ING Bank N.V. Hungary Branch

Standalone Financial Statements in accordance with International Financial Reporting Standards as adopted by the European Union

31 December 2018

The English language version of the Financial Statements 2018 of ING Bank N.V. Hungary Branch is the non-certified translation of the original and official Hungarian Financial Statements and therefore it is considered solely to serve for information purposes only. The source of the 2018 English language Financial Statements is the Hungarian language version amended with the Independent Auditors' Report.

Contents

ING Bank N.V. Hungary Branch statement of financial position

as at 31 December

in HUF million	Notes	31 December 2018	31 December 2017
Assets			
Cash and balances with National Bank of Hungary	2	24 040	27 167
Securities	3	124 602	
Derivative financial assets	4	36 330	
Financial assets at fair value through profit or loss			
- trading assets	3		6 190
- derivatives	4		18 762
Available-for-sale financial assets	3		121 087
Loans and advances to banks	5	217 007	195 405
Loans and advances to customers	6	166 358	107 138
Current tax assets	29	549	411
Non-current assets held for sale	7	413	905
Property and equipment	8	394	370
Intangible assets	9	66	76
Deferred tax assets	28	111	57
Other assets	10	853	1 363
Total assets		**570 723**	**478 931**
Liabilities			
Securities trading liabilities	11	8 279	
Derivative financial liabilities	12	32 516	
Financial liabilities at fair value through profit or loss			
- trading liabilities	11		7 254
- derivatives	12		19 615
Deposits from banks	13	144 937	40 338
Customer deposits	14	324 375	356 728
Financial guarantees		11	18
Provisions		0	0
Current tax liabilities		0	0
Deferred tax liabilities	28	109	109
Other liabilities	15	13 763	9 904
Total liabilities		**523 990**	**433 966**
Equity			
Share capital		2	2
Capital reserves		43 643	43 643
Retained earnings		1 575	-692
Revaluation reserve		413	912
Other reserves		1 100	1 100
Total equity	16	**46 733**	**44 965**
Total liabilities and equity		**570 723**	**478 931**

Budapest, 27 May 2019

Tibor Bodor
Country Manager

Gyula Réthy
Chief Administration Officer

ING Bank N.V. Hungary Branch statement of total comprehensive income

for the year ended 31 December

in HUF million	Notes	2018	2017
Interest income		8 481	4 541
- *Interest income using effective interest rate method*		*2 672*	*2 579*
- *Other interest income*		*5 809*	*1 962*
Interest expense		-9 791	-5 166
Net interest income	17	**-1 310**	**-625**
Investment income	18	**248**	**6**
Commission income		5 613	4 951
Commission expense		-1 037	-687
Net commission income	19	**4 576**	**4 264**
Valuation results and net trading income	20	11 088	8 156
Other income	21	1 336	1 340
Total operating income		**15 938**	**13 141**
Addition to loan loss provisions	22	**-695**	**-267**
Staff expenses	23	-2 557	-2 734
Other operating expenses	24	-6 241	-5 617
Other expenditures	25	-4 595	-4 298
Total expenses and expenditures		**-13 393**	**-12 649**
Result before tax		**1 850**	**225**
Taxation	28	-569	-715
Net result		**1 281**	**-490**
Other comprehensive income			
Items that may subsequently be reclassified to the statement of profit or loss:			
Change in fair value of financial assests at FVOCI	7	**413**	**211**
Realised gains/losses transferred to the statement of profit or loss		**0**	**-35**
Total comprehensive income		**1 694**	**-314**

Budapest, 27 May 2019

Tibor Bodor
Country Manager

Gyula Réthy
Chief Administration Officer

ING Bank N.V. Hungary Branch statement of changes in equity

in HUF million	Share capital	Capital reserves	Retained earnings	Revaluation reserve	Other reserves	Total equity
Balance as at 1 January 2017	2	43 643	1 037	736	1 100	46 518
Current year net result without realised gains/losses			-525			-525
Other comprenensive income			35	176		211
Paid dividends			-1 239			-1 239
Balance as at 31 December 2017	**2**	**43 643**	**-692**	**912**	**1 100**	**44 965**

in HUF million	Share capital	Capital reserves	Retained earnings	Revaluation reserve	Other reserves	Total equity
Balance as at 1 January 2018	2	43 643	-692	912	1 100	44 965
Remeasurement due to IFRS 9 adoption			74			74
Restated balance as at 1 January 2018	2	43 643	-618	912	1 100	45 039
Realised gains/losses transferred to the statement of profit or loss			1 281			1 281
Other comprehensive income			912	-499		413
Paid dividends			0			0
Balance as at 31 December 2018	**2**	**43 643**	**1 575**	**413**	**1 100**	**46 733**

Budapest, 27 May 2019

Tibor Bodor
Country Manager

Gyula Réthy
Chief Administration Officer

ING Bank N.V. Hungary Branch statement of cash-flow

for the year ended 31 December

in HUF million		Notes	2018	2017
Cash flows from operating activities				
Result before tax			**1 850**	**225**
Adjusted for:	– depreciation and amortisation		141	143
	– addition to loan loss provision		695	267
	– addition to impairment of other assets		680	506
	– provision		0	-98
	– changes in fair value of financial assets and liabilities at fair value through profit or loss		-4 793	5 569
	realised fair value difference of available-for-sale financial assets		0	-35
Dividend income			-4	-6
Taxation paid			-623	-739
Changes in:	– loans and advances to banks		13 137	-7 135
	– financial assets at fair value through profit or loss		-10 260	21 664
	– loans and advances to customers		-59 752	2 545
	– other assets		-305	-1 436
	– deposits from banks		117 796	-22 543
	– financial liabilities at fair value through profit or loss		3 933	-1 553
	– customer deposits		-32 352	-34 202
	– other liabilities		3 853	6 740
Net cash flow from / (used in) operating activities		27	**34 901**	**-30 088**
Cash flows from investing activities				
Investments and advances:	– available for sale investments		76 615	6 320
	– financial assets at amortized cost		-91 065	0
	– acquisition of property, equipment and intangible assets		-161	-156
	– disposal of property, equipment and intangible assets		5	27
	– dividend income		4	6
Net cash flow from / (used in) investing activities			**-14 602**	**6 197**
Net cash flow from financing activities				
Dividends paid			**0**	-1 239
Net cash flow from / (used in) financing activities			**0**	**-1 239**
Net cash flow			**20 299**	**-25 130**
Cash and cash equivalents at the beginning of year			**182 410**	207 540
Cash and cash equivalents at the end of year			**202 709**	182 410
Changes in cash and cash equivalents		26	**20 299**	**-25 130**

Reference is made to Note 26 ‘Cash and cash equivalents’ and Note 27 ‘Cash flows from operating activities’.

Budapest, 27 May 2019

Tibor Bodor
Country Manager

Gyula Réthy
Chief Administration Officer

ING Bank N.V. Hungary Branch notes to the Standalone Financial Statements

Reporting entity

The founder of the Branch is ING Bank N.V. (seat: Bijlmerplein 888, 1102 MG, Amsterdam, Netherlands and was registered by the Registry of the Chamber of Commerce and Industry of Amsterdam under no. 33031431).

ING Bank Rt. was established in Hungary in 1991 by ING Bank N.V. 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. Company registration number: 01-17-000547.
Registered seat of the Branch is: Dózsa György út 84/B, 1068 Budapest
Website of the Branch is: https://www.ingwholesalebanking.hu

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 ING 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 endowment capital and the rest was other equity contribution. The endowment capital is presented as shared capital, while the other equity contribution is recorded as capital reserve in the books of the Branch. Since the merge the endowment capital and the capital reserve are unchanged.

The Branch does not have an obligation to prepare consolidated financial statements as at 31 December 2018.

The owner ING Bank N.V. Amsterdam fully includes in its consolidated financial statements prepared in compliance with the International Accounting Reporting Standards adopted by the European Union all shareholdings exceeding 50%. The Annual Report for the year 2018 is available at www.ing.com/Investor-relations/Annual-Reports.htm.

The owner of ING Bank N.V. Amsterdam, ING Groep N.V. Amsterdam includes our owner in its consolidated financial statements prepared in accordance with similar principles. The Annual Report for the year 2018 is available at www.ing.com/Investor-relations/Annual-Reports.htm.

ING Bank N.V. Amsterdam has fulfilled the instructions with respect to disclosure requirements, Part Eight stated in Regulation (EU) No 575/2013 on prudential requirements for credit institutions and investment firms by the 'Risk Management' chapter (pages 175 - 257) in Annual report 2018 and by the publication 'Capital Requirements Regulation (CRR) 2018 Remuneration Disclosure ING Bank N.V.', which can be found at http://www.ing.com/About-us/Corporate-Governance/Remuneration-1.htm

Accounting services
Person responsible for leading and managing the accounting tasks performed in the year 2018:

Hajnalka Vári	Szent Miklós útja 12/2/A, 2310 Szigetszentmiklós Registration number: 200781

Auditing of the 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 Financial Statements of the Branch are audited by:
KPMG Hungária Könyvvizsgáló, Adó- és Közgazdasági Tanácsadó Kft.

	Registered seat: Váci út 31, 1134 Budapest Company registration No.: 01-09-063183 Registered at the Chamber under No.: 000202
Auditor:	
Zsuzsanna Nagy	Fenyőerdő utca 20, 1028 Budapest Mother's name: Hevér Anna Registered at the Chamber under No.: 005421

Sign of the annual Financial Statements by:

Tibor Bodor	ING Bank N.V. Hungary Branch Country Manager & CEO Tulipán utca 3, 1022 Budapest
Gyula Réthy	ING Bank N.V. Hungary Branch Chief Administrative Officer Harmatcsepp utca 11, 1028 Budapest

Authorisation of the annual Financial Statements
The ING Bank N.V. Hungary Branch Financial Statements, as at and for the year ended 31 December 2018, were authorised by the delegated managers of the ING Bank N.V. with signing of Founder Resolution No. 1/2019.

Basis of preparation of the standalone Financial Statements
Current standalone Financial Statements of the ING Bank N.V. Hungary Branch are the first annual Financial Statements which have been prepared in accordance with International Financial Reporting Standards (IFRS). The Branch fulfills its annual reporting obligation under Act C of 2000 on Accounting ("Accounting Act") by compiling these separate financial statements in accordance with Section 9 / A of the Accounting Act.

IFRS as adopted by the EU are IFRS Standards and IFRS Interpretations as issues by the International Accounting Standards Board (IASB) and the IFRS Interpretations Committee (IFRIC).

The ING Bank N.V. Hungary Branch Financial Statements have been prepared on a going concern basis.

1. ACCOUNTING POLICIES

The Branch has consistently applied its accounting policies to all periods presented in these standalone Financial Statements except for changes in IFRS 9 that became effective in 2018.

1.1. Changes in IFRS effective in 2018

Current Financial Statements contain changes in IFRS effective in 2018.

1.1.1. IFRS 9 „Financial instruments"

In July 2014, the International Accounting Standards Board (IASB) issued the final version of IFRS 9 Financial Instruments, which was adopted by the EU in November 2016. IFRS 9 effective for annual periods beginning on or after 1 January 2018 is permitted.
The Branch applied retrospectively the classification, valuation and impairment requirements of IFRS 9 with effect after 1 January 2018 by adjusting the opening balance sheet and equity on 1 January 2018.so the differences in the carrying amounts of financial assets and financial liabilities resulting from the adoption of IFRS 9 are recognised in retained earnings and reserves as at 1 January 2018. Accordingly, the information presented for 2017 does not reflect the requirements of IFRS 9 and therefore is not comparable to the information presented for 2018 under IFRS 9.

The new standard introduces fundamental changes in the accounting for financial assets and, in some respects, in the accounting for financial liabilities.
The transition to IFRS 9 has resulted in the following main changes in the accounting policies of the Branch in respect of financial instruments:

Classification of financial assets and liabilities
IFRS 9 includes three main classification categories of financial assets: measured at amortised cost (AC), measured at fair value through other comprehensive income (FVOCI) and measured at fair value through profit or loss (FVPL). IFRS 9 adopts a new classification and valuation approach for financial assets, which is dependent on the business model chosen, how the assets are managed by the Branch, and on the basis of the cash flow characteristics. The standard eliminates the categories held-to-maturity (HTM), loans and receivables (L&R) and available-for-sale (AFS) financial instruments existing under IAS 39. Under IFRS 9, for embedded derivative contracts, the host contract is a financial asset to be treated under the scope of the standard and can never be separated from the derivative. As a result, a hybrid financial instrument is fully evaluated at classification.
IFRS 9 largely retains the current IAS 39 requirements for the classification of financial liabilities.

Impairment of financial assets
IFRS 9 uses the expected credit loss (ECL) model as opposed to the IAS 39 (incurred loss) model. Significant consideration is needed to determine how changes in economic factors affect expected losses, which are presented as weighted probability) outcomes in the model.
The new impairment model must be applied to the assets measured at amortised cost and FVOCI, except for equity instruments, certain loans and financial guarantees.
Under IFRS 9, the Branch recognises credit losses earlier than under IAS 39.

Transition
Changes in accounting policies due to IFRS 9 have been applied by the Branch in view of the facts and circumstances existing at the date of initial application:

- Based on the facts and circumstances prevailing at the time of the initial application of IFRS 9, the Branch has determined the business model in which it holds its financial assets.
- designation of certain financial assets and financial liabilities as at fair value through profit or loss and derecognition (FVPL);
- designation of investments in certain equity instruments at fair value through other comprehensive income (FVOCI).

The following table reconciles the carrying amounts of financial instruments under IAS 39 to the carrying amounts under IFRS 9 on the day of transition to IFRS 9 on 1 January 2018:

Reconciliation of carrying amounts on the date of initial application of IFRS 9

In HUF millions	Notes	IAS 39	Reclas-sification	Re-measurement	IFRS 9
Cash and balances with National Bank of Hungary	C	27 167	0	26	27 193
Loans and advances to banks	C	195 405	0	35	195 440
Trading assets	B	6 190	-6 190	0	0
Available-for-sale financial assets	A	121 087	-121 087	0	0
Securities	A, B, C	n/a	127 277	-28	127 249
Derivative financial assets		18 762	0	0	18 762
Loans and advances to customers	C	107 138	0	41	107 179
Other assets		3 182	0	0	3 182
Total assets		**478 931**	**0**	**74**	**479 005**
Deposits from banks		40 338	0	0	40 338
Customer deposits		356 728	0	0	356 728
Trading liabilities		7 254	0	0	7 254
Derivative financial liabilities		19 615	0	0	19 615
Other liabilities		10 031	0	0	10 031
Total liabilities		**433 966**	**0**	**0**	**433 966**
Equity		44 965	0	74	45 039
Total equity		**44 965**	**0**	**74**	**45 039**
Total liabilities and equity		**478 931**	**0**	**74**	**479 005**

As a result of adoption of IFRS 9, the classification and measurement of the following portfolios has changed as of 1 January 2018:

A. The Available-For-Sale (AFS) investment portfolio was moved into a portfolio classified at Amortised Cost (AC) and the shares and participations were classified at equity instruments measured at fair value through other comprehensive income (FVOCI). Both portfolios are under 'Securities' in the Statement of financial position. The securities at amortized cost (AC) includes government bonds and Treasury-bills and their primary purpose is to provide appropriate liquidity structure and meet regulatory requirements.

B. For trading securities there was no change in valuation (measured at fair value through profit or loss under IAS 39 and IFRS 9 as well) so no adjustment was required in equity. In the statement of financial position, the portfolio of securities at fair value through profit or loss is also presented in 'Securities' balance sheet line as of January 1, 2018

C. Due to the impairment consideration of IFRS 9 the following balance sheet lines were remeasured: Cash and balances with National Bank of Hungary; Loans and advances to banks; Securities and Loans and advances to customers.

Classification and measurement of financial assets and financial liabilities on the date of initial application of IFRS 9 as at 1 January 2018

Classification and measurement of financial assets and liabilities on the date of initial application of IFRS 9 as at 1 January 2018					
2017 Classification	Original measurement under IAS 39	Original carrying value under IAS 39	New carrying amount under IFRS 9	New measurement under IFRS 9	2018 Classification
Cash and balances with National Bank of Hungary	Amortized cost	27 167	27 193	Amortized cost	Cash and balances with National Bank of Hungary
Loans and advances to banks	Amortized cost	195 405	195 440	Amortized cost	Loans and advances to banks
Trading assets	FVPL	6 190	6 190	FVPL	Securities
Available-for-sale assets	FVOCI	121 087	n/a	n/a	n/a
		n/a	10	FVOCI	Securities
		n/a	121 049	Amortized cost	Securities
Derivate financial assets	FVPL	18 762	18 762	FVPL	Derivate financial assets
Held-to-maturity fiancial assets	Amortized cost	0	0	n/a	n/a
Loans and advances to customers	Amortized cost	107 138	107 179	Amortized cost	Loans and advances to customers
Other assets	Amortized cost	3 182	3 182	Amortized cost	Other assets
Total assets		**478 931**	**479 005**		
Deposits from banks	Amortized cost	40 338	40 338	Amortized cost	Deposits from banks
Customer deposits	Amortized cost	356 728	356 728	Amortized cost	Customer deposits
Trading liabilities	FVPL	7 254	7 254	FVPL	Securities trading liabilities
Derivative financial liabilities	FVPL	19 615	19 615	FVPL	Derivative financial liabilities
Other liabilities	Amortized cost	10 031	10 031	Amortized cost	Other liabilities
INTotal liabilities		**433 966**	**433 966**		
Equity		44 965	45 039		Equity
Total liabilities and equity		**478 931**	**479 005**		

Classification of financial instruments as at 31 December 2018				
in HUF millions	FVPL	FVOCI	Amortized cost	Total
Cash and balances with National Bank of Hungary	0	0	24 040	**24 040**
Loans and advances to banks	0	0	217 007	**217 007**
Derivate financial assets	36 330	0	0	**36 330**
Securities	13 658	10	110 934	**124 602**
Loans and advances to customers	0	0	166 358	**166 358**
Financial assets	**49 988**	**10**	**518 339**	**568 337**
Deposits from banks	0	0	144 937	**144 937**
Customer deposits	0	0	324 375	**324 375**
Securities trading liabilities	8 279	0	0	**8 279**
Derivative financial liabilities	32 516	0	0	**32 516**
Financial liabilities	**40 795**	**0**	**469 312**	**510 107**

Classification of financial instruments 31 December 2017				
In HUF millions	FVPL	AFS	Amortized cost	Total
Cash and balances with National Bank of Hungary	0	0	27 167	**27 167**
Loans and advances to banks	0	0	195 405	**195 405**
Trading assets	6 190	0	0	**6 190**
Derivative financial assets	18 762	0	0	**18 762**
Available-for-sale assets	0	121 087	0	**121 087**
Held-to-maturity fiancial assets	0	0	0	**0**
Loans and advances to customers	0	0	107 138	**107 138**
Financial assets	**24 952**	**121 087**	**329 710**	**475 749**
Deposits from banks	0	0	40 338	**40 338**
Customer deposits	0	0	356 728	**356 728**
Trading liabilities	7 254	0	0	**7 254**
Derivative financial liabilities	19 615	0	0	**19 615**
Financial liabilities	**26 869**	**0**	**397 066**	**423 935**

The following table shows the effects of the reclassification and remeasurement of financial assets from IAS 39 categories into AC under IFRS 9.

Effect of reclassification from AFS to AC	
In HUF millions	31 December 2018
Fair value at 31 December 2018	111 088
Fair value gain that would have been recognized during the year ended 31 December 2018 in OCI if the financial assets had not been reclassified	74

Impairment

Impact on impairment of IFRS 9 transition				
In HUF millions	IAS 39 loan loss provision	IFRS 9 impairment stages	Remeasurement	IFRS 9 – Estimated credit loss (ECL) 01 January 2018
Collective impairment (IBNR)	206	Stage 1 – 12 month ECL	-65	122
		Stage 2 – lifetime ECL	-6	13
Individual impairment (ISFA)	1 415	Stage 3 – lifetime ECL	8	1 423
Simplified method	16		0	16
Összesen	**1 637**	**Total**	**-63**	**1 574**

The table includes an adjustment of HUF 39 million for impairment recognised on securities reclassified from available-for-sale financial assets under IAS 39 to financial assets measured at amortised cost under IFRS 9 at the date of transition. As of 1 January 2018, the amount of impairment of off-balance sheet liabilities included in Stage 1 was HUF 21 million.

IFRS 9 impact on Equity of Hungary Branch

IFRS 9 Impact on Equity	
In HUF millions	01 January 2018
Loan loss provision	102
Impairment of securities transferred from AFS to HtC portfolio	-39
Reclassification of securities transferred from AFS to HtC portfolio	11
Total impact	**74**

1.1.1. IFRS 15 Revenue from sales contracts

The IFRS 15 Revenue from sales contracts is effective from 1 January 2018, replacing the previous IAS 18 Revenue and IAS 11 Investment contracts and interpretations related to these standards. Under the terms of this standard, some contracts may contain elements that are within the scope of another standard (IFRS 9 Financial instruments). In such case, firstly necessary to separate the items that are within the scope of another standard and then apply the requirements of IFRS 15 to the other items. The IFRS 15 standard also introduces a five-step approach to revenue recognition that recognises revenue when the agreed performance obligations are met. Revenue should either be recognised at a point-in-time or over-time depending on the service being delivered to the customer.

The entry into force of the IFRS 15 standard only affects net commissions and does not affect for calculation and accounting method, so only new disclosure requirements apply to the Branch.

1.2. Expected changes in IFRS after 2019

Changes to IFRS effective in 2019 and onwards expected to have no significant impact on ING Bank
The following published amendments are not mandatory for 2018 and have not been early adopted by the Branch. The Branch is still currently assessing the detailed impact of these amendments, however the implementation of these amendments is expected to have no significant impact on the standalone financial statements.

List of upcoming IFRS changes, from which not all are applicable for the Branch.

Effective in 2019 (* - endorsed by EU, others not yet endorsed by the EU):
- * IFRIC 23 'Uncertainty over Income Tax Treatments'
- * Amendment to IFRS 9 Financial instruments - prepayment features - negative compensation,
- * IFRS 16 Leases,
- IAS 12 Income taxes,
- Amendments to IAS 19 'Employee Benefits': Plan Amendment, Curtailment or Settlement
- Amendments to IAS 28 'Investments in Associates and Joint Ventures
- Annual improvements cycle 2015-2017
- Completion of the conceptual framework of IFRSs
- Amendments to IFRS 3 Business combinations
- Amendments to IAS 1 and IAS 8, definition of Material
- IFRS 17 Insurance contracts

Entry into force in 2020 (* - endorsed by EU, others not yet endorsed by the EU):
- Amendments to References to the Conceptual Framework in IFRS Standards

Major new IFRSs

1.2.1. IFRS 16 Leases

IFRS 16 Leases was issued by the IASB in January 2016 and endorsed by the European Union in October 2017. IFRS 16 Leases replaces the following standards and interpretations:
- IAS 17 Leases;
- IFRIC 4 Determining whether an agreement contains a lease;
- SIC-15 Operational lease - incentives; and
- SIC-27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease.

ING Bank N.V. Hungary Branch applies IFRS 16 for annual reporting periods beginning on 1 January 2019.
The new standard introduced a fundamental change for lessees, as it no longer distinguishes between operating and financial leases. The standard requires all leases to be included in the statement of financial position, but the enterprise may elect not to apply this requirement to short-term leases (up to 12 months lease term) and those with a low value underlying asset.

A lessee is required to recognise a right-of-use asset representing its right to use the underlying leased asset and a lease liability representing its obligation to make lease payments.
The standard permits a lessee to choose either a full retrospective or a modified retrospective transition approach. ING Bank N.V. Hungary Branch has chosen the latter option. Furthermore, the standard provides opportunity for some practical expedients and exemptions, of which the followings have been used by ING Bank N.V. Hungary Branch:
- at the date of initial application, an entity need not, as a practical matter, reassess whether the contract is, or contains, a lease;
- it is not obliged to make adjustments on leases for which the underlying asset is of minor value on conversion;
- the lessee may choose to apply the same discount rate to the portfolio of leases with fairly similar characteristics;
- the lessee may decide not to recognise a lease liability or an underlying asset in its financial statements for leases that expire within 12 months after the date of initial application (less than HUF 1 million at the date of transition).

