Annual Report 2013

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 2013 English language Annual Report is the Hungarian language version amended with the Independent Auditors' Report.

Az ING Bank N.V. Magyarországi Fióktelepe 2013-as 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 2013-as éves beszámoló hiteles forrása a könyvvizsgálói záradékkal ellátott magyar nyelvű szöveg.

BALANCE SHEET – Assets

Data in HUF million

Description	Opening data 31 Dec 2012	Current year data 31 Dec 2013
1. Liquid assets	**76 417**	**19 798**
2. Government securities	**70 083**	**411 306**
a) trading securities	70 057	411 325
b) investment securities	0	0
2/A Valuation difference on government securities	**26**	**-19**
3. Receivables from financial institutions	**48 892**	**15 236**
a) on demand	10 843	5 265
b) other receivables from financial services	37 658	9 915
ba) current receivables	37 658	9 915
Of which: - from related parties	37 554	8 960
- from other related parties	0	0
- from the National Bank of Hungary	0	0
- from clearing house	35	0
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	391	56
Of which: - from related parties	0	0
- from other related parties	0	0
- from clearing house	381	0
3/A Valuation difference on receivables from financial institutions	**0**	**0**
4. Receivables from customers	**148 235**	**133 488**
a) from financial services	148 168	133 430
aa) current receivables	90 170	78 133
Of which: - from related parties	119	0
- from other related parties	0	0
ab) long-term receivables	57 998	55 297
Of which: - from related parties	0	0
- from other related parties	0	0
b) from investment services	67	58
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	57
bd) receivables from the clearing house	0	0
be) receivables from other investment services	10	1
4/A Valuation difference on receivables from customers	**0**	**0**
5. Debt securities	**0**	**0**
a) issued by local governments or other government institutions	0	0
aa) trading securities	0	0
ab) investment securities	0	0
b) issued by other entities	0	0
ba) trading securities	0	0
Of which: - issued by related parties	0	0
- issued by other related parties	0	0
- redeemed treasury shares	0	0
bb) investment securities	0	0
Of which: - issued by related parties	0	0
- issued by third parties	0	0
5/A Valuation difference on debt securities	**0**	**0**
6. Shares and other securities with variable yields	**0**	**0**
a) trading shares and participations	0	0
Of which: - issued by related parties	0	0
- issued by other related parties	0	0
b) variable-yield securities	0	0
ba) trading securities	0	0
bb) investment securities	0	0
6/A Valuation difference on shares and other variable-yield securities	**0**	**0**

Description	Opening data 31 Dec 2012	Current year data 31 Dec 2013
7. Investment shares and participations	**73**	**73**
a) investment shares and participations	73	73
Of which: - participation in financial institutions	0	0
b) adjustment of investment shares and participations	0	0
Of which: - participation in financial institutions	0	0
7/A Valuation difference on investment shares and participations	**0**	**0**
8. Shares and participations in related parties	**0**	**0**
a) investment shares and participations	0	0
Of which: - participation in financial institutions	0	0
b) adjustment of investment shares and participations	0	0
Of which: - participation in financial institutions	0	0
9. Intangible assets	**175**	**184**
a) intangible assets	175	184
b) adjustment of intangible assets	0	0
10. Tangible assets	**376**	**301**
a) tangible assets held for financial services and investment purposes	135	105
aa) property	35	48
ab) technical equipment, machines, fixtures, vehicles	100	57
ac) capital expenditures	0	0
ad) advance payments on capital expenditures	0	0
b) tangibles assets not held for financial services and investment purposes	241	196
ba) property	0	0
bb) technical equipment, machines, fixtures, vehicles	241	196
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	**1 521**	**1 031**
a) stocks	8	3
b) other receivables	1 513	1 028
Of which: - from related parties	553	62
- from other related parties	0	0
12/A Valuation difference on other receivables	**0**	**0**
12/B Positive valuation difference on derivatives	**7 247**	**4 782**
13. Prepaid expenses and accrued income	**3 306**	**3 770**
a) accrued income	3 276	3 728
b) prepaid expenses	30	42
c) deferred expenses	0	0
Total assets	**356 325**	**589 969**
Of which: - CURRENT ASSETS	294 397	530 344
- FIXED ASSETS	58 622	55 855

Budapest, 09 May 2014

Dr. István Salgó — Chief Executive Officer

Gyula Réthy — Chief Financial Officer

BALANCE SHEET – Equity and Liabilities

Data in HUF million

Description	Opening data 31 Dec 2012	Current year data 31 Dec 2013
1. Liabilities to financial institutions	**144 959**	**300 852**
a) on demand	22 279	11 087
b) fixed-term liabilities from financial services	122 639	289 765
ba) current liabilities	122 626	289 765
Of which: - to related parties	84 831	201 190
- to other related parties	0	0
- to the National Bank of Hungary	0	0
- to clearing houses	0	0
bb) long-term liabilities	13	0
Of which: - to related parties	0	0
- to other related parties	0	0
- to the National Bank of Hungary	0	0
- to clearing houses	0	0
c) from investment services	41	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	**140 945**	**224 167**
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	140 945	224 167
ba) on demand	97 731	96 516
Of which: - to related parties	4 656	3 947
- to other related parties	0	0
bb) current liabilities	43 214	127 651
Of which: - to related parties	6 890	5 999
- 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	0
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	0
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	Opening data 31 Dec 2012	Current year data 31 Dec 2013
4. Other liabilities	**13 703**	**4 532**
a) current liabilities	13 703	4 532
Of which: - to related parties	8 241	1 275
- 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	**7 668**	**12 990**
5. Accrued expenses and deferred income	**4 161**	**2 548**
a) deferred income	688	498
b) accrued expenses	3 471	2 049
c) deferred extraordinary revenues and negative goodwill	2	1
6. Provisions	**1 244**	**1 235**
a) provisions for pensions and severance payment	0	0
b) provisions for contingent and future liabilities (commitments)	1	0
c) general risk provisions	1 209	1 209
d) other provisions	34	26
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	***356 325***	***589 969***
Of which: - CURRENT LIABILITIES	307 262	542 541
- LONG-TERM LIABILITIES	13	0
- EQUITY	43 645	43 645

Contingent liabilities	358 485	380 550
Future liabilities	862 310	1 425 790
Contingent receivables	9	9
Future receivables	913 415	1 363 087

