161**
Items increasing the tax base	**1 286**	**1 073**
Amounts transferred free of charge	470	2
Provisions for future liabilities and expenses	200	588
Amortization/depreciation in accordance with accounting law	318	382
Costs incurred outside the normal course of business	50	15
Penalties, fines	91	2
Forgiven debt	1	1
Costs identified by self-correction	156	47
Representation costs	0	36
Items reducing the tax base	**972**	**2 391**
Released provisions for future liabilities and expenses	294	405
Amortization/depreciation in accordance with corporate tax law	299	353
Due to interest income from abroad	244	0
Dividends received	47	44
Received revenues from forgiven debts	0	1
Donations to foundations	15	16
Revenues identified by self-correction	73	56
Bank tax	0	1 516
Tax base	**7 058**	**7 843**
Corporate tax	1 321	1 445
Tax allowances	**589**	**1 000**
Film sponsorship	589	1 000
Paid tax in abroad	**3**	***0**
Corporate tax liability	**729**	**445**
Bank tax	0	1 516
Total tax liability	**732**	**1 961**
Profit after tax	**6 012**	**7 200**
General provision made and used	0	0
Dividends paid from retained earnings	0	0
Dividends approved	6 012	7 200
Profit for the year	**0**	**0**

* value below HUF 1 million

Cash Flow Statements 2011

Figures in HUF m

		Description	31 December 2010	31 December 2011
1	+	Interest received	24 092	30 748
2	+	Revenues from other financial services	5 741	4 255
3	+	Other revenues	124	87
4	+	Revenues from investment services	18 523	-2 158
5	+	Revenues from other than financial and investment services	368	3 885
6	+	Dividends received	47	44
7	+	Extraordinary revenues	1	1
8	-	Interest paid	5 264	9 115
9	-	Expenditures on other financial services	7 431	11 846
10	-	Other expenditures	2 556	904
11	-	Expenditures on investment services	14 349	8 939
12	-	Expenditures on other than financial and investment services	224	3 753
13	-	General administrative expenses	7 226	7 574
14	-	Extraordinary expenditures	1 073	1 018
15	-	Tax liability	732	1 961
16	-	Dividends paid	6 012	7 200
17	**Operating cash flows** (Lines 01 to 16)		**4 029**	**-15 448**
18	+ / -	Movements in liabilities	47 572	-31 209
19	+ / -	Movements in receivables	-15 644	21 836
20	+ / -	Movements in stocks	0	-2
21	+ / -	Movements in securities recorded under current assets	14 640	-10 748
22	+ / -	Movements in securities recorded under fixed assets	0	0
23	+ / -	Movements in investments	-79	75
24	+ / -	Movements in intangible assets	-14	17
25	+ / -	Movements in tangible assets	-93	-15
26	+ / -	Movements in prepaid expenses and accrued income	1 599	-805
27	+ / -	Movements in accrued expenses and deferred income	-738	914
28	+	Shares issued at sales price	0	0
29	+	Non-repayable liquid assets received in accordance with law	0	0
30	-	Non-repayable liquid assets transferred in accordance with law	0	0
31	-	Nominal value of redeemed own share, property note	0	0
32	**Net cash flows** (lines 17 to 31) Of which: - movements in cash - movements in money on accounts		**51 272** -32 51 304	**-35 385** -37 -35 348

Other

Under Annex 1 to Decree 5 of 12/02/2004 of the Ministry of Finance on reporting obligations to the Hungarian Financial Supervisory Authority, the Hungarian branches of companies with a seat abroad are not required to report on loans classified as carrying high risks, on securities, shares, notes, cheques, assumed liabilities or on receivables from financial leases.

The amounts owed to the customers of the ING Bank N.V. Hungarian Branch arising from the placement of deposits are guaranteed under the terms and conditions of the Dutch Deposit Guarantee Scheme, whose scope cover both ING Bank N.V. and the ING Bank N.V Hungarian Branch. As the ING Bank N.V. Hungarian Branch is already a member of a deposit guarantee scheme, as required under Directive 94/19/EC of the European Parliament and the Council (the Dutch Deposit Guarantee Scheme), the ING Bank N.V. Hungarian Branch is not a member of the Hungarian Deposit Guarantee Fund under Article 97(3) of Act CXII of 1996 on lending institutions and financial companies. Therefore, no payment was made into the Hungarian Deposit Guarantee Fund in the financial year.