From the lessor's perspective, there are no significant changes to the standard.

At the date of initial application, ING Bank N.V. Hungarian Branch uses as an incremental borrowing rate the average interest rate on loans to non-financial corporations, which data by time series is published by the MNB.
The difference between future lease payments discounted by the incremental borrowing rate on operational lease under IAS 17 and leasing liabilities recognised under IFRS 16 is attributable to the effects of short-term and low-value underlying leases at the date of initial application.

Impact of IFRS 16 on the Bank's Financial Statements on 1 January 2019:

Impact of transition to IFRS 16	
in HUF million	1 January 2019
Right-of-use assets	401
Net investment in leasing	9
Lease liability	406

1.3. Significant judgements, critical accounting estimates and assumptions

The preparation of the standalone financial statements requires management to make judgments in applying its accounting policies and making estimates and assumptions. These estimates and assumptions affect the reported amounts of assets, liabilities and contingent liabilities at the balance sheet date, as well as reported income and expenses for the year. The actual figures may differ from these estimates. The process of setting assumptions depends on internal control procedures and approvals.

The Branch has identified areas where management must make significant decisions and apply critical accounting estimates and assumptions based on information and financial data that may change in the future. These areas are:
- Estimating the fair value of financial assets and liabilities (Note 1.11);
- Impairment losses on loans (Note 1.8); and
- Provisions (Note 1.17).

For further discussion of the significant judgements and critical accounting estimates and assumptions in these areas, reference is made to the relevant parts in section 1.4. 'Principles of valuation and determination of results'.

1.4. Principles of valuation and determination of results

Financial statements are basically prepared taking into consideration the original cost, excepting the below cases:
- Derivative financial instruments are evaluated on a fair value basis,
- Financial assets and liabilities measured a at fair value through profit or loss are presented at fair value,
- Government bonds and treasury bills, which were presented as available-for-sale financial assets in 2017, have classified securities measerued at amortised cost in standalone financial statements of the Branch since 1 January 2018. Other financial assets, which were presented as available-for-sale financial assets in 2017 as well, have classified financial assets measerued at fair value through other comprehensive income in the Statement of financial position.

All other financial assets and liabilities and all non-financial assets and liabilities are presented at amortised cost or at original cost in the financial statements of the Branch.

1.5. Foreign currency conversion

Functional and presentation currency
Functional currency and presentation currency of the Financial Statements of the Branch is Hungarian Forint.

Transactions and balances
Foreign currency transactions are translated into the functional currency using the exchange rate of National Bank of Hungary prevailing at the date of the transactions. Exchange rate differences resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the statement of profit or loss.
Exchange rate differences on non-monetary items, measured at fair value through profit or loss, are reported as part of the fair value gain or loss. Non-monetary items are retranslated at the date fair value is determined.
In the total comprehensive income statement, exchange rate differences are generally recognized between 'Valuation income and net trading income'. See additional note 20, 'Valuation result and net trading income', line for a presentation of the amounts recognized in the statement of total comprehensive income.

1.6. Recognition and derecognition of financial instruments

Presentation of financial assets
Ordinary purchase and sale of financial assets is a purchase and sale that represents a delivery within a period specified by regulation or market convention ('normal' purchase and sale), that is, settlement on the trade date, which is the date when the Branch undertakes to purchase or sell the asset. Loans and receivables are settled on the settlement date, which is the date on which the Branch or transfers the asset.

At initial recognition, the Branch measures all financial assets and financial liabilities at their fair value plus or minus, - in case of a financial asset or financial liability, which are not measured at fair value through profit or loss -, transaction costs that are directly attributable to the acquisition or issue of the financial asset or financial liability.

The best evidence of the fair value of a financial instrument at initial recognition is usually the transaction price (that is, the fair value of the consideration given).
If the Branch determines that fair value at initial recognition differs from the transaction price and that fair value has not been demonstrated at a quoted price in an active market for the same asset or liability, nor it is based on a valuation technique that uses data from observable markets only, a financial instrument is measured initially at fair value by adjusting and deferred it for any difference between the fair value at initial recognition and the transaction price. After initial recognition, the difference is recognized in profit or loss on an appropriate basis over the life of the instrument, but not later than when the valuation is fully supported by observable market data or the transaction is closed. If fair value can be based on quoted prices in an active market for the same asset or liability or is based on a valuation technique that uses only data from observable markets, the Branch accounts the difference between the transaction price and fair value initially recognized in profit or loss.

ING Bank provides personal loans to its employees at a more favorable interest rate than the market rate, and until 2013 it also provided mortgage loans. Transactions are measured at amortised cost using the effective interest rate method less provision for impairment.
As both types of loans have a more favorable interest rate than market interest rates, an initial fair value difference is recognised on initial recognition and on transition to IFRSs, which is recognised in profit or loss among the Interest income and Personnel related expenses as employee benefits.

Derecognition of financial assets
A financial asset is derecognised when the right to receive cash flows from the financial asset has expired or when the Branch has transferred substantially all the risks and rewards of ownership. If the Branch has not transferred or holds substantially all the risks and rewards of owning a financial asset, it will derecognise the financial asset when it no longer has control of the asset.

When a financial asset is derecognised, the difference between the carrying amount of the asset (or the carrying amount assigned to the derecognised portion) and the consideration received is recognised in profit or loss.

If the contractual terms of the financial assets are modified, the Branch will examine whether the cash flows from the modified financial asset are materially different from the cash flows of the financial asset before the change. If the cash flows are materially different, then the Branch will consider the contractual rights to the cash flows from the original financial instrument expired. Such an adjustment is accounted for as the termination of the original financial asset and the recognition of a new financial asset.

The cash flows from the modified financial assets are considered by the Branch to be materially different from the cash flows before the modification if the remaining cash flows after the modification (including any contract modification fees paid less any contract modification fees received) if the original (or, in the case of instruments with variable interest rate) present value discounted at the current effective interest differs by at least 10% from the present value of the remaining cash flows before the modification discounted at the interest rate stated above.
In all cases, the Branch considers a contract modification to be terminated when the interest rate is changed from a fixed variable or a variable to a fixed rate, or when the currency of a financial instrument is changed (qualitative criteria for derecognition).

If the cash flows from the modified financial asset measured at amortised cost are not materially different from the contractual cash flows before the modification, and derecognition is not required by the qualitative criteria above, the modification does not result in derecognition of the original financial asset. In this case, the Branch recalculates the gross carrying amount of the financial asset (as the present value of the cash flows after the modification calculated at the original effective interest rate) and recognizes the difference between the new carrying amount and the gross carrying amount before the modification as a gain or loss in profit or loss.
Any charges or fees incurred by or at the Branch during the modification are included in the profit/loss of the modification.

Presentation of financial liabilities
Financial liabilities are recognised on the date that the Branch becomes a contractual partner in the contractual terms of the instrument.

Derecognition of financial liabilities
Financial liabilities are derecognised from the statement of financial position when the contractual obligation has been fulfilled, cancelled or expired. The difference between the carrying amount of the financial liability and the consideration paid is recognised in the income statement.

The Branch also considers termination if the contractual terms of a financial liability have changed and the cash flows from the modified financial liability are materially different from the cash flows before the modification. The cash flows from the modified financial liabilities are considered by the Branch to be materially different from the cash flows before the modification if the remaining cash flows after the modification (including any contract modification fees paid less any contract modification fees received) if the original (or, in the case of instruments with variable interest rate) present value discounted at the current effective interest differs by at least 10% from the present value of the remaining cash flows before the modification discounted at the interest rate stated above.

In that case, when the above mentioned criteria is not met, the Branch treats the contract modification as a termination even if the interest is changed from a fixed variable or a variable to a fixed rate, or if the currency of the obligation is changed (qualitative criteria for derecognition). In this case, the Branch recognises a new financial liability that meets the modified terms and conditions at fair value. The Branch recognises the difference between the carrying amount of the financial liability that has been terminated and the carrying amount of the new, modified financial liability is recognised in the profit or loss.

If the cash flows from the modified financial liability are not materially different from the contractual cash flows before the modification, and the derecognition is not required by the above qualitative criteria, the modification does not result in the derecognition of the original financial liability. In this case, the Branch recalculates the amortised cost of the financial liability (as the present value of the cash flows after the modification calculated at the original effective interest rate) and recognizes the difference between the new carrying amount and the gross carrying amount before the adjustment as a gain or loss in profit or loss. Any fee or expense of the adjustment will change the effective interest rate and the amortised cost of the financial liability and will be amortised to profit or loss over the remaining term of the liability.

1.7. Classification and valuation of financial instruments

1.7.1. Accounting policies in effect after 01.01.2018

On initial recognition, the Branch classifies financial assets at amortised cost, at fair value through other comprehensive income or at fair value through profit or loss.

The Branch measures its financial assets at amortised cost if both of the following conditions are met:
- the financial asset is held on the basis of a business model designed to hold financial assets for the purpose of collecting contractual cash flows; as well as
- the contractual terms of the financial instrument give rise to cash flows that, at specified dates, are solely payments of principal and interest on the outstanding principal (hereinafter: 'SPPI').

The Branch measures its investments at fair value against other comprehensive income if both of the following conditions are met:
- the financial asset is managed on the basis of a business model that achieves its purpose by collecting contractual cash flows and selling financial assets; as well as
- the contractual terms of the financial instrument give rise to cash flows that, at specified dates, are solely payments of principal and interest on the outstanding principal.

On initial recognition, the Branch may irrevocably choose to recognise subsequent changes in the fair value of investments in equity instruments that are otherwise measured at fair value through profit or loss in other comprehensive income. The Branch makes this decision separately for each instrument (that is, per share).

All other financial assets are classified by the Branch at fair value through profit or loss.

In addition, the Branch may irrevocably designate a financial asset at fair value through profit or loss upon initial recognition if it eliminates or significantly reduces a valuation or presentation inconsistency (also called mismatch).

1.7.1.1. A business model for managing financial assets

The business model of the Branch is defined at the portfolio level because it most closely reflects how financial groups are managed together to achieve a specific business objective and management also receives information about financial assets at that level. When defining a business model, the Branch considers the following information:
- portfolio goals and regulations and their practical implementation. In particular, the management's strategy focuses on realising contractual interest income, maintaining a certain interest rate risk profile, aligning the maturity of financial assets and the financial liabilities financing these assets, or realizing cash flows from the sale of assets;
- how they evaluate the performance of the business model and the financial assets held under the business model and how they report to key management positions within the Branch;
- the risks affecting the performance of the business model (and its financial assets based on the model), and in particular the way in which those risks are managed;
- how executives are remunerated (for example, that remuneration depends on the fair value of assets managed or contractual cash flows collected);
- the frequency, volume and timing of sales in prior periods, the reasons for the sales, and expectations about future sales. However, sales alone do not determine the business model and therefore cannot be examined separately. Rather, information about past

sales and expected future sales is evidence of how the entity's stated objective of managing its financial assets is being met and, more specifically, how cash flows are being realised. When evaluating information on past sales, the Branch will consider the reasons for the sales and the terms at the time of sale (as compared to current terms).

The portfolio of financial assets that the Branch manages at fair value and the performance of which is measured at fair value is not held for the purpose of collecting contractual cash flows, nor for the purpose of collecting contractual cash flows and selling financial assets.

1.7.1.2. Assessing of contractual cash flows

For the purpose of assessing whether a contractual term of a financial instrument gives rise to cash flows that are solely payments of principal and interest on the principal outstanding at a given date, principal is the fair value at the initial recognition of the financial instrument. Interest includes the consideration of the time value of money, the credit risk associated with the principal outstanding over a period of time, and other key credit risks and costs (such as liquidity risk and administrative costs) as well as the profit margin.

The Branch analyses the contractual terms of the financial instrument to determine whether they result in cash flows that are solely payments of principal and interest on outstanding amounts, that is, consistent with the terms of a basic loan agreement. This also includes evaluating whether the financial instrument has a contractual term that may change the timing or amount of the contractual cash flows and the contractual cash flows that may be collected over the life of the financial instrument under this contractual term exclusively and payments of interest on outstanding amounts of principal. In assessing this, the Branch considers the following:

- contingent events that may change the amount and timing of cash flows;
- leverage;
- early repayment and prologing terms;
- conditions limiting the claim of the Branch to certain assets of the debtor or to cash flows arising from certain assets (e.g., non-enforceable financial assets in case of default); and
- conditions that change the time value of the money - for example, when the interest rate on a financial instrument is reassessed at regular intervals.

1.7.1.3. Reclassifications

The Branch will only reclassify its affected financial assets if and when it changes its business model for managing financial assets.

If the Branch reclassifies its financial assets, it applies the reclassification from the date of reclassification to the future. The Branch does not reassess previously recognised gains, losses (including impairment losses) and interest.

1.7.1.4. Financial assets at amortised cost

The Branch presentes securities measured at amortised cost that are intended to collect contractual cash flows and such financial assets generate cash flows that are due at a specific date and are solely related to principal repayments and interest payments. Securities that are measured at amortised cost are initially recognised at cost. The annual amortisation of the premium/discount recognised in interest income. Securities measured at amortised cost include treasury bills and government bonds issued by the Hungarian State.

Certain categories of 'Cash and balances with National Bank of Hungary', 'Loans and advances to banks', 'Loans and advances to customers' and 'Other assets' include financial assets that are initially recognised at fair value plus transaction costs. Subsequently, they are measured at amortised cost using the effective interest rate method, less provision for impairment. Interest income on these financial assets is recognised in the income statement under Interest income using the effective interest method.

1.7.1.5. Securities valued at fair value through other comprehensive income (‘FVOCI securities’)

Equity securities and participations are stated at fair value through other comprehensive income and are subsequently measured at fair value in the statement of financial position after 1 January 2018.

1.7.1.6. Financial assets and liabilities at fair value through profit or loss

Financial assets at fair value through profit or loss include debt securities and derivatives and are classified as held for trading and derivative financial assets. Financial liabilities at fair value through profit or loss include the following categories: financial liabilities held for trading and financial derivatives.

A financial asset or liability is designated as a financial asset or liability at fair value through profit or loss if the primary purpose of its acquisition is short-term sale or is designated as such by management. Management may decide to classify a financial asset or liability only if it eliminates the inconsistency of the valuation or if the related assets and liabilities are measured at fair value.

Initial transaction costs of financial assets and liabilities measured at fair value through profit or loss are recognised in profit or loss. Interest income and expense on financial instruments at fair value through profit or loss are presented in ‘Net interest income’, changes in fair value and realised income in ‘Valuation results and net trading income’.

For derivative transactions, see Section 1.12. ‘Derivatives and hedge accounting’.

1.7.1.7. Financial liabilities measured at amortised cost

Sub-categories of financial liabilities at amortised cost are as follows: ‘Deposits from banks’ and ‘Customers deposits’.

Financial liabilities measured at amortised cost are initially recognised at proceeds (less the fair value of the consideration received) less any transaction costs incurred. Liabilities in this category are subsequently measured at amortised cost, with any difference between the proceeds reduced by the transaction costs and the recoverable amount being recognised in profit or loss over the term of the obligation using the effective interest method.

1.7.2. Accounting policy applicable prior to 01.01.2018

For periods prior to 1 January 2018, IAS 39 was effective for financial instruments. In the report for the 2018 financial year, comparative information is presented in accordance with IAS 39 (the Branch adjusted the effect of IFRS 9 in equity on 1 January 2018).

1.7.2.1. Financial assets and liabilities at fair value through profit or loss

Financial assets are measured at fair value through profit or loss include debt securities and derivatives and are classified into the following categories: financial assets held for trading and financial derivatives. Financial liabilities at fair value through profit or loss include the following categories: financial liabilities held for trading and financial derivatives.

A financial asset or liability is designated as a financial asset or liability at fair value through profit or loss if the primary purpose of its acquisition is to sell short-term or when management designates it as at fair value through profit or loss. Management may decide to classify a financial asset or liability only if it eliminates a valuation inconsistency or if the related assets and liabilities are valued at fair value.

Initial transaction costs of financial assets and liabilities measured at fair value through profit or loss are recognised in profit or loss. Interest income and expense on financial instruments at fair value through profit or loss are recognised in ‘Net interest income’, changes in fair value and realised income are recognized in ‘Valuation results and net trading income’.

1.7.2.2. Investments

Investments are classified either as held-to-maturity or available-for-sale. Investment debt securities where management has both the intent and the ability to hold to maturity are classified as held-to-maturity. Investment securities intended to be held for an indefinite period of time are classified as available-for-sale financial assets.

Available-for-sale financial assets
Available-for-sale financial assets include available-for-sale debt securities and available-for-sale equity securities. Available-for-sale financial assets are initially recognised at fair value plus transaction costs. Available-for-sale financial assets are subsequently measured at fair value. Interest income from debt securities classified as available-for-sale is recognised in ’Interest income’ in the statement of profit or loss. Dividend income from equity instruments classified as available-for-sale is recognised in ’Investment income’ in the statement of profit or loss when the dividend has been declared. Unrealised gains and losses arising from changes in the fair value are recognised in equity and are recycled to the statement of profit or loss as ’Investment income’ or as ’Valuation results and net trading income’.

Held-to-maturity investments
Non-derivative financial assets with fixed or determinable payments and fixed maturity for which the Branch has the positive intent and ability to hold to maturity and which are designated by management as held-to-maturity assets are initially recognised at fair value plus transaction costs. Subsequently, they are carried at amortised cost using the effective interest method less any impairment losses. Interest income from debt securities classified as held-to-maturity is recognised in 'Interest income' in the statement of profit or loss using the effective interest method.
There was no investment classified as held-to-maturity in the books of Hungary Branch.

1.7.2.3. Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are initially recognised at fair value plus transaction costs. Subsequently, they are carried at amortised cost using the effective interest method less any impairment losses. Loans and receivables include 'Cash and balances with National Bank of Hungary', 'Loans and advances to banks', 'Loans and advances to customers', and some categories of 'Other assets' and are reflected in these line items in the Statement of financial position. Interest income from loans and receivables is recognised in Interest income in the statement of profit or loss using the effective interest method.

1.7.2.4. Financial liabilities measured at amortised cost

Financial liabilities at amortised cost include the following sub-categories: 'Deposits from banks' and 'Customer deposits'.

Financial liabilities at amortised cost are recognised initially at their issue proceeds (fair value of consideration received) net of transaction costs incurred. Liabilities in this category are subsequently stated at amortised cost; any difference between proceeds, net of transaction costs, and the redemption value is recognised in the statement of profit or loss over the period of the liability using the effective interest method.

1.8. Impairment

1.8.1. Accounting policies in effect after 01.01.2018

The Branch recognises a loss for expected credit losses on the following financial assets not measured at fair value through profit or loss:
- debt instrument assets;
- lease receivables;
- issued financial guarantee contracts; and
- loan commitments issued.

The Branch does not recognise any impairment on equity instruments.

The implementation of IFRS 9 had a significant impact on ING Group's impairment methodology. The Expected Credit Loss (ECL) model is a forward-looking model. The ECL estimates are unbiased, probability-weighted, and include supportable information about past events, current conditions, and forecasts of future economic conditions. ING's ECL model reflects three macroeconomic scenarios via a baseline, up and down scenario, and include the time value of money. The model applies to financial asset measured at AC and FVOCI presened in statement of financial position such as loans, debt securities and lease receivables, as well as off-balance sheet items such as undrawn loan commitments, certain financial guarantees, and undrawn committed revolving credit facilities. Compared to the scope under IAS 39, the main change is the inclusion of off-balance sheet exposures and HtC&S financial assets. ING aligned the definition of credit impaired under IFRS 9 with the definition of default for prudential purposes.

ING Bank N.V.'s approach leveraged the existing regulatory capital models that use the Advanced Internal Ratings Based (AIRB) models for regulatory purposes. For other portfolios that use the Standardized Approach (SA) to calculate regulatory capital, ING developed new ECL models.

Three stage approach
ING Bank and the Hungary Branch will apply the IFRS 9 three stage approach to measure expected credit losses:
- Stage 1: 12 month ECL – No significantly increased credit risk.
  Financial instruments that have not had a significant increase in credit risk since initial recognition require at initial recognition a provision for ECL associated with the probability of default events occurring within the next 12 months (12 month ECL). For those financial assets with a remaining maturity of less than 12 months, a Probability of Default (PD) is used that corresponds to the remaining maturity.
- Stage 2: Lifetime ECL – Significantly increased credit risk
  In the event of a significant increase in credit risk since initial recognition, a provision is required for the lifetime ECL representing losses over the life of the financial instrument (lifetime ECL).
- Stage 3: Lifetime ECL – Defaulted
  Financial instruments that move into Stage 3 once credit impaired and purchases of credit impaired assets will require a lifetime provision.

Significant increase in credit risk

A financial asset moves from Stage 1 to Stage 2 when there is a significant increase in credit risk since initial recognition. ING Bank established a framework which incorporates quantitative and qualitative information to identify this on an asset level applying a relative assessment. Each financial asset will be assessed at the reporting date on the triggers for significant deterioration. ING Bank assesses significant increase in credit risk using:

- Delta in the lifetime default probability; ING determines the significant increases in risk of default during lifetime based on examining several factors mutually. These are the followings:
    i. Compare the lifetime PD with the PD figure at initial recognition and at the reporting date
    ii. From lifetime PD at the reporting date a PD is used that corresponds to the remaining maturity
    iii. Compare the relative and absolute PD from the examined data with the threshold PD figure of the industry
- Forbearance status; assessment of ability of repayment in case of restricted loans.
- Watch list status. Loans on the watch list are individually assessed for Stage 2 classification; Loans on the watch list not neccesarily restructured or under collection. These loans are individually assessed quarterly whether Stage 2 classification is needed or not; The performance measured based on the client's financial data and the compliance with the contractual terms are assessed during the quarterly review.
- Intensive care management; analise business behaviour of the client based on financial data and indications
- Internal rating (individual judgement)
- Arrears; more than 90 day-past-due, the past due amount more than 500EUR and exceed the 1% of the actual exposure
- More than 30 days past due for Stage 1 to Stage 2 classification.

The delta in lifetime probability of default is the main trigger for movement between Stage 1 and Stage 2. The trigger compares lifetime probability of default at origination versus lifetime probability of default at reporting date, considering the remaining maturity. Assets can move in both directions, meaning that they will move back to Stage 1 or Stage 2 when the Stage 2 or Stage 3 triggers are not applicable anymore (taking into considerations the regulatory probation periods). The stage allocation is implemented in the central credit risk systems.

Simplified approach

Contract assets and receivables are assets linked to income that is recognised based on IFRS 15, *Revenue from contracts with customers* (mainly, commission income). Such assets are presented as part of 'Other assets' in the balance sheet. For contract assets and receivables a simplified IFRS 9 approach to impairment testing is applied. Following this approach, the loan loss provision for these assets should always be measured at an amount equal to lifetime ECL. This simplification eliminates the need to calculate 12-month ECL and to assess when a significant increase in credit risk has occurred.

Rules of write-offs

The gross carrying amount of a financial asset has to be reduced when ING has 'no reasonable expectations of recovering' that financial asset. The write-off can relate to a portion of a financial asset or to a financial asset in its entirety. The assessment of whether ING has 'no reasonable expectations of recovering a financial asset' could be made at the level of an individual financial assets or a portfolio of financial assets depending on specific facts and circumstances (but taking into consideration the nature and credit characteristics of the financial assets).

