Annual Report 2014

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 2014 English language Annual Report is the Hungarian language version amended with the Independent Auditors' Report.

Az ING Bank N.V. Magyarországi Fióktelepe 2014-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 2014-es éves beszámoló hiteles forrása a könyvvizsgálói záradékkal ellátott magyar nyelvű szöveg.

BALANCE SHEET – Assets

Data in HUF million

Description	Closing data 31 Dec 2013	Current year data 31 Dec 2014
1. Liquid assets	**19 798**	**163 488**
2. Government securities	**411 306**	**73 476**
a) trading securities	411 325	73 408
b) investment securities	0	0
2/A Valuation difference on government securities	**-19**	**68**
3. Receivables from financial institutions	**15 236**	**40 466**
a) on demand	5 265	4 879
b) other receivables from financial services	9 915	35 503
ba) current receivables	9 915	35 503
Of which: - from related parties	8 960	7 300
- from other related parties	0	0
- from the National Bank of Hungary	0	0
- from clearing house	0	10
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	56	84
Of which: - from related parties	0	0
- from other related parties	0	0
- from clearing house	0	83
3/A Valuation difference on receivables from financial institutions	**0**	**0**
4. Receivables from customers	**133 488**	**177 582**
a) from financial services	133 430	177 582
aa) current receivables	78 133	85 999
Of which: - from related parties	0	0
- from other related parties	0	0
ab) long-term receivables	55 297	91 583
Of which: - from related parties	0	0
- from other related parties	0	0
b) from investment services	58	0
Of which: - from related parties	0	0
- 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	57	0
bd) receivables from the clearing house	0	0
be) receivables from other investment services	1	0
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	Closing data 31 Dec 2013	Current year data 31 Dec 2014
7. Investment shares and participations	**73**	**53**
a) investment shares and participations	73	53
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	**184**	**209**
a) intangible assets	184	209
b) adjustment of intangible assets	0	0
10. Tangible assets	**301**	**358**
a) tangible assets held for financial services and investment purposes	105	176
aa) property	48	73
ab) technical equipment, machines, fixtures, vehicles	57	103
ac) capital expenditures	0	0
ad) advance payments on capital expenditures	0	0
b) tangibles assets not held for financial services and investment purposes	196	182
ba) property	0	0
bb) technical equipment, machines, fixtures, vehicles	196	182
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	**1 031**	**666**
a) stocks	3	10
b) other receivables	1 028	656
Of which: - from related parties	62	234
- from other related parties	0	0
12/A Valuation difference on other receivables	**0**	**0**
12/B Positive valuation difference on derivatives	**4 782**	**29 919**
13. Prepaid expenses and accrued income	**3 770**	**1 438**
a) accrued income	3 728	1 406
b) prepaid expenses	42	32
c) deferred expenses	0	0
Total assets	**589 969**	**487 655**
Of which: - CURRENT ASSETS	530 344	394 014
- FIXED ASSETS	55 855	92 203

Budapest, 22 May 2015

Dr. István Salgó

Chief Executive Officer

Gyula Réthy

Chief Financial Officer

BALANCE SHEET – Equity and Liabilities

Data in HUF million

Description	Closing data 31 Dec 2013	Current year data 31 Dec 2014
1. Liabilities to financial institutions	**300 852**	**252 831**
a) on demand	11 087	14 656
b) fixed-term liabilities from financial services	289 765	238 175
ba) current liabilities	289 765	158 035
Of which: - to related parties	201 190	106 581
- to other related parties	0	0
- to the National Bank of Hungary	0	0
- to clearing houses	0	0
bb) long-term liabilities	0	80 140
Of which: - to related parties	0	80 140
- to other related parties	0	0
- to the National Bank of Hungary	0	0
- to clearing houses	0	0
c) from investment services	0	0
Of which: - to related parties	0	0
- 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	**224 167**	**163 843**
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	224 167	163 833
ba) on demand	96 516	94 552
Of which: - to related parties	3 947	3 947
- to other related parties	0	0
bb) current liabilities	127 651	69 281
Of which: - to related parties	5 999	2 720
- 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	0	10
Of which: - to related parties	0	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	0	10
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

BALANCE SHEET – Equity and Liabilities

Description	Closing data 31 Dec 2013	Current year data 31 Dec 2014
4. Other liabilities	**4 532**	**8 483**
a) current liabilities	4 532	8 483
Of which: - to related parties	1 275	5 986
- 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	**12 990**	**15 722**
5. Accrued expenses and deferred income	**2 548**	**1 817**
a) deferred income	498	377
b) accrued expenses	2 049	1 440
c) deferred extraordinary revenues and negative goodwill	1	0
6. Provisions	**1 235**	**1 314**
a) provisions for pensions and severance payment	0	0
b) provisions for contingent and future liabilities (commitments)	0	0
c) general risk provisions	1 209	1 209
d) other provisions	26	105
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	***589 969***	***487 655***
Of which: - CURRENT LIABILITIES	542 541	360 739
- LONG-TERM LIABILITIES	0	80 140
- EQUITY	43 645	43 645

Contingent liabilities	380 550	373 344
Future liabilities	1 425 790	2 039 335
Contingent receivables	9	6
Future receivables	1 363 087	2 129 564

Budapest, 22 May 2015

Dr. István Salgó
Chief Executive Officer

Gyula Réthy
Chief Financial Officer

PROFIT AND LOSS STATEMENT

Data in HUF million

	Description	Closing data 31 Dec 2013	Current year data 31 Dec 2014
1.	**Interest and similar income received**	**23 700**	**17 618**
	a) on fixed-interest debt securities	16 879	10 188
	Of which: - from related parties	0	0
	- from other related parties	0	0
	b) other interest and similar income received	6 821	7 430
	Of which: - from related parties	189	66
	- from other related parties	0	0
2.	**Interest payable and similar expenditures**	**7 321**	**3 586**
	Of which: - from related parties	1 323	1 028
	- from other related parties	0	0
	INTEREST MARGIN (1-2)	**16 379**	**14 032**
3.	**Revenues from securities**	**28**	**16**
	a) revenues from trading shares and securities	0	0
	b) revenues from participations in related parties	0	0
	c) revenues from other participations	28	16
4.	**Commissions and fees received or due**	**5 124**	**5 485**
	a) from the revenues from other financial services	3 819	4 649
	Of which: - from related parties	799	933
	- from other related parties	0	0
	b) from the revenues from investment services	1 305	836
	Of which: - from related parties	45	7
	- from other related parties	0	0
5.	**Commissions and fees paid or payable**	**692**	**1 129**
	a) from the expenditures on other financial services	366	826
	Of which: - from related parties	108	563
	- from other related parties	0	0
	b) from the expenditures on investment services	326	303
	Of which: - from related parties	0	0
	- from other related parties	0	0
6.	**Net profit/loss on financial operations [6.a)-6.b)+6.c)-6.d)]**	**-4 836**	**-3 613**
	a) from the revenues from other financial services	10 921	1 718
	Of which: - from related parties	1 036	264
	- from other related parties	0	0
	- valuation difference	0	0
	b) from the expenditures on other financial services	55	5 406
	Of which: - to related parties	0	0
	- to other related parties	0	0
	- valuation difference	0	0
	c) from the revenues from investment services	14 558	17 089
	Of which: - from related parties	3	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	30 260	17 014
	Of which: - to related parties	0	0
	- to other related parties	0	0
	- impairment of trading securities	0	0
	- valuation difference	0	0
7.	**Other revenues from operations**	**3 133**	**2 997**
	a) revenues from other than financial and investment services	2 995	2 477
	Of which: - from related parties	360	404
	- from other related parties	0	0
	b) other revenues	138	520
	Of which: - from related parties	64	38
	- from other related parties	0	0
	- reversal of impairment of stocks	0	0