The amounts owed to the customers of the ING Bank N.V. Hungarian Branch arising from the use of investment services are guaranteed under the terms and conditions of the Dutch Investor Compensation Scheme, whose scope cover both ING Bank N.V. and the ING Bank N.V. Hungarian Branch. As ING Bank N.V. Hungarian Branch is already a member of an investor compensation scheme, as required under Directive 97/9/EC of the European Parliament and the Council (the Dutch Investor Compensation Scheme), the ING Bank N.V. Hungarian Branch is not a member of the Hungarian Investor Compensation Fund under Article 211(1) of Act CXX of 2001 on capital markets. Therefore, no payment was made into the Hungarian Investor Compensation Fund in the financial year.

None of the liabilities disclosed in the balance sheet is secured or encumbered by mortgage or similar rights.

As the Branch was not engaged in research and development, no such costs were recognised. One of ING's business principles is the responsibility towards the environment. During our daily work we take care of the protection of the environment and at the same time no directly environment related costs came to light in the reporting period.

Budapest, 25 May 2012

Dr. István Salgó Chief Executive Officer	Gyula Réthy Chief Financial Officer

Management Report

December 31, 2011

The economic environment

The Gross Domestic Product of the Hungarian economy increased by 1.7% on a year-on-year basis. This growth rate was below expectations and was attributable to the depressed internal market as well as the slowing external conjuncture. These negative effects were counterbalanced by the good performance of the agricultural sector and the investments of the large foreign car-manufacturers.

The government has committed itself to the reduction of the budgetary deficit and government debt. Special taxes imposed on certain sectors are still in force. The transformation of the private pension fund system provided significant one-off revenue to the government but at the same time hit the profitability of the financial sector. The early repayment of the FX denominated loans at a fixed interest rate had also negative effects. These factors contributed to the deterioration of the banking sector's lending activity.

Hungary was downgraded to non-investment category ('junk') by the major international credit rating agencies that expressed their concerns about the long term sustainability of public finance and about the adverse economic growth outlook.

Due to the weakening of the Hungarian currency against both the Swiss franc and the euro, the ratio of the late and the non-performing loans further increased. It also restrained the recovery of domestic consumption. In order to lower the level of FX denominated loans – that had been a huge burden on the population – the government declared the early repayment of FX denominated loans at a fixed interest rate. The portfolio of FX denominated loans decreased by nearly HUF 1200 billion but still is a significant burden on the households. The lending activity of the banking sector was moderate throughout the year; following the declaration of the early repayment, banks further aggravated their lending policies.

Both the corporate and the household sector's net savings position continued to improve, thus the country's current account balance has accumulated significant assets in 2011. Moreover, the depressed domestic consumption and the high performing export resulted a record-sized foreign trade surplus.

The public debt of Hungary was financed entirely from the market in 2011. The promising first quarter was followed by the country's downgrading to non-investment category, and as of the third quarter the sudden weakening of the HUF. The decline of investor's trust was reflected by the drastic increase of yields and in some cases unsuccessful auctions.

In view of 2011's data and events, the most realistic scenario on the short run is the stagnation of economy. Domestic demand is not expected to improve in 2012. The export was the most important driver of the Hungarian economy in 2011, that most probably continues be the main driver of economic growth in 2012. The recovery of lending activities is improbable even if NBH's base rate is cut back. Although the average Consumer Price Index was 3.9% in 2011 and is expected to exceed 5% in 2012, a multilevel monetary loosening is also conceivable in case Hungary manages to reach an agreement with the IMF- EU. HUF is pretty vulnerable; therefore extreme volatility of the exchange rate can be expected.

Financial result

ING Bank N.V. Hungary Branch closed its 2011 financial year with an after-tax profit of HUF 7 200 million, representing a 20% increase year-on-year. This growth can be considered as significant taking into account 2011's macroeconomic tendencies and the changes of the market environment (the transformation of the private pension fund system).