Macroeconomic scenarios

ING Bank N.V. has established a quarterly process whereby forward-looking macroeconomic scenarios and probability weightings are developed for ECL calculation purposes. ING applies predominantly data from a leading service provider enriched with the internal ING view. To reflect an unbiased and probability-weighted ECL amount, a baseline, an up-scenario, and a down-scenario are determined. As a baseline scenario, ING applies the market-neutral view combining consensus forecasts for economic variables such as unemployment rates, GDP growth, house prices, commodity prices, and short-term interest rates. Applying market consensus in the baseline scenario ensures unbiased estimates of the expected credit losses.

The alternative scenarios are based on observed forecast errors in the past, adjusted for the risks affecting the economy today, and the forecast horizon. The probabilities assigned are based on the likelihoods of observing the three scenarios and are derived from confidence intervals on a probability distribution. The scenarios are adjusted on a quarterly basis.

As the inclusion of forward-looking macroeconomic scenarios requires judgement, a Macroeconomic scenarios team and a Macroeconomic scenarios expert panel were established. The Macroeconomic scenarios team is responsible for the macroeconomic scenarios used for IFRS 9 ECL purposes with a challenge by the Macroeconomic scenarios expert panel. This ensures that the macroeconomic scenarios are sufficiently challenged and that key economic risks, including immediate short term risks, are taken into consideration when developing the macroeconomic scenarios used in the calculation of ECL. The Macroeconomic scenarios expert panel is a diverse team composed of senior management representatives from the Business, Risk, Finance, and an external party.

Measurement

The calculation of IFRS 9 ECL leverages on ING Bank N.V.'s expected loss models (PD, LGD, EAD) currently used for regulatory capital, economic capital, and collective provisions in the current IAS 39 framework. These models are adjusted for 1) removal of embedded prudential conservatism (such as floors), 2) provide forward-looking point in time estimates based on macroeconomic predictions and 3) a 12 months or lifetime view of credit risk where needed. Lifetime features are default behaviour over a longer horizon, full behaviour after the default moment, repayment schedules and early settlements. For most financial instruments, the expected life is limited to the remaining maturity. For overdrafts and certain revolving credit facilities, such as credit cards, open ended assumptions are taken as these do not have a fixed term or repayment schedule.

To measure ECL, ING Bank N.V. applies a PD x EAD x LGD approach incorporating the time value of money. For Stage 1 assets a forward-looking approach on a 12 month horizon will be applied. For Stage 2 assets a lifetime view on the credit is applied. The Lifetime Expected Loss (LEL) is the discounted sum of the portions of lifetime losses related to default events within each time window of 12 months till maturity. For Stage 3 assets the PD equals 100% and the Loss Given Default (LGD) and Exposure At Default (EAD) represent a lifetime view of the losses based on characteristics of defaulted facilities.

1.8.2. Accounting policies before 01.01.2018

The Branch assesses periodically and at each balance sheet date whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred if, and only if, there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset, but before the balance sheet date, (a loss event) and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated. The following circumstances, among others, are considered objective evidence that a financial asset or group of assets is impaired:

- The borrower has sought or has been placed in bankruptcy or similar protection and this leads to the avoidance of or delays in repayment of the financial asset;
- The borrower has failed in the repayment of principal, interest, or fees and the payment failure has remained unsolved for a certain period;
- The borrower has demonstrated significant financial difficulty, to the extent that it will have a negative impact on the expected future cash flows of the financial asset;
- The credit obligation has been restructured for non-commercial reasons. The Branch has granted concessions, for economic or legal reasons relating to the borrower's financial difficulty, the effect of which is a reduction in the expected future cash flows of the financial asset; and
- Historical experience, updated for current events where necessary, provides evidence that a proportion of a group of assets is impaired although the related events that represent impairment triggers are not yet captured by the Bank's credit risk systems.

In certain circumstances ING grants borrowers postponement and/or reduction of loan principal and/or interest payments for a temporary period of time to maximise collection opportunities, and if possible, avoid default, foreclosure, or repossession. When such postponement and/or reduction of loan principal and/or interest payments is executed based on credit concerns it is also referred to as forbearance. In such cases, the net present value of the postponement and/or reduction of loan and/or interest payments is taken into account in the determination of the appropriate level of impairment loss as described below. If the forbearance results in a substantial modification of the terms of the loan, the original loan is derecognised and a new loan is recognised at its fair value at the modification date. The Bank determines whether there has been a substantial modification using both quantitative and qualitative factors.

Losses expected as a result of future events, no matter how likely, are not recognised.

The Branch first assesses whether objective evidence of impairment (a loss event/trigger) exists individually for financial assets that are individually significant, and then individually or collectively for financial assets that are not individually significant. If the Bank determines that no objective evidence of impairment (a loss event/trigger) exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in a collective assessment of impairment.

If there is objective evidence that an impairment loss on an asset carried at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account (loan loss provision) and the amount of the loss is recognised in the statement of profit or loss under 'Addition to loan loss provision'. If the asset has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor's credit rating), the previously recognised impairment loss is reversed by adjusting the provision. The amount of the reversal is recognised in the statement of profit or loss under 'Addition to loan loss provision'.

When a loan is uncollectable, it is written off against the related loan loss provision. Such loans are written off after all the necessary procedures have been completed and the amount of the loss has been determined. Subsequent recoveries of amounts previously written off are recognised in the statement of profit or loss.

Impairments on other debt instruments (Loans and held-to-maturity investments) are part of the loan loss provision as described above.

Significant judgements and critical accounting estimates and assumptions:

Considerable judgement is exercised in determining the extent of the loan loss provision (impairment) for financial assets assessed for impairment both individually and collectively. Judgement is exercised in management's evaluation of whether there is objective evidence that an impairment loss on an asset has been incurred, the risk in the portfolio, current economic conditions, loss experience in recent years and credit, industry, geographical, and concentration trends. Changes in such judgements and analyses may lead to changes in the loan loss provisions over time.

Hungary Branch estimates individual impairment provisions for individually significant financial assets that have objective evidence of impairment. The key judgement exercised in this area is determination of when an impairment event has occurred. Key assumptions in determining the amount of the individual provision are the expected future cash flows from the financial asset in question.

For the purposes of a collective evaluation of impairment, financial assets are grouped on the basis of similar credit risk characteristics. Those characteristics are relevant to the estimation of future cash flows for groups of such assets by being indicative of the debtors' ability to pay all amounts due according to the contractual terms of the assets being evaluated. The collective evaluation of impairment includes the application of a loss emergence period to default probabilities (also referred to as loss identification period). The loss emergence period is a concept which recognises that there is a period of time between the emergence of impairment triggers and the point in time at which those events are captured by the Bank's credit risk systems. Accordingly, the application of the loss emergence period ensures that impairments that are incurred but not yet identified are adequately reflected in the Bank's loan loss provision. Although the loss emergence periods are inherently uncertain, the Bank applies estimates to sub-portfolios (e.g. large corporations, small and medium size enterprises) that reflect factors such as the frequency with which customers in the sub-portfolio disclose credit risk sensitive information and the frequency with which they are subject to review by the Bank's account managers. Generally, the frequency increases in relation to the size of the borrower. Loss emergence periods are based on historical experience and are validated, and revised where necessary, through regular back-testing to ensure that they reflect recent experience and current events.

Expected future cash flows in a portfolio of financial assets that are collectively evaluated for impairment, are estimated on the basis of the contractual cash flows of the assets in the portfolio and historical loss experience for assets with credit risk characteristics similar to those in the portfolio. Historical loss experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect the period on which the historical loss experience is based and to remove the effects of conditions in the historical period that do not exist currently. Current observable data may include changes in unemployment rates, property prices, and commodity prices. The methodology and assumptions used for estimating future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

Reference is made to Note 6 'Loans and advances to customers' for further details.

1.9. Offsetting of financial assets and financial liabilities

Financial assets and financial liabilities are offset, and the net amount reported, in the statement of financial position when the Branch has a current legally enforceable right to set off the recognised amounts and intends to either settle on a net basis or to realise the asset and settle the liability simultaneously.

1.10. Financial guarantee contracts

Financial guarantee contracts are contracts that require the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payments when due, in accordance with the terms of a debt instrument. Such financial guarantees are initially recognised at fair value and subsequently measured at the higher of the discounted best estimate of the obligation under the guarantee and the amount initially recognised less cumulative amortisation to reflect revenue recognition principles.

1.11. Fair values of assets and liabilities

All the financial assets and liabilities are recognised initially at fair value, whereas financial assets and liabilities classified as held-for-trading or designated at fair value through profit or loss and financial assets classified as available-for-sale are subsequently measured at fair value in the Financial Statements.

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. It uses the assumptions that market participants would use and takes into account the characteristics of the asset or liability that market participants would take into account when pricing the asset or liability. Fair values of financial assets and liabilities are based on unadjusted quoted market prices where available. Such quoted market prices are primarily obtained from exchange prices for listed financial instruments. Where an exchange price is not available, quoted prices in an active market may be obtained from independent market vendors, brokers, or market makers. In general, positions are valued at the bid price for a long position and at the offer price for a short position or are valued at the price within the bid-offer spread that is most representative of fair value in the circumstances. In some cases where positions are marked at mid-market prices, a fair value adjustment is calculated.

According to the Head Office guidelines securities must be valued on a price at which the whole portfolio can be sold (applying 'executable' prices). Bloomberg CBBT prices are considered as 'executable' prices, which are collected by the Head Office and sent to the Branch at the end of each month. For those securities, where Bloomberg does not quote any price, prices quoted by ÁKK are accepted. For Treasury-Bills with short-term maturity (not exceeding 3 months), where CBBT and ÁKK prices are not available, the adjustments are calculated by MRMPC London (running Bond AVA process) and sent to the Branch.

For certain financial assets and liabilities quoted market prices are not available. For these financial assets and liabilities, fair value is determined using valuation techniques. These valuation techniques range from discounting of cash flows to various valuation models, where relevant pricing factors including the market price of underlying reference instruments, market parameters (volatilities, correlations and credit ratings), and customer behaviour are taken into account. ING maximises the use of market observable inputs and minimises the use of unobservable inputs in determining the fair value. It can be subjective dependent on the significance of the unobservable input to the overall valuation. All valuation techniques used are subject to internal review and approval. Most data used in these valuation techniques are validated on a daily basis when possible.

Fair value hierarchy

ING Bank has categorised its financial instruments that are either measured in the statement of financial position at fair value or of which the fair value is disclosed, into a three-level hierarchy based on the priority of the inputs to the valuation.
The fair value hierarchy gives the highest priority to (unadjusted) quoted prices in active markets for identical assets or liabilities and the lowest priority to valuation techniques supported by unobservable inputs. An active market for the asset or liability is a market in which transactions for the asset or liability occur with sufficient frequency and volume to provide reliable pricing information on an ongoing basis.
The fair value hierarchy consists of three levels, depending upon whether fair values were determined based on (unadjusted) quoted prices in an active market (Level 1), valuation techniques with observable inputs (Level 2) or valuation techniques that incorporate inputs which are unobservable and which have a more than insignificant impact on the fair value of the instrument (Level 3).
Financial assets in Level 3 include for example illiquid debt securities, complex OTC and credit derivatives, certain complex loans (for which current market information about similar assets to use as observable, corroborated data for all significant inputs into a valuation model is not available) and asset-backed securities for which there is no active market and a wide dispersion in quoted prices.
Observable inputs reflect market data obtained from independent sources. Unobservable inputs are inputs which are based on the Bank's own assumptions about the factors that market participants would use in pricing an asset or liability, developed based on the best information available in the circumstances. Unobservable inputs may include volatility, correlation, spreads to discount rates, default rates and recovery rates, prepayment rates and certain credit margin.
Transfers into and transfers out of fair value hierarchy levels are recognised as of the date of the event or change in circumstances that caused the transfer.

Level 1 - Quoted (unadjusted) prices in active markets
This category includes financial instruments whose fair value is determined by quoted prices in an active market directly available to ING. A financial instrument is considered to be quoted in an active market when quoted prices are immediately and regularly available from a stock exchange, trader, broker, industry group, pricing service or regulator, and such prices represent actual and regularly occurring market transactions of sufficient frequency and volume. to provide ongoing pricing information.
The transfer from level 1 to level 2 takes place when ING Bank determines that markets are no longer active and therefore quoted (unadjusted) prices no longer provide reliable pricing information.

Level 2 - Valuation technique supported by observable inputs
This category includes financial instruments whose fair value is determined using a valuation technique (e.g. model) where the inputs to the model are either from an active market or observable. If some of the inputs to the model are unobservable, the instrument will remain in that category, provided that the effect of unobservable inputs on the overall valuation is insignificant. This category includes items whose value is derived from the quoted price of similar instruments but for which price changes are due to other observable external market data whose value is derived from quoted prices but for which there is insufficient evidence for an active market. This category also includes financial assets and liabilities whose fair value is based on quoted prices but for which the market is considered inactive.

Level 3 - Valuation technique based on unobservable inputs
This category includes financial instruments whose fair value has been determined using a valuation technique (e.g. model) for which more than an insignificant part of the inputs cannot be observed in the market for the whole valuation. This category includes financial assets and liabilities whose fair value is determined by reference to a market price but for which the market is considered inactive. Level 3 Trading assets, Non-trading derivatives and Assets measured at fair value through profit or loss and Level 3 Financial liabilities at fair value through profit or loss include financial instruments of different kinds and nature which may be valued using valuation techniques where one or more significant inputs could not be observed. An instrument is fully classified in level 3 when a significant part of the instrument's fair value is based on observable inputs. In this context, unobservable means that a little or no current market data is available to derive a price from which a transaction under normal market conditions would be likely to occur.

The Branch presents reclassifications between levels of the fair value hierarchy at the end of the reporting period in which the change occurs.

See the presentation of fair valuation in Section 34 Fair value - Financial instruments.

When a group of financial assets or financial liabilities are managed on the basis of their net risk exposures, it measures the fair value of a group of financial assets or liabilities on net portfolio level.

The futures value of derivatives is determined using the MNB exchange rate and the calculated swap points, then the present value is established for each deal with further adjustments and that is considered the fair value. The Branch uses interpolated derivative yield curves to determine present value.
To include credit risk in the fair value, ING applies both Credit and Debit Valuation Adjustments (CVA, DVA). Derivatives valued at fair value are adjusted for credit risk by a CVA. The CVA is of a bilateral nature as both the credit risk on the counterparty as well as the credit risk on ING are included in the adjustment. All input data that is used in the determination of the CVA is based on market implied data. Additionally, wrong-way risk (when exposure to a counterparty is increasing and the credit quality of that counterparty deteriorates) and right-way risk (when exposure to a counterparty is increasing and the credit quality of that counterparty improves) are taken into account in the measurement of the valuation adjustment. ING applies an additional 'Funding Valuation Adjustment' (FVA) to the uncollateralised derivatives based on the market price of funding liquidity

Significant judgements and critical accounting estimates and assumptions:
Even if market prices are available, when markets are less liquid there may be a range of prices for the same security from different price sources. Selecting the most appropriate price requires judgement and could result in different estimates of fair value.

Valuation techniques are subjective in nature and significant judgement is involved in establishing fair values for certain financial assets and liabilities. Valuation techniques involve various assumptions regarding pricing factors. The use of different valuation techniques and assumptions could produce significantly different estimates of fair value.

Price testing is performed to assess whether the process of valuation has led to an appropriate fair value of the position and to an appropriate reflection of these valuations in the statement of profit or loss. Price testing is performed to minimise the potential risks for economic losses due to incorrect or misused models.

1.12. Derivatives and hedge accounting

Derivatives are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently measured at fair value. Fair values are obtained from quoted market prices in active markets, including recent market transactions and valuation techniques (such as discounted cash flow models and option pricing models), as appropriate. All derivatives are carried as assets when their fair value is positive and as liabilities when their fair value is negative.

Fair value gain or loss is recognised in the line 'Valuation results and net trading income' of the statement of profit or loss.

Currently the Branch has no hedge deals.

1.13. Repo and repurchase securities transactions

Securities sold subject to repurchase agreements (repos) are retained in the standalone statement of financial position. The counterparty liability is included in 'Deposits from banks', 'Customer deposits' as appropriate.
Securities purchased under agreements to resell (reverse repos) are not recognised in the statement of financial position. The consideration paid to purchase those securities is recognised as 'Loans and advances to customers', 'Loans and advances to banks', or 'Financial assets at fair value through profit or loss - Trading assets', as appropriate. The difference between the sale and repurchase price is treated as interest and amortised over the life of the agreement using the effective interest method.

1.14. Non-current assets held for sale

A non-current asset is classified as held for sale when its carrying amount is realised through sale but not primarily through continuing use. To qualify an asset as held for sale, several conditions must be met simultaneously:

1.) The asset must be immediately available for sale in its current condition.
2.) The sale must be very likely, which is true if
    a) the management of the company is committed to the sales plan,
    b) conduct an active customer search program,
    c) the advertised selling price is realistic in relation to the market value of the asset,
    d) it is unlikely that the sales plan will change or be cancelled, and
    e) the sale is expected to occur within one year of the asset being classified as held for sale (and in some cases beyond the possible year).

Valuation of non-current assets held for sale:
- their carrying amount and
- their fair value less costs to sell, whichever is lower.

If an asset no longer meets the requirements of IFRS 5, it must be downgraded:
- the value at which the financial statements would have been determined if it had not been reclassified; and
- the recoverable amount should be reviewed at the date of the downgrade and, if lower than the previous value, impairment must be recognised.

1.15. Intangible assets, Property and equipment

An item of intangible asset, property and equipment that qualifies for recognition as an asset shall be measured at its cost.
Elements of cost
- its purchase price, including import duties and non-refundable purchase taxes, after deducting trade discounts and rebates;
- Any costs directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management.

After recognition as an asset, an item of intangible asset, property and equipment shall be carried at its cost less any accumulated amortisation / depreciation and any accumulated impairment losses (Cost model).

Intangible and tangible assets are written off on a straight-line basis over the useful life of the asset (IT assets and software: 2 – 5 years, equipment: 4 – 10 years). 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 Branch 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 200 000) 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 (impairment of intangible and tangible assets, impairment loss of other assets), and the reasons for undervaluation no longer exist, the write-offs must be eliminated. Any recognized impairment 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 impairment loss.

At the end of each year the Branch examines whether any indications of an impairment loss in relation to non-financial assets are present. If so, the Branch recognises the necessary impairment loss.

1.16. Taxation
Income tax on the result for the year comprises current and deferred tax. Income tax is recognised in the statement of profit or loss but it is recognised directly in equity if the tax relates to items that are recognised directly in equity.

Deferred income tax

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax basis of assets and liabilities and their carrying amounts in the standalone Financial Statements. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled. Deferred tax assets and liabilities are not discounted.

Deferred tax assets are recognised where it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Fair value remeasurement of available-for-sale investments are recognised directly in equity. Deferred tax related to this fair value remeasurement is also recognised directly in equity and is subsequently recognised in the statement of profit or loss together with the deferred gain or loss.

Uncertain tax positions are assessed continually by the Hungary Branch and in case it is probable that there will be a cash outflow; a current tax liability is recognised.

1.17. Provisions, contingent liabilities and contingent assets

A provision is a present obligation arising from past events, the settlement of which is expected to result in an outflow of resources embodying economic benefits, however the timing or the amount is uncertain. Provisions are discounted when the effect of the time value of money is significant using a pre-tax discount rate.

A liability is recognised for a levy when the activity that triggers payment, as identified by the relevant legislation, occurs.

A contingent liability is a possible obligation that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Branch; or a present obligation that arises from past events but is not recognised because it is either not probable that an outflow of economic benefits will be required to settle the obligation or the amount of the obligation cannot be measured reliably. Contingent liabilities are not recognised in the statement of financial position but are rather disclosed in the notes unless the possibility of the outflow of economic benefits is remote.

A contingent asset is a possible asset that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Branch. Contingent assets are recognised in the statement of financial position only when realisation of the income that arises from such an asset is virtually certain. Contingent assets are disclosed in the notes when an inflow of economic benefits is probable.

Significant judgements and critical accounting estimates and assumptions:
The recognition and measurement of provisions is an inherently uncertain process involving using judgement to determine when a present obligation exists and estimates regarding probability, amounts and timing of cash flows.

ING Bank Hungary Branch may become involved in legal proceedings. The degree of uncertainty and the method of making the accounting estimate depends on the individual case, its nature and complexity. Legal cases are usually one of a kind. Judgment is required to estimate the probability of an unfavourable outcome and the amount of potential loss. For the assessment of litigation provisions the Branch consults with legal experts. Even taking into consideration legal experts' advice, the probability of an outflow of economic benefits can still be uncertain and the amount provisioned can remain sensitive to the assumptions used which may have a broad range of outcomes. Reference is made to Note 14 'Provisions'. For legal proceedings where it is not possible to make a reliable estimate of the expected financial effect that could result from the ultimate resolution of the proceedings, no provision is recognised, however disclosure is included in the Financial Statements. Reference is made to Note 36 'Legal proceedings'.

1.18. Income recognition

Interest
Interest income and expense are recognised in the statement of profit or loss using the effective interest method. The effective interest method is a method of calculating the amortised cost of a financial asset or a financial liability and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability. When calculating the effective interest rate, the Branch estimates cash flows considering all contractual terms of the financial instrument but does not consider future credit losses. The calculation includes all fees and points paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums or discounts. Once a financial asset or a group of similar financial assets has been written down as a result of an impairment loss, interest income is recognised using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss.

All interest income and expenses from trading positions and non-trading derivatives are classified as interest income and interest expenses in the statement of profit or loss. Changes in the 'clean fair value' of trading position are included in 'Net interest income' while of derivatives in 'Valuation results and net trading income'.

Fee and commissions
Fees and commissions are generally recognised as the service is provided. Loan commitment fees for loans that are likely to be drawn down are deferred (together with related direct costs) and recognised as an adjustment to the effective interest rate on the loan. Portfolio and other management advisory and service fees are recognised based on the applicable service contracts as the service is provided. Asset management fees related to investment funds and investment contract fees are recognised on a pro-rata basis over the period the service is provided. The same principle is applied for wealth management, financial planning and custody services that are continuously provided over an extended period of time. Fees received and paid between banks for payment services are classified as 'Net commission income'.

1.19. Expense recognition
Expenses are recognised in the statement of profit or loss as incurred or when a decrease in future economic benefits related to a decrease in an asset or an increase in a liability has arisen that can be measured reliably.

1.20. Statement of cash flows
The statement of cash flows is prepared in accordance with the indirect method relating to operating activities, while in accordance with direct method relating to investing and financing activities. In the net cash flow from operating activities, the result before tax is adjusted for those items in the statement of profit or loss and changes in items per the statement of financial position, which do not result in actual cash flows during the year.

Interest received and interest paid are included in operating activities in the statement of cash flow, dividend on our investments are included in investing activities in the statement of cash flow and dividend paid by the Branch to the parent company is included in financing activities in the statement of cash flow.

For the purposes of the statement of cash flows, Cash and cash equivalents comprise balances with less than three months' maturity from the date of acquisition, including cash and balances with central banks, treasury bills and other eligible bills, amounts due from other banks, and deposits from banks.

Cash flows arising from foreign currency transactions are translated into the functional currency using the exchange rates at the date of the cash flows.

The net cash flow shown in respect of Loans and advances to customers relates only to transactions involving actual payments or receipts. The Addition to loan loss provision which is deducted from the item Loans and advances to customers in the statement of financial position has been adjusted accordingly from the result before tax and is shown separately in the statement of cash flows.

Notes to the standalone statement of financial position

All figures are in HUF million unless otherwise indicated.

ASSETS

2. CASH AND BALANCES WITH NATIONAL BANK OF HUNGARY

Cash and balances with National Bank of Hungary	31 December 2018	31 December 2017
Amounts held at National Bank of Hungary	23 623	26 693
Cash	418	494
Accrued interest	3	7
Loan loss provisions	-4	-27
	24 040	**27 167**

In 2018, the movement in 'Cash and balances with National Bank of Hungary' reflects the Hungary Branch's liquidity management. Amounts held at central banks contains the balance of minimum reserves.