Budapest, 09 May 2014

Dr. István Salgó
Chief Executive Officer

Gyula Réthy
Chief Financial Officer

PROFIT AND LOSS STATEMENT

Data in HUF million

	Description	Opening data 31 Dec 2012	Current year data 31 Dec 2013
1.	**Interest and similar income received**	**33 817**	**23 700**
	a) on fixed-interest debt securities	21 828	16 879
	Of which: - from related parties	0	0
	- from other related parties	0	0
	b) other interest and similar income received	11 989	6 821
	Of which: - from related parties	308	189
	- from other related parties	0	0
2.	**Interest payable and similar expenditures**	**9 789**	**7 321**
	Of which: - from related parties	3 470	1 323
	- from other related parties	0	0
	INTEREST MARGIN (1-2)	**24 028**	**16 379**
3.	**Revenues from securities**	**39**	**28**
	a) revenues from trading shares and securities	0	0
	b) revenues from participations in related parties	0	0
	c) revenues from other participations	39	28
4.	**Commissions and fees received or due**	**3 436**	**5 124**
	a) from the revenues from other financial services	2 099	3 819
	Of which: - from related parties	441	799
	- from other related parties	0	0
	b) from the revenues from investment services	1 337	1 305
	Of which: - from related parties	113	45
	- from other related parties	0	0
5.	**Commissions and fees paid or payable**	**956**	**692**
	a) from the expenditures on other financial services	466	366
	Of which: - from related parties	106	108
	- from other related parties	0	0
	b) from the expenditures on investment services	490	326
	Of which: - from related parties	6	0
	- from other related parties	0	0
6.	**Net profit/loss on financial operations [6.a)-6.b)+6.c)-6.d)]**	**-8 079**	**-4 836**
	a) from the revenues from other financial services	13 673	10 921
	Of which: - from related parties	4 460	1 036
	- from other related parties	0	0
	- valuation difference	0	0
	b) from the expenditures on other financial services	96	55
	Of which: - to related parties	0	0
	- to other related parties	0	0
	- valuation difference	0	0
	c) from the revenues from investment services	14 573	14 558
	Of which: - from related parties	74	3
	- 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	36 229	30 260
	Of which: - to related parties	103	0
	- to other related parties	0	0
	- impairment of trading securities	0	0
	- valuation difference	0	0
7.	**Other revenues from operations**	**5 439**	**3 133**
	a) revenues from other than financial and investment services	4 132	2 995
	Of which: - from related parties	262	360
	- from other related parties	0	0
	b) other revenues	1 307	138
	Of which: - from related parties	509	64
	- from other related parties	0	0
	- reversal of impairment of stocks	0	0

	Description	Opening data 31 Dec 2012	Current year data 31 Dec 2013
8.	**General administrative expenses**	**7 263**	**7 032**
	a) payments to personnel	3 101	2 886
	aa) payroll	2 220	2 078
	ab) payments to personnel	213	168
	Of which: - social security costs	26	20
	= pension related costs	11	9
	ac) social security and similar deductions	668	640
	Of which: - social security costs	625	601
	= pension related costs	0	0
	b) material type expenditures (materials and supplies)	4 162	4 146
9.	**Depreciation**	**257**	**236**
10.	**Other expenditures on operations**	**5 239**	**6 734**
	a) expenditures on other than financial and investment services	4 037	2 787
	Of which: - to related parties	5	0
	- to other related parties	0	0
	b) other expenditures	1 202	3 947
	Of which: - to related parties	6	80
	- to other related parties	0	0
	- impairment of stocks	0	0
11.	**Impairment of receivables and risk provision for commitments and contingent liabilities**	**8**	**2 497**
	a) impairment of receivables	7	2 497
	b) risk provisions for contingent liabilities and for (future) commitments	1	0
12.	**Reversal of impairment of receivables and use of risk provision made for commitments and contingent liabilities**	**18**	**2**
	a) reversal of impairment of receivables	16	1
	b) use of risk provision made for commitments and contingent liabilities	2	1
	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**	**11 158**	**2 639**
	Of which: - PROFIT ON FINANCIAL AND INVESTMENT SERVICES	11 063	2 431
	Of which: - PROFIT ON OTHER THAN FINANCIAL INVESTMENT	95	208
16.	**Extraordinary revenues**	**1**	**0**
17.	**Extraordinary expenditures**	**1 002**	**452**
18.	**Extraordinary profit/loss (16-17)**	**-1 001**	**-452**
19.	**Profit before tax (+/-15+/-18)**	**10 157**	**2 187**
20.	Tax liability	1 949	912
21.	**Profit after tax (+/-19-20)**	**8 208**	**1 275**
22.	**General provision made and used (+/-)**	**0**	**0**
23.	**Dividends paid from retained earnings**	**0**	**0**
24.	**Dividends paid (approved)**	**8 208**	**1 275**
	Of which: - to related parties	8 208	1 275
	- to other related parties	0	0
25.	**Profit or loss for the year (+21-/+22+23-24)**	**0**	**0**

Budapest, 09 May 2014

Dr. István Salgó
Chief Executive Officer

Gyula Réthy
Chief Financial Officer

Notes to the Financial Statements

31 December 2013

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NOTES TO THE FINANCIAL STATEMENTS 31 DECEMBER 2013

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 2013, the date of drawing up the balance sheet was 10 January 2014.

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.

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

The applied reserves are as follows:

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

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

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 2012	31 December 2013
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

* From 2012 the Branch sets the depreciation rate of vehicles to 20% in accordance with the internal policies.
** From 2012 the Branch recognizes the depreciation rate of improvements on third party property in alignment with the maturity of the new lease agreement.

1.3. Other information

The Branch does not have an obligation to prepare consolidated financial statements as at 31 December 2013.

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 2013 is available at www.ing.com.

The owner of ING Bank N. V. Amsterdam, ING Groep N.V. Amsterdam includes our owner in its consolidated financial statements prepared in accordance with similar principles. The annual report for the year 2013 is available at www.ing.com.

1.3.1. Accounting services

Person responsible for leading and managing the accounting tasks performed in the year 2013

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 19 million, including VAT. The Branch recognised HUF 3 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 2012	Purchase	Sale	Capitali-zation	Other change (reclassifica-tion, discarding)	31 December 2013
Intangible assets	**635**	**175**	**0**	**76**	**0**	**734**
Other concessions, licenses and similar rights*	0*	0	0	0	0	0*
Software user licences	635	175	0	76	0	734
Tangible assets	**795**	**160**	**33**	**80**	**-13**	**829**
Tangible assets serving banking activities directly	*426*	*136*	*17*	*68*	*-13*	*464*
Improvements on third party property	75	22	0	0	-8	89
IT equipment	193	17	13	0	-1	196
Other equipment, fittings	158	29	4	0	-4	179
Investment	0	68	0	68	0	0
Tangible assets serving banking activities indirectly	*369*	*24*	*16*	*12*	*0*	*365*
Vehicles	352	12	16	0	0	348
Works of art	17	0	0	0	0	17
Investments	0	12	0	12	0	0
Total	**1 430**	**335**	**33**	**156**	**-13**	**1 563**