2011 was not characterized any more by the shrinking interest rate environment of 2010. Net interest result increased by 15% contributing by more than HUF 2 billion to the result increase, mainly through the result of government bond trading. On the other hand net commissions and fees fell back by nearly 14% due to significant decrease of incomes in the Securities Services and Capital Markets business lines that were not able to compensate business volume declines coming from the nationalization of private pension funds' assets. Net result on financial operations slightly decreased under derivative transactions and revaluation results. General administrative expenses amounted to HF 7 222 million: the 4% increase compared to 2010 is in line with the strict cost targets. Within general expenses both personnel and administrative expenses increased by 4%.

The Bank's balance sheet total decreased from HUF 408 485 million in 2010 to HUF 379 902 million. The change (7%) was primarily attributable to money markets activities. The structure of the business portfolio remained practically unchanged, receivables from customers (Structured Finance and Corporate and Financial Institutions Lending together) decreased by 3% while liabilities increased by 7% that contributed to the improvement of the Bank's liquidity position.

Trading

The year 2011 (just like 2010) was characterized by remarkable volatility. Extreme movements of the prices could be witnessed especially in the period between September and December. In the background we could find notable budget deficits of the countries on the European Union's periphery as well as concerns regarding the size and credibility of Greece. The Trading department managed to realize sizeable revenue, though a bit lower than in year 2010.

Trading activity was preserved at high level by sufficient liquidity and dilating spreads of the quotes. ING Bank N.V. Hungary Branch aimed to maintain its decisive market maker position among diverse market circumstances.

Financial Markets Sales

In 2011 FM Sales team worked on the enhancement of the turnover of simple foreign exchange products and on the roll-out of sophisticated financial risk management solutions. The business line managed to acquire new clients both from corporate and financial institution segments, at the same time strove for maintaining the existing customer base by organizing various client events and trainings. The high volatility of FX-, money-, and capital markets and the unstable market environment from the second half of the year resulted an increase of financial risks. FM Sales supported corporate clients through familiarization of financial risk management solutions and also through concluding deals of this type. Beside spot and forward foreign exchange transactions, structured deposits that can be the basis for growth in the coming years were also encouraged as well.

Payment and Cash Management Services

Payments and Cash Management remain basic and strategic services of ING Bank in Hungary. Accordingly, PCM has extended its payment and liquidity management services, mostly via the regional development of the underlying operational systems. The high level of automated processing of payments ensures the accuracy and swiftness of these services and distinguishes the Bank as one of the market leader providers amongst the top corporate segment. At the same time ING Bank in Hungary endeavours expanding its offering by the local adaptation of best practices applied in other locations of our international network.

ING Bank, as one of the forerunners of those European banks that are the main supporters of the Single Euro Payments Area (SEPA) initiative has played a decisive role in the implementation phase of SEPA. The Hungarian branch has actively taken part in the activity of the Hungarian SEPA Association. Our Branch –being a participant of the national project - launched already in 2011 the internal development aiming the introduction of the intra-day clearing based on SEPA standards as of July, 2012. In accordance with the communication plan, our clients are continuously informed about prospective changes.

Our list of services is continuously expanded: In the course of 2011 we decided upon the further development of cash pool services moreover we built up a special electronic notification on our client's customs payment via an sFTP channel towards the National Tax and Customs Administration.

Corporate and Financial Institutions Lending

Throughout 2011 the asset size of the lending portfolio stagnated. At the same time the portfolio size expressed in HUF showed significant increase in the fourth quarter of the year due to the weakening of HUF – as 2/3 of the portfolio is denominated in foreign currency.

The income of Corporate and Financial Institutions Lending Business Line has been increasing for the second consecutive years due mainly to higher average price level and the trend is expected to continue in 2012 as well. From the point of view of the Business line's profitability external factors like the credit rating of the country or access and cost of funding are getting more and more important.

The quality of the portfolio is stable and due to the consistent and conservative lending and decision taking practice.

Structured Finance

Despite of the significant volume fallback on both lending and advisory markets the results of the Structured Finance department in 2011 are exceeded even the results of 2010, which was the most outstanding year so far both from result and income point of view.