Reference is made to Note 31 'Assets not freely disposable' for restrictions on Cash and balances with National Bank of Hungary.

3. SECURITIES

The implementation of IFRS 9 on 1 January 2018 had a significant impact on the classification of securities, which is also reflected in the statement of financial position. The classification and comparison of securities by valuation category at the end of 2018 and 2017 are as follows:

Securities per classification categories	31 December 2018	31 December 2017
Securites at fair value through profit or loss	13 658	6 190
Securites at fair value through other comprehensive income	10	
Securites at amortized cost	110 934	
Available-for-sale securities		121 087
Total	**124 602**	**127 277**

3.1. Securities at fair value through profit or loss

Securities at fair value through profit or loss	31 December 2018	31 December 2017
Debt securities	13 658	6 190
Total	**13 658**	**6 190**

Government securities at fair value through profit or loss				
31 December 2018	Face value	Carrying amount	Valuation difference	Fair value
2019/A	189	195	-1	201
2019/B	1 065	1 064	0*	1 064
2020/A	93	105	0*	106
2020/C	1 192	1 202	-1	1 204
2021/B	21	22	0*	22
2021/C	4 937	4 842	13	4 877
2022/B	1 900	1 903	4	1 913
2025/B	553	647	3	666
2027/A	2 075	2 066	10	2 087
D190109	10	10	0*	10
D190130	118	118	0*	118
D190206	153	153	0*	153
D190227	1 165	1 165	0*	1 165
D190424	7	7	0*	7
D190522	18	18	0*	18
D190731	3	3	0*	3
D190925	44	44	0*	44
Összesen	**13 543**	**13 564**	**28**	**13 658**

* Value below HUF 1 million.

Government securities at fair value through profit or loss					
31 December 2017	Face value	Carrying amount	Interest	Valuation differencet	Fair value
C2018/A	50	53	0*	0*	53
C2018/B	8	8	0*	0*	8
C2019/B	48	48	0*	0*	48
C2020/A	1 000	1 209	10	-13	1 206
C2020/B	1 500	1 623	28	-8	1 643
C2021/A	879	871	0*	-1	870
C2021/B	2 000	2 125	7	-4	2 128
C2022/A	174	220	6	-1	225
C2027/A	0*	0*	0*	0*	0*
C2028/A	6	9	0*	0*	9
D180718	0*	0*	0*	0*	0*
Összesen	**5 665**	**6 166**	**51**	**-27**	**6 190**

* Value below HUF 1 million.

For securities at fair value through profit or loss, the implementation of IFRS 9 did not require reclassification or reassessment on the date of transition to IFRS 9 (01 January 2018), these continues to be measured at fair value by the Branch.

3.2. Securities at fair value through other comprehensive income

Securities at fair value through other comprehensive income		
	31 December 2018.	31 December 2017.
Equitiy instruments	10	10
Debt securities	0	0
Total	**10**	**10**

On 1 January 2018, the Branch designated its equity investments as financial assets at fair value through other comprehensive income. In 2017, these investments were classified as available-for-sale financial assets. The reason for choosing fair valuation over other comprehensive income is that the Branch intends to retain these in the long term.
The fair value of financial assets at fair value through other comprehensive income includes to a significant extent its interest in Garantiqa Hitelgarancia Zrt. (the total value of other equity instruments is less than HUF 100 thousand). The fair value of the interest is the same as its carrying amount. No dividends were paid and no cumulative profit/loss was transferred within equity in the 2018 financial year or prior years.

Reconciliation and reclassification of financial assets at FVOCI at 01 January 2018

	IAS 39	Reclassification	IFRS 9
Available-for-sale financial assets			
Carrying amount at 31 December 2017	121 087	0	121 087
- To securities at FVOCI	0	-10	-10
- To securities at AC	0	-121 077	-121 077
Carrying amount at 01 January 2018	*121 087*	*-121 087*	*0*
Debt securitites at FVOCI			
Carrying amount at 31 December 2017.	0	0	0
-From available-for-sale financial assets	0	10	10
Carrying amount at 01 January 2018	*0*	*10*	*10*
Total	**121 087**	**-121 077**	**10**

3.3. Securities at amortized cost

Securities at amortized cost

31 December 2018	Face value	Amortized cost using effective interest rate method	Impairment	Carrying amount
2019/B	25 000	25 000	-30	24 970
D190102	10 000	10 000	0	10 000
D190220	10 000	10 000	-4	9 996
D190227	22 500	22 496	-12	22 484
D190424	6 095	6 093	-6	6 087
D190522	1 087	1 087	-1	1 086
D190731	11 150	11 116	-20	11 096
D190925	12 000	11 959	-28	11 931
D191120	13 370	13 321	-37	13 284
Total	**111 202**	**111 072**	**-138**	**110 934**

Reconciliation and reclassification of securities at amortized cos tat 01 January 2018

	IAS 39	Reclassification	Remeasurement	Carrying amount
Securities at amortized cost				
Carrying amount at 31 December 2017	0			
- From available-for-sale securities		121 077	-29	121 048
Carrying amount at 01 January 2018		*121 077*	*-29*	*121 048*
Total	**0**	**121 077**	**-29**	**121 048**

On 1 January 2018, the Branch reclassified its available-for-sale securities as financial assets at amortised cost. On reclassification, a one-time impairment of HUF 29 million was recognised directly through equity.

3.4. Avalible-for-sale securities

Available-for-sale securities	31 December 2018	31 December 2017
Equity instruments		10
Debt securities		121 077
Total		**121 087**

IFRS 9 eliminates the categories available-for-sale (AFS) financial instruments existing under IAS 39 as of 1 January 2018.

Available-for-sale Treasury-bills

31 December 2017	Face value	Carrying amounts	Valuation difference	Fair value
D180117	10 000	10 001	-2	9 999
D180131	10 200	10 200	-1	10 199
D180207	7 071	7 071	-1	7 070
D180214	2 200	2 200	0*	2 200
D180228	10 000	9 994	4	9 998
D180307	15 000	15 000	-4	14 996
D180523	15 000	14 982	15	14 997
D180718	4 546	4 541	3	4 544
D180926	27 091	27 090	-7	27 083
D181121	20 000	19 991	0*	19 991
Összesen	**121 108**	**121 070**	**7**	**121 077**

*Value below HUF 1 million

4. DERIVATIVES

Derivatives by types	31 December 2018	31 December 2017
Interest Rate Swaps	18 911	2 651
Forward Rate Agreements	0	111
Forwards, Swaps	17 419	16 000
	36 330	**18 762**

Notional and Market value of derivatives

31 December 2018	Notional	Market value
Interest Rate Swaps	811 950	18 911
Forward Rate Agreements	0	0
Forwards, Swaps	1 714 594	17 419
	2 526 544	**36 330**

Notional and Market value of derivatives

31 December 2017	Notional	Market value
Interest Rate Swaps	231 929	2 651
Forward Rate Agreements	75 000	111
Forwards, Swaps	1 007 912	16 000
	1 314 841	**18 762**

5. LOANS AND ADVANCES TO BANKS

Loans and advances to banks	31 December 2018	31 December 2017
Short term loans to banks	164 595	172 146
Overdrafts of other banks' current accounts	15 681	5 662
Loans to banks	11 896	0
Reverse repurchase transactions	0	2 289
Nostro accounts	4 414	7 161
Margin accounts	7 068	6 685
Receivables from clearing house	63	12
Other receivables	13 290	1 292
Accrued interest	22	195
Loan loss provisions	-22	-37
	217 007	**195 405**

Reference is made to Note 31 'Assets not freely disposable' for restrictions on Loans and advances to banks.

6. LOANS AND ADVANCES TO CUSTOMERS

Loans and advances to customers by type	31 December 2018	31 December 2017
Customers' overdrafts	43 011	50 523
Short term loans to customers	33 159	14 454
Long term loans to customers	73 146	25 185
Reverse repurchase transactions	9 813	6 878
Other receivables	9 163	11 579
Accrued interest	172	93
Loan loss provisions	-2 106	-1 574
	166 358	**107 138**

Loans and advances to customers are measured at amortised cost.

7. NON-CURRENT ASSETS HELD FOR SALE

Non-current assets held for sale by type	31 December 2018	31 December 2017
Mastercard share	0	905
VISA share	413	0
	413	**905**

The VISA share was reclassified to held for sale as at December 31, 2018 as fair value through profit or loss (FVOCI). The share was sold in January 2019. In 2017, Mastercard was also reclassified at fair value through other comprehensive income and sold in May 2018.

8. PROPERTY AND EQUIPMENT

Changes in Property and equipment						
	Tangible assets serving banking activities directly		Tangible assets serving banking activities indirectly		Total	
	31 Dec 2018	31 Dec 2017	31 Dec 2018	31 Dec 2017	31 Dec 2018	31 Dec 2017
Opening balance	119	124	251	241	370	365
Additions	242	209	0	85	242	294
Capitalised	-98	-145	0	0	-98	-145
Depreciation	-67	-59	-48	41	-115	-18
Disposal	0	-8	-4	-116	-4	-124
Other (reclassification, scrapping)	-1	-2	0	0	-1	-2
Closing balance	**195**	**119**	**199**	**251**	**394**	**370**
Gross book value as at 31 December	672	538	343	355	1 015	893
Accumulated depreciation as at 31 December 31	477	419	144	104	621	523
Net book value as at 31 December	**195**	**119**	**199**	**251**	**394**	**370**

Tangible assets serving banking activities directly contain Improvements on third party property; IT equipment; other equipment and fittings.

Tangible assets serving banking activities indirectly contain Vehicles and Works of Art.

Neither in 2018 nor in the previous year there was no capitalised loan cost.

9. INTANGIBLE ASSETS

Changes in intangible assets						
	Softwer		Other		Total	
.	31 Dec 2018	31 Dec 2017	31 Dec 2018	31 Dec 2017	31 Dec 2018	31 Dec 2017
Opening balance	76	95	0	0	76	95
Additions	34	18	0	0	34	18
Capitalised	-18	-11	0	0	-18	-11
Amortisation	-26	-26	0	0*	-26	-26
Disposal	0	0	0	0	0	0
Other (reclassification, scrapping)	0	0	0	0	0	0
Closing balance	**66**	**76**	**0**	**0**	**66**	**76**
Gross book value as at 31 December	405	389	0	0	405	389
Accumulated depreciation as at 31 December 31	339	313	0	0	339	313
Net book value as at 31 December	**66**	**76**	**0**	**0**	**66**	**76**

* value below HUF 1 million

Until 31 December 2018, HUF 11 million software user rights had been capitalized. The Branch invested this amount into developments to its existing systems, software upgrades.

Neither in 2018 nor in the previous year there was no capitalised loan cost.

10. OTHER ASSETS

Other assets by type	31 December 2018	31 December 2017
Receivables related to settlement of derivatives	0	893
Tax receivables	1 053	506
Receivables from customers	454	33
Fair value difference related to staff loans	13	19
Other accrued assets	481	391
Loss on value	-1 186	-506
Other	38	27
Total	**853**	**1 363**

LIABILITIES

11. TRADING LIABILITIES

Trading liabilities by type	31 December 2018	31 December 2017
Liabilities from short position of securities	8 279	7 254
	8 279	**7 254**

Trading liabilities are included liabilities from short position of securities, which are are closely related to servicing the needs of the clients of ING. The Branch deals with only Hungarian government and financial instotutions related to trading liabilities from short position of securities in 2018 and 2017 as well.

Book value and Market value of trading liabilities – government bonds

31 December 2017	Face value	Book value	Interest	Fair value difference	Market value
2023/A	3 780	4 510	24	32	4 566
2024/B	583	611	9	-5	615
2026/D	499	492	0*	2	494
2028/A	500	655	7	3	665
2031/A	451	433	3	8	444
D191120	1 500	1 495	0	0*	1 495
Összesen	**7 313**	**8 196**	**43**	**40**	**8 279**

Due to implementation fo IFRS 9 reclassification and revaluation of trading liabilities was not needed at the day of transition of IFRS9 on 1 January 2021.

Book value and Market value of trading liabilities – government bonds

31 December 2017	Face value	Book value	Interest	Fair value difference	Market value
C2021/B	490	520	0	1	521
C2026/D	1 779	1 896	1	5	1 902
C2027/A	4 000	4 297	22	57	4 376
C2031/A	425	450	3	2	455
	6 694	**7 163**	**26**	**65**	**7 254**

12. DERIVATIVES

Derivatives by type	31 December 2018	31 December 2017
Interest Rate Swaps	16 875	3 548
Forward Rate Agreements	0	56
Forwards, Swaps	15 641	16 011
	32 516	**19 615**

Face value and Market value of derivatives

31 December 2018	Notional	Market value
Interest Rate Swaps	756 210	16 875
Forward Rate Agreements	0	0
Forwards, Swaps	1 459 465	15 641
	2 215 675	**32 516**

Face value and Market value of derivatives		
31 December 2017	Notional	Market value
Interest Rate Swaps	173 534	3 548
Forward Rate Agreements	50 000	56
Forwards, Swaps	1 149 557	16 011
	1 373 091	**19 615**

13. DEPOSITS FROM BANKS

Deposits from banks by type	31 December 2018	31 December 2017
Short term deposits from banks	36 254	31 642
Long term deposits from banks	104 009	0
Current accounts of banks	4 562	7 476
Nostro overdrafts	77	0
Repurchase transactions	0	255
Accrued interest	-19	6
Other	54	959
	144 937	**40 338**

14. CUSTOMER DEPOSITS

Customer deposits by type	31 December 2018	31 December 2017
Short term deposits from customers	135 977	205 293
Current accounts of customers	171 136	139 123
Accrued interest	407	185
Other	16 855	12 127
	324 375	**356 728**

15. OTHER LIABILITIES

Other liabilities by type	31 December 2018	31 December 2017
Amounts to be settled	8 201	8 283
Tax liabilities	253	350
Other staff related liabilities	53	37
Liabilities related to settlement of derivatives	2 424	0
Cost payable	1 908	1 022
Others	924	212
	13 763	**9 904**

Amounts to be settled
Amounts to be settled are primarily transactions not settled at the balance sheet date. They are short term in nature and are settled shortly after the balance sheet date.

EQUITY

16. EQUITY

Total equity by type	31 December 2018	31 December 2017
Share capital	2	2
Capital reserves	43 643	43 643
Retained earnings	1 575	-692
Revaluation reserve	413	912
Other reserves		
– previous general risk provision	1 209	1 209
– deferred tax on previous general risk provision	-109	-109
Total equity	**46 733**	**44 965**

16.1. Endowment capital (Issued capital)

The endowed capital of the Branch amounted to HUF 2 million on 31 December 2018. This amount has remained unchanged since the establishment of the Branch, 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 endowment capital pursuant to the decision of the Founder.

16.2. 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.

16.3. Retained Earnings

The positive amount of retained earnings contains net result of the year, furthermore, consists of the difference of IFRS transition in the amount of HUF 294 million.
Since the branch transformation the profit after tax of each financial year was paid out to the Founder as dividends.

16.4. Other reserves

In the previous years general risk provision made by the predecessor ING Bank Rt. was classified under IFRS into the line 'Other reserves', together with the related deferred tax liability. This reverse cannot be used for dividend payment.
The 'Other reserves' may be released for the purpose of offsetting the assets' losses, which are not covered by impairment loss, when the asset removed from the books or when any loss is realised in connection with an off-balance sheet liability because of the relevant amount is not covered by provisions set aside.

Under Article 4 (2) of Act CCXXXVII of 2013, the Branch is not required to make a general reserve, and therefore no general reserve appears in the books.

16.5. Reconciliation of equity

Reconciliation of Equity		
31 December 2018	by IFRS	by HAL*
Share capital	2	2
Capital reserves	43 643	43 643
Retained earnings	1 575	1 575
Revaluation reserve	413	413
Other reserves	1 100	0
Total equity	**46 733**	**45 633**

* HAL: Hungarian Accounting Law

Reconciliation of Equity

31 December 2017	by IFRS	by HAL*
Share capital	2	2
Capital reserves	43 643	43 643
Retained earnings	-692	-692
Revaluation reserve	912	912
Other reserves	1 100	0
Total equity	**44 965**	**43 865**

* HAL: Hungarian Accounting Law

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Notes to the standalone statement of total comprehensive income

All figures are in HUF million unless otherwise indicated.

17. NET INTEREST INCOME

Net interest income	2018	2017
Interest income from banks	1 296	1 265
Interest income from securities	111	303
Interest income from customers	1 245	934
Interest income from reversed repurchase transactions	20	77
Interest received using effective interest rate method	**2 672**	**2 579**
Interest income from securities	448	830
Interest income from derivatives	5 356	1 130
Other	5	2
Other interest income	**5 809**	**1 962**
Interest income	**8 481**	**4 541**
Interest expense paid to banks	4 325	3 692
Interest expense from derivatives	5 392	1 245
Interest expense paid to customers	41	29
Interest expense from repurchase transactions	32	13
Others	1	187
Interest expenses	9 791	**5 166**
Net interest income	**-1 310**	**-625**

By the effect of the descending interest environment net interest income of the Branch decreased by HUF 685 million and shows a loss in the amount of HUF 1.3 billion. Due to highly competitive market and the internal interest rate policy of the Branch, applying of negative interest in case of Liability side's products (customer deposits) was limited.

The following table presented net interest income (using effective interest rate method) of financial assets measured at amortized cost and fair value through other comprehensive income, as well as net interest income of financial liabilities measured other than fair value through profit and loss.

Classification of net interest income	2018	2017
Financial assets at amortized cost	2 672	2 276
Financial assets at fair value through other comprehensive income	0	303
Total	**2 672**	**2 579**
Financial liabilities at amortized cost	4 398	3 721

Provided loans for employees measured at amortized cost have been derecognised and recognised (due to the cash flows are materially different before and after the change) in 2018 and 2017 as well. As a result of the derecognition fair value difference amounted to HUF 6 million has been recognised in Net interest income in 2018, while HUF 12 million in 2017.

18. INVESTMENT INCOME

On 31 December 2018 dividend received in the amount of HUF 4 million and income on the sale of investment securities amounted to HUF 244 million have been presented on this line, while in 2017 the dividend received was recoginised in the amount of HUF 6 million.

19. NET COMMISSION INCOME

19.1. Commission incomes

Commission incomes	2018	2017
Funds transfer fee and commission incomes	3 378	2 926
Brokerage income within ING group	373	565
Fee and commission Incomes from loans	897	563
Fee and commission incomes from custody and brokerage activities	571	497
Commission incomes on guarantees and letter of credits	340	315
Others	54	85
	5 613	**4 951**

19.2. Commission expenses

Commission expenses	2018	2017
Brokerage expense within ING group	651	307
Funds transfer fee and commission expenses	190	151
Fee and commission expenses from brokerage activities	112	128
Fee and commission expenses from custody	34	37
Expenses on postal services	6	5
Commission expenses on guarantees and letter of credits	13	5
Others	31	54
	1 037	**687**

Total commission incomes and commission expenses containe income or expense after financial assets and financial liabilities measured other than fair value through profit or loss.

20. VALUATION RESULTS AND NET TRADING INCOME

Valuation results and net trading income	2018	2017
Changes in fair value of derivatives:		
– Securities	80	0
– Interest Rate Swaps	2 983	-628
– Forward Rate Agreements	-56	73
– Forwards, Swaps	1 789	-4 835
Changes in fair value difference	**4 796**	**-5 390**
Result from securities trading	247	478
Result from foreign exchange	2 538	2 172
Revaluation of balance sheet	3 475	10 803
Others	32	93
Net result from trading	**6 292**	**13 546**
	11 088	**8 156**

Net trading income relates to trading assets and trading liabilities which include assets and liabilities that are classified under IFRS as Trading but are closely related to servicing the needs of the clients of ING. ING offers products that are traded on the financial markets to institutional clients and corporate clients. A significant part of the derivatives in the trading portfolio are related to servicing corporate clients in their risk management to hedge for example currency or interest rate exposures. Although these are presented as Trading under IFRS, these are directly related to services to ING's customers. These products are used by ING as part of its own regular treasury activities, but also relate to the role that ING plays as intermediary between different professional customers. From a risk perspective, the gross amount of trading assets must be considered together with the gross amount of trading liabilities, which are presented separately on the statement of financial position. However, IFRS does not allow netting of these positions in the statement of financial position.

In 2018, Derivatives trading results includes HUF -157 million CVA/DVA adjustments on trading derivatives, compared with HUF 22 million CVA/DVA adjustment in 2017.

In 2018 National Bank of Hungary introduced an interest rate swap denominated in Hungarian Forint (MIRS) which pays variable interest rates with a maturity of 5 and 10 years for the domestic credit institution with reserve requirement and direct VIBER and IBKR membership. The aim of MIRS was to keep the condition of lax monetary over a longer periof of yield cureve. In 2018 the Branch realised an initial fair value difference of HUF 1,9 biliion on MIRS deals.

21. OTHER INCOMES

Other incomes	2018	2017
Income from recharged costs	908	992
Income from legal cases	1	118
Income from consultancy	60	112
Others	367	118
	1 336	**1 340**

22. ADDITION TO LOAN LOSS PROVISIONS AND SECURITIES IMPAIRMENT

Addition to loan loss provisions	2018	2017
Opening balance	1 637	1 370
Impact of IFRS 9 transition	-63	0
Restated opening balance	1 574	1 370
Write-offs	0	0
Reversal of loan loss provision	-329	-153
Increase in loan loss provision	925	420
Reversal of securities impairment	-6	0
Increase in securities impairment	105	0
Closing balance	**2 269**	**1 637**

23. STAFF EXPENSES

Staff expenses	2018	2017
Payroll	1 885	1 974
Other personnel costs	196	211
Social security and similar deductions	441	510
Training costs	19	34
Changes in provision on untaken holiday	16	5
	2 557	**2 734**

In the books of the Branch post-employment benefits or other long-term employment benefits are not recognised in any relevant years.

Number of employees	2018	2017
Actual number of staff on 31 December	137	145
Annual average statistical number of staff	142	147
- of which: part-time employees	5	5

Payroll costs of employees in a breakdown by employee groups		
	2018	2017
Payroll costs of full-time employees	1 855	1 941
Payroll costs of part-time employees	30	33
	1 885	**1 974**

24. OTHER OPERATING EXPENSES

Other operating expenses		
	2018	2017
Material costs	47	50
Material type services used costs	613	648
Other services used costs	5 428	4 766
- of which: Head Office changes	*2 927*	*2 293*
expert and other fees	*1 307*	*1 030*
rental fees	*215*	*189*
other services used costs	*979*	*1 254*
Other costs	12	10
Depreciation and amortisation	141	143
	6 241	**5 617**

Auditing the annual Financial Statements and other audit services
The fee for auditing the financial statements for the present financial year is HUF 24 million, including VAT. The Branch recognised HUF 4 million as cost of other services provided by the auditor in the reporting period.

Operative leasing
The Branch has lease contracts of the Headquarter, disaster recovery office and data center on average 5-7 years lease term with renewal option at the end. The amount of lease payments might be variable depend on different idexes.
The amount of minimum lease payments recognized as an expense was HUF 154 million in 2018, while in 2017 it was HUF 138 million.

25. OTHER EXPENDITURES

Other expenditures		
	2018	2017
Taxation	2 463	2 480
Expenses of recharged costs	911	993
Changes in loss on value of other receivables	680	506
Changes in provision	0	-98
Others	541	417
	4 595	**4 298**

The line ‘Taxation’ contains the transaction duty recognised and paid, the special tax of financial institutions throughout the year and the special tax on Investment Service Activities in 2017.
The line ‘Other’ contains the Hungarian Supervisory Fee and contributions - charges passed on by the parent company - to the Dutch Deposit Guarantee Schemes and to the Single Resolution Fund.

Notes to the standalone statement of cash flow

All figures are in HUF million unless otherwise indicated.