PROFIT AND LOSS STATEMENT

	Description	Closing data 31 Dec 2013	Current year data 31 Dec 2014
8.	**General administrative expenses**	**7 032**	**7 155**
	a) payments to personnel	2 886	2 733
	aa) payroll	2 078	1 942
	ab) payments to personnel	168	183
	Of which: - social security costs	20	18
	= pension related costs	9	9
	ac) social security and similar deductions	640	608
	Of which: - social security costs	601	571
	= pension related costs	0	0
	b) material type expenditures (materials and supplies)	4 146	4 422
9.	**Depreciation**	**236**	**183**
10.	**Other expenditures on operations**	**6 734**	**4 740**
	a) expenditures on other than financial and investment services	2 787	2 211
	Of which: - to related parties	0	0
	- to other related parties	0	0
	b) other expenditures	3 947	2 529
	Of which: - to related parties	80	36
	- to other related parties	0	0
	- impairment of stocks	0	0
11.	**Impairment of receivables and risk provision for commitments and contingent liabilities**	**2 497**	**3**
	a) impairment of receivables	2 497	3
	b) risk provisions for contingent liabilities and for (future) commitments	0	0
12.	**Reversal of impairment of receivables and use of risk provision made for commitments and contingent liabilities**	**2**	**2 712**
	a) reversal of impairment of receivables	1	2 712
	b) use of risk provision made for commitments and contingent liabilities	1	0
	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**	**2 639**	**8 419**
	Of which: - PROFIT ON FINANCIAL AND INVESTMENT SERVICES	2 431	8 153
	Of which: - PROFIT ON OTHER THAN FINANCIAL INVESTMENT	208	266
16.	**Extraordinary revenues**	**0**	**1**
17.	**Extraordinary expenditures**	**452**	**520**
18.	**Extraordinary profit/loss (16-17)**	**-452**	**-519**
19.	**Profit before tax (+/-15+/-18)**	**2 187**	**7 900**
20.	Tax liability	912	1 952
21.	**Profit after tax (+/-19-20)**	**1 275**	**5 948**
22.	**General provision made and used (+/-)**	**0**	**0**
23.	**Dividends paid from retained earnings**	**0**	**0**
24.	**Dividends paid (approved)**	**1 275**	**5 948**
	Of which: - to related parties	1 275	5 948
	- to other related parties	0	0
25.	**Profit or loss for the year (+21-/+22+23-24)**	**0**	**0**

Budapest, 22 May 2015

Dr. István Salgó
Chief Executive Officer

Gyula Réthy
Chief Financial Officer

Notes to the Financial Statements

31 December 2014

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NOTES TO THE FINANCIAL STATEMENTS 31 DECEMBER 2014

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 and to exploit the cross-selling opportunities inherent in the activities of different entities belonging to ING group within Europe.

1.1. The IT environment of the Branch

1.1.1. 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.

1.1.2. 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.

1.1.3. 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.

1.2. 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.

1.2.1. 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 2014, the date of drawing up the balance sheet was 10 January 2015.

The internal accounting rules of the Branch are designed to ensure that the information needs of the Hungarian Central Bank (NBH) can be met at any time of the year. (Furthermore the information needs of Hungarian Financial Supervisory Authority was also met till the merger into NBH on 1 October 2013 .) 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.

1.2.2. 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.

1.2.2.1. 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

1.2.2.1.1. Securities held for trading

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.

1.2.2.1.2. Securities available for sale

In case of investment shares classified as available for sale the Branch applied the fair valuation till June 2012 and returned to historical cost valuation in July 2012. The Company decided to terminate the fair valuation of investment shares due to theirs low number and value and considering the principal of cost-benefit. In accordance with the decision the valuation reserves and impairment losses pertaining to the investment shares were terminated.

Apart from the investment shares the available for sale government securities are valued at fair value. Theirs valuation is similar to held for trading securities, recorded in groups and valued at average price.

GBS system is not suitable for the proper handling of the available for sale type of securities, legislation can be fulfilled only through manual calculations. Considering the short-term maturity of government securities and the risk arising from manuality, the management of the Branch has decided on adopting the same valuation rules in case of securities available for sale as for the securities held for trading.

1.2.2.1.3. 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)

Derivatives held for trading (forward 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.

1.2.2.2. Historic cost method of valuation

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.

1.2.2.2.1. 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%.

1.2.2.3. 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.

1.2.3. Detailed description of applied procedures

1.2.3.1. Securities

The Branch values securities on the basis of market yields published daily by Continental 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.

The parent company has changed the valuation method of trading securities since December 2014. According to the HO guidelines securities must be valued on a price at which the whole portfolio can be sold (applying 'executable' prices). Bloomberg CBBT prices are considered as 'executable' prices, which are collected by the HO and sent to the Branches. For those securities, where Bloomberg does not quote any price, prices quoted by ÁKK are accepted. For Treasury-Bills with short-term maturity (not exceeding 3 months), where CBBT and ÁKK prices are not available, the adjustment values are calculated by MRMPC London (running Bond AVA process) and sent to the Branch.

1.2.3.2. Financial instruments - forward, swap, FRA

Like bonds, the above money market instruments are valued in 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.

1.2.3.3. Financial instruments - 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.

1.2.3.4. Reserves

Corresponding to the guidelines and principles by the Founder the Branch applies three further modification items related to valuation. In addition these items are shown in our books as market valuation difference or provisions. These further 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)
- Bilateral valuation adjustment (shown as provision)
- Liquidity valuation adjustment (shown as provision, as part of BVA)

The method and reserve calculation have been changing continuously during the years in order the Branch and the Parent company meet the prudent valuation principles, which are prescribed by laws and authorities. The former reserve for hedging the transfer risk was built into the calculation of bilateral valuation adjustment, whereby the transfer risk reserve was terminated at year-end in 2011. As of December 2014, BVA calculation has been extended with a new component, LVA, which quantifies the illiquidity of BVA portfolio's products.

1.2.3.5. Contingent interests

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 interest 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".

1.2.3.6. Settlement of futures, forwards and swaps

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.

1.2.3.7. Exchange rates

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.

1.2.3.8. Intangible assets and tangible assets

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 2013	31 December 2014
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	20	20
Improvements on third party property	Closing date of depreciation = December 31, 2019	Closing date of depreciation = December 31, 2019

1.3. Other information

The Branch does not have an obligation to prepare consolidated financial statements as at 31 December 2014.

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 2014 is available at www.ing.com/Investor-relations/Annual-Reports.htm.

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 2014 is available at www.ing.com/Investor-relations/Annual-Reports.htm.

ING Bank N.V. Amsterdam has fulfilled the instructions with respect to disclosure requirements, Part Eight stated in Regulation (EU) No 575/2013 on prudential requirements for credit institutions and investment firms by the 'Risk Management' chapter (pages 129-201) in Annual report 2014 and by the publication „2014 Annual Report ING Group-Remuneration Chapter", which can be found at http://www.ing.com/About-us/Corporate-Governance/Remuneration-1.htm.

1.3.1. Accounting services

Person responsible for leading and managing the accounting tasks performed in the year 2014:

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

1.3.2. 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 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 4 million as cost of other services provided by the auditor in the reporting period.