* 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 2012	Ordinary deprecia-tion/amor-tization	Sale	Capitali-zation	Other change (reclassifi-cation, discarding)	31 December 2013
Intangible assets	**460**	**90**	**0**	**0**	**0**	**550**
Other concessions, licenses and similar rights*	0*	0*	0	0	0	0*
Software user licences	460	90	0	0	0	550
Tangible assets	**419**	**146**	**27**	**0**	**-10**	**528**
Tangible assets serving banking activities directly	*291*	*94*	*16*	*0*	*-10*	*359*
Improvements on third party property	40	6	0	0	-5	41
IT equipment	147	41	13	0	-1	174
Other equipment, fittings	104	47	3	0	-4	144
Investment	0	0	0	0	0	0
Tangible assets serving banking activities indirectly	*128*	*52*	*11*	*0*	*0*	*169*
Vehicles	128	52	11	0	0	169
Works of art	0	0	0	0	0	0
Investments	0	0	0	0	0	0
Total	**879**	**236**	**27**	**0**	**-10**	**1 078**

* value below HUF 1 million

2.1.3. Net value of tangible and intangible assets

Figures in HUF m

Description	31 December 2012	Changes	Sale	Capitali-zation	Other change (reclassifi-cation, discarding)	31 December 2013
Intangible assets	**175**	**85**	**0**	**76**	**0**	**184**
Other concessions, licenses and similar rights*	0*	0*	0	0	0	0*
Software user licences	175	85	0	76	0	184
Tangible assets	**376**	**14**	**6**	**80**	**-3**	**301**
Tangible assets serving banking activities directly	*135*	*42*	*1*	*68*	*-3*	*105*
Improvements on third party property	35	16	0	0	-3	48
IT equipment	46	-24	0	0	0	22
Other equipment, fittings	54	-18	1	0	0	35
Investment	0	68	0	68	0	0
Tangible assets serving banking activities indirectly	*241*	*-28*	*5*	*12*	*0*	*196*
Vehicles	224	-40	5	0	0	179
Works of art	17	0	0	0	0	17
Investments	0	12	0	12	0	0
Total	**551**	**99**	**6**	**156**	**-3**	**485**

* value below HUF 1 million

Until 31 December 2013, HUF 76 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 53 million non-capitalized acquisitions.

HUF 17 million new IT equipment (servers) and HUF 29 million other equipment, fittings were purchased.

During the year 1 company car was purchased at a value of HUF 12 million, and 3 company cars were sold at a book value of HUF 5 million.

2.2. Provisions made and used in the reporting period

At 31 December 2013 the total value of the provisions in the books of the Branch was HUF 1 235 million.

At 31 December 2012, the other provision comprised of the following items: HUF 19 million for losses due to default of counterparties and HUF 15 million for redundancies due to reorganization. In the reporting period the Branch released HUF 13 million from provision on losses due to default of the counterparty. HUF 12 million provision was used by the Company to cover the cost of redundancies and provision creation at a value of HUF 17 million was required.

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 2012	Increase (made)	Decrease		31 December 2013
			released	used	
Provisions for pension and severance pay	0	0	0	0	0
Provisions for contingent and future liabilities	1	0*	1	0	0*
Provisions for general risks	1 209	0	0	0	1 209
Other provisions	34	17	13	12	26
Total	**1 244**	**17**	**14**	**12**	**1 235**

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 2012	Increase (made)	Decrease		31 December 2013
			released	used	
Impairment of receivables from customers	1	2 487	0	0	2 488
Impairment of investment services	236	7	1	0	242
Impairment of other receivables	0	3	0	0	3
Impairment of shares	0	0	0	0	0
Impairment of debt securities	0	0	0	0	0
Total	**237**	**2 497**	**1**	**0**	**2 733**

The Branch recorded HUF 2 487 million impairment loss with respect to doubtful receivables and the HUF 1 million previous years' impairment was released in 2013.

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	**411 325**	**0**	**0**	**0**	**0**	**411 325**
Historic cost	411 325	0	0	0	0	411 325
Impairment	0	0	0	0	0	0
Receivables from financial institution	**15 236**	**0**	**0**	**0**	**0**	**15 236**
Historic cost	15 236	0	0	0	0	15 236
Impairment	0	0	0	0	0	0
Receivables from customers	**130 863**	**918**	**0***	**1 650**	**57**	**133 488**
Historic cost	130 863	927	0*	4 126	287	136 203
Impairment	0	9	0*	2 476	230	2 715
Contingent liabilities	**380 530**	**20**	**0**	**0**	**0**	**380 550**
Historic cost	380 530	20	0	0	0	380 550
Provision	0	0*	0	0	0	0
Future liabilities	**1 425 790**	**0**	**0**	**0**	**0**	**1 425 790**
Historic cost	1 425 790	0	0	0	0	1 425 790
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
2014/D	1 968	2 017	-3	2 014
2015/A	198	209	0*	209
2015/C	43 166	46 190	-6	46 184
2016/C	43	44	0*	44
2016/D	12	12	0*	12
2017/A	2 130	2 312	-5	2 307
2017/B	861	925	-1	924
2018/A	30	31	0*	31
2019/A	735	793	1	794
2019/B	6	6	0*	6
2020/A	95	107	0*	107
2022/A	144	158	-1	157
2023/A	155	158	0*	158
2028/A	898	938	-4	934
Total	**50 441**	**53 900**	**-19**	**53 881**

* 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	Accrued interest	Market value
D140102	1 480	1 467	13	1 480
D140108	27 775	27 510	247	27 757
D140122	12	12	0*	12
D140129	41	41	0*	41
D140212	19	18	0*	18
D140219	2	2	0*	2
D140430	8 626	8 310	231	8 541
D140806	31	30	0*	30
MNB140108	33 317	33 274	21	33 295
MNB140115	110 130	109 992	0*	109 992
Total	**181 433**	**180 656**	**512**	**181 168**

* 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
D140102	10 000	9 909	89	9 998
D140115	10 000	9 915	73	9 988
D140122	7 200	7 140	47	7 187
MNB140108	90 000	89 880	60	89 940
MNB140115	60 000	59 925	0*	59 925
Total	**177 200**	**176 769**	**269**	**177 038**

* value below HUF 1 million

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	53 900	0	0
Discount treasury bills	35 850	28 504	0
NBH bond	0	293 071	0
Total	**89 750**	**321 575**	**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
GIRO Zrt.	20	20	20
Hitelgarancia Alapítvány	22	22	22
Garantiqa Hitelgarancia Zrt.	10	10	10
Budapesti Értéktőzsde Zrt.	13	21	21
Magyar SEPA Egyesület *	0*	0*	0*
Shares held as investment *	0*	0*	0*
Total	**65**	**73**	**73**

* value below HUF 1 million

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	**59 456**	**28 591**	**52 147**	**3 151**	**143 345**
From credit institutions	9 915	0	0	0	**9 915**
From customers	49 541	28 591	52 147	3 151	**133 430**
Payables	**417 193**	**223**	**0**	**0**	**417 416**
To credit institutions	289 765	0	0	0	**289 765**
To customers	127 428	223	0	0	**127 651**