26. CASH AND CASH EQUIVALENTS

Cash and cash equivalents	31 December 2018	31 December 2017
Treasury bills and other securities	20 000	44 472
Loans and advances to banks / Deposits from banks	158 665	110 744
Cash and balances with National Bank of Hungary	24 040	27 194
Cash and cash equivalents at the end of the year	**202 705**	**182 410**

Cash and cash equivalents includes deposit from banks and loans and advances to bank are on demand.

Included in 'Cash and cash equivalents' the minimum mandatory reserve deposit to be held with National Bank of Hungary. Reference is made to Note 31 'Assets not freely disposable' for restriction on 'Cash and balances with National Bank of Hungary'.

27. CASH FLOWS FROM OPERATING ACTIVITIES

Notes to the cash flows from operating activities:

Cash flows from operating activities	2018	2017
Interest income	5 716	4 619
Interest expenses	6 684	4 818
Dividend income	4	6
Income taxes paid	765	848

Other notes to the standalone Financial Statements

All figures are in HUF million unless otherwise indicated.

28. INCOME TAXES

The actual income tax is based on the corporate income tax payable, concerning the result of the given year, which was determined in accordance with the Hungarian tax regulations. The Branch also records the local business tax on this line.

The corporate income tax rate is 9 % in the given years. In 2017, both the adjusted result before tax and the tax base of the Branch is negative, therefore during calculation of the corporate tax, the rules of the income (profit) minimum were used. In 2018, the corporate income tax was calculated based on the current result before tax.

The Branch used the tax rate for calculation of the deferred tax, that are expected to apply to the period when the asset is realised or the liability is settled.

Income taxes by type

	2018	2017
Corporate Income Tax	207	71
Local Business Tax	416	668
Deferred tax	-54	-24
	569	**715**

Neither in 2018 nor in 2017 the Branch is not presented income tax recognized in other comprehensive income.

Deferred tax assets and liabilities

	2018		2017	
	Deferred tax assets	Deferred tax liabilities	Deferred tax assets	Deferred tax liabilities
Intangible assets, Property and equipment		1	8	0
Loss on value of other receivables	107		46	0
Provisions	5		3	0
Total	112	1	57	0
Deferred tax assets	**111**		**57**	
Previous general risk provision		109	0	109
Deferred tax liabilities		**109**		**109**

The amount of deferred tax liabilities has been recignised directly in Equity.

Effective tax rate

	2018		2017	
	HUF million	%	HUF million	%
Result before tax	**1 850**		**225**	
Theoretical tax expense with the statutory corporate income tax rate	167	9	-	-
Tax based on income (profit) minimum tax base	-	-	71	31,47
Tax base modifiers:	40	2,16	-	-
- *Items increasing the tax base*	*176*		-	-
- *Items reducing the tax base*	*136*		-	-
Changes in the deferred tax	-54	-2,92	-24	-10,91
Other income taxes	416	22,48	668	297,04
Income tax with effective tax rate	**569**	**30,75**	**715**	**317,61**

Total amount of deferred tax expense is related to the origination and reversal of temporary differences.

29. FINANCIAL ASSETS AND LIABILITIES BY MATURITY

Financial assets and liabilities by maturity – carrying amount on 31 December 2018						
	Within 1 month	1-3 months	3 month-1 year	1-5 years	Over 5 years	Total
Cash and balances with National Bank of Hungary	24 040	0	0	0	0	**24 040**
Securities	10 128	33 798	69 790	8 123	2 763	**124 602**
Derivative financial assets	8 472	5 331	6 972	10 285	5 270	**36 330**
Loans and advances to banks	189 923	15 337	56	11 691	0	**217 007**
Loans and advances to customers	77 257	11 437	4 776	70 938	1 950	**166 358**
Current tax assets	549	0	0	0	0	**549**
Non-current assets held for sale	413	0	0	0	0	**413**
Property and equipment	68	30	119	160	17	**394**
Intangible assets	4	4	21	37	0	**66**
Deferred tax assets	111	0	0	0	0	**111**
Other assets	844	0	0	9	0	**853**
Total assets	**311 809**	**65 937**	**81 734**	**101 243**	**10 000**	**570 723**
Securities trading liabilities	0	0	1 496	4 565	2 218	**8 279**
Derivative financial liabilities	7 341	4 526	7 188	9 593	3 868	**32 516**
Deposits from banks	36 950	3 001	1 000	102 057	1 929	**144 937**
Customer deposits	278 743	31 077	14 555	0	0	**324 375**
Financial guarantees	0	1	7	3	0	**11**
Provisions	0	0	0	0	0	**0**
Current tax liabilities	0	0	0	0	0	**0**
Deferred tax liabilities	0	0	0	0	109	**109**
Other liabilities	12 892	412	0	459	0	**13 763**
Total liabilities	**335 926**	**39 017**	**24 246**	**116 677**	**8 124**	**523 990**

Financial assets and liabilities by maturity – carrying amount on 31 December 2017	Within 1 month	1-3 months	3 month-1 year	1-5 years	Over 5 years	Total
Cash and balances with National Bank of Hungary	26 017	1 150	0	0	0	**27 167**
Loans and advances to banks	147 043	6 308	42 054	0	0	**195 405**
Financial assets at fair value through profit or loss						
- Trading financial assets	0	0	0	6 181	9	**6 190**
- Derivative financial assets	6 903	4 780	4 625	1 755	699	**18 762**
Available-for-sale financial assets	20 198	34 264	66 615	0	10	**121 087**
Loans to customers	74 885	5 030	3 661	23 538	24	**107 138**
Current tax assets	411	0	0	0	0	**411**
Non-current assets held for sale	0	0	905	0	0	**905**
Property and equipment	57	0	0	0	0	**57**
Intangible assets	18	23	101	210	18	**370**
Deferred tax assets	5	4	19	48	0	**76**
Other assets	1 363	0	0	0	0	**1 363**
Total assets	**276 900**	**51 559**	**117 980**	**31 732**	**760**	**478 931**
Loans and advances to banks	23 831	1 000	15 507	0	0	**40 338**
Loans to customers	308 858	18 784	29 086	0	0	**356 728**
Securities trading liabilities						
- Financial liabilities at fair value through profit or loss	0	0	0	521	6 733	**7 254**
- Derivative financial liabilities	6 081	6 390	4 074	2 359	711	**19 615**
Financial guarantees	1	1	5	11	0	**18**
Current tax liabilities	0	0	0	0	0	**0**
Deferred tax liabilities	0	0	0	0	109	**109**
Provisions	0	0	0	0	0	**0**
Other liabilities	9 143	451	0	310	0	**9 904**
Total liabilities	**347 914**	**26 626**	**48 672**	**3 201**	**7 553**	**433 966**

30. FINANCIAL LIABILITIES BY MATURITY – CONTRACTUAL VALUE

Financial liabilities by maturity – contractual value on 31 December 2018	Within 1 month	1-3 months	3 month-1 year	1-5 years	Over 5 years	Total
Securities trading liabilities	26	51	1 730	4 983	2 360	**9 150**
Derivative financial liabilities	7 341	4 526	7 188	9 593	3 868	**32 516**
Loans and advances to banks	37 948	2 000	1 002	101 783	1 931	**144 664**
Loans to customers	282 585	31 122	14 919	0	0	**328 626**
Financial guarantees	0	1	7	3	1	**11**
Total	**327 900**	**37 700**	**24 846**	**116 362**	**8 159**	**514 967**

Financial liabilities by maturity – contractual value on 31 December 2017	Within 1 month	1-3 months	3 month-1 year	1-5 years	Over 5 years	Total
Securities trading liabilities	16	32	146	1 256	7 099	**8 549**
Derivative financial liabilities	6 081	6 390	4 074	2 359	711	**19 615**
Loans and advances to banks	23 832	1 000	15 491	0	0	**40 323**
Loans to customers	317 009	18 833	29 205	0	0	**365 047**
Financial guarantees	1	1	5	11	0	**18**
Total	**346 939**	**26 256**	**48 921**	**3 626**	**7 810**	**433 552**

31. ASSETS NOT FREELY DISPOSABLE

Assets not freely disposable	31 December 2018	31 December 2017
Cash and balances with National Bank of Hungary	3 750	6 540
Loans and advances to banks	7 068	6 685
Financial assets at fair value through profit or loss – trading assets	39 005	34 000
	49 823	**47 225**

The line 'Cash and balances with National Bank of Hungary' contains the mandatory minimum reserve, 'Loans and advances to banks' contains the margin account relating to central bank EUR / HUF FX swap tenders, while the 'Financial assets at fair value through profit or loss – trading assets', plaged by KELER, contains securities collateral for the GIRO payment service system.

The table does not include assets relating to securities lending as well as sale and repurchase transactions.

32. CONTINGENT ASSETS AND LIABILITIES

32.1 Contingent assets

Contingent assets	31 December 2018	31 December 2017
Receivables subject to litigation	4	4
	4	**4**

32.2 Contingent liabilities

Contingent liabilities	31 December 2018	31 December 2017
Issued guaranties	52 617	58 742
Unused credit facilities	485 063	403 855
Other contingent liabilities	56 923	109 108
	594 603	**571 705**

In the normal course of business, Hungary Branch is party to activities where risks are not reflected in whole or in part in the standalone Financial Statements. In response to the needs of its customers, the Branch offers financial products related to loans. These products include traditional off-balance sheet credit-related financial instruments.

Guarantees relate both to credit and non-credit substitute guarantees. Credit substitute guarantees are guarantees given by the Branch in respect of credit granted to customers by a third party. Many of them are expected to expire without being drawn down and therefore do not necessarily represent future cash outflows.

Many of 'Unused credit facilities' are for a fixed duration and bear interest at a floating rate. Hungary Branch credit risk and interest rate risk in these transactions is limited.

'Other contingent liabilities' include irrevocable letters of credit mainly secure payments to third parties for a customer's foreign and domestic trade transactions in order to finance a shipment of goods. Hungary Branch credit risk in these transactions is limited since these transactions are collateralised by the commodity shipped and are of a short duration.

33. ITEMS RELATING TO PARENT COMPANY, OTHER BRANCHES AND OTHER RELATED PARTIES

Related parties' items 2018	Parent company	Other branches	Other related parties	Total
Loans and advances to banks	150 248	6 240	200	**156 688**
Derivative financial assets	831	1	20	**852**
Loans and advances to customers	0	0	1 050	**1 050**
Other assets	390	129	83	**602**
Deposits from banks	103 991	139	113	**104 243**
Customer deposits	0	0	159	**159**
Financial liabilities at fair value through profit or loss	42	3	0	**45**
Other liabilities	628	119	42	**789**
Interest income	-3	73	186	**256**
Interest expense	319	51	92	**462**
Commission income	52	380	72	**504**
Commission expense	421	228	32	**681**
Valuation results and net trading income	2 185	-2	21	**2 204**
Other income	355	12	8	**375**
Other operating expenses	3 261	6	350	**3 617**
Staff expenses	0	0	292	**292**
Other expenditures	442	1	0	**443**

Related parties' items 2017	Parent company	Other branches	Other related parties	Total
Loans and advances to banks	152 917	8 391	1 888	**163 196**
Derivative financial assets	399	0	6	**405**
Other assets	12	118	16	**146**
Deposits from banks	17 741	421	875	**19 037**
Customer deposits	0	0	77	**77**
Financial liabilities at fair value through profit or loss	1 800	1	6	**1 807**
Other liabilities	77	40	76	**193**
Interest income	326	19	59	**404**
Interest expense	837	18	8	**863**
Commission income	322	340	62	**724**
Commission expense	8	298	27	**333**
Valuation results and net trading income	-898	70	1 412	**584**
Other income	32	25	92	**149**
Other operating expenses	2 839	0	557	**3 396**
Staff expenses	0	0	309	**309**
Other expenditures	203	4	3	**210**

Column 'Other related parties' contains items with subsidiaries of parent company and with the key managers of the Hungary Branch.

34. FAIR VALUATION – FINANCIAL INSTRUMENTS

Financial instruments measured at fair value – Fair value hierarchy

31 December 2018	Level 1	Level 2	Level 3	Total
Trading securities	13 657	1	0	**13 658**
Derivative financial assets	0	36 330	0	**36 330**
Financial assets at fair value through other comprehensive income	0	10	0	**10**
Financial assets	**13 657**	**36 341**	**0**	**49 998**
Trading liabilites	8 279	0	0	**8 279**
Derivative financial liabilities	0	32 516	0	**32 516**
Financial liabilities	**8 279**	**32 516**	**0**	**40 795**

The Branch does not have any financial instruments for which the valuation technique includes inputs that are not observable (fair value hierarchy Level 3).
No tranfers were made between the levels during 2018.

Financial instruments measured at fair value – Fair value hierarchy

31 December 2017	Level 1	Level 2	Level 3	Total
Trading securities	6 190	0	0	**6 190**
Derivative financial assets	0	18 762	0	**18 762**
Available-for-sale financial assets	66 615	54 472	0	**121 087**
Financial assets	**72 805**	**73 234**	**0**	**146 039**
Trading liabilites	7 254	0	0	**7 254**
Derivative financial liabilities	0	19 615	0	**19 615**
Financial liabilities	**7 257**	**19 615**	**0**	**26 869**

Financial instruments not measured at fair value

31 December 2018	Level 1	Level 2	Level 3	Fair value	Carrying value
Cash and balances with National Bank of Hungary	24 040	0	0	**24 040**	**24 040**
Securities at amortized cost	111 088	0	0	**111 088**	**110 934**
Loans and advances to banks	0	0	217 126	**217 126**	**217 007**
Loans and advances to customers	0	0	168 539	**168 539**	**166 358**
Financial assets	**135 128**	**0**	**385 665**	**520 793**	**518 339**
Deposits from banks	0	0	145 268	**145 268**	**144 937**
Customer deposits	0	0	324 628	**324 628**	**324 375**
Financial liabilities	**0**	**0**	**469 896**	**469 896**	**469 312**

Fair value of the financial instruments measured at amoritsed cost is calculated by the followings:

- Cash and balances with National Bank Hungary by its nature ((liquid asset with no matuirty), the carrying amount is equal with its fair value
- Securities at amortised cost by availiable market prices (using the same method as determine the market rates of trading securities)
- Fair value of loans and advances to banks and customers and deposits from banks and customers is determined on the basis of non-discounted future cash-flows.

Financail instruments not measured at fair value

31 December 2017	Level 1	Level 2	Level 3	Fair value	Carrying value
Cash and balances with National Bank of Hungary	27 167	0	0	**27 167**	**27 167**
Loans and advances to banks	0	0	195 880	**195 880**	**195 405**
Loans and advances to customers	0	0	109 602	**109 602**	**107 138**
Financial assets	**0**	**0**	**305 482**	**332 649**	**329 710**
Deposits from banks	0	0	40 578	**40 578**	**40 338**
Customer deposits	0	0	356 073	**356 073**	**356 728**
Financial liabilities	**0**	**0**	**396 651**	**396 651**	**397 066**

35. RISK MANAGEMENT

As a global financial institution with a strong European foundation offering banking services, ING is exposed to a variety of risks. ING works with a comprehensive risk management framework, integrating risk management into daily business activities and strategic planning. This ensures the identification, measurement and control of risks at all levels of the organisation to protect the financial stability of ING Bank. The core of ING's business is risk taking, which is based on measuring the risks you want to take and what you have already taken.

Risk Management provides support to Banking Management in a number of key areas, including a willingness to take risks ('risk appetite'), risk-taking strategies, policies, limits, and provides monitoring, control and support functions throughout ING's organisation. ING divides the risks identified in its activities into two main groups: financial and non-financial risks. Financial risks include credit risk (including country risk), market risk (including interest rate, equity, real estate, interest rate margin and foreign exchange risks), asset/liability management and liquidity risk, and business risk. Non-financial risks include operational and compliance risks.
The Risk management section also addresses the main risks stemming from ING's business model. Explains how the risk management function is embedded in the organisation based on the 'three lines of defence'. Key risks stemming from the Bank's business model are addressed by dedicated risk management units covering a variety of areas. The risk management section also includes qualitative and quantitative disclosures on credit, market, liquidity and financing, business, operational and compliance risks.

The Risk management section describes the operation of risk management within ING Bank's Corporate Business Line and all statements are valid for the activities of the risk management unit operated within ING Bank N.V. Hungarian Branch. The term ING Bank refers to the entire ING Bank, more specifically the Corporate Business relevant to the operation of the Branch, while the term Branch refers to the operation of the Hungarian branch.

Basis of disclosure

The Risk management section is part of the additional notes to the Branch's annual financial statements, in which the nature and extent of risks are disclosed as required by IFRS-EU. Not all information in this section can be reconciled back to the primary financial statements and corresponding notes, as it has been prepared using risk and capital data that differs to the accounting basis of measurement.

The place of risk management in the system of the three lines of defence

Effective risk management requires company-wide risk management. ING's control structure is based on the 'three lines of defence' management model, according to which each line has its own specific role and responsibilities so that the execution of tasks is separated from the control of the same tasks. At the same time, the lines of defence need to work closely together to identify, assess and mitigate risks. This governance framework is designed to manage risk in accordance with the risk appetite approved by the Banking Management (MBB), the Board of Directors (EB) and the Supervisory Board (SB) and progress down the ING levels. MBB is made up of ING Bank's Banking Executive and Heads of Divisions.

ING's business line managers and their plenipotentiaries are the first line of defence and are primarily responsible for the performance, operation, regulatory compliance, and effective mitigation of risks of their business line. The Chief Operating Officer (COO) is responsible for ensuring adequate security and control of global applications and IT platforms serving the Bank.
The second line of defence consists of control functions (including Finance, HR, Risk Management) that play a large role in the risk management organisation managed by the Chief Risk Officer (CRO). Responsibility of risk management
- (i) development of general policies and guidelines;
- (ii) objective opposition to implementation, management and control processes; and
- (iii) co-ordination of reporting of risks and controls by the first line of defence.

In addition, it has escalation/veto power over business activities that it deems to pose unacceptable risks to ING.

The internal audit function is the third line of defence. This provides a continuous independent (i.e. outside of business lines and risk management organisation) and objective valuation of the effectiveness of the first two lines' internal controls, including the management of financial and non-financial risks.

Organisational structure of the risk management function

In recent years, banks have faced pressure from regulators and the public in terms of their risk management policies, processes and systems. New requirements and regulations have been introduced and implemented. In order to effectively address such internal and external (market and regulatory) developments and challenges, ING regularly reviews the structure of its risk management organisation to better support the Bank's 'Think ahead' strategy and improve the linkage of business risk management responsibilities with global risk management functions.

ING's global risk management function currently has a two-tier governance structure. At Tier 1 (Tier 1 - the level of local subsidiaries and branches), risk managers tend to focus on risk management within their local unit, while Tier 2 (Tier2 - Amsterdam headquarters) focuses on setting up the risk appetite and risk management policies and monitoring the work of level 1 units (they have more responsibilities in addressing their own risk management problems and defining and implementing appropriate controls).

Risk policies, procedures and standards

ING has a framework of risk management policies, procedures and minimum standards to help ensure consistency across the organisation and establish binding standards for all business units. The purpose of the local business unit management framework is to align with the ING framework and comply with local (regulatory) requirements. It is the responsibility of senior management to implement and adopt to policies, procedures and standards. Policies, procedures and standards are regularly reviewed and updated via relevant risk committees to reflect changes in regulations, markets, products and practices.

Internal control framework

ING has organised its own Internal Control Framework (ICF) with the objective to improve balance of head office policy and standard setting versus local implementation efforts in line with the Think Forward strategy (empowering countries) and as such support and promote an effective risk and control environment. The framework includes binding principles, definitions, process steps and roles and responsibilities to create consistent bank-wide policies and standards.

Development and validation of risk models

Risk models are developed based on ING's internal risk modelling methodology standards and model life cycle. After review and documentation of each model by the Model Development (MD) and Modelling Risk Management (MoRM) Departments, the new and modified models are approved by the dedicated Risk Management Committees established. After the approval of the appropriate risk management committee and, where necessary by the regulator, the risk model is implemented. In addition, MoRM regularly revalidates models. The results of the validation and the impact on capital are reported quarterly to senior management, risk management committees and the supervisory authority.

The MoRM department is one of the cornerstones of ING's risk management control. The department develops and maintains a model risk framework containing the
(1) governance setting the responsibilities,
(2) model risk appetite,
(3) model risk management policies and standards; and
(4) model management toolbox and toolkit. MoRM monitors global model risk and model performance.

Last but not least, validation teams provide independent model validation, which begins with determining whether a model is fit for purpose, and then proceeding through a continuous process of validating the model at various stages of its life cycle: prior to approval, periodically after implementation, or when major modifications are made to the model. The validation process involves a mix of evaluation of evidence of development, process control, and analysis of results. When model validation identifies modelling risks, it also provides suggestions for addressing them.

Risk culture

The reputation and integrity of ING's organisation is essential to operate successfully in the financial world. ING's risk management culture also promotes knowledge of collectively shared values, ideas and goals, potential threats, and aligns individual performance goals with short- and long-term strategies. This is why ING aims to make risk management responsibilities transparent at different levels of the organisation and accountable to all employees.

In addition, ING has recently established a new Centre of Excellence (CoE) on conduct risk. This centre is working to strengthen risk management within ING by evaluating behaviors within the organisation that could potentially impact our reputation and performance. CoE will be responsible for evaluating risk management behaviors to identify, analyse and intervene in high risk behaviors. The purpose of such business risk assessments ('Business Review Assessments') is to assess the risk culture within ING and provide support in the improvement as needed.

Finally, ING also intends to tailor its remuneration policy to its risk profile and stakeholder interests. More information on ING's compensation and benefit policies and their relationship to the risk taken can be found in the ''Capital Requirement Regulation (CRR) Remuneration Disclosure' on the corporate website (ing.com).
https://www.ing.com/About-us/Annual-reporting-suite.htm

The risk cycle

ING applies a step-by-step risk management approach to monitor, mitigate and manage financial and non-financial risks. The approach consists of five iterative activities: risk identification, risk assessment, risk control, risk monitoring and risk reporting. In a nutshell, this means: determining what the risks are, assessing which of those risks can really do harm, taking mitigating measures to control these risks, monitoring the development of the risk and if measures taken are effective, and reporting the findings to management at all relevant levels to enable them to take action when needed.
The iteration is twofold. Firstly, identification, assessment, review and mitigation measures are updated periodically. Secondly, periodic monitoring practices may indicate emerging risks, changes in known risks, changes in risk levels, or the ineffectiveness of current control

measures. A further analysis of such results may lead to renewed and more frequent risk identification and/or assessment and/or changes in mitigation measures.

Stress testing

Stress testing is an important risk management tool that provides input for strategic decisions and capital planning. The purpose of stress testing is to assess the impact of ING's capital and liquidity position on potential but severe stress scenarios. Stress testing demonstrates the sensitivity of different portfolios to adverse macroeconomic and financial market conditions, stressful financial markets and changes in the (geo)political climate.

Types of stress tests

At ING we perform various stress tests. The most comprehensive stress tests are firm-wide scenario analysis, where scenario assumptions are adjusted for all relevant macroeconomic and financial market variables in all countries relevant for ING. Such assumptions are usually based on some qualitative textual description that provides background to the scenario. In addition to firm-wide scenario analysis, ING conducts scenario analyses for individual countries or portfolios. Additionally, sensitivity analyses are performed that focus on highlighting one or more risk factors, usually without any underlying scenario description. Finally, ING also performs reverse stress tests to identify scenarios that may lead to predetermined severe adverse outcomes.

Regulatory environment

In the aftermath of the financial market turmoil and beyond, governments have a duty to help financial institutions, financial institutions have been more closely monitored by the public, supervisory authorities and regulators. This has led to tighter regulation to prevent a future crisis in the financial system and aid from taxpayers' money.