1.3.3. The annual financial statements are signed by:

Dr. István Salgó	ING Bank N.V. Hungary Branch Chief Executive Officer 1023 Budapest, Apostol u. 8.
Gyula Réthy	ING Bank N.V. Hungary 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.

2.1. 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.

2.1.1. Gross value of tangible and intangible assets

Figures in HUF m

Description	31 December 2013	Purchase	Sale	Capitalization	Other change (reclassification, discarding)	31 December 2014
Intangible assets	**734**	**179**	**0**	**71**	**0**	**842**
Other concessions, licenses and similar rights*	0*	0	0	0	0	0*
Software user licences	734	179	0	71	0	842
Tangible assets	**829**	**365**	**72**	**183**	**-13**	**926**
Tangible assets serving banking activities directly	*464*	*302*	*1*	*183*	*-6*	*576*
Improvements on third party property	89	38	0	0	0*	127
IT equipment	196	72	0	0	-4	264
Other equipment, fittings	179	9	1	0	-2	185
Investment	0	183	0	183	0	0
Tangible assets serving banking activities indirectly	*365*	*63*	71	*0*	*-7*	*350*
Vehicles	348	63	71	0	-7	333
Works of art	17	0	0	0	0	17
Investments	0	0	0	0	0	0
Total	**1 563**	**544**	**72**	**254**	**-13**	**1 768**

* value below HUF 1 million

2.1.2. Accumulated depreciation of tangible assets and accumulated amortization of intangible assets

Figures in HUF m

Description	31 December 2013	Ordinary deprecia-tion/amor-tization	Sale	Capitali-zation	Other change (reclassifi-cation, discarding)	31 December 2014
Intangible assets	**550**	**83**	**0**	**0**	**0**	**633**
Other concessions, licenses and similar rights*	0*	0*	0	0	0	0*
Software user licences	550	83	0	0	0	633
Tangible assets	**528**	**100**	**50**	**0**	**-10**	**568**
Tangible assets serving banking activities directly	*359*	*48*	*1*	*0*	*-6*	*400*
Improvements on third party property	41	13	0	0	0*	54
IT equipment	174	16	0	0	-4	186
Other equipment, fittings	144	19	1	0	-2	160
Investment	0	0	0	0	0	0
Tangible assets serving banking activities indirectly	*169*	*52*	*49*	*0*	*-4*	*168*
Vehicles	169	52	49	0	-4	168
Works of art	0	0	0	0	0	0
Investments	0	0	0	0	0	0
Total	**1 078**	**183**	**50**	**0**	**-10**	**1 201**

* value below HUF 1 million

2.1.3. Net value of tangible and intangible assets

Figures in HUF m

Description	31 December 2013	Changes	Sale	Capitali-zation	Other change (reclassifi-cation, discarding)	31 December 2014
Intangible assets	**184**	**96**	**0**	**71**	**0**	**209**
Other concessions, licenses and similar rights*	0*	0*	0	0	0	0
Software user licences	184	96	0	71	0	209
Tangible assets	**301**	**265**	**22**	**183**	**-3**	**358**
Tangible assets serving banking activities directly	*105*	*254*	*0**	*183*	*0**	*176*
Improvements on third party property	48	25	0	0	0*	73
IT equipment	22	56	0	0	0	78
Other equipment, fittings	35	-10	0*	0	0*	25
Investment	0	183	0	183	0	0
Tangible assets serving banking activities indirectly	*196*	*11*	*22*	*0*	*-3*	*182*
Vehicles	179	11	22	0	-3	165
Works of art	17	0	0	0	0	17
Investments	0	0	0	0	0	0
Total	**485**	**361**	**22**	**254**	**-3**	**567**

* value below HUF 1 million

Until 31 December 2014, HUF 71 million software user licences had been capitalized. The Branch invested this amount into developments to its existing systems, software upgrades and renewal of licences. At the end of the year, intangible assets included HUF 88 million non-capitalized acquisitions.

HUF 72 million new IT equipment (servers) and HUF 9 million other equipment, fittings were purchased.

During the year 10 company cars were purchased at a value of HUF 63 million, and 11 company cars were sold at a book value of HUF 71 million.

2.2. Provisions made and used in the reporting period

At 31 December 2014 the total value of the provisions in the books of the Branch was HUF 1 314 million.

At 31 December 2013, the other provision comprised of the following items: HUF 5 million for losses due to default of counterparties and HUF 21 million for redundancies due to reorganization. In the reporting period the Branch has made further HUF 38 million provision on losses due to default of the counterparty. HUF 21 million provision was used by the Company to cover the cost of redundancies and recording of provision in the amount of HUF 62 million was required.

No other liability is expected by the Branch, for which no provision has been made or which has not been covered in any way.

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 2013	Increase (made)	Decrease		31 December 2014
			released	used	
Provisions for pension and severance pay	0	0	0	0	0
Provisions for contingent and future liabilities	0*	0	0*	0	0*
Provisions for general risks	1 209	0	0	0	1 209
Other provisions	26	100	0	21	105
Total	**1 235**	**100**	**0**	**21**	**1 314**

* value below HUF 1 million

2.3. 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 2013	Increase (made)	Decrease		31 December 2014
			released	used	
Impairment of receivables from customers	2 488	0*	2 478	0	10
Impairment of investment services	242	3	230	1	14
Impairment of other receivables	3	0	3	0	0
Impairment of shares	0	0	0	0	0
Impairment of debt securities	0	0	0	0	0
Total	**2 733**	**3**	**2 711**	**1**	**24**

* value below HUF 1 million

The Branch recorded HUF 3 million impairment loss with respect to doubtful receivables relating to investment services and HUF 2 711 million previous years' impairment was released in 2014.

2.4. 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	**73 408**	**0**	**0**	**0**	**0**	**73 408**
Historic cost	73 408	0	0	0	0	73 408
Impairment	0	0	0	0	0	0
Receivables from financial institution	**40 466**	**0**	**0**	**0**	**0**	**40 466**
Historic cost	40 466	0	0	0	0	40 466
Impairment	0	0	0	0	0	0
Receivables from customers	**176 694**	**888**	**0**	**0***	**0**	**177 582**
Historic cost	176 694	897	0	0*	15	177 606
Impairment	0	9	0	0*	15	24
Contingent liabilities	**373 341**	**3**	**0**	**0**	**0**	**373 344**
Historic cost	373 341	3	0	0	0	373 344
Provision	0	0*	0	0	0	0*
Future liabilities	**2 039 335**	**0**	**0**	**0**	**0**	**2 039 335**
Historic cost	2 039 335	0	0	0	0	2 039 335
Provision	0	0	0	0	0	0

* value below HUF 1 million

2.5. Owned securities and shares

2.5.1. Owned government securities held for trading

2.5.1.1.1. Portfolio held for trading – Government securities

Figures in HUF m

Description of security	Nominal value	Book value	Valuation difference	Market value
C2015/A	6	6	0*	6
C2015/B	239	239	-1	238
C2015/C	65	68	0*	68
C2016/C	94	98	0*	98
C2016/D	1 225	1 311	-3	1 308
C2017/A	3	4	0*	4
C2017/B	1	1	0*	1
C2017/C	26 709	26 453	96	26 549
C2018/A	148	162	0*	162
C2018/B	386	403	-3	400
C2019/A	21	24	0*	24
C2019/B	22	22	0*	22
C2020/A	57	69	0*	69
C2022/A	3 023	3 696	10	3 706
C2023/A	51	60	0*	60
C2025/B	5	6	0*	6
C2028/A	8	10	0*	10
Total	**32 063**	**32 632**	**99**	**32 731**

* value below HUF 1 million

2.5.1.1.2. Portfolio held for trading – Discount securities

Figures in HUF m

Description of security	Nominal value	Book value	Valuation difference	Market value
D150121	60	60	0*	60
D150225	40	40	0*	40
D150401	2 541	2 531	-31	2 500
D150527	5	5	0*	5
D150722	21	21	0*	21
D150916	74	73	0*	73
D151111	1	1	0*	1
Total	**2 742**	**2 731**	**-31**	**2 700**

* value below HUF 1 million

2.5.1.2. Available for-sale portfolio

Figures in HUF m

Description of security	Nominal value	Book value	Accrued interest	Market value
D150107	16 000	15 945	50	15 995
D150722	20 000	19 658	164	19 822
D150916	2 484	2 442	13	2 455
Total	**38 484**	**38 045**	**227**	**38 272**

2.5.2. Owned government securities held for investment

The Branch has no held-to-maturity portfolio in securities held for investment.