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	8 700	260	0*	**8 960**
Receivables from financial institutions arising from investment services	0	0	0*	**0***
Other receivables within one year	42	17	3	**62**
Liabilities to financial institutions within one year	185 421	0	15 769	**201 190**
Liabilities to customers on demand	0	0	3 947	**3 947**
Liabilities to customers within one year	0	0	5 999	**5 999**
Other liabilities within one year	1 275	0*	0*	**1 275**
Other interest and similar income received	70	27	92	**189**
Interest payable and similar charges	951	34	338	**1 323**
Commissions received from the revenues from other financial services	212	295	292	**799**
Commissions received from the revenues from investment services	30	3	12	**45**
Commissions paid on the expenditures on other financial services	25	72	11	**108**
Commissions paid on the expenditures on investment services	0*	0	0*	**0***
Revenues from other financial services	0	0	1 036	**1 036**
Revenues from investment services	3	0	0	**3**
Revenues from other than financial and investment services	132	62	166	**360**
Other revenues	31	14	19	**64**
Other expenditures	73	5	2	**80**
Dividends approved	1 275	0	0	**1 275**

* 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 2013 was HUF 3 770 million (and HUF 3 306 million on 31 December 2012). Accrued expenses and deferred income amounted to HUF 2 548 million on 31 December 2013 (and HUF 4 161 million at 31 December 2012). The details are as follows:

2.9.1. Prepaid expenses and accrued income

Figures in HUF m

Description	31 December 2012	31 December 2013
Accrued income	**3 276**	**3 728**
Interest receivable from Central Bank and financial institutions	170	69
Interest receivable from customers	313	273
Interest receivable on securities	354	2 145
Interest receivable from interest rate swaps	2 036	626
Other accrued income	403	615
Prepaid expenses	**30**	**42**
Prepaid expenses	30	42
Total of accrued income and prepaid expenses	**3 306**	**3 770**

2.9.2. Accrued expenses and deferred income

Figures in HUF m

Description	31 December 2012	31 December 2013
Deferred income	**688**	**498**
Deferred commission income	643	442
Deferred guarantee fees	45	56
Accrued expenses	**3 471**	**2 049**
Interest payable to financial institutions	80	60
Interest payable to customers	151	125
Interest payable in connection with interest rate swaps	2 180	836
Other accrued payables	1 060	1 028
Deferred extraordinary revenues	**2**	**1**
Deferred extraordinary revenues	2	1
Total of accrued expenses and deferred income	**4 161**	**2 548**

2.10. Changes in shareholders' equity during the year

Figures in HUF m

Description	31 December 2012	Changes in 2013		31 December 2013
		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 2013 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 (2013 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. There were no liabilities from investment services on 31 December 2013.

Figures in HUF m

Name of bank account manager	31 December 2012	31 December 2013
Branch	0	0
Other credit institution	41	0
Total	**41**	**0**

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 2012	31 December 2013
Issued guarantee	25 787	28 573
Unused credit facility	332 698	314 759
Other contingent liabilities	0	37 218
Total of contingent liabilities	**358 485**	**380 550**

2.12.1.2. Future liabilities

Figures in HUF m

Description	31 December 2012	31 December 2013
Spot transactions	95 698	224 860
Forward transactions	671 237	1 049 353
Forward rate agreements	119	368
Interest rate swaps	13 305	3 459
Security purchase commitment	81 305	147 434
Assigned transactions	646	316
Total of future liabilities	**862 310**	**1 425 790**

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 224 860 million on 31 December 2013, calculated at the applicable MNB exchange rate (on 31 December 2012 the value of these transactions was HUF 95 698 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 2013, the year-end value of forward foreign exchange transactions and foreign exchange swap transactions calculated at the applicable MNB exchange rate were HUF 1 049 353 million (on 31 December 2012, the value of these transactions was HUF 671 237 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 2013	922 709	122 390	4 254	0	1 049 353
Total as at 31 December 2012	573 119	96 692	1 426	0	671 237

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 368 million on 31 December 2013 (on 31 December 2012 was HUF 119 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 2013	34	334	0	0	368
Total as at 31 December 2012	0	66	53	0	119

2.12.1.2.1.4. Interest rate swaps

As a result of interest rate swaps, HUF 3 459 million forward liabilities are recorded as off-balance sheet item at the end of the year 2013 (on 31 December 2012 HUF 13 305 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 2013	1 344	577	1 538	0	3 459
Total as at 31 December 2012	4 129	4 814	4 325	37	13 305

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 2013, the contractual value of the forward purchases of securities were HUF 147 434 million (on 31 December 2012 HUF 81 305 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 316 million on 31 December 2013 (on 31 December 2012 HUF 646 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 2012).

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 2013, and the following revaluation differences were recognized in the profit & loss until 31 December 2013:

2.12.1.2.2.1. Revaluation gain on derivatives

Figures in HUF m

Description	31 December 2012	31 December 2013	Impact of revaluation on profit
FX swap transactions	3 810	2 605	-1 205
Forward transactions	2 433	1 147	-1 286
Forward rate agreements	239	334	95
Interest rate swaps	765	696	-69
Total	**7 247**	**4 782**	**-2 465**

2.12.1.2.2.2. Revaluation loss on derivatives

Figures in HUF m

Description	31 December 2012	31 December 2013	Impact of revaluation on profit
FX swap transactions	3 100	5 857	2 757
Forward transactions	3 411	6 103	2 692
Forward rate agreements	328	372	44
Interest rate swaps	829	658	-171
Total	**7 668**	**12 990**	**5 322**

The aggregate impact of using fair valuation method for derivative transactions was HUF 7 787 million decrease in profit & loss on 31 December 2013 (as at 31 December 2012 the impact was HUF 13 273 million aggregate decrease).

2.12.2. Contingent and future receivables

2.12.2.1. Contingent receivables

Figures in HUF m

Description	31 December 2012	31 December 2013
Receivables subject to litigation	9	9
Total of contingent receivables	**9**	**9**

2.12.2.2. Future receivables

Figures in HUF m

Description	31 December 2012	31 December 2013
Spot transactions	95 660	225 108
Forward transactions	670 548	1 040 219
Security sale commitment	80 909	91 724
Assigned transactions	646	1 152
Forward rate agreements	128	335
Interest rate swaps	13 097	3 265
Term deposit placement	52 427	1 284
Total of future receivables	**913 415**	**1 363 087**

2.12.3. Other contingent assets and liabilities

Figures in HUF m

Description	31 December 2012	31 December 2013
Third party securities	892 250	665 427
Guarantee received	7 116	2 897
Securities received	152 553	156 620
Suspended interests	0*	16
Nominal value of FRA purchase	90 000	45 000
Nominal value of FRA sale	50 000	20 000
Nominal value of interest rate swaps	160 273	40 720