The department reached excellent results in all of its business areas including classic structured finance (syndicated loans, LBO finance, project finance and related advisory activity), facility and security agency and corporate finance advisory activity.

The financing area, including both structured and syndicated finance activity, beyond the handling of the existing portfolio, participated in new transactions considered as land marking in the Hungarian market.

Structured Finance Business Line is expected to continue its successful and effective activity in the existing business segments in 2012.

Equity Markets

Similarly to the previous year the result of Equity Market business line were influenced by the negative effects of the governments' economic policy. On the one hand the nationalization of the domestic private pension funds' assets in HUF 3000 billion contributed to the further decrease of the stock exchange's trading turnover (average daily turnover in 2011 was 28% lower compared to the previous year) on the other hand the share of institutional investors from this turnover reached only 10% versus 29% of retail investors' share. Revenues of the business unit were also negatively influenced by the tense price competition that further eroded the commissions of client transactions.

At the same time foreign investors' activity was put back by the overall unfavourable judgement of Hungary's country risk rating as the result of which all three major credit rating agencies downgraded the Hungarian government debt into non-investment category.

Even in this difficult environment EM business line managed to keep the ratio of domestic institutional investors' commission above 40%, mainly as a result of competitive pricing of transactions on international markets. The number of relationships with London based investment banks has been increased as well as the number of London based clients that mean potential business opportunities.

Securities Services and Correspondent Banking

For the Securities Services business line 2011 was a challenging year: the international debt crisis negatively influenced the Hungarian securities market as well. The loss of incomes form private pension funds (constituting a significant part of the clientele of this area) in Q1 2011, and the transfer of their assets to the Pension Reform and Debt Reduction Fund in June 2011 had a negative impact on the growth of Assets Under Custody size and also on the revenues.

As the result of the above the 2011 incomes of the business unit remained below the targeted level.

Human Resources and Leadership Development

The Branch had 213 active employees on 31 December 2011. This mean a 0.5% decrease compared to the end of 2010 level (214 employees).

Organization development activity focused on the enhancement of client-centric service attitude, talent management and amplifying mid-management knowledge base.

Credit, Market and Operational Risk Management

Since 2008 ING Bank Budapest Branch runs an integrated Risk Management model that brings corporate lending, counterparty risk management, and market risk management, as well as operational risk management, IT and physical security areas under one roof. The main role of Integrated Risk Management continues to be to ensure compliance with local regulation, global ING policies and specific local procedures. Activity and operation of our Branch continued to stay in line with the strategy and risk appetite of ING Group during 2011 as well. Similar to previous years, our bank continued to ensure good profitability and stable liquidity. There was no operational or physical security incident that would have negatively influenced going concern operation or profitability.

Our Bank's liquidity continues to be stable thanks to local customer deposits and interbank sources as well as continuously available funding limits established for us by our Amsterdam Head Office. The level of liquidity premium resulted by the financial crisis and applied by Amsterdam remained unchanged in 2011, but still not applied for shorter than 1 year tenor. We continued to focus on the efficient management of counterparty and market risk management limits. These limits have been changing throughout the year in accordance with the demands related to risk considerations and changes of the legal environment for the financial sector, and their importance increased in the last quarter of 2011 in line with the macroeconomic events.

The quality of the lending portfolio remained good, supported by the monitoring activity that had been strengthened during the crisis. Following the negative effects of the crisis the results of lending clients have been improving. The so-called "crisis sectors" like car-manufacturing, trading, transportation, construction or the financial sector are continued to be closely monitored by our Bank. As the exchange rate has become volatile from time to time we insisted on our cautious lending policy and provided FX denominated loans mainly to those of our customers that can hedge their FX exposure naturally (by their FX incomes) or by other hedging instruments. At the end of 2010 loan losses and provisions related to the lending portfolio and counterparty risks were not significant, and continued to decrease during 2011. This is considered as an excellent performance within the sector and within the region.

No significant events have occurred that affected the bank financials between the closing of the books and the preparation of this Management Report.

Budapest, 25 May 2012

István Salgó	Gyula Réthy
Chief Executive Officer	Chief Financial Officer