Breakdown of book value of owned government securities by trading markets:

Figures in HUF m

Securities traded on MTS and OTC markets	Current assets		Fixed assets
	MTS	OTC	
Hungarian government bonds	32 632	0	0
Discount treasury bills	24 791	15 985	0
NBH bond	0	0	0
Total	**57 423**	**15 985**	**0**

The Branch has no securities denominated in foreign currency.

2.5.3. Owned shares held for investment

Figures in HUF m

Description of share	Face value	Historic cost	Market value
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	**45**	**53**	**53**

* value below HUF 1 million

2.6. 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 defined 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	**108 375**	**13 127**	**89 889**	**1 694**	**213 085**
From credit institutions	35 503	0	0	0	**35 503**
From customers	72 872	13 127	89 889	1 694	**177 582**
Payables	**203 450**	**23 866**	**61 246**	**18 894**	**307 456**
To credit institutions	134 418	23 617	61 246	18 894	**238 175**
To customers	69 032	249	0	0	**69 281**

2.7. Subordinated debts including subordinated loan capital

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

2.8. 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	0	7 300	**7 300**
Receivables from financial institutions arising from investment services	0	0	0*	**0***
Other receivables within one year	19	213	2	**234**
Liabilities to financial institutions within one year	77 924	0	28 657	**106 581**
Liabilities to financial institutions over one year	80 140	0	0	**80 140**
Liabilities to customers on demand	0	0	3 947	**3 947**
Liabilities to customers within one year	0	0	2 720	**2 720**
Other liabilities within one year	5 948	37	1	**5 986**
Other interest and similar income received	40	4	22	**66**
Interest payable and similar charges	820	9	199	**1 028**
Commissions received from the revenues from other financial services	286	378	269	**933**
Commissions received from the revenues from investment services	6	0	1	**7**
Commissions paid on the expenditures on other financial services	18	535	10	**563**
Revenues from other financial services	0	0	264	**264**
Revenues from other than financial and investment services	152	105	147	**404**
Other revenues	26	8	4	**38**
Other expenditures	10	20	6	**36**
Dividends approved	5 948	0	0	**5 948**

* value below HUF 1 million

2.9. Prepayments and accruals

The amount of prepaid expenses and accrued income on the balance sheet on 31 December 2014 was HUF 1 438 million (and HUF 3 770 million on 31 December 2013). Accrued expenses and deferred income amounted to HUF 1 817 million on 31 December 2014 (and HUF 2 548 million at 31 December 2013). The details are as follows:

2.9.1. Prepaid expenses and accrued income

Figures in HUF m

Description	31 December 2013	31 December 2014
Accrued income	**3 728**	**1 406**
Interest receivable from Central Bank and financial institutions	69	95
Interest receivable from customers	273	243
Interest receivable on securities	2 145	378
Interest receivable from interest rate swaps	626	188
Other accrued income	615	502
Prepaid expenses	**42**	**32**
Prepaid expenses	42	32
Total of prepaid expenses and accrued income	**3 770**	**1 438**

2.9.2. Accrued expenses and deferred income

Figures in HUF m

Description	31 December 2013	31 December 2014
Deferred income	**498**	**377**
Deferred commission income	442	308
Deferred guarantee fees	56	69
Accrued expenses	**2 049**	**1 440**
Interest payable to financial institutions	60	71
Interest payable to customers	125	31
Interest payable in connection with interest rate swaps	836	125
Other accrued payables	1 028	1 213
Deferred revenues	**1**	**0**
Deferred revenues	1	0
Total of accrued expenses and deferred income	**2 548**	**1 817**

2.10. Changes in shareholders' equity during the year

Figures in HUF m

Description	31 December 2013	Changes in 2014		31 December 2014
		Increase	Decrease	
Issued capital / Dotation capital	2	0	0	2
Capital reserve	43 643	0	0	43 643
General reserve	0	0	0	0
Retained earnings / losses	0	0	0	0
Tied-up reserves	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**

2.10.1. Endowment capital (Issued capital)

The endowed capital of the Branch amounted to HUF 2 million on 31 December 2014 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.

2.10.2. 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.

2.10.3. 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 since the branch transformation the profit after tax of each financial year (2014 also) was paid out to the Founder as dividends.

2.10.4. 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.

2.11. 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 2013	31 December 2014
Branch	0	0
Other credit institution	0	10
Total	**0**	**10**

2.12. Off-balance sheet items

2.12.1. Contingent liabilities and future liabilities

2.12.1.1. Contingent liabilities

Figures in HUF m

Description	31 December 2013	31 December 2014
Issued guarantee	28 573	33 027
Unused credit facility	314 759	306 721
Other contingent liabilities	37 218	33 596
Total of contingent liabilities	**380 550**	**373 344**

2.12.1.2. Future liabilities

Figures in HUF m

Description	31 December 2013	31 December 2014
Spot transactions	224 860	122 712
Forward transactions	1 049 353	1 822 435
Forward rate agreements	368	0
Interest rate swaps	3 459	1 332
Security purchase commitment	147 434	77 511
Assigned transactions	316	15 045
Term deposit placement	0	300
Total of future liabilities	**1 425 790**	**2 039 335**

2.12.1.2.1. Contractual value, split by maturity of open forward contracts

2.12.1.2.1.1. Spot transactions

Spot foreign exchange purchases and sale transactions are recorded in Account Class 0 amounted to HUF 122 712 million on 31 December 2014, calculated at the applicable MNB exchange rate (on 31 December 2013 the value of these transactions was HUF 224 860 million at MNB exchange rate). These transactions matured by the date of the balance sheet preparation.

2.12.1.2.1.2. Forward transactions

The Branch records forward transactions until their maturity in Account Class 0. At the end of 2014, the year-end value of forward foreign exchange transactions and foreign exchange swap transactions calculated at the applicable MNB exchange rate were HUF 1 822 435 million (on 31 December 2013, the value of these transactions was HUF 1 049 353 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 2014	1 651 292	166 215	4 928	0	1 822 435
Total as at 31 December 2013	922 709	122 390	4 254	0	1 049 353

2.12.1.2.1.3. 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 0 million on 31 December 2014 (on 31 December 2013 was HUF 368 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 2014	0	0	0	0	0
Total as at 31 December 2013	34	334	0	0	368

2.12.1.2.1.4. Interest rate swaps

As a result of interest rate swaps, HUF 1 332 million forward liabilities are recorded as off-balance sheet item at the end of the year 2014 (on 31 December 2013 HUF 3 459 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 2014	171	369	792	0	1 332
Total as at 31 December 2013	1 344	577	1 538	0	3 459

2.12.1.2.1.5. Forward securities transactions

The Branch records forward securities transactions in Account Class 0 at contractual value. On 31 December 2014, the contractual value of the forward purchases of securities were HUF 77 511 million (on 31 December 2013 HUF 147 434 million). These transactions were matured by the date of the balance sheet preparation.