* 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	Treasury	Dematerialized	Printed
Deposited securities	645 161	645 141	0	20	644 977	184
Consignment securities	20 266	20 266	0	0	20 266	0
Total as at 31 December 2013	**665 427**	**665 407**	**0**	**20**	**665 243**	**184**
Total as at 31 December 2012	**892 250**	**890 117**	**1**	**2 132**	**843 788**	**48 462**

2.12.3.1.1. Third party securities deposited

Figures in HUF m

Type of security	Total nominal value	Place of storage				
		Clearing house	Third party premises	Treasury	Dematerialized	Printed
Foreign government bonds	2 373	2 373	0	0	2 373	0
Investment notes	393	393	0	0	393	0
Discount treasury bills	54 446	54 446	0	0	54 446	0
Corporate bonds	3 325	3 325	0	0	3 325	0
Debenture bonds	17 174	17 174	0	0	17 174	0
Hungarian government bonds	496 926	496 926	0	0	496 926	0
Shares	70 524	70 504	0	20	70 340	184
Total as at 31 December 2013	**645 161**	**645 141**	**0**	**20**	**644 977**	**184**
Total as at 31 December 2012	**884 307**	**882 174**	**1**	**2 132**	**835 850**	**48 457**

2.12.3.1.2. Third party securities on consignment

Figures in HUF m

Type of security	Total nominal value	Place of storage				
		Clearing house	Third party premises	Treasury	Dematerialized	Printed
Investment notes	5	5	0	0	5	0
Discount treasury bills	2 654	2 654	0	0	2 654	0
Hungarian government bonds	17 607	17 607	0	0	17 607	0
Total as at 31 December 2013	**20 266**	**20 266**	**0**	**0**	**20 266**	**0**
Total as at 31 December 2012	**7 943**	**7 943**	**0**	**0**	**7 938**	**5**

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 2012	31 December 2013
Cash	1 142	1 088
Securities	2 550	0
Assignment of receivables	9 695	8 793
Mortgages	31 798	46 739
Other securities (corporate guarantee)	102 770	96 399
Other securities	4 598	3 601
Total	**152 553**	**156 620**

2.12.3.3. Suspended interests

The Branch recorded suspended interest with value HUF 16 million on 31 December 2013 (The value of suspended interest was below HUF 1 million as at 31 December 2012.)

2.13. Revenues from and expenditures on investment services

Figures in HUF m

Description	31 December 2012	Reclassifi-cation	Adjusted 31 December 2012	31 December 2013
Revenues from investment services	**15 910**	**0**	**15 910**	**15 863**
Commissions on custody*	1 075	-416	659	416
Revenue from brokerage activities*	262	416	678	889
Revenue from securities trading	10 898	0	10 898	12 678
Fair value of revenue from securities held for trading	95	0	95	1
Revenue from interest rate swaps	2 405	0	2 405	1 087
Revenue from forward rate agreements	1 175	0	1 175	792
Expenditures on investment services	**36 719**	**0**	**36 719**	**30 586**
Commissions paid on custody	228	0	228	153
Expenditure on brokerage activities	262	0	262	173
Expenditure on securities trading	10 888	0	10 888	13 055
Fair value of expenditure on securities held for trading	0	0	0	46
Expenditure on foreign exchange forward transactions	21 515	0	21 515	15 090
Expenditure on interest rate swaps	2 485	0	2 485	1 081
Expenditure on forward rate agreements	1 341	0	1 341	988

* In 2013 the auction fees have been reclassified from 'Commissions on custody' to 'Revenue from brokerage activities'. Amounts for 2012 have been restated to ensure comparability.

2.14. Costs in a breakdown by operational expenses

Total costs show a 3% decrease in comparison with the previous year caused by a 7% decrease in total payments to personnel, a same level of material type expenditures and a 8% decrease in depreciation. The total personnel and material type of expenditures represent 40% and 57% proportion, while the depreciation takes 3%. Compared to 2012 the cost structure did not change significantly.

The 7% decrease of total payments to personnel was caused by the drop of the payroll costs and related social charges together with the payments to personnel. Decrease in total payments to personnel can be explained by the gradual reduction of custody business line as well as the strict headcount and payroll management.

The material type of expenditures remained approximately at the last year level due to the Branch's strict cost management policy, which aims at keeping the costs at the same level or to decrease them.

Depreciation dropped by 8% in comparison with 2012, since the net value of some assets amounted to zero in 2013. Within total costs the portion of depreciation is not significant.

Figures in HUF m

Description	31 December 2012	31 December 2013
Payroll	2 220	2 078
Payments to personnel	213	168
Social security and similar deductions	668	640
Total of payments to personnel	**3 101**	**2 886**
Material costs	84	75
Material type services used	687	632
Other services used	3 382	3 431
Other costs	9	8
Material type expenditures	**4 162**	**4 146**
Depreciation charge	**257**	**236**
Total costs	**7 520**	**7 268**

2.15. Extraordinary revenues and expenditures

Figures in HUF m

Description	31 December 2012	31 December 2013
Extraordinary revenues	**1**	**0***
Extraordinary expenditures	**1 002**	**452**
Donations, film sponsorship	1 000	451
Assumption of debt	1	0
Cancelled receivables	1	1

* value below HUF 1 million

2.16. Balance sheet structure

The balance sheet total of the Branch in the reporting period was HUF 590 billion, which represents a 65% increase compared to the balance sheet total of 31 December 2012. The majority of the assets are current assets (90%), mainly government securities and receivables from customers. Government securities represent 70% of the total assets, while proportion of receivables from customers reach 23%.

There were no long-term liabilities recorded in the Branch's books on 31 December 2013. The proportion of short-term liabilities is 92% out of the total liabilities. 51% of the balance sheet total are liabilities towards financial institutions, 38% are short-term deposits of customers.

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 2012	Assets 31 December 2013	Liabilities 31 December 2012	Liabilities 31 December 2013
FX (expressed in HUF)	150 398	117 657	125 395	353 540
HUF	205 927	472 312	230 930	236 429
Total	**356 325**	**589 969**	**356 325**	**589 969**

2.16.2. HUF denominated assets and liabilities

The value of HUF denominated assets increased by 129% (from HUF 206 billion to 472 billion) compared to 31 December 2012. The value of government securities increased significantly (from HUF 70 billion to 411 billion), 87% of the HUF denominated assets are government securities.

HUF denominated liabilities increased by 2% (from HUF 231 billion to 236 billion). Customer related balances sums up to 37% of the total.

2.16.3. FX denominated assets and liabilities

The value of FX denominated assets decreased by 21% (from HUF 150 billion to 118 billion). FX denominated lending to customers increased slightly compared to the year-end of 2012, while FX denominated interbank placements decreased significantly.

The value of the FX denominated liabilities increased significantly (from HUF 125 billion to 354 billion), because of the increase both in FX denominated interbank liabilities and FX denominated deposits from customers.