Basel III amendments, CRR/CRD IV and upcoming regulations

In Europe, some changes have already been made to CRR/CRD IV, including leverage ratio and Pillar 2 guidance. EU regulation will be implemented through CRR II/CRD V regulations, expected to be completed in the first half of 2019. In addition, in December 2017, the Basel Committee on Banking Supervision (BCBS) formally announced the Basel III amendments. These new prudential rules for banks include the modification of the standardised approach to lending, the introduction of a lower capital limit based on standardised approaches, the use of internal models, the limitation of operational risk modelling options, the creation of risk-weighted items and new rules on unused credit lines. In Europe, this will be implemented through the CRR III/CRD VI regulation in the coming years. As this implementation phase is long and the transposition into EU legislation is pending, questions remain as to the impact of the amendment.

Targeted overview of internal models

In order to make capital levels more comparable and to reduce the diversity of banks' internal models, the European Central Bank (ECB) launched in June 2017 a Targeted Review of Internal Models (TRIM) to determine the reliability and comparability of banking models. TRIM aims to create a level playing field in the regulatory model for internal models with the ultimate goal of restoring confidence in the use of internal models by European banks. TRIM is expected to be finalised by the end of 2019, which could affect ING through stricter regulations on internal models and RWA increases.

The most important risks that arise

The risks listed below are identified as material existing and emerging risks that could have a material impact on ING's financial position or business model. These could have a material impact on the company's reputation, volatility in future operating results, or affect ING's medium and long-term strategy, including the ability to pay dividends, maintain appropriate capital levels, and achieve liquidity and financing goals. Defining emerging risk: a risk that may have a significant negative impact on our performance, but whose impact on the organisation is currently more difficult to assess than other risk factors identified as not emerging risk.

The topics have emerged as part of the annual risk assessment conducted within the stress testing framework and the risk appetite framework. The order in which the risks are described below does not indicate the likelihood of occurrence nor the magnitude of the financial consequences.

During 2018, many changes were made to our most important and emerging risks. In 2018, the most important risks are still linked to cybercrime, Brexit negotiations, trade-restrictive measures and persistently low interest rates in Eurozone. Also, climate change risk remains an emerging risk, reflecting the impact a deterioration of the climate may have for the financial position and/or reputation of ING.

Macroeconomic changes

In 2018, the economic environment was characterised by accelerated economic growth driven by fiscal stimulus in the United States, while in the UK there was a slowdown due to continued uncertainty in the UK's future in the EU. The economic momentum in the euro area slowed, but it remained strong. Furthermore, trade restrictive measures have also been a source of uncertainty. The persistence of a low interest rate environment in Europe, where central banks kept their interest rates very low and in some countries even negatively, had a negative impact on market interest rates in the short and long term. Both the persistence of low interest rates and the small difference between short- and long-term interest rates affect ING's net interest income.

The decision of the United Kingdom and the EU on the Brexit Agreement remains one of the main political and economic events affecting confidence. Brexit negotiations were ongoing throughout 2018 and the year ended without an agreement on how the UK would leave the EU. Throughout 2018, ING has taken steps to prepare for various opportunities, including: ING has applied for a banking license in the UK, has taken steps to ensure contract continuity and is working on alternatives in the EU to replace euro clearing activities likely to be relocated from London after Brexit. In the United Kingdom, economic growth has slowed down due to continued uncertainty about the future of relations with the European Union. Although ING operates in the United Kingdom through the Wholesale Banking (WB) business line, there has been no significant deterioration in asset quality following the Brexit decision.

Furthermore, macroeconomic changes such as pessimism about Turkey's economic and geopolitical situation and the looming trade war between the United States and China has alarmed financial markets and eroded consumer confidence in 2018. Trade-restrictive measures had a negative impact on economic growth in some key emerging markets (including China). A further uncertainty about the next Italian budget led to a significant increase in country risk premium and a potential economic recession. With this outlook, ING will continue to closely monitor international developments.

Cybercrime

Cybercrime remains a continuing threat to companies in general and financial institutions in particular. The frequency and intensity of attacks have increased worldwide. Threats from Distributed Denial of Service (DDoS), targeted attacks (also called Advanced Persistent Threats) and Ransomware have intensified worldwide. ING expects cybercrime resilience through its dedicated Cybercrime Expertise and Response Team, further improving the control environment for protecting, detecting, and responding to e-banking fraud, DDoS and targeted attacks. Further controls are built into the organisation as part of the overall internal control framework and are continually reassessed against existing and emerging threats.

ING is working to strengthen its resilience to global cybercrime, including strong collaboration with the financial industry, law enforcement authorities, government (such as the National Cyber Security Center) and internet service providers (ISPs) against cybercrime.

Climate change risks

The climate is changing and this is a challenge for our world that is comparable to nothing. The causes of climate change are complex but, according to ING, are directly or indirectly attributable to the effects of human activity. As a financial institution, it is also the responsibility of ING to address climate risks that affect our customers or ING.
ING can play a role in financing solutions to climate change. In addition to investing billions of euros in wind power, solar and geothermal power to support the energy transition, ING will not only cut off its lending services for new coal power plants and coal mines, but also accelerate funding cuts for coal-fired power generation and reduces it to zero by 2025. For such decisions, we derive information from the energy transition risk assessment and our own internal climate ambition to steer our portfolio towards the goals of the Paris Climate Convention.

There are climate change related, so-called physical risks such as risks stemming from the change in the frequency of extreme weather events and rising sea levels. Weather damage caused by storms, hail and rain cannot be insured in many regions and countries of the world where ING or its customers have business interests. There are also risks that are inherent in the transition to a low carbon economy and/or the implementation of the Paris Climate Convention. These could have an impact on the financial sector as a result of transition policies and technological advances. The maket for green finance is also changing, creating new opportunities and threats. ING is working to better understand the physical and transition risks associated with climate change. We are increasingly aware of such risks and are taking steps in the right direction. For example, ING has already announced plans to achieve 'greener' commercial real estate and mortgage portfolios. Another example greatly contributes to this process is the development of the Terra approach, which compares ING's sectoral portfolios with relevant climate scenarios to identify gaps and develop a strategy.

In order to provide the Board of Directors with an overview of strategic climate risks and opportunities management, ING set up the Climate Change Committee (CCC) in 2018. This management committee is chaired by ING's CRO and its deputy chairman is the director responsible for Wholesale Banking. CCC manages ING's climate risk and opportunity management, strategy and objectives for the Group.

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CREDIT RISK

Credit risk is the risk of loss due to default of customers or deterioration of their credit rating. Credit risk may arise from ING's lending, financial markets and investment activities. The Credit risk section provides information on how ING measures, monitors and manages credit risk and provides insights into the portfolio from a Credit risk perspective.

Credit risk is a Tier 1 risk management function within ING and is part of the second line of defence. Within the CRO, the regional and/or business unit's CROs are managed, focusing on the specific risks within their respective geographical and/or business areas. These are Wholesale Banking (WB) CRO, Challengers & Growth Markets (C&G) CRO, CRO Netherlands and CRO Belgium. The Financial Risk Management Division is a Tier 2 risk management function that has an overview on a consolidated level and is responsible for risk appetite setting, risk management framework, model development and policies.

ING's Credit risk strategy is to maintain an internationally diversified loan and bond portfolio while avoiding high risk concentration. Emphasis is placed on managing business change across business lines through a top-down risk appetite framework that sets concentration limits for countries, individual cleints, sectors, products, secondary risks (collateral/guarantees), and investment activities. The goal is to support customer relationship banking while maintaining internal risk/return guidelines and controls.

Credit analysis at portfolio level is based on various metrics, such as: economic capital, regulatory capital, exposure at default (EAD), probability of default (PD), and loss given default (LGD). In order to use ING's capital effectively, risk appetite is monitored and managed at portfolio level. At the transaction level, credit analysis focuses on the amount at risk, the maturity, the structure of the credit facility and the profile of the borrower. ING's credit risk managers work with publicly available data, client-provided data, transaction data from the client's ING account, comparisons with similar groups, industry comparisons, and quantitative techniques.

Within ING, the final authority to approve credit proposals is in the hands of the Management Board Banking ('MBB'). MBB has further delegated its authority within the organisation in the form of a combination of credit amount, maturity and credit rating (credit approval mandates) to lower levels of the organisation. The approval of each transaction is based on the dual signature system, which requires the signature of a person with a credit approval mandate from both the front office and the credit risk management. There is a higher level committee structure for deciding on larger and higher risk loans: including the MBB and below it called the Global Credit Committee, where the credit risk president makes the final decision on the advice of the respective committee members, thus ensuring accountability.

Credit risk categories

ING Bank's activities and credit risk management distinguish between the following risk categories:

- **Credit risk:** occurs when ING grants a loan to a customer or issues guarantees on behalf of a client. These include futures loans, mortgages, revolving loans, credit lines, credit notes, etc. The risk is measured as the carrying amount of the financial liability that the customer will repay to ING, excluding accrued and unpaid interest, discount/premium amortisation and impairment.
- **Investment risk:** The risk of credit default and risk reclassification related to ING's investments in bonds, commercial bonds, equity, securitisation and similar quoted securities. This is considered to be the worst case scenario loss to ING that could result from holding a position in underlying securities in which the issuer's credit rating is impaired or defaulted. All investments in the banking book are classified as investment risk. The primary purpose of ING's investments in its books is liquidity management.
- **Money market/MM risk:** arises when ING places short-term deposits with counterparty to manage excess liquidity. In this way, money market deposits tend to be short-term in nature. If the counterparty defaults, ING may forfeit the deposit. Money market risk is measured as the carrying amount of the deposit, which excludes accrued and unpaid interest.
- **Pre-settlement/PS risk:** arises when a customer becomes defaulted on a forward transaction before the settlement date and ING has to replace the defaulting counterparty with another counterparty (possibly less favourable) market. price. This category of credit risk relates to derivatives (derivatives at the stock exchange, over-the-counter (OTC) derivatives and securities financing transactions).
- **Settlement/S risk:** such a risk arises when a value (cash or financial instrument) is exchanged for the same value date and the expected return on the income leg of the transaction is not certified or may not be expected due to intraday settlement deadlines before ING issues an irrevocable payment instruction or completes the outgoing side of the transaction on the expense leg of the transaction. The risk is that ING is performing but not receiving from the other party. ING handles settlement risk in the same way as other risks, including the risk limit structure per borrower. Due to its short-term nature (1 day), ING does not recognise any impairment or allocates capital to settlement risk. Although settlement risk is considered to be relatively low, ING is increasingly using DVP (delivery versus payment) and secure clearing payment techniques to reduce settlement risk.

The following table shows the breakdown of the Branch's portfolio by customer group and risk category:

ING Bank Hungary branch portfolio per risk category, per regulatory EAD [1]										
	Lending		Investment		Money-market		Pre-settlement		Total	
Risk class	2018	2017	2018	2017	2018	2017	2018	2017	2018	2017
Central Governments and Central Banks	9 677	7 570	110 901	121 078	33 332	37 184	3 840	1 523	**157 750**	**167 355**
Corporates	239 582	168 274	0	0	0	0	2 011	1 998	**241 593**	**170 272**
Institutions	75 086	39 639	0	0	164 265	172 086	14 916	13 856	**254 267**	**225 581**
Retail	62	86	0	0	0	0	0	0	**62**	**86**
Total	**324 407**	**215 569**	**110 901**	**121 078**	**197 597**	**209 270**	**20 767**	**17 377**	**653 673**	**563 294**

[1] Based on the measurement of credit risk in lending, pre-settlement, money market and investment activities (includes balance sheet items and the weighted amount of off-balance sheet items).

Limits on willingness to take credit risk

Credit risk appetite (also known as risk appetite) is the maximum level of credit risk that ING is willing to accept for growth and value creation. Credit risk appetite is linked to the overall bank-wide risk appetite framework. The willingness to take Credit risk is expressed in quantitative and qualitative terms. Result of Credit risk appetite:

- It clearly defines the Credit risks that ING is prepared to take, sets target values, ensures prudent risk management;
- Ensures consistent communication with stakeholders within the organisation;
- Provides guidance on how reporting and monitoring tools should be aligned with organisational structure and strategy; and
- Aligns business units' business strategies and key performance indicators with ING's risk appetite through the Dynamic Planning method.

The determination of Credit risk appetite is present within ING at different levels: portfolio level and transaction level. The various components of risk appetite at the portfolio and transaction level together form the Credit risk framework.

The credit risk appetite and concentration risk framework is composed of:

- Country risk concentration limit: the risk that arises from events in a particular country (or group of countries). In order to deal with the maximum loss that ING considers acceptable as a result of events in other countries, the Supervisory Board approves country risk limits that ensure that ING's consolidated pre-tax profit for three years can withstand the estimated loss from a country risk event. The country risk limit correlates with the risk rating assigned to a particular country.
- The concentration risk of the maximum exposure towards single one obligor groups and assumed in one industry sector: with the help of limits, ING has developed a risk concentration framework to identify, measure and monitor the maximum exposure to a group of borrowers belonging to one group and the maximum exposure to an industry sector (systemic risk).
- Product and secondary risk concentration: in addition, ING has developed a concentration framework to identify, measure and monitor product concentration and secondary risk.
- Scenarios and stress tests: stress testing assesses ING's financial stability through severe but potential stress situations and scenarios and supports decision-making to ensure that ING continues to operate financially even after a severe event has occurred. In addition to the bank-level stress testing framework, ING regularly conducts sensitivity analysis to assess portfolio risks and concentrations. Such sensitivity analyses are consistent with the stress scenario developed within the group-level credit risk appetite framework.
- Product approvals: the purpose of product approval and review is to assess and manage the risks associated with the introduction of new or modified products. This ensures that the areas involved and responsible for product approval carry out a thorough due diligence and properly manage the relevant risks (credit, operational, compliance, etc.) during the Product Approval and Review Process (PARP).
- Sector policies: identify major risk factors and mitigating factors through detailed analyses of specific products and/or industries and individuals holding business mandate propose minimum risk (including business) parameters - and potentially maximum product- and/or portfolio limit with respect to particular business activities.
- Reference limits: the maximum credit risk exposure towards companies of the same group This is expressed as a reference limit at the level of concentration risk, which corresponds to the (maximum) capital requirement calculated under the internal model for Credit risk. This serves as a reference during the credit approval process and may be waived on the basis of appropriate credit risk arguments.
- Credit approval process: The purpose of the credit approval process is to assess individual transactions and the risks associated with those transactions at the level of individual borrowers. There is a separate process for each type of customer that includes specialised credit risk managers within ING's business lines. The credit approval process is supported by a risk rating system and a risk exposure monitoring system. Ratings are used to indicate a customer's creditworthiness, which is the probability of default. This is used as input to determine ING's maximum credit risk appetite (reference limit) for a particular customer type. The definition of delegated power (the amount that can be approved by credentialed colleagues at various levels and functions of the organisation) depends on the customer's risk rating and the amount of credit risk taken by the ING client/client group.

Environmental and social risk framework

ING makes a positive contribution to global economic growth and sustainable development by promoting responsible lending and investment practices. The ESR policy framework includes evaluation tools that are used in ING's mainstream processes and systems. It is now fully integrated into regular customer and transaction reviews. The ESR policy framework is reviewed every three years on the basis of significant changes identified in sectors that are more sensitive to environmental and social risks and impacts. In 2018, the ESR policy framework was completely revised to clarify scope, governance and review. This was done with the active involvement of internal stakeholders (by sector) and under the guidance of external stakeholders (customers, peer banks and NGOs). The implementation of the updated ESR policy framework is scheduled for the beginning of the second quarter of 2019, similarly to publication on ing.com.
Environmental and social risks are reviewed for each credit transaction during the periodic credit review. ESR transactions where funds are used for asset-based financing require enhanced ESR due diligence, e.g. the Equator Principle. Such enhanced ESR valuation is also required for all high-risk transactions such as for those who are indigenous, etc. affected. As risk assessment activities are conducted globally, all working groups involved must be familiar with ING's environmental and social framework. Therefore, ING invests heavily in internal training programs to assist CDUs, front office and risk management staff in assessing environmental and social risks.

Credit risk models

Within ING, internal Basel rules models are used to determine PD, EAD and LGD for regulatory and economic capital purposes. These models also form the basis for ING IFRS 9 impairment (see 'IFRS 9 models' below). At the bank level, ING has implemented approximately 100 credit risk models for both regulatory capital and impairment.
Two main types of PD, EAD and LGD are used throughout the Bank:

- Statistical models are made where a large amount of default or detailed loss data is available. These are characterised by a sufficient number of data points that allow for meaningful statistical estimation of model parameters. The model parameters are estimated using statistical techniques based on the available data set;
- Hybrid models combine the features of statistical models with expert knowledge and experience from risk management and front office staff, as well as literature from credit rating agencies, supervisory authorities, and researchers. Such models are particularly appropriate for 'low default portfolios' where a limited number of historical default events have occurred.

Models to measure pre-settlement/settlement risk

To calculate regulatory capital, we assess the pre-settlement (PS) exposure at market price ('mark-to-market'/MtM) and then add a regulatory add-on. For internal capital, ING uses a combination of the following methodologies to calculate PS exposures:

- MtM plus model-based add-on approach: In this approach, PS risk is calculated as the sum of the MtM value of the trading transaction plus the model-based add-on. MtM fluctuates over the life of the contract. The model-based add-on is product-specific and takes into account the remaining time to maturity, profiling by maturity bucket, etc. Add-on values are updated with a frequency that takes into account major market changes. This methodology is used to estimate pre-trade exposure for all ING financial market products. In addition, it is also used to calculate post-trade risk for financial market portfolios that do not justify the calculation efforts and costs associated with implementing the scenario simulation approach.
- The Monte Carlo method-based approach: this approach is more complex than the PS risk calculation methods, taking into account daily market conditions, including correlations between risk factors and portfolio benefits. The Monte Carlo approach is currently used by ING for the largest volume derivatives, such as foreign exchange (FX) and interest rate derivatives.

ING recognises that the above approaches are not accurate enough for some trading products such as highly structured or exotic derivatives. For the purposes of assessing the risk exposure of such complex products, a unique calculation is made.

The process of credit risk rating

In principle, all risk ratings are based on the risk rating (PD) model, which meets the minimum requirements detailed in the CRR/CRDIV, ECB's supervisory regulations and EBA guidelines. This applies to all borrower types and segments.
ING's PD rating models are based on a scale of 1 to 22 (1 = highest rating; 22 = lowest rating), which is called a "master scale" and roughly corresponds to the rating of external credit rating agencies, such as credit rating agencies. the same rating categories assigned by Standard & Poor's, Moody's, and Fitch. For example, ING 1 is rated S&P/Fitch AAA and Moody's Aaa; ING 2 is rated S&P/Fitch AA + and Moody's Aa1, and so on.

The 22 rating categories are:

- Recommended investment category (1-10 risk ratings);
- Non-investment category (11-17 risk ratings);
- Below average (18-19 risk ratings); and
- Non-performing (20-22 risk ratings).

The first three categories (1-19) are the risk ratings for performing loans. The ratings are calculated by IT systems using internally developed models based on data that is either manually or automatically entered. In some circumstances, the result of a manually-entered model may be modified through an 'appeal procedure' against the result of a rating. Non-performing loan (NPL) risk ratings (20-22) are set by the global or regional credit restructuring department. In case of securitisation portfolios, the external ratings of the loan tranche in which ING has invested prevail.

Risk ratings assigned to customers are reviewed at least annually by the implementation of regularly monitored underlying models. More than 90% of ING's credit exposures were rated using one of the in-house PD rating models. Some of these models are global, such as. large corporate, commercial banking, insurance companies, central governments, funds, fund managers, project financing models. Other models, however, tend to be regional or country specific, such as. PD models for small and medium-sized enterprises (SMEs) in Central Europe, the Netherlands, Belgium and Luxembourg.

Branch's portfolio in terms of credit risk

The Branch's lending exposure is mainly based on the traditional lending of ING Group's corporate customers to subsidiaries and large domestic companies, complemented by other banking services provided to this clientele. Corporate loans (including guarantees issued) are often collateralised or may be unsecured, depending on an internal analysis of the borrower's creditworthiness. The stock of government securities in the investment portfolio is exposed to sovereign risk. It is important to mention the scope of financial market services provided to financial businesses, including interest rate and exchange rate derivatives and repurchase transactions. This is identified as counterparty risk, the resulting pre-trade exposures from trading activities can be found in the second major category of credit risk types. Following the higher level of credit risk as a result of the financial crisis and the economic downturn, the quality of the loan portfolio has improved since 2014 both globally and at Branch level. This improving trend continued in 2018, especially as Hungary's country risk rating improved, which had a beneficial effect on the risk rating of the Hungarian-based corporate portfolio as a whole.
From the point of view of sector concentration, the situation of the Branch is peculiar, as it is engaged in non-universal banking activities in Hungary and its potential customer base is strictly defined. Therefore, in some sectors, risk exposure is concentrated but balanced with consolidation in the global portfolio. The same is true of the geographical distribution of the Branch's exposure to risk, with particularly focuses on Europe and within that especially on Central and Eastern Europe.

The following tables break down the Branch's credit portfolio in terms of risk categories, customer rating, sectoral and geographical concentration:

ING Bank Hungary branch portfolio per credit

Risk class		Lending 2018	Lending 2017	Investment 2018	Investment 2017	Money-market 2018	Money-market 2017	Pre-settlement 2018	Pre-settlement 2017	Total 2018	Total 2017
Investment grade	2-4 (AA)	12 743	867	0	0	0	0	622	1 714	**13 365**	**2 581**
	5-7 (A)	18 196	18 072	0	0	153 578	160 086	6 062	5 972	**177 836**	**184 130**
	8-10 (BBB)	149 634	90 622	110 901	121 078	21 000	25 808	12 494	12 410	**294 029**	**249 918**
Non-investment grade	11-13 (BB)	60 240	55 087	0	0	10 587	12 000	15 257	14 347	**86 084**	**81 434**
	14-16 (B)	7 793	7 963	0	0	100	0	3 415	1 282	**11 308**	**9 245**
	17 (CCC)	45	53	0	0	0	0	79	0	**124**	**53**
Substandard grade	18-19 (CC és kisebb)	0	0	0	0	0	0	0	0	**0**	**0**
NPL grade	20-22 (D)	2 249	1 435	0	0	0	0	0	0	**2 249**	**1 435**
Total		**250 900**	**174 099**	**110 901**	**121 078**	**185 265**	**197 894**	**37 929**	**35 725**	**584 995**	**528 796**

ING Bank Hungary branch portfolio per industry[2]

Industry	Lending 2018	Lending 2017	Investment 2018	Investment 2017	Money-market 2018	Money-market 2017	Pre-settlement 2018	Pre-settlement 2017	Total 2018	Total 2017
Automotive	7 166	9 098	0	0	0	0	1 779	64	**8 945**	**9 162**
Builders & Contractors	3 034	2 679	0	0	0	0	14	150	**3 048**	**2 829**
Central Banks	9 677	7 570	0	0	21 000	25 808	8 343	4 837	**39 020**	**38 215**
Central Governments	0	0	110 901	121 078	0	0	0	0	**110 901**	**121 078**
Chemicals, Health & Pharmaceuticals	11 475	11 131	0	0	0	0	35	109	**11 510**	**11 240**
Commercial Banks	50 096	25 531	0	0	164 265	172 086	7 908	7 733	**222 269**	**205 350**
Food, Beverages & Personal Care	25 853	33 246	0	0	0	0	1 098	1 088	**26 951**	**34 334**
General Industries	61 362	8 030	0	0	0	0	544	326	**61 906**	**8 356**
Natural Resources	21 968	38 369	0	0	0	0	12	11	**21 980**	**38 380**
Non-Bank Financial Institutions	956	1 141	0	0	0	0	15 862	16 163	**16 818**	**17 304**
Retail	6 265	7 054	0	0	0	0	0	0	**6 265**	**7 054**
Services	11 589	14 105	0	0	0	0	172	1 781	**11 761**	**15 886**
Technology	5 588	451	0	0	0	0	0	0	**5 588**	**451**
Transportation & Logistics	4 383	297	0	0	0	0	1 316	601	**5 699**	**898**
Utilities	27 551	12 866	0	0	0	0	846	2 862	**28 397**	**15 728**
Other	3 937	2 531	0	0	0	0	0	0	**3 937**	**2 531**
Total	**250 900**	**174 099**	**110 901**	**121 078**	**185 265**	**197 894**	**37 929**	**35 725**	**584 995**	**528 796**

ING Bank Hungary branch portfolio per region											
Region		Lending		Investment		Money-market		Pre-settlement		Total	
		2018	2017	2018	2017	2018	2017	2018	2017	2018	2017
Europe	Central and Eastern	204 105	133 935	110 901	121 078	37 875	41 555	30 535	27 572	**383 416**	**324 140**
	West	46 471	39 706	0	0	147 390	156 339	7 333	7 778	**201 194**	**203 823**
Australia		2	5	0	0	0	0	0	0	**2**	**5**
Eastern-Asia		8	187	0	0	0	0	0	0	**8**	**187**
North Ameria		314	266	0	0	0	0	61	375	375	641
Total		**250 900**	**174 099**	**110 901**	**121 078**	**185 265**	**197 894**	**37 929**	**35 725**	**584 995**	**528 796**

[1] Based on credit risk measurement contained in lending, pre-settlement, money market and investment activities (includes balance sheet items and loan commitements).
[2] Based on total amount of credit risk in the respective column using ING's internal credir risk measurement methodologies. Economic sectors (industry) below 0.5% are not shown separately but grouped in Other.
[3] Geographic areasare based on country of residence.