2.12.1.2.1.6. Assigned transactions

The Branch records the assigned transactions as contingent liabilities in Account Class 0, which value was HUF 15 045 million on 31 December 2014 (on 31 December 2013 HUF 316 million).

2.12.1.2.1.7. Repurchase transactions, securities lending and borrowing agreements

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 2013).

2.12.1.2.2. 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 2014, and the following revaluation differences were recognized in the profit & loss until 31 December 2014:

2.12.1.2.2.1. Revaluation gain on derivatives

Figures in HUF m

Description	31 December 2013	31 December 2014	Impact of revaluation on result
FX swap transactions	2 605	25 355	22 750
Forward transactions	1 147	3 955	2 808
Forward rate agreements	334	0	-334
Interest rate swaps	696	609	-87
Total	**4 782**	**29 919**	**25 137**

2.12.1.2.2.2. Revaluation loss on derivatives

Figures in HUF m

Description	31 December 2013	31 December 2014	Impact of revaluation on result
FX swap transactions	5 857	11 536	5 679
Forward transactions	6 103	3 624	-2 479
Forward rate agreements	372	0	-372
Interest rate swaps	658	562	-96
Total	**12 990**	**15 722**	**2 732**

The aggregate impact of using fair valuation method for derivative transactions was HUF 22 405 million increase in profit & loss on 31 December 2014 (as at 31 December 2013 the impact was HUF 7 787 million aggregate decrease).

2.12.2. Contingent and future receivables

2.12.2.1. Contingent receivables

Figures in HUF m

Description	31 December 2013	31 December 2014
Receivables subject to litigation	9	6
Total of contingent receivables	**9**	**6**

2.12.2.2. Future receivables

Figures in HUF m

Description	31 December 2013	31 December 2014
Spot transactions	225 108	122 691
Forward transactions	1 040 219	1 836 296
Security sale commitment	91 724	91 002
Assigned transactions	1 152	18 030
Forward rate agreements	335	0
Interest rate swaps	3 265	1 440
Term deposit placement	1 284	60 105
Total of future receivables	**1 363 087**	**2 129 564**

2.12.3. Other contingent assets and liabilities

Figures in HUF m

Description	31 December 2013	31 December 2014
Third party securities	665 427	69 730
Guarantee received	2 897	2 047
Securities received	156 620	145 742
Suspended interests	16	0*
Nominal value of FRA purchase	45 000	0
Nominal value of FRA sale	20 000	0
Nominal value of interest rate swaps	40 720	12 000

* value below HUF 1 million

2.12.3.1. Total of third party securities

Figures in HUF m

Type of security	Total nominal value	Place of storage				
		Clearing house	Third party premises	Bank's own Treasury	Dematerialized	Printed
Custody securities	69 730	69 710	0	20	65 442	4 288
Brokerage securities	0	0	0	0	0	0
Total as at 31 December 2014	**69 730**	**69 710**	**0**	**20**	**65 442**	**4 288**
Total as at 31 December 2013	**665 427**	**665 407**	**0**	**20**	**665 243**	**184**

2.12.3.1.1. Third party custody securities

Figures in HUF m

Type of security	Total nominal value	Place of storage				
		Clearing house	Third party premises	Bank's own Treasury	Dematerialized	Printed
Hungarian government bonds	37 514	37 514	0	0	35 105	2 409
Investment notes	50	50	0	0	50	0
Discount treasury bills	2 444	2 444	0	0	2 444	0
Debenture bonds	550	550	0	0	550	0
Shares	27 313	27 293	0	20	27 293	20
Corporate bonds	259	259	0	0	0	259
Other bonds	1 600	1 600	0	0	0	1 600
Total as at 31 December 2014	**69 730**	**69 710**	**0**	**20**	**65 442**	**4 288**
Total as at 31 December 2013	**645 161**	**645 141**	**0**	**20**	**644 977**	**184**

2.12.3.1.2. Third party brokerage securities

Figures in HUF m

Type of security	Total nominal value	Place of storage				
		Clearing house	Third party premises	Bank's own Treasury	Dematerialized	Printed
Total as at 31 December 2014	**0**	**0**	**0**	**0**	**0**	**0**
Total as at 31 December 2013	**20 266**	**20 266**	**0**	**0**	**20 266**	**0**

2.12.3.2. 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 2013	31 December 2014
Cash	1 088	837
Assignment of receivables	8 793	2 849
Mortgages	46 739	36 105
Other securities (corporate guarantee)	96 399	105 043
Other securities	3 601	908
Total	**156 620**	**145 742**

2.12.3.3. Suspended interests

The value of suspended interest was below HUF 1 million as at 31 December 2014. (The Branch recorded suspended interest with value HUF 16 million on 31 December 2013.)

2.13. Revenues from and expenditures on investment services

Figures in HUF m

Description	31 December 2013	31 December 2014
Revenues from investment services	**15 863**	**17 925**
Commissions on custody	416	66
Revenue from brokerage activities	889	770
Revenue from securities trading	12 678	12 865
Revenue of fair value from securities held for trading	1	125
Revenue from foreign exchange forward transactions	0	2 761
Revenue from interest rate swaps	1 087	546
Revenue from forward rate agreements	792	792
Expenditures on investment services	**30 586**	**17 317**
Commissions paid on custody	153	74
Expenditure on brokerage activities	173	229
Expenditure on securities trading	13 055	15 634
Expenditure of fair value on securities held for trading	46	38
Expenditure on foreign exchange forward transactions	15 090	0
Expenditure on interest rate swaps	1 081	544
Expenditure on forward rate agreements	988	798

2.14. Costs in a breakdown by operational expenses

Total costs show a 1% increase in comparison with the previous year caused by a 5% decrease in total payments to personnel, a 7% increase in material type expenditures and a 23% decrease in depreciation. The total personnel and material type of expenditures represent 37% and 60% proportion, while the depreciation takes 3%. Compared to 2013 the cost structure did not change significantly.

The 5% decrease of total payments to personnel was caused by the drop of the payroll costs and related contributions. Decrease in total payments to personnel is due to the strict headcount and payroll management.

The increase of material type of expenditures – including other used services – can be explained by the raise in numbers of centrally managed processes at regional level.

Depreciation dropped by 23% in comparison with 2013, since the net value of some assets amounted to zero in 2014. Within total costs the portion of depreciation is not significant.

Figures in HUF m

Description	31 December 2013	31 December 2014
Payroll	2 078	1 942
Payments to personnel	168	183
Social security and similar deductions	640	608
Total of payments to personnel	**2 886**	**2 733**
Material costs	75	72
Material type services used	632	599
Other services used	3 431	3 743
Other costs	8	8
Material type expenditures	**4 146**	**4 422**
Depreciation charge	**236**	**183**
Total costs	**7 268**	**7 338**

2.15. Extraordinary revenues and expenditures

Figures in HUF m

Description	31 December 2013	31 December 2014
Extraordinary revenues	**0***	**1**
Extraordinary expenditures	**452**	**520**
Donations, film sponsorship	451	518
Cancelled receivables	1	2

* value below HUF 1 million

2.16. Balance sheet structure

The balance sheet total of the Branch in the reporting period was HUF 488 billion, which represents a 17% decrease compared to the balance sheet total of 31 December 2013. The majority of the assets are current assets (81%), mainly cash and equivalents and receivables from customers. Liquid assets represent 34% of the total assets, while proportion of receivables from customers reach 36%.