2.17. Highlighted items from the balance sheet

Figures in HUF m

Description	31 December 2012	31 December 2013
Liquid assets	76 417	19 798
Loans denominated in HUF*	37 665	20 602
Loans denominated in FX*	110 503	112 828
Interbank lending denominated in HUF*	7 164	9 914
Interbank lending denominated in FX*	30 494	1
Securities held for trading	70 083	411 306
Customer deposits denominated in HUF*	85 877	86 866
Customer deposits denominated in FX*	55 068	137 301
Interbank borrowings denominated in HUF*	60 058	76 260
Interbank borrowings denominated in FX*	62 581	213 505

* items arising from financial services

The balance sheet total increased significantly in 2013 compared to the preceding year and produced an effect both on 'Assets' and 'Liabilities' sides. The growth of the balance sheet total resulted in significant changes on both sides: Government securities' portfolio increased significantly on Assets' side, while increase of liabilities towards financial institutions and customers was predominating on Liabilities' side. The changes in the balance sheet structure were influenced by further five balance sheet lines in 2013: changes can be observed in liquid assets, receivables from financial institutions, receivables from customers and positive valuation difference on derivative deals under assets, while negative valuation difference on derivative deals under liabilities. The analysis of the balance sheet has been completed as per the listed and highlighted balance sheet lines.

The value of liquid assets were down to a quarter level and receivables from financial institutions were down to a third level. In 2013 the proportion of the previous two Assets' groups amounted to slightly 6% in the balance sheet total. The decrease of liquid assets is explained by the significant reduction in short-term money market placements contracted with National Bank of Hungary.

Government securities' portfolio held for trading increased by six times compared to the similar period of the last year showing that at the year-end the Branch preferred to place its assets into securities.

The activity in general corporate lending decreased by 10% in 2013 mainly due to a fall in short-term receivables. It is mainly explained by the significant reduction (45%) of overdrafts, while proportion of the loan portfolio increased slightly in 2013. The portion of foreign currency loans is still dominant within the loan portfolio and the portfolio is still considered to be stable.

Short-term interbank borrowings denominated in foreign currency increased significantly compared to last year' data, increased nearly to 3,5 times. HUF denominated liabilities to financial institutions increased slightly. Overall, liabilities towards credit institutions rose by more than two times at year-end of 2013.

Liabilities linked to financial services towards customers increased significantly, by 59% compared to the last year's data. The growth in deposits denominated in HUF was slight, while the increase in foreign currency denominated deposits was significant. Under liabilities toward customers the HUF denominated deposits represent lower ratio compared to foreign currency deposits. Our customers continue to prefer short-term deposits and current account deposits over long-term deposit facilities.

Considering the different sectors of the economy, our corporate customers mainly belong to the commercial, energy, human health and pharmaceutical sector similarly to the preceding years.

The revaluation difference on derivatives show considerable fluctuations in terms of composition and market rates of foreign exchange forward and swap transactions. At the end of 2013 compared to previous year, the positive valuation difference was decreased by 34%, while the negative valuation difference was increased by 69%, explained mainly by the higher number of open deals as at year-end.

Receivables and liabilities arising from financial services have not produced any effect on balance sheet structure as a consequence of the gradual reduction of Custody Management business line.

2.18. Profitability

The Branch's profit after tax as at 31 December 2013 shows a 84% decrease compared to the profit of the preceding year. Profitability was influenced by the following factors:

The net interest result decreased by 32%, which is explained by the 30% and 25% decrease in interest received and interest paid respectively. During 2013 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. In the course of 2013 the average balances of assets as well as liabilities did not change significantly compared to previous year.

Our dividends earned on shares amounted to HUF 28 million in 2013.

Our net commissions earned until 31 December 2013 amounted to HUF 4 432 million, which is nearly 79% higher than the gain from commissions in 2012 (HUF 2 480 million). Payment and Cash Management products and the outstanding results of Structured Finance business line led to a significant growth in revenue from commissions. Commissions in relation to Custody Management decreased by 39% compared to 2012 due to the gradual reduction of this business line's activity.

The loss from net result of financial services dropped by 40% 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. Within revenues and expenditures on investment services the proportion of securities trading is quite significant. From the sale of securities the Branch realized HUF 377 million loss in 2013 and HUF 9 million gain in 2012.

Other revenues from business operations decreased significantly, while other expenditures increased compared to previous year. One reason for the significant income reduction is that in 2012 certain one-off income items were recorded, in which did not occur in 2013. The transaction fees, which were put into force in 2013, as well as the one-off tax liability linked to the transaction fees, which was introduced in August 2013 resulted in the growth of expenditures.

General administrative costs decreased by 3% compared to the preceding period. Their detailed analysis can be found in the section on costs in a breakdown by operational expenses.

Extraordinary expenses decreased significantly compared to previous year: participation level in film sponsorship fell to more than half part compared to the previous year.

The Bank recorded HUF 2 487 million impairment loss with respect to doubtful receivables, which had further negative impact on the Branch's 2013 results.

2.19. Interest received by geographical region

Figures in HUF m

Description	Domestic	Within EU	Other	Total
Interest received on securities	16 879	0	0	16 879
Other interest received	5 961	804	56	6 821
Total as at 31 December 2013	**22 840**	**804**	**56**	**23 700**
Total as at 31 December 2012	**32 727**	**1 032**	**58**	**33 817**

2.20. Key indices

Description		31 December 2012	31 December 2013
Return on Equity (ROE)	Profit after tax / Shareholders' equity	18,8	2,9
Return on Assets (ROA)	Profit after tax / Total assets	2,3	0,2
Quick ratio	Liquid assets + securities / Current liabilities	48,9	32,5
Capitalisation ratio	Shareholders' equity / Total liabilities	12,2	7,4
Fixed asset ratio	Fixed assets / Total assets	16,5	9,5
Gross margin of fixed assets	Shareholders' equity / Fixed assets	74,5	78,1

3. Informative Notes

3.1. Data of employees

3.1.1. Number of employees

	31 December 2012	31 December 2013
Actual number of staff on 31 December	191	167
Annual statistical number of staff	207	180
- of which: part-time employees	10	12

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

Figures in HUF m

Description of employee group	31 December 2012	31 December 2013
Payroll costs of full-time employees	2 160	2 003
Payroll costs of part-time employees	60	75
Total	**2 220**	**2 078**

3.1.3. Other payments to personnel

Figures in HUF m

Description	31 December 2012	Reclassi-fication*	Adjusted 31 December 2012	31 December 2013
Meal, working clothes, relocation and vehicle cost reimbursement, allowances, travelling to and from work	29	0	29	22
Other payments (entertainment expenses, per diem, life insurance, etc.)	45	-39	6	6
Non-repayable support provided by employer	25	0	25	15
Fringe benefits	114	39	153	125
Total	**213**	**0**	**213**	**168**

* Since 2013 representation cost is qualified as non-cash benefit and within it as certain defined benefit, therefore it has been reclassified from 'Other payments' to 'Fringe benefits'.