Credit risk mitigation

ING's lending and investment businesses are exposed to Credit risk. We continue to monitor the creditworthiness of our customers and investments for their ability to meet their financial obligations to ING. In addition, ING uses a variety of credit risk mitigation techniques and tools to determine the credit quality and the creditworthiness of the customer to mitigate the credit risk associated with the exposure and minimise the losses incurred by ING due to a customer default. The most common terminology used by ING to protect against credit risk is 'collateral'. While collateral can be an important source of credit risk mitigation and repayment, ING's practice is to typically lend based on the customer's creditworthiness, rather than relying solely on the value of the collateral. Within ING, we distinguish between two types of collateral: assets and third party liabilities.

Forms of collateral

Assets
An asset pledged to ING as collateral or security entitles ING to sell it in cases where the customer is unable to meet its financial obligations. Thus, the resulting amount may be used to partially or fully offset the exposure arising from the customer's receivables. Assets may be tangible assets (such as cash, securities, receivables, inventories, plant and machinery, and mortgages on real estate properties) or intangible (such as patents, trademarks, contract rights and licenses). ING may request cover that may be taken into account as a capital reduction under CRR/CRDIV, as well as cover that may not be considered as a capital reducing factor.

Obligations of third parties
Third party obligation, indemnification or commitment (by contract and/or by law) is a legally binding statement by a third party authorising ING to claim from that third party any amount that the customer fails to pay to ING obligation. The most common forms of this are guarantees (such as parent company guarantees and export credit insurance), comfort letters, or third party pledges/mortgages.

Collateral valuation methodology
We have general guidelines for collateral valuation for consistent application within ING. These general guidelines require regular monitoring of the value of the collateral. Collaterals are revalued on a periodic basis and whenever there is reason to believe that the market is undergoing significant changes in terms and conditions. The frequency of monitoring and revaluation depends on the type of collateral.

The method of revaluation also depends on the type of collateral. In the case of asset collateral, the source may be the disclosure of the customer's financial position (e.g. inventories, machinery and equipment), face value (e.g. cash, receivables), market value (e.g. securities and commodities), independent valuations (commercial real estate) and market indices (residential real estate). In the case of third party commitments, the valuation is based on the value attributed to the contract between ING and that third party.

Exposures are categorised into various loan coverage ratio (LTV) categories that highlight the level of collateral coverage of the ING portfolio. Calculation of LTV: the value of the collateral divided by the value of the outstanding receivables at the balance sheet date. The cover may be valid for all or some of the exposures or for a particular borrower's outstanding receivables; the latter being the most common. For the purposes of aggregation, the coverage for all outstanding receivables is capped at 100%.

Pre-execution/settlement risks mitigation

ING uses a variety of market pricing and measurement techniques to quantify pre-settlement risks. Such techniques provide an estimate of ING's potential future exposure, both at the individual trading level and at the portfolio level. To reduce such credit risks, we often enter into framework and hedging agreements.
ING pairs transactions with similar characteristics to determine whether they can be offset. Such offsetting is known as 'compensation'. Thus, ING reduces the amount by any lawful aggregation allowed by the various framework agreements, e.g. ISDA Framework Agreements, Global Repurchase Framework Agreements (GMRA), Global Securities Lending Framework Agreements (GMSLA), etc. Finally,

the bank further reduces the amount by applying Credit Support Annex (CSA), a legal agreement to accept high quality government bonds and cash collateral to mitigate credit risk arising from money market transactions. The collateral placed behind money market transactions is evaluated daily by ING.

The following table gives an overview of the Branch's portfolio coverage for 2017 and 2018:

Cover values including guarantees received - total ING Bank Hungary branch 2018

			Cover Type					Value to Loan	
	Outstandings	Mortgages	Eligible Finantial Collateral	Other CRR/CRD IV eligible	Guarantees	Non CRR/CRD IV eligible	No cover	Partially covered	Fully covered
Business lending	250 832	8 961	13 170	5 699	81 026	6 296	47%	9%	44%
Investment and Money Market	296 166	0	0	0	0	0	100%	0%	0%
Total Lending, Investment and Money Market	**546 998**	**8 961**	**13 170**	**5 699**	**81 026**	**6 296**	**67%**	**2%**	**20%**
Pre-settlement	37 929								
Total	**584 927**								

Cover values including guarantees received - Business lending portfolio per economic sector 2018

Industry			Cover type					Value to loan				
	Outstandings	Mortgages	Eligible Finantial Collateral	Other CRR/CRD IV eligible	Guarantees	Non CRR/CRD IV eligible	No cover	>0% - 25%	>25 - 50%	>50 - 75%	>75 - 100%	>100 %
Automotive	7 167	0	50	1 604	1 265	0	59%	0%	0%	0%	0%	41%
Builders & Contractors	3 034	81	0	0	2 308	0	21%	0%	0%	0%	0%	79%
Central Banks	9 677	0	0	0	0	0	100%	0%	0%	0%	0%	0%
Chemicals, Health & Pharmaceuticals	11 475	130	0	3 000	404	6 180	2%	16%	0%	0%	0%	82%
Commercial Banks	50 096	0	12 011	0	0	0	76%	0%	0%	0%	0%	24%
Food, Beverages & Personal Care	25 853	3 179	26	1 096	6 359	116	35%	0%	34%	0%	6%	25%
General industries	61 362	38	0	0	56 532	0	8%	0%	0%	0%	0%	92%
Media	1 661	0	21	0	1 095	0	33%	0%	0%	0%	0%	67%
Natural Resources	21 968	0	0	0	1 300	0	94%	0%	0%	0%	0%	6%
Non-Bank Financial Institutions	956	0	0	0	500	0	48%	0%	0%	0%	0%	52%
Real Estate	541	0	0	0	0	0	100%	0%	0%	0%	0%	0%
Retail	6 265	3 098	0	0	1 784	0	22%	0%	0%	0%	0%	78%
Services	11 589	0	9 886	0	1 697	0	0%	0%	0%	0%	85%	15%
Technology	5 588	0	720	0	4 868	0	0%	0%	0%	0%	0%	100%
Telecommunications	1 658	0	0	0	0	0	100%	0%	0%	0%	0%	0%
Transportation & Logistics	4 383	2 433	0	0	291	0	38%	0%	0%	0%	0%	62%
Utilities	27 551	0	268	0	2 623	0	90%	0%	0%	0%	0%	10%
Other	8	0	0	0	0	0	100%	0%	0%	0%	0%	0%
Total	**250 832**	**8 939**	**22 926**	**5 685**	**80 827**	**6 280**	**47%**	**1%**	**4%**	**0%**	**4%**	**44%**
of which total Non-performing	2 249	0	0	0	0	116	86%	0%	14%	0%	0%	0%

Cover values including guarantees received - total ING Bank Hungary branch 2017

	Outstandings	Mortgages	Eligible Finantial Collateral	Other CRR/CRD IV eligible	Guarantees	Cover type Non CRR/CRD IV eligible	No cover	Value to loan Partially covered	Fully covered
Business lending	174 009	12 148	10 147	5 540	35 447	5 592	61%	16%	29%
Investment and Money Market	318 972	0	0	0	0	0	100%	0%	0%
Total Lending, Investment and Money Market	**492 981**	**12 148**	**10 147**	**5 540**	**35 447**	**5 592**	**86%**	**4%**	**10%**
Pre-settlement	35 725								
Total	**528 706**								

Cover values including guarantees received - Business lending portfolio per economic sector 2017

Industry	Outstandings	Mortgages	Eligible Finantial Collateral	Other CRR/CRD IV eligible	Guarantees	Cover type Non CRR/CRD IV eligible	No cover	>0% - 25%	>25 - 50%	>50 - 75%	>75 - 100%	Value to loan >100%
Automotive	9 098	0	0	1 760	6 508	0	8%	0%	0%	0%	10%	82%
Builders & Contractors	2 679	0	0	0	2 126	0	21%	0%	0%	0%	0%	79%
Central Banks	7 570	0	0	0	0	0	100%	0%	0%	0%	0%	0%
Chemicals, Health & Pharmaceuticals	11 131	0	0	1 592	657	5 592	8%	36%	0%	0%	0%	56%
Commercial Banks	25 531	0	2 289	0	79	0	91%	0%	0%	0%	9%	0%
Food, Beverages & Personal Care	33 246	3 311	574	2 188	11 537	0	27%	3%	27%	0%	7%	36%
General insutries	8 030	162	0	0	1 276	0	84%	0%	0%	0%	0%	16%
Media	1 819	0	20	0	1 287	0	28%	0%	0%	0%	0%	72%
Natural Resources	38 371	0	0	0	646	0	98%	0%	0%	0%	0%	2%
Non-Bank Financial Institutions	1 141	0	19	0	500	0	55%	0%	0%	0%	0%	45%
Real Estate	467	0	0	0	466	0	0%	0%	0%	0%	0%	100%
Retail	7 054	8 675	0	0	884	0	22%	0%	0%	0%	0%	78%
Services	14 105	0	6 949	0	7 151	0	0%	0%	0%	0%	49%	51%
Technology	451	0	0	0	451	0	0%	0%	0%	0%	0%	100%
Telecommunications	154	0	0	0	0	0	100%	0%	0%	0%	0%	0%
Transportation & Logistics	297	0	0	0	262	0	12%	0%	0%	0%	0%	88%
Utilities	12 865	0	296	0	1 617	0	85%	0%	0%	0%	0%	15%
Other	0	0	0	0	0	0	0%	0%	0%	0%	0%	0%
Total	**174 009**	**12 148**	**10 147**	**5 540**	**35 447**	**5 592**	**57%**	**3%**	**5%**	**0%**	**7%**	**28%**
of which total Non-performing	1 435	0	0	0	0	0	100%	0%	0%	0%	0%	0%

Loan restructuring

The Global Credit Restructuring Division ('GCR') is an independent unit of ING Bank Amsterdam that deals with non-performing loans and loans with a reasonable likelihood that ING will incur losses if no action is taken. GCR deals with customer and portfolio claims that require active management, which may include renegotiation of the terms and conditions or business or financial restructuring, but also the adoption of strategies and decisions for recovery activities and, finally, approval of write-offs. The activities of the GCR, its embeddedness in the global organisation, and its cooperation with local risk management areas are described and defined by a significant set of regulations that apply equally and directly to all ING units.

ING uses three separate statuses to categorize the treatment of customers with a significantly deteriorated credit risk profile, i.e. where there are doubts about the fulfilment and enforceability of the customer's contractual obligations:

- **Watch List category:** Generally, a client is first on the Watch List when there are concerns about a potential or significant deterioration of a credit risk profile that affects a customer's ability to meet its debt service obligations or refinance its existing loans. To recognise and identify such cases, ING uses the Early Warning Signs. Watch List status requires more than usual attention, enhanced monitoring and quarterly reviews. Some customers on the Watch List may be upgraded to Restructuring or even Recovery status.
- **Restructuring category:** A customer undergoes restructuring when there are concerns about the customer's financial stability, creditworthiness, and/or repayment ability, but where the situation does not require termination of the credit line or commencement of the sale of collateral. The client is considered to be unable to meet its contractual financial obligations due to financial difficulties, and ING decides to grant the customer concessions. Exposures that are restructured are exposures for which restructuring measures have been taken. Restructuring measures may take the form of modifications to existing contractual conditions or may include refinancing in whole or in part. Restructuring within ING is based on EBA standards.

For corporate clients, ING applies restructuring measures to support customers with fundamentally sound business models who are experiencing temporary difficulties, in order to maximise the client's repayment ability.
The purpose of ING's actions is to maintain the going concern status of the client by:
- restoring the customer's financial stability;
- supporting customer's transformation;
- restoring the balance between debt and equity; and
- restructuring debt to create a more sustainable situation.

Exposures that are subject to restructuring measures may be performing (risk 1-19) or non-performing (20-22 risk). ING uses specific criteria for moving restructured exposures from default to non-performing and for removing restructured exposures that meet the applicable EBA standards. An exposure is reported as restructured for a minimum of two years. Restructured exposures that are transferred from the non-performing to the performing category will be subject to an additional one-year probationary period.
ING implemented its restructuring policy in 2014. In 2016, ING tightened the definitions in its restructuring policy, based on a detailed reassessment of the relevant EBA standards and subsequent regulatory guidance. As a result of the definitions and such a revision of the scope, the performing restructured exposures accounted for by ING increased significantly in 2016, as measures taken in earlier periods were then recognised as restructuring. Measures taken included, for example, commercially verifiable measures, modification of agreements and remission of breaches of contract.

- **Recovery category:** a customer is transferred to the Recovery category when ING and/or the customer conclude that the customer's financial situation cannot be restored and a decision is made to terminate the (credit) relationship or even to file for bankruptcy. ING favours out-of-court liquidation, but enforces and sells collateral or claims on warrants as appropriate.

The following table shows the Branch' forbornce portfolio for 2017-2018 by sector definition:

Forborne assets			2018			2017
Industry	Forborne assets	Of which performing	Of which: Non-performing	Forborne assets	Of which performing	Of which: Non-performing
Natural resources	89	89	0	926	926	0
Total	**89**	**89**	**0**	**926**	**926**	**0**
Geographical area						
Central and Eastern Europe	89	89	0	926	926	0
Total	**89**	**89**	**0**	**926**	**926**	**0**

Non-performing loans

ING's loan portfolio is under constant review. Loans with overdue financial obligations of more than 90 days are reclassified to non-performing. Corporate loan portfolios generally have reasons to declare a loan default prior to being 90 days past due.
In corporate lending (government, institutions and corporations), ING reclassifies the relevant obligors in the default category when any of the following triggers occur:

- The borrower has not repaid the principal or the interest/fees and such default has remained unresolved within the following periods:
  - For companies: more than 90 days; and
  - For financial institutions and governments: from day 1, however, ING will have a remedy period of 14 calendar days to determine whether the delay in payment was due to non-operational reasons (i.e., due to poor credit quality of the financial institution) or operational reasons. The latter does not trigger default.
- ING believes that the borrower is unlikely to pay; the borrower has provided evidence of significant financial difficulties, to the extent that it will adversely affect the expected future cash flows of the financial instrument.
  The following events are examples of financial difficulties:
  (1) The borrower (or third party) has launched insolvency proceedings;
  (2) NPL status of a group company / co-debtor;
  (3) Major fraud (affecting the company's debt service capability);
  (4) Doubts were raised about the borrower's ability to generate stable and sufficient cash flow for debt service;
  (5) Debt restructuring.
- ING has granted concessions in connection with the borrower's financial difficulties, which will reduce the expected future cash flows from the financial instrument to below its current carrying amount.

The Corporate Lending Business follows a unique borrower approach, using Early Warnings flags to indicate possible future problems with debt service.

The following table provides a breakdown of the receivables of the Branch by delay:

Credit quality: ING Bank Hungary branch portfolio, outstandings		
	2018	2017
Performing, not past due	534 499	489 642
Perforrming, past due (1-90 days)	11 046	1 995
Non-peforming	2 249	1 435
Total	**547 794**	**493 072**

Aging analysis (past due but performing): ING Bank Hungary branch portfolio, outstandings		
	2018	2017
Past due for 1-30 days	11 046	1 995
Past due for 31-60 days	0	0
Past due for 61-90 days	0	0
Past due for 361- days	2 249	1 435
Total	**13 295**	**3 430**

Non-performing Loans: ING Bank Hungary branch portfolio, outstanding by economic sector		
Industry	2018	2017
Retail	1 309	1 435
Food, Beverages & Personal Care	940	0
Total	**2 249**	**1 435**

Impairment on lending losses

As of 1 January 2018, the IFRS 9 accounting rules on loan loss provisioning have been implemented. These accounting rules do not change actual credit losses, but they affect the timing when such losses are recognised in the income statement (P&L). Impairment losses on loans and receivables under IFRS 9 are accounted for using expected losses, whereas, under IAS 39, provisions for loans and receivables had to be recognised from the date when they are incurred. More specifically, impairment on credit losses will be more forward-looking under IFRS 9, in part because the estimated impairment is based on macroeconomic outlook, among other factors.
IFRS 9 defines the expected credit loss (ECL) on the basis of which collective impairment is determined. IFRS 9 builds on AIRB models (PD, LGD, EAD). The IFRS 9 models apply two adjustments to the ECL parameters, namely:
(1) adjustment of economic outlook; and
2) a life-time adjustment of the PD factor, the latter of which applies only to assets in stage 2 and stage 3.
The estimation of model parameters in IFRS 9 is based on statistical techniques supported by expert estimates and judgment.

The table below subdivides the Branch's portfolio into credit risk categories and stage 1, stage 2 and stage 3 categories:

ING Bank Hungary branch portfolio per IFRS 9 stage and rating class [1]									
Risk class			Stage 1		Stage 2		Stage 3		Total
		Outstanding	Impairment	Outstanding	Impairment	Outstanding	Impairment	Outstanding	Impairment
Investment grade	2-4 (AA)	12 743	1	0	0	0	0	**12 743**	**1**
	5-7 (A)	157 459	1	0	0	0	0	**157 459**	**1**
	8-10 (BBB)	300 821	198	0	0	0	0	**300 821**	**198**
Non-investment grade	11-13 (BB)	69 246	65	0	0	0	0	**69 246**	**65**
	14-16 (B)	8 284	63	1 446	3	0	0	**9 730**	**66**
	17 (CCC)	0	0	46	7	0	0	**46**	**7**
Substandard grade	18-19 (CC és kisebb)	0	0	0	0	0	0	**0**	**0**
NPL grade	20-22 (D)	0	0	0	0	2 249	1 914	**2 249**	**1 914**
Total		**548 553**	**328**	**1 492**	**10**	**2 249**	**1 914**	**552 294**	**2 252**

[1] Total outstanding excludes non-IFRS 9 eligible assets (for such exposures no IFRS stage is available: mainly guarantees, letter of credits and pre-settlement exposures)

Impairment losses on off-balance sheet liabilities (loan commitements) are HUF 47 million as at 31 December 2018.

The following tables present the net outstanding amount of loans granted by the Branch broken down by risk category in stages 1, 2 and 3:

ING Bank Hungary branch portfolio per IFRS 9 stage and rating class and rating grade [1]

Rating grade	Stage 1	Stage 2	Collective Stage 3	2018 Individual Stage3	Total	2017 Total
(2-4) AA	12 743	0	0	0	12 743	867
(5-7) A	157 459	0	0	0	157 459	168 652
(8-10) BBB	157 462	0	0	0	157 462	87 717
(11-13) BB	63 645	0	0	0	63 645	47 041
(14-16) B	6 331	1 446	0	0	7 777	7 963
(17) CCC	0	46	0	0	46	53
(18-19) CC and less	0	0	0	0	0	0
(20-22) NPL	0	0	0	2 249	2 249	1 435
Total	**397 640**	**1 492**	**0**	**2 249**	**401 381**	**313 728**
Loss allowance	-143	-9	0	-1 914	-2 066	-1 620
Total outstanding	**397 497**	**1 483**	**0**	**335**	**399 315**	**312 108**

[1] Including provision-required exposure.

Loans and advances to Banks at amortized cost

Rating grade	Stage 1	Stage 2	Collective Stage 3	Individual Stage3	2018 Total	2017 Total
(2-4) AA	12 743	0	0	0	12 743	867
(5-7) A	157 459	0	0	0	157 459	168 652
(8-10) BBB	30 738	0	0	0	30 738	33 390
(11-13) BB	26 663	0	0	0	26 663	12 860
(14-16) B	100	28	0	0	128	0
(17) CCC	0	0	0	0	0	0
(18-19) CC and less	0	0	0	0	0	0
(20-22) NPL	0	0	0	0	0	0
Total	**227 703**	**28**	**0**	**0**	**227 731**	**215 769**
Loss allowance	-26	0	0	0	-26	-63
Total outstanding	**227 677**	**28**	**0**	**0**	**227 705**	**215 706**

[1] Including provision-required exposure.

Loans and advances to Customer at amortized cost

Rating grade	Stage 1	Stage 2	Collective Stage 3	Individual Stage3	2018 Total	2017 Total
(2-4) AA	0	0	0	0	0	0
(5-7) A	0	0	0	0	0	0
(8-10) BBB	126 724	0	0	0	126 724	54 327
(11-13) BB	36 982	0	0	0	36 982	34 181
(14-16) B	6 231	1 418	0	0	7 649	7 963
(17) CCC	0	46	0	0	46	53
(18-19) CC and less	0	0	0	0	0	0
(20-22) NPL	0	0	0	2 249	2 249	1 435
Total	**169 937**	**1 464**	**0**	**2 249**	**173 650**	**97 959**
Loss allowance	-117	-9	0	-1 914	-2 040	-1 557
Total outstanding	**169 820**	**1 455**	**0**	**335**	**171 610**	**96 402**

[1] Including provision-required exposure.

Debt investment securities at amortized cost (2017: held to maturity)[1]

Rating grade	Stage 1	Stage 2	Collective Stage 3	Individual Stage3	2018 Total	2017 Total
(8-10) BBB	110 901	0	0	0	110 901	121 078
Loss allowance	-138	0	0	0	-138	0
Total outstanding	**110 763**	**0**	**0**	**0**	**110 763**	**121 078**

[1] Based on credit risk measurement in Investment Activity

Loan commitments						
Rating grade	Stage 1	Stage 2	Collective Stage 3	Individual Stage3	2018 Total	2017 Total
(8-10) BBB	32 458	0	0	0	32 458	35 115
(11-13) BB	5 600	0	0	0	5 600	155
(14-16) B	1 953	0	0	0	1 953	0
Total	**40 011**	**0**	**0**	**0**	**40 011**	**35 270**
Loss allowance	-47	0	0	0	-47	0
Total outstanding	**39 964**	**0**	**0**	**0**	**39 964**	**35 270**

Sensitivity analysis of the main sources of estimation uncertainty

For all of the assets relevant to IFRS 9 that are to be considered for the purpose of ECL calculation, a 12-month ECL is calculated if the asset class is categorised as a stage 1 category and lifetime ECL is used when the asset falls into a stage 2 or stage 3 category. The classification criteria for stage 2 is that the instrument has a significantly higher credit exposure than the initial exposure measured at initial recognition or acquisition. When classifying into stage 1 or stage 2 categories, specific PD values per asset class are compared to predefined band PD thresholds, which ultimately determine the classification of an asset. The development of band PD thresholds is largely based on management expert judgment, which introduces estimation uncertainty into the model.
The implementation of IFRS 9, with its complexity and potential impact on the carrying amount of assets and liabilities, is a major source of estimation uncertainty. The ECLs to be disclosed in the Group's financial statements are the most sensitive to the criteria used to model forward macroeconomic forecasts, to probe each of the three scenarios used, and to identify significant increases in credit risk. These esential components require consultation and management decision.