The proportion of short-term liabilities is 74% out of the total liabilities. 52% of the balance sheet total are liabilities towards financial institutions, 34% are short-term deposits of customers. The proportion of liabilities over one year is 16% in the Branch's books on 31 December 2014.

2.16.1. 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 2013	Assets 31 December 2014	Liabilities 31 December 2013	Liabilities 31 December 2014
FX (expressed in HUF)	117 657	184 555	353 540	284 825
HUF	472 312	303 100	236 429	202 830
Total	**589 969**	**487 655**	**589 969**	**487 655**

2.16.2. HUF denominated assets and liabilities

The value of HUF denominated assets decreased by 36% (from HUF 472 billion to 303 billion) compared to 31 December 2013. The value of HUF denominated cash and equivalents increased significantly (from HUF 20 billion to 163 billion), 54% of the HUF denominated assets are cash and equivalents.

HUF denominated liabilities decreased by 14% (from HUF 236 billion to 203 billion), from which customer related balances sums up to 40% of the total.

2.16.3. FX denominated assets and liabilities

The value of FX denominated assets increased by 57% (from HUF 118 billion to 185 billion). FX denominated lending to customers increased significantly compared to the year-end of 2013.

The value of the FX denominated liabilities decreased remarkably (from HUF 354 billion to 285 billion), mainly because of the decrease in FX denominated deposits from customers.

2.17. Highlighted items from the balance sheet

Figures in HUF m

Description	31 December 2013	31 December 2014
Liquid assets	19 798	163 488
Loans denominated in HUF*	20 602	17 392
Loans denominated in FX*	112 828	160 190
Interbank lending denominated in HUF*	9 914	16 610
Interbank lending denominated in FX*	1	18 893
Securities held for trading	411 306	73 476
Customer deposits denominated in HUF*	86 866	81 338
Customer deposits denominated in FX*	137 301	82 495
Interbank borrowings denominated in HUF*	76 260	37 329
Interbank borrowings denominated in FX*	213 505	200 846

* items arising from financial services

The balance sheet total decreased by 17% in 2014 compared to the preceding year. Significant structural changes took place on Asset side, which were influenced by several factors. On Liability side no such change was experienced, the Liability side's structure remained similar to previous year.

On Asset side remarkable increase in liquid assets, while significant reduction in government securities were observed. The two changes are bound up with each other: in August 2014 National Bank of Hungary transformed its main policy facility, the two-week bill facility, into a two-week deposit instrument. The two-week bills were among securities, while deposits with the same maturity are classified as liquid assets.

The growth in general corporate lending resulted further drop in government securities. Lending activity increased steadily during 2014 due to the economic growth. The portion of long-term loans increased and our customers still preferred foreign currency denominated loans. Considering the different sectors of the economy, our corporate customers mainly belong to the transportation-warehousing, insurance-financial activities, commercial, human health and pharmaceutical sector.

The positive revaluation difference on derivatives also rose significantly due to the high foreign exchange rates at year-end as well as these always depend on the composition of foreign exchange forward and swap transactions.

Reduction in total liabilities is linked to decrease in liabilities towards credit institutions and customers. Low interest rate environment resulted a drop in liabilities to customers, which means that the decreasing National Bank of Hungary's base rate was reflected in deposit interest rates.

Overall, the changes in economy – increasing needs in corporate lending, low interest rate environment – were reflected in the Branch's balance sheet structure at the end of 2014.

2.18. Profitability

The Branch's profit after tax as at 31 December 2014 shows a significant, 4.6 times growth compared to the profit of the preceding year. Profitability was influenced by the following factors:

The net interest result decreased by 14%, which is explained by the 26% and 51% decrease in interest received and interest paid respectively. During 2014 in money market the decrease of short-term HUF reference rates (overnight BUBOR) was a general trend, accordingly the interest of reference rate linked products has changed. This fact led to the decrease both in interest income and interest expenditures.

Our dividends earned on shares amounted to HUF 16 million in 2014.

Our net commissions earned until 31 December 2014 amounted to HUF 4 356 million, which is 1.7% lower than the gain from commissions in 2013 (HUF 4 432 million). The closure of Custody Management activity played a part in the fall.

The loss from net result of financial services dropped by 25% compared to the loss of the last year, which comes from the valuation differences and accounted results related to the valuation of derivative transactions at fair value and result from security trading. Losses from security trading activity were offset by the increase in revenue from forward foreign exchange transactions.

Other revenues from business operations decreased by 4%, while other expenditures dropped by 30% compared to previous year. The significant reduction in expenditure is explained that in August 2013 an one-off transaction duty item was imposed.

General administrative costs increased by 1% compared to the preceding period. Their detailed analysis can be found in the section on costs in a breakdown by operational expenses.

Extraordinary expenses grew by 15% compared to previous year. The reason is that, the Bank has to provide supplementary support in relation to film sponsorship from 2014.

It caused further positive impact on the Branch's result for 2014, that the Branch released provision for doubtful receivables in the amount of HUF 2 712 million, which had been built in previous periods.

2.19. Interest received by geographical region

Figures in HUF m

Description	Domestic	Within EU	Other	Total
Interest received on securities	10 188	0	0	10 188
Other interest received	6 648	735	47	7 430
Total as at 31 December 2014	**16 836**	**735**	**47**	**17 618**
Total as at 31 December 2013	**22 840**	**804**	**56**	**23 700**

2.20. Key indices

Description		31 December 2013	31 December 2014
Return on Equity (ROE)	Profit after tax / Shareholders' equity	2.9	13.6
Return on Assets (ROA)	Profit after tax / Total assets	0.2	1.2
Quick ratio	Liquid assets + securities / Current liabilities	32.5	68.7
Capitalisation ratio	Shareholders' equity / Total liabilities	7.4	8.9
Fixed asset ratio	Fixed assets / Total assets	9.5	18.9
Gross margin of fixed assets	Shareholders' equity / Fixed assets	78.1	47.3

3. Informative Notes

3.1. Data of employees

3.1.1. Number of employees

	31 December 2013	31 December 2014
Actual number of staff on 31 December	167	163
Annual average statistical number of staff	180	156
- of which: part-time employees	12	9

3.1.2. Payroll costs of employees in a breakdown by employee groups

Figures in HUF m

Description of employee group	31 December 2013	31 December 2014
Payroll costs of full-time employees	2 003	1 885
Payroll costs of part-time employees	75	57
Total	**2 078**	**1 942**

3.1.3. Payments to personnel

Figures in HUF m

Description	31 December 2013	31 December 2014
Meal, working clothes, relocation and vehicle cost reimbursement, allowances, travelling to and from work	22	22
Other payments (entertainment expenses, per diem, life insurance, etc.)	6	7
Non-repayable support provided by employer	15	21
Fringe benefits	125	133
Total	**168**	**183**

Other information

Payments, advancements and loans to Board of 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.

3.2. Items adjusting the corporate tax base

In 2014 the corporate tax base determined in the general ledger was reduced by HUF 1 772 million and increased by HUF 431 million to reach the corporate tax base in line with corporate tax act.