Other information

Payments, advancements and loans to directors, supervisory board members and senior executives
As the Company operates as a branch, it does not have a Board of Directors and a Supervisory Board.

3.2. Items adjusting the corporate tax base

In 2013 the corporate tax base determined in the general ledger was reduced by HUF 1 211 million and increased by HUF 273 million to reach the corporate tax base in line with corporate tax act.

The corporate tax liability calculated for the year 2013 was HUF 58 million, of which HUF 439 million was paid in advance. The Branch supported film production in a value of HUF 450 million in 2013, of which the Branch could consider only HUF 134 million as tax-reducing item. The bank tax paid by the Branch amounted to HUF 854 million in the reporting period. In addition the Branch was subject to the credit institution tax in 2013, which amounted to HUF 662 million.

Pursuant to the decision of the owner, the full amount of the profit after tax 2013 was paid out as dividends.

Figures in HUF m

Description	31 December 2012	31 December 2013
Profit before tax	**10 157**	**2 187**
Items increasing the tax base	**351**	**273**
Provisions for future liabilities and expenses	0*	17
Amortization/depreciation in accordance with accounting law	337	246
Costs incurred outside the normal course of business	1	1
Penalties, fines	4	0
Costs identified by self-correction	9	9
Items reducing the tax base	**2 731**	**1 211**
Released provisions for future liabilities and expenses	763	26
Amortization/depreciation in accordance with corporate tax law	397	264
Dividends received	39	28
Donations to foundations	0*	1
Revenues identified by self-correction	16	38
Bank tax	1 516	854
Tax base	**7 777**	**1 249**
Corporate tax	1 433	192
Tax benefits	**1 000**	**134**
Film sponsorship	1 000	134
Paid tax in abroad	**0***	**0**
Corporate tax liability	**433**	**58**
Bank tax	1 516	854
Total tax liability	**1 949**	**912**
Profit after tax	**8 208**	**1 275**
General provision made and used	0	0
Dividends paid from retained earnings	0	0
Dividends approved	8 208	1 275
Profit for the year	**0**	**0**

* value below HUF 1 million

3.3. Cash Flow Statements

Figures in HUF m

		Description	31 December 2012	31 December 2013
1	+	Interest received	33 817	23 700
2	+	Revenues from other financial services	15 772	14 740
3	+	Other revenues	546	112
4	+	Revenues from investment services	13 366	14 882
5	+	Revenues from other than financial and investment services	4 132	2 995
6	+	Dividends received	39	28
7	+	Extraordinary revenues	1	0*
8	-	Interest paid	9 789	7 321
9	-	Expenditures on other financial services	562	421
10	-	Other expenditures	1 202	3 930
11	-	Expenditures on investment services	20 997	21 773
12	-	Expenditures on other than financial and investment services	4 037	2 787
13	-	General administrative expenses	7 520	7 268
14	-	Extraordinary expenditures	1 002	452
15	-	Tax liability	1 949	912
16	-	Dividends paid	8 208	1 275
17		**Operating cash flows** (Lines 01 to 16)	**12 407**	**10 318**
18	+ / -	Movements in liabilities	-13 304	229 944
19	+ / -	Movements in receivables	- 17 361	46 393
20	+ / -	Movements in stocks	3	5
21	+ / -	Movements in securities recorded under current assets	66 253	-341 268
22	+ / -	Movements in securities recorded under fixed assets	0*	0*
23	+ / -	Movements in investments	4	0
24	+ / -	Movements in intangible assets	35	-9
25	+ / -	Movements in tangible assets	187	75
26	+ / -	Movements in prepaid expenses and accrued income	641	-464
27	+ / -	Movements in accrued expenses and deferred income	365	-1 613
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	**49 230** -44 49 274	**-56 619** 1 -56 620

* value below HUF 1 million

3.4. Other

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

The amounts owed to the customers of the ING Bank N.V. 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 97(3) of Act CXII of 1996 on lending institutions and financial companies. Therefore, no payment was made into the Hungarian Deposit Guarantee Fund in the financial year.

The amounts owed to the customers of the ING Bank N.V. 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, 09 May 2014

Dr. István Salgó
Chief Executive Officer

Gyula Réthy
Chief Financial Officer

Management Report

December 31, 2013

ING

Economic environment

Following the 2012 recession, the performance of the Hungarian economy increased by 1.1 percent in 2013. The growth accelerated during the year, in the last quarter the progress reached 2.7% on a year-on-year basis. Behind the favorable tendencies there are one-off factors as well as trendlike effects. The added value of agriculture increased significantly, by 22 percent. Agricultural yield can be considered as average, however, due to the substantial harvest shortfall caused by the 2012 drought the year-on-year indicators show major growth. Although the share of agriculture is small compared to the economy as a whole, it contributed to its growth by 0.9 percent, meaning that more than 80 percent of the year-on-year increase is caused by this base effect. Another important contributor to the 2013 growth was the turnaround in construction industry. The break in the sector's declining trend lasting for several years was resulted by the evolution of the state road and railway construction works, thus the added value increased by nearly 7.5 percent. The weak performance of the industry in the first half of the year is related to the uncertain outlook of the western European economies, but as of the third quarter of the year the sector began to increase thanks to the automotive industry. The advantageous turn is also reflected by the trade balance statistics: massive export surplus continued to increase and reached HUF 7 billion on annual basis.

The moderate consolidation of the labor market continued, but was hidden by the unexpected expansion of the public work scheme. The increase of net real wages continued, thanks mainly to the salary increases of the public sector (introduction of teachers career model), changes of Personal Income Tax and the historically low inflationary environment. The growing purchasing power of the households was coupled with rising optimism, thus consumption and the service sector – which is extremely sensitive to internal demand - recovered in the second half of the year.

Budgetary deficit does not deviate remarkably from governmental expectations, but in order to achieve this, significant interim austerity adjustments had to be implemented. The structure of budgetary adjustments has a negative effect on long term growth, as extraordinary taxes imposed on some of the sectors have already reached 1.8 percent of GDP. The state debt stagnates at 80 percent level, causing major difficulties to the government to fulfill the regulation set by the Basic Law regarding the reduction of state debt. The government was able to finance itself from the market thanks to the favorable international mood and significant global liquidity, moreover it was capable to prepay its IMF loans.