The corporate tax liability calculated for the year 2014 was HUF 436 million, of which HUF 345 million was paid in advance. The Branch supported film production in the amount of HUF 450 million in 2014, of which the Branch could consider HUF 765 million as tax-reducing item, taking into consideration that previous year the Branch was not able to claim back the total allowance. 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 2014.

Pursuant to the decision of the owner, the full amount of the profit after tax 2014 will be paid out as dividends.

Figures in HUF m

Description	31 December 2013	31 December 2014
Profit before tax	**2 187**	**7 900**
Items increasing the tax base	**273**	**431**
Provisions for future liabilities and expenses	17	100
Amortization/depreciation in accordance with accounting law	246	208
Costs incurred outside the normal course of business	1	68
Penalties, fines	0	0*
Costs identified by self-correction	9	55
Items reducing the tax base	**1 211**	**1 772**
Released provisions for future liabilities and expenses	26	21
Amortization/depreciation in accordance with corporate tax law	264	207
Dividends received	28	16
Donations to foundations	1	4
Revenues identified by self-correction	38	8
Bank tax	854	1 516
Tax base	**1 249**	**6 559**
Corporate tax	192	1 201
Tax benefits	**134**	**765**
Film sponsorship	134	765
Paid tax in abroad	**0**	**0**
Corporate tax liability	**58**	**436**
Bank tax	854	1 516
Total tax liability	**912**	**1 952**
Profit after tax	**1 275**	**5 948**
General provision made and used	0	0
Dividends paid from retained earnings	0	0
Dividends approved	1 275	5 948
Profit for the year	**0**	**0**

* value below HUF 1 million

3.3. Cash Flow Statements

Figures in HUF m

	Description		31 December 2013	31 December 2014
1	+	Interest received	23 700	17 618
2	+	Revenues from other financial services	14 740	6 367
3	+	Other revenues	112	499
4	+	Revenues from investment services	14 882	17 223
5	+	Revenues from other than financial and investment services	2 995	2 477
6	+	Dividends received	28	16
7	+	Extraordinary revenues	0*	1
8	-	Interest paid	7 321	3 586
9	-	Expenditures on other financial services	421	6 232
10	-	Other expenditures	3 930	2 428
11	-	Expenditures on investment services	21 773	39 109
12	-	Expenditures on other than financial and investment services	2 787	2 211
13	-	General administrative expenses	7 268	7 338
14	-	Extraordinary expenditures	452	520
15	-	Tax liability	912	1 952
16	-	Dividends paid	1 275	5 948
17	**Operating cash flows** (Lines 01 to 16)		**10 318**	**-25 123**
18	+ / -	Movements in liabilities	229 944	-104 394
19	+ / -	Movements in receivables	46 393	-66 242
20	+ / -	Movements in stocks	5	-7
21	+ / -	Movements in securities recorded under current assets	-341 268	337 917
22	+ / -	Movements in securities recorded under fixed assets	0*	20
23	+ / -	Movements in investments	0	0
24	+ / -	Movements in intangible assets	-9	-25
25	+ / -	Movements in tangible assets	75	-57
26	+ / -	Movements in prepaid expenses and accrued income	-464	2 332
27	+ / -	Movements in accrued expenses and deferred income	-1 613	-731
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		**-56 619** 1 -56 620	**143 690** 270 143 420

* value below HUF 1 million

3.4. Other

According to the Decree 43/2013 (XII.29.) of the National Bank of Hungary with respect to reporting obligations, the branches are required to provide for the central bank information system with regular, occasional and an assignment based data supply, thus enabling the National Bank of Hungary to fulfil its supervisory function.

The amounts owed to the customers of the ING Bank N.V. Hungary 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 Hungary Branch. As the ING Bank N.V. Hungary 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. Hungary Branch is not a member of the Hungarian Deposit Guarantee Fund under Article 209 (3) of Act CCXXXVII of 2013 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. Hungary 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. Hungary Branch. As ING Bank N.V. Hungary 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. Hungary 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, 22 May 2015

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

Management Report

December 31, 2014

Economic environment

In Hungary, domestic economy continued to accelerate, as following the 1.5 percent GDP-increase registered in 2013, GDP growth reached 3.6 percent in 2014. 2006 was the last year that the Hungarian Central Statistical Office registered such a high increase rate of GDP growth. In regional comparisons, the most dynamic expansion of the GDP could be observed in Hungary. Taking the 2008 pre-crisis level as a reference level, Hungary – together with Romania and the Czech Republic – could reach the reference level only towards the end of year 2014, while economic performance of Slovakia and Poland well exceeded it by that time. Analysing the structure of the increase, the rise of internal consumption including especially investments can be considered as a favourable aspect. Behind the process the economic stimulating factors were the budgetary road and railway construction programs and the Funding for Growth Scheme for SMEs of Magyar Nemzeti Bank (the National Bank of Hungary). The surge in investments was especially notable in the labour intensive construction sector, so the market demand for labour also increased. At the same time, industrial export has significantly increased since large automotive plants started or increased their production in Hungary. Last year, Europe's decreasing inflation rates, falling oil prices and declining agricultural producer prices due to the favourable agricultural yields have exerted continuous disinflationary pressure on Hungary. As a result, consumer price level has not changed significantly over the last year, so an inflation rate of around 0% and unchanged wage dynamics resulted in a real wage increase of 5-6%. The central bank lowered the base rate to 2.1% during last year, but more and more negative inflation surprises will likely trigger another loosening cycle. Increased consumer optimism is typical of election years. It was not any different last year, so the increase in the wage bill and overall optimism was more and more reflected in retail and consumption statistics. Budget processes turned out to be more favourable than formerly envisaged by the government, mainly due to good economic performance, increase in employment and retreat of the shadow economy as a result of the introduction of online cash registers. Declining interest rates meant a significant expenditure cut for the budget, according to the estimates of the Magyar Nemzeti Bank, these savings could reach 1% of GDP. The external equilibrium position of the economy further improved in spite of the dynamic growth. The increase in import volumes associated with rising consumption and investment levels was offset by the decline in oil prices, that is, by the improvement in terms of trade. The foreign trade balance was EUR 6.4 billion, while the current account surplus swelled to EUR 4.5 billion. The drawdown of EU funds played a significant role in the latter.

Last year brought a turning point in terms of vulnerability for our country as well. Foreign currency loans of the household sector has been dealt with in several stages. First, the Curia announced, that it was unlawful to utilize the different sides of the foreign currency exchange rate spread at loan disbursement and repayment, just like it was unlawful to unilaterally change interest rates. After the Curia's resolution, the government submitted an FX loan settlement bill, which resulted in a loss of HUF 800 billion for the whole Hungarian banking sector. ING Commercial Banking in Hungary had no retail portfolio, this way this loss had no effect on it. The remaining part of the FX loans was converted into HUF at market rates, for which the banks were given sufficient supply of foreign currency by the Magyar Nemzeti Bank. Also guided by the principle of lowering vulnerability, the Magyar Nemzeti Bank has launched the concept of self-financing. The bi-weekly bonds have been changed to two weeks deposits, this way the central bank introduced incentives to the banking sector to increase its portfolio of government securities. This way domestic financing has become more stable, and at the same time, chances of a sudden capital outflow were substantially reduced. The credit rating outlook of the country has been changed to stable from negative, while the credit agencies did not change the credit rating itself.

Financial results

The 2014 after-tax profit of HUF 5 948 million means a HUF 4.7 billion increase compared to the previous year.