The average inflation rate reached 1.7 percent last year meaning that the central bank has missed its 3 percent inflation target – this time by over performing. The moderate price increase can be explained by various factors. As last year's output has not reached its potential maximum, pricing decisions of domestic corporates were disciplined by demand constraints resulting in the low level of the so-called basic inflationary indices. Inflation rate was decreased by 1 percentage point on a year-on-year basis by the retail utility price cut efforts of the government, on the other hand the good year in agriculture contributed to the decrease of food prices. Thanks to the low inflation rate National Bank of Hungary continued its easing cycle: as a result, the rate declined to 3% by year end 2013 (the series continued in 2014 as well standing at 2.5 percent right now). The effect of monetary easing on longer tenor yields decreased, while the exchange rate depreciated in line with the melting interest rate differentials. The exchange rate volatility of the domestic currency considerably increased, and we expect this volatility to be sustained.

In order to boost corporate lending and accelerate economic growth, the National Bank of Hungary introduced other measures as well. The first phase of Funding for Growth Scheme closed in September providing inexpensive loans for the SME sector. More than HUF 700 billion was placed contributing remarkably to the stabilization of corporate lending portfolio and the repeated expansion of private investments.

Financial Results

ING Bank N.V. Hungary Branch closed its 2013 financial year with an after-tax profit of HUF 1 275 million, that significantly lags behind the more than HUF 8 billion result of the previous year.

Compared to the previous year, the significant drop in profit was a result of three factors, two out of these being one-off economic measures. At year-end the Bank had to create a loan loss of HUF 2,5 billion. The one-off transaction tax extra levied in the middle of the year deteriorated the result by further HUF 831 million. The third factor was the lower profit on ordinary activities, which was principally caused by the 43% fallback in incomes.

Interest margin of the Bank amounted to HUF 16 379 million, which is 32% lower compared to the previous year's level. As the result of the decreasing interest rates, margins narrowed, our net interest margin dropped back by HUF 7.6 million.

Net commissions and fees reached HUF 4 432 million 80% above last year's level. The increase can be explained by the transactions of Structured Finance business line.

Net loss on financial operations amounted to HUF 4 836 million: the loss is HUF 3.2 billion lower compared to last year's level and is attributable to the Bank's foreign currency trading result.

General administrative expenses decreased by 3% to HUF 7 032 million in accordance with the strict cost containment policy of the Bank. Personnel expenses decreased by 7%. The decline of personnel expenses can be explained by the strict control of headcounts and salary type of payments. Material type expenditures stagnated on the previous year's level.

The Balance Sheet Total of the Bank reached HUF 589 969 million at the end of 2013, exceeding the same figure of the previous year by 66%. The increase can be considered to be technical, taking into account that year-end balances do not represent the average annual balance sheet total figures. The average balance sheet total figure remained on last year's level; the balance sheet structure of the business lines and the composition of portfolios remained unchanged. Slight increase of deposits constantly improved the so called loan-to-deposit ratio.

Trading

The year 2013 (similar to 2012) was characterized by remarkable volatility. Extreme movements of the prices could be witnessed especially in the period between January and May. In the background the length of Hungary's interest rate decreasing path and the concerns of financing of the budget deficits of the countries on the European Union's periphery could be observed. Uncertainty around FED's asset purchasing program also influenced our markets. Revenues realized by the Trading activities remained below the level of 2012.

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

Financial and Capital Markets Sales

In 2013 FM 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 acquire only a few new clients from corporate and financial institution segments, at the same time strove for maintaining the existing customer base by organizing professional client trainings and seminars. The high volatility of FX-, money-, and capital markets and the unstable market environment resulted an increase in financial risks. Similar to 2012 the expectation from clients for the decrease of margins related to the treasury products became more intensive than ever before. At the same time competition strengthened among service providers targeting the same client base. The turnover of foreign exchange transactions and conversions at the bank's official rate showed stagnating tendency, providing a good base for a slow recovery. FM Sales encouraged their corporate clients to the mitigation of financial market risks, emphasizing the importance of measuring risks and choosing the appropriate financial solution.

There was a significant 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 interests, and the significant interest in certain foreign currency denominated government bonds.

Payment and Cash Management Services

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

ING Bank, as one of the forerunners of those European banks that are the main supporters of the Single Euro Payments Area (SEPA) initiative has played a decisive role in the implementation phase of SEPA. As the launch date of SEPA is approaching (February 2014 in the EUR zone, October 2016 in the European Economic Area) the development of region-wide operational system got to its final stage, and in accordance with the timing, our branch has also taken the appropriate steps during 2013.

Our list of services is continuously being expanded and modernized: in the course of 2013 a comprehensive project was launched in ING's regional network for the standardization of systems, rationalization of their costs and the development of their operational stability.

Corporate and Financial Institutions Lending

The whole of year 2013 was characterized by a stagnating lending portfolio that can be explained mainly with the processes of the economic environment.

At the same time the liquidity on the lending market has overall begun to increase, thanks to the Funding Growth Scheme of the National Bank of Hungary, resulting in the intensification of competition in all segments of the market and a slight decrease of interest spreads. The evolution of interest incomes reflect these impacts.

The currency distribution of the portfolio has not changed considerably. ¼ of the lending portfolio is denominated in HUF while the foreign currency denominated portfolio segment is dominated by EUR.

Structured Finance

Structured Finance business line closed a successful year in 2013.

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.

In the case of Advisory transactions (Corporate Finance) one transaction was successfully closed and the Bank managed to acquire new mandates as well.

Securities Services

Having analyzed its long term prospective ING decided in 2013 to give up its local custody business line in 7 CEE countries (Bulgaria, the Czech Republic, Hungary, Russia, Romania, Slovakia, and Ukraine) and transfer them to Citibank Europe plc, being part of Citigroup, one of the world's largest providers of custodian services.

The transfer of the business line has started following the approval of the authorities and the clients. The process is expected to be finalized in the second quarter of 2014.

Both assets under custody and fees received from Clients decreased and remained under the budgeted level as the consequence of this decision.

Credit, Market and Operational Risk Management

Since 2008 ING Commercial Banking Budapest Branch 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 main role of Integrated Risk Management continues to be to ensure compliance with local regulation, global ING policies and specific local procedures. Activity and operation of the Branch continued to stay in line with the strategy and risk appetite of ING Group during 2013 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 going 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 from our Amsterdam Head Office. The practice of using liquidity premium reflecting the effects of financial crisis remained unchanged in 2013, but still not applied for shorter than 1 year tenor. We continued to focus on the efficient management of counterparty and market risk management limits. These limits have been changing throughout 2013 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 2013. 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 2013 the Bank has created a significant, HUF 2.5 billion loan loss provision, but we have a good chance to be able to release the whole amount. Apart from this event at the end of 2013 loan losses and provisions related to the lending portfolio and counterparty risks were not significant.

Human Resources and Leadership Development

The Branch had 167 active employees on 31 December 2013. This means a 13.6% decrease compared to the end of 2012 level (191 employees) that can be explained by the head count rationalizing efforts on several areas among others by the close down of custody business line that was mentioned earlier. Four persons received regional promotions from the management of the Branch.

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

Budapest, 09 May 2014

István Salgó
Chief Executive Officer

Gyula Réthy
Chief Financial Officer