In the significant increase of the net result, two one-off factors have determinative roles, that both ruined the profit of 2013. At year-end 2013 the Bank had to create a loan loss behind a transaction that could entirely been released in 2014. This item improved 2014's profit by HUF 2.48 billion. The one-off transaction tax extra levied in the middle of 2013 also burdened the previous year's net result by HUF 831 million, while 2014 was not affected by it.

Beside these factors, profit after tax moderately decreased due to the 7% fallback of business revenues on the one hand and there has been a slight, 1 percent increase of general administrative expenses.

The decrease of business revenues is attributable to the Trading business line, thanks to the decrease in volatility and to the low yields. General Lending and Structured Finance business lines had a stronger performance than during the previous year.

The interest margin of the Bank reached HUF14 032 million, which is 14% lower compared to the previous year's level. As a result of the decreasing interest rates, margins narrowed further, net interest margins dropped by HUF 2.3 billion.

Net commissions and fees reached HUF 4 356 million, resulting in a HUF 76 million decrease compared to last years' figure. The closing down of Securities Services business line in the first quarter of 2014 played a role in this decrease also.

Net loss on Financial Operations improved by HUF 1.2 billion from HUF -4 836 million to HUF- 3 613 million and is attributable to the Bank's foreign currency trading result and the revaluation of foreign currency positions.

Net other result improved by HUF 1.8 billion: this item is affected by the one-off transaction tax levied extra in the middle of 2013 and the 2014 income on the sales of Securities Services business line.

General administrative expenses and depreciation amounting to HUF 7 338 million altogether increased by 1 percent (HUF 70 million) compared to the previous year. Personnel expenses decreased by 5 percent. The decline of personnel expenses can be explained by the strict headcount control and the control of salary type of payments. Material type of expenditures grew by 7 percent.

The Balance Sheet Total of the Bank reached HUF 487 655 million at year end 2014 meaning a decrease of 17 percent compared to the end of 2013. The average balance sheet total remained on the level of last year; the balance sheet structure of the business lines and the composition of portfolios remained unchanged. 2014 was characterized by slight increase of the lending portfolio coupled with the increase of the average portfolio of sight deposits.

Trading

The year 2014 -similar to 2013- was characterized by remarkable, however lower volatility than earlier. Extreme movements of the prices could be witnessed during the whole year. HUF interest rate markets were influenced by the base rate lowering cycle of the Magyar Nemzeti Bank, the length of the cycle and as of 1 August, 2014, the change of monetary instruments. Further exchange rate and yield movements were induced by the expectations (timing and extent) regarding the European Central Bank's plans to increase liquidity. Trading activity was preserved at high level in terms of volumes by sufficient liquidity and the volatility of spreads of the quotes. ING Bank N.V. Hungary Branch aimed to maintain its decisive market maker position among the continouosly changing market environment.

Financial and Capital Markets Sales

In 2014 Financial Markets Sales team worked on the enhancement of the turnover of simple foreign exchange products and on the roll-out of complex financial risk management solutions. The business line managed to broaden its customer base by a new acquisition and prepared some further ones. In order to maintain existing customers, professional client training events and seminars were organized during the year. The high volatility of FX-, money-, and capital markets and the unstable market environment resulted in high levels of financial risks. Similar to previous years the intent of clients to decrease the bank's margins to a minimum on treasury products continued. At the same time competition strengthened among service providers targeting the same client base, especially among large corporates. The turnover of foreign exchange transactions and conversions at the bank's official rate did not increase. FM Sales encouraged their corporate clients to mitigate their financial market risks, emphasizing the importance of measuring risks and choosing the appropriate financial solution. Our Clients' attention was drawn not only to the foreign exchange rate movements that were more severe than in the previous years but also to the significant drop of interest rates and the possibilities to reduce interest rate risks deriving from this. This year there was a substantial increase in securities transactions among financial institutions especially among investment fund managers. The process was fuelled by a money market environment characterized by steeply falling interest rates, and the significant interest in certain foreign currency denominated government bonds.

PCM and Documentary Services

Payments and Documentary Services business line is slightly below the 2014 budget figures in terms of income: the continuous decrease of interest rate margins explains the decline in PCM revenues, while incomes of Documentary services met expectations thanks to the constant increase of business volumes and acquisition of new clients.

PCM: within the ING network in the euro zone, the preparation was finalised for the 2014 February SEPA launch date. Although in those countries of the EEA where the EUR is not the legal currency, SEPA transfers and collections have to be introduced only by October 2016, the bank has already initiated the preparations in Hungary and is expected to finish them by the end of 2015. While one of the main objectives of 2014 was to increase – both in terms of volumes with existing client base and acquisition of new Clients– in Documentary Services, the priority in the first half of 2015 is the preparation for the expansion of IG2 from commercial, operational and IT points of view.

Corporate and Financial Institutions Lending

In 2014 the Hungarian economy began to expand, which expansion entailed the increase of lending volumes as well. Our lending portfolio gradually increased during the whole year. At the same time, liquidity on the lending market also increased due to the Funding for Growth Scheme of the Magyar Nemzeti Bank, consequently competition intensified in all segments. As the result of intensifying competition, interest rate premiums fell back somewhat.

Interest incomes were influenced by both the increase of portfolio and the decrease of average interest margins.

In the currency distribution of the portfolio, there is shift towards EUR: by the end of the year, the HUF portfolio made up only 20% of total lending portfolio.

From maturity point of view there is no significant change: the overwhelming majority of our exposure is short term, working capital financing facility.

Structured Finance

Structured Finance business line closed an excellent year in 2014.

The performance of existing business areas (syndicated loans, LBO finance, project finance and related advisory activity) continued to be decisive.

The product portfolio of the business line was continued to be broadened by Trade and Commodity Finance activity.

There are many pipeline deals in advisory (Corporate Finance) transactions as well.

Credit, Market and Operational Risk Management

Since 2008 ING Bank has been running an integrated Risk Management model that covers corporate lending, counterparty risk management, and market risk management, as well as operational risk management, IT and physical security areas. The basic role of Integrated Risk Management continues to be to ensure compliance with local regulations, global ING policies and specific local procedures. Activity and operation of the Branch continued to be in line with the strategy and risk appetite of ING Group during 2014 as well. The Bank continued to ensure good profitability and stable liquidity similar to previous years. There was no operational or physical security incident that would have negatively influenced ongoing concern operation or profitability.

The liquidity of the branch continues to be stable, thanks to local customer deposits and interbank funds, as well as continuously available funding limits established for us by our Amsterdam Head Office. The practice of using liquidity premiums reflecting the effects of financial crisis remained unchanged in 2014, but still not applied for shorter than 1 year tenors. We continued to focus on the efficient management of counterparty and market risk management limits. These limits have been changing throughout 2014 in accordance with the demands related to risk considerations and changes of the legal environment for the financial sector, and their importance increased 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 and maintained in 2014. The result of lending clients have been improving following the negative effects of the crisis. The so-called “crisis sectors” like car-manufacturing, trading, transportation, construction or the financial sector are continued to be closely monitored by the 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 provide a natural hedge for their FX exposure (by their FX incomes) or by other hedging instruments. At the end of 2014, loan losses and provisions related to the lending portfolio and counterparty risks were not significant.

Human Resources and Leadership Development

The Branch had 163 active employees on 31 December, 2014. This means a 2.4 percent decrease compared to the end of 2013 level (167 employees) that can be explained by the close down of custody business line entailing lay-offs on both front and back office side.

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

Budapest, 22 May 2015

István Salgó	Gyula Réthy
Chief Executive Officer	Chief Financial Officer