Forward-looking macroeconomics used as model inputs:

As a baseline for IFRS 9, the ING Group uses internal consensus based economic forecasting for macroeconomic variables and then uses the Oxford Economics' Global Economic Model (OEGEM) to complement the consensus with consistent forecasts for variables for which no consensus estimates are available (in order of importance GDP growth, unemployment and the housing price index) to ensure overall consistency of the scenarios.

The Group's consensus view of the baseline scenario predicts that economic growth will level off during the initial (three-year) projection period, as growth in major advanced economies and emerging markets is likely to weaken. With regard to the euro area, differences in economic performance will disappear and monetary policy will begin to normalize and growth will moderate. In the United States, the short-term outlook is still positive, but beyond the forecast horizon, growth is expected to fall below the current trend as the impact of tax cuts and higher interest rates begin to take effect. The Group continues to monitor the potential escalation of an international trade conflict and the likely outcome of the Brexit agreement, which is currently unclear.
The downward scenario sees a relatively synchronised global economic downturn, with the economic growth of advanced economies falling to zero and emerging markets falling sharply. The upward scenario sees economic growth returning to unprecedented levels since the financial crisis and returning to pre-crisis unemployment rates.

Methodology used by the Branch

Considering economies of scale, and because of the high degree of embeddedness of the Branch's operations into the global organisation, the Branch takes over the centre's methods and calculations for doubtful loans. The IFRS 9 ECL values for stage 1 and stage 2 assets are calculated by the ING central system, where the analysis of the Hungarian portfolio can be downloaded. The Branch uses this as the basis for local financial statements and reports The Branch relies to a similar extent on the centre's valuation and calculation methodology and support system for the Stage 3 assets, which are in each case individually assessed and individually determined for impairment by the Global Credit Restructuring Division ('GCR'). as a final decision maker (see GCR presentation above).

The table below shows the development of impairment losses on credit losses for the Branch in 2017 and 2018:

Changes in loan loss provision 2017-2018

	12-month ECL (Stage 1)	Lifetime ECL not credit impaired (Stage 2)	Lifetime ECL credit impaired (Stage 3)	Purchased credit impaired	Off Balance (ormer IAS37)	2018 Total (Excluding off-balandce)	2017 Total
Opening Balance as at 1 January IAS 39	0	0	0	0	17	**1 603**	**1 166**
Effect of changes in accounting policy	0	0	0	0	-17	**-53**	**0**
IFRS9 Opening Balance as at 1 January IFRS9	**123**	**13**	**1 414**	**0**	**0**	1 550	1 166
Transfer to 12-month ECL (Stage 1)	0	0	0	0	0	**0**	**0**
Transfer to lifetime ECL not credit impaired (Stage 2)	0	0	0	0	0	**0**	**0**
Transfer to lifetime ECL credit impaired (Stage 3)	-7	0	620	0	0	**613**	**0**
Net remeasurement of loss allowance	40	-2	-120	0	0	**-82**	**0**
Net remeasurement and Stage migration	**33**	**-2**	**500**	**0**	**0**	**531**	**0**
Changes in models/risk parameters	0	0	0	0	0	**0**	**0**
New financial assets originated or purchased	247	0	0	0	0	**247**	**0**
Financial assets that have been derecognised	-66	-2	0	0	0	**-68**	**0**
Increase in loan loss provisions	**214**	**-4**	**500**	**0**	**0**	**710**	**454**
Write-offs	0	0	0	0	0	**0**	**0**
Recoveries of amounts previously written off	0	0	0	0	0	**0**	**0**
Foreign exchange and other movements	-9	1	0	0	0	**-8**	**0**
Closing balance	**328**	**10**	**1 914**	**0**	**0**	**2 252**	**1 620**

MARKET RISK

Market risk is the risk of loss due to changes in market factors such as interest rates, foreign exchange rates, prices and spreads. Adverse effects may also affect the capital position, the market value of the company and its liquidity position.
Market risk can affect the bank's trading and non-trading (banking) book positions. Trading book positions are typically held for short-term trading purposes, while non-trading book positions are typically held for longer-term (up to maturity) or liquidity purposes. Based on the market risk management framework, the Bank identifies, assesses, controls, measures and reports its risks.

Methodology

Market risks related to trading and banking book portfolios are monitored using the historical VaR (HVaR)[1] method. The VaR method is used to quantify financial risks and estimates potential negative effects on the market value of a portfolio with a given confidence level and a defined time horizon. Risk monitoring and reporting is performed on a daily basis by the Bank's Market Risk Management.
In practice, VaR is calculated by sorting the results of the last 260 trading days in ascending order, and then calculating the current value at 99% confidence. VaR is determined over a period of 1 day and 10 days, not only by trading and banking book breakdown, but also by different asset classes (interest rate and currency risk). The 10-day historical VaR is √10 times the 1-day value. For non-trading books, we only calculate the HVaR for interest rate risk, and we quantify the earnings at risk and the NPV at risk. Foreign exchange risk is hedged by low position limits tailored to the activity.
The Bank uses model simulations to estimate possible changes in the market value of trading and banking portfolios based on historical data from the prior period, assuming normal market conditions. VaR limits are set for all trading transactions and risk-taking, and Market Risk Management monitors compliance with them on an ongoing basis.
Although positions may change within a day, the VaR method provides information about portfolio risks only at the end of the business day and does not count for losses above the 99% confidence level. Because the information provided by the historical VaR method relies heavily on data from the past, it does not adequately predict future changes in risk factors. Therefore, in accordance with regulatory requirements, we also quantify incremental risk charge and perform stress tests to simulate extreme market situations for which VaR is not appropriate.
The so-called stressed VaR (SVaR) examines the simulated effect of large movements of financial variables on held portfolios. During the modelling, the exchange rate and interest rate movements of the 2008-2009 global economic crisis are projected to the actual positions taken, and the SVaR is calculated over a 10-day period.

[1] VaR: value at risk

In its control activities, the Market Risk Management Area operates an extensive limit system. The limit system includes, inter alia, limits on sensitivity and position limits. Within this framework, we apply base point sensitivity (BPV) limits for each currency, maturity, and asset-related yield curves. Issuer, country and sector limits are used to avoid excessive concentration. For foreign currencies, the Bank restricts trading to position limits.
As part of its organisational structure, it supports and oversees business areas as part of Market Risk Management, an independent Risk Management Directorate. The Risk Management Area is the Bank's second line of defence, along with the first line of business and the third line of internal control.

Risk indicators in commercial and banking books

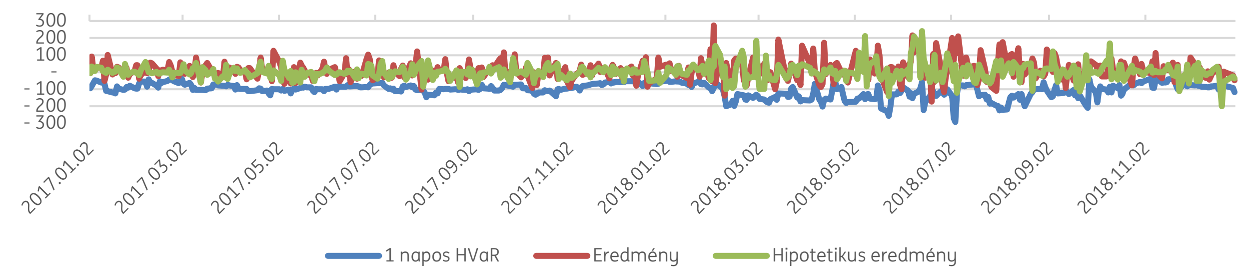
The table below shows how historical risk exposure in the trading book in terms of foreign exchange risk and interest rate risk evolved in 2017 and 2018:

Trading book: 1-day historical VaR (HVaR)

	Mininum value		Maximum value		Average value		Year-end	
	2018	2017	2018	2017	2018	2017	2018	2017
FX rate	0,67	9,42	87,85	170,27	42,47	50,21	2,84	34,41
Interest	38,26	37,53	291,43	140,62	118,48	84,49	116,68	51,91

The following chart shows the historical VAR at 99% confidence, on 1-day defined time horizon with the results of actual and hipotetic daily trading. During the calculation of the hypothetical daily profit and loss, the trading situation remains unchanged and only the effects of market movements are considered, and the actual result is calculated with the given daily transactions. The effectiveness and adequacy of the applied VaR model are back-tested.

ING Bank N.V. Hungarian Branch Trading books VaR (VaR)



Base point value (BPV)

As part of the risk monitoring framework, risk management actively monitors daily changes in the sensitivity of trading portfolios, including in FI-FM portfolios. Sensitivity measures the effect of movements in the market risk factors (interest rates) on the results of trading positions and portfolios.
The basis value measures the effect of an increase in the market interest rate on the present value. The base point value is used to quantify the effect of small changes in yields.
The table below shows the sensitivity associated with the two largest foreign exchange trading positions besides the domestic currency. Due to the nature of trading portfolios, positions change day by day. With this metric, we measure the effect of the rise in market interest rates on the present value. The table below shows the exposure at the end of 2017 and 2018 by currency.

BPV Trading books per currency

	2018	2017
Euro	-1,54	7,46
American dollar	1,24	2,43
Hungarian Forint	9,1	-3,43
Total	**8,8**	**6,46**

As in the trading book, we measure the sensitivity of the base point value of the banking book.

BPV banking books per currency	2018	2017
Euro	–0,44	1,36
American dollar	0,82	–0,37
Hungarian Forint	–3,49	–6,27
Total	**–3,11**	**–5,28**

Net present value at risk (NPV at risk)

Net present value at risk measures the effect of changes in market interest rates on the value of a given portfolio. Asymmetric changes in interest rates can be observed for the downward and upward movement of interest rates, which can be explained by the convexity of the positions taken and by the modelling of unusually large yield changes. The table below shows the change in the risk-adjusted net present value of ING Bank's Branch in Budapest, shocked by a +/- 200 basis point change in positions at the end of 2017 and 2018:

NPV-at-Risk banking books	2018		2017	
	+200 bp scenario	-200 bp scenario	+200 bp scenario	-200 bp scenario
	–119,30	**1 032,33**	**-897,79**	**970,26**

The full value effect cannot be directly attributable to the income statement because changes in fair value are not necessarily recognised in profit or loss or other comprehensive income in the Bank's books. Changes in value are expected to recognised over time if interest rates are based on forward rates over the remaining life of the portfolio.

FUNDING AND LIQUIDITY RISK

Funding and liquidity (F&L) risk is the risk that the ING Group or one of its subsidiaries will be unable to meet their financial obligations on time and at a reasonable cost. ING's business strategy includes financing and liquidity management and applies a funding and liquidity risk management framework to keep such risks within predefined limits.

Financing and liquidity risk management within ING is overseen by ALCO Bank, which approves funding and liquidity risk appetite, which affects all levels of the organisation. In addition, the ICLAAP Committee focuses on the preparation of technical documentation, reviews business processes and ensures compliance with ILAAP obligations. EB and MBB, CRO and CFO, as well as Group Treasury, oversee and are responsible for financing and liquidity risk management.
ING's liquidity risk management framework is based on the concept of the three lines of defence, which implements, monitors and controls the risk management principles together with the first and second lines of defence.

The Group Treasury and the Commercial Divisions are the first line of defence. The primary responsibility of the Group Treasury is to manage the liquidity and financing position required by ING regulators, to provide access to short and long-term financing, and to manage the liquidity buffer. The Commercial Businesses are responsible for managing the financing and liquidity needs of a growing business size.

The second line of responsibility for Financial Risk Management, including the market risk management function, both locally and within the Group, is the development and maintenance of ING's policies, standards, guidelines and risk appetite for F&L risk management. Additionally, the same area measures funding and liquidity risks, is responsible for stress testing activities, and controls liquidity requirements for commercial products. The Lending Division is responsible for reporting and managing information related to financing and liquidity management.

Funding and liquidity management strategy and objectives

The main purpose of ING's funding and liquidity risk management is to maintain sufficient liquidity to fund ING's commercial activities, both in normal circumstances and in stressful times across geographies, maturities and currencies. This requires a diversified funding structure that takes into account all opportunities and constraints.

ING's funding globally consists mainly of retail and corporate deposits, which contribute 50% and 21% respectively to total funding. These sources of funding provide a relatively stable funding base. The remainder of the required financing is provided by the Group Treasury from long-term and short-term business sources. The resources of the Branch include futures and overnight deposits from large corporate and financial organisations, as well as financing provided virtually unlimited by the centre.
ING Bank distinguishes several key factors for future liquidity and funding needs:

- Limits imposed by current and future regulatory requirements;
- Limits set by risk-taking declarations (EUR and USD);
- Findings from various stress tests;
- Limits on the distribution and transferability of liquidity; and
- Any financing/refinancing needs.

Based on all these considerations, ING Bank will assess the adequacy of its current and future liquidity position and, if it deems it necessary, take steps to further improve the position. This is evidenced by the quarterly update of the Liquidity Compliance Statement and the implementation of the ILAAP process.

ING operates a Financing and Liquidity Framework to ensure that ING has sufficient liquidity under normal, disadvantageous and stressful market conditions. ING generally assesses the adequacy of F&L's position based on three main aspects:

(i) Stress;
(ii) Sustainability; and
(iii) Regulators.

(i) Through Stress, ING judges its ability to withstand long-term F&L stress, whether it is abnormal or market-based or a combination of these two, leading to outflow of customer deposits or limited access to the financial markets;
(ii) From a sustainability perspective, ING assesses how conveniently our customers, partners and investors provide financing with the maturities, currencies and instruments that ING needs to continue financing its (intraday, short-term, and long-term) business operations. in case of;
(iii) Through the regulatory aspect, ING makes sure that it is in a position to meet current and future regulatory requirements.

For each of these aspects, ING has risk appetite statements that determine its risk profile, which is commensurate with the principles of liquidity compliance.
These risk appetite statements will subsequently be used in a number of metrics that have appropriate limits and instruments and are used to measure and manage ING's funding and liquidity adequacy.

In terms of stress, risk appetite is defined as having sufficient offset capacity in the form of liquid assets for a variety of internally determined stress scenarios. From a sustainability point of view, an internally determined loan to stable financing ratio (which is complemented by other metrics) is used to provide a diversified funding base and prevent over-reliance on (short-term) professional financing. Finally, we monitor the liquidity coverage ratio (LCR) and NSFR (net stable financing ratio) regulatory metrics for ING's risk appetite and regulatory compliance.

The LCR is a metric that compares the available buffer of high quality liquid assets (HQLA) with the net outflows (outflows - flows) over a 30-day stress scenario defined by the regulatory authority. ING's liquidity buffer is part of the offset capacity that serves as a reserve for liquidity needs under normal and stressful circumstances.
The liquidity buffer mainly consists of 'Tier 1' assets, which are the most liquid and are mainly government or central bank assets. The buffer contains only assets that are freely available for liquidity purposes (not pledged under existing contracts). The size and composition of the liquidity buffer will depend on ING's risk appetite and regulatory liquidity requirements.

Liquidity stress testing

Financing and liquidity stress testing is part of the overall Financing and Liquidity Framework. This enables ING to investigate the impact of exceptional but possible future events on ING's liquidity position and to highlight which entities, business lines or portfolios are sensitive to what types of risks and/or scenarios.

The scope of the Finance and Liquidity Stress Testing Framework includes ING Groep N.V. the financing and liquidity risks of its consolidated statement of financial position, including all its entities, business lines, off and on-balance-sheet positions and contingent assets and liabilities. Net liquidity position (NLP) and survival time (TTS) are two predetermined output data, all of which are affected by the application of specific scenarios and parameters.

The Financing and Liquidity Stress Testing Framework distinguishes between abnormal and market-based scenarios (and a combination of these two) and distinguishes between stress events that develop gradually and rapidly. The generic design of the Financing and Liquidity Stress Testing Framework, which is based on empirical evidence complemented with expert judgment, can be easily applied to a particular scenario, e.g. as input for company-level stress testing or reverse stress testing.

The results of stress tests are taken into account in all aspects of ING's F&L risk management framework and liquidity management:
- risk appetite framework (through risk appetite statements);
- risk identification and assessment;
- monitoring the liquidity position;
- the emergency financing plan; and
- early warning signs.

The Financing and Liquidity Stress Testing Framework is also subject to regular internal validation.

In accordance with the ECB Regulation, ING's liquidity position is subject to monthly stress testing under a specific scenario that is part of the F&L Declaration of Intent to Take Risk. In addition, the results of stress scenarios are regularly monitored and evaluated and used as input for further actions in an emergency.

The Emergency Financing and Liquidity Plan specifically addresses the organisation and planning of liquidity management in stress situations. Emergency financing plans are developed in conjunction with the ING Business Continuity and Crisis Plans, which are regularly tested both centrally and at business unit level.

NON-FINANCIAL RISK AND COMPLIANCE RISK

The Non-Financial Risk Management (NFR) function also includes Operational Risk Management (ORM), Information Risk Management (IRM), Independent Validation Unit (IVU) and Corporate Physical and Personal Security (CSI). Compliance Risk Management (Compliance) consists of the FCC (Financial Crime Compliance) and RCC (Regulatory Compliance and Conduct) areas. The risk control of these functional areas is implemented through policies and minimum standards applicable to the business processes of ING entities. ING has a system of internal controls which is periodically and, if necessary, revised and updated. The purpose of ING is to create an environment for continuous improvement in the management of non-financial and compliance risk. Operating an infrastructure that enables management to track events, compliance, and non-financial risk issues.
The executives of Corporate ORM, Corporate IRM, IVU and CSI are functionally accountable to the Global Head of Non-Financial Risk Management. The Global Head of Non-Financial Risk Management is responsible for developing non-financial risk policies and standards within ING and for ensuring the quality of non-financial risk management within ING entities.
Non-Financial Risk Management Committees (NFRCs) and Management Working Teams (MTs) measure, monitor and manage operational, information and compliance risks. The Bank's NFRC is the Committee for the Priority Approval and Supervision of Non-Financial Risk matters. In addition, NFRCs operate at the regional and/or local business unit level and provide input to the Bank's NFRC. Non-financial risk management topics are an integral part of the regular MT agenda at various levels of the organisation. Since 2018, when the EBA issued the revised guidelines, the Group NFRC has been formed to cover ING Group entities that are not part of the Bank's NFRC. In the operation of the Branch, non-financial risks are discussed and managed at the Management Team meetings, which are specifically designated for this purpose and are directed by the centre.

The ORM and Compliance functions take a functional approach to support consistent implementation of a framework of policies and minimum standards across departments within ING. In order to avoid potential conflicts of interest, it is highly important that individuals working in this function are independent and objective when advising business management on emerging non-financial or compliance risk issues. To facilitate this, there is a matrix-based functional reporting link to the next higher level in Operational Risk Management (ORM), Information Risk Management (IRM) and Compliance Risk Management. A functional accountability relationship implies clear accountability for goal setting, remuneration, performance management and appointment of new employees, as well as a mandate, veto and escalation mandate.

Advanced measurement method (AMA)
ING operates an Operational Risk Management Capital Model, in which the risk profile is strictly tailored to its internal risk profile and divisions, using scenario data to capture severe unlikely risks and internal losses, and RCSA data to capture daily risks. The business unit plays a leading role in assessing the severity of scenarios where the ORM function validates and opposes results. Internal data is combined with external loss data (ORX) during the AMA capital calculation. Since April 2013, ING has been allowed to use the AMA model for regulatory capital purposes. ING reports quarterly regulatory capital results. ING does not currently use insurance or risk transfer mechanisms to mitigate risk in the context of the AMA capital calculation.

OPERATIONAL RISK

Definition of operational risk (ORM): direct or indirect loss due to inadequate or malfunctioning internal processes, people or systems, or external events.

ING classifies operational risks into several risk areas:
- Information (IT) risk means the risk of financial loss, regulatory sanctions or reputational damage due to a breach of confidentiality, integrity or availability within business processes or information, or a lack of information quality;
- Business continuity risk means the risk of financial loss, regulatory sanctions or reputational damage due to business disruptions (loss of people, processes, systems, data, locations);
- Control and process management risk is the risk of financial loss, regulatory sanctions or reputational damage due to ineffective organisational structure and lack of governance procedures (including unclear roles and responsibilities and inadequate reporting structure), failed (transaction) processing (input, execution, output) or failed process management; enforcement of monitoring and risk mitigation measures; and because of the risk management culture;
- Internal fraud risk is the risk of financial loss, regulatory sanctions, or reputational damage due to intentional misuse of employees (including temporary staff, third parties, trainees and consultants) by ING's processes, systems, tools, products and/or services who act deceptively or unlawfully for the benefit of themselves or others;
- External fraud risk means the risk of financial loss, regulatory sanctions or reputational damage intentionally committed by third parties (customers, potential clients or other third parties, including merchants and external agencies) through ING's processes, systems, assets, products and/or services through abusive practices that mislead or illegally favour themselves or others;
- The risk of unauthorised activity is the risk of financial loss, regulatory sanctions, or reputational damage as a result of employees' out-of-business activities that result in unauthorized approval or exceeding their authority;
- Personal or physical security risk is the risk of financial loss, regulatory sanctions or reputational damage due to criminal or environmental threats that may pose a threat to ING employees, people on ING's premises, ING's assets or assets entrusted to ING,

the security of the people in the event venues, personal or property, or affect the confidentiality, integrity or availability of the ING organisation; and

- Employment Practice risk, which involves the risk of financial loss, regulatory sanctions, or reputational damage due to actions incompatible with employment, occupational safety and health laws, regulations or agreements, personal injury claims, discrimination, social or cultural.

Operational risk includes reputational risk as well as legal risk. Defining reputation risk: the possibility that an inappropriate market judgment, whether accurate or not, affecting ING's business practices and associates will result in a loss of confidence in ING's integrity. Reputation risk is multidimensional and is reflected by other market participants, such as customers, counterparties, shareholders, investors or regulators, which may adversely affect ING's ability to maintain or develop existing business relationships or to access further sources of finance (e.g., interbank or securitisation markets).

Definition of legal risk: the risk associated with:

(i) failure (or perceived failure) to comply with applicable laws, regulations, and standards,

(ii) contractual liabilities or contractual obligations that have not been fulfilled or cannot be enforced as intended or are unexpectedly or adversely affected, and

(iii) liabilities to third parties as a result of an act or omission attributable to ING that may (potentially) impair ING's integrity, damage ING's reputation, legal or regulatory sanctions, or financial loss.

Given the strong dependence of financial institutions on IT systems, we have embedded controls in ING's risk management and control framework that monitor various aspects of IT risk, e.g. integrity and confidentiality.

Business continuity framework:
The Business Continuity Management (BCM) Policy and its associated minimum standard define the principles, governance, and framework around which BCM capability is designed, built, and maintained so that ING is prepared to respond to a range of external and internal disruptions, and effectively recover after a severe business disruption at predefined service levels. The lifecycle of ING BCM is a business driven process.

Cybercrime and fraud

- Cybercrime continues to pose a significant threat to ING with attack methods that can rapidly evolve to adapt to new or enhanced security measures. Relatively untrained, malicious hackers are increasingly adopting the tactics, techniques, and processes (TTP) of typically more sophisticated nation-state-based opponents. In addition, more sophisticated techniques are increasingly available in the market. In 2018, as a result of the boom in "cybercrime as a service', large-scale DDoS or phishing attacks have become increasingly affordable and accessible to all types of threats at all levels.
- Controls are built into the organisation as part of the overall internal control framework and are continually reassessed against existing and emerging threats. Identifying and monitoring the perpetrators of ING threats and campaigns also provide information for this process, as does the closer co-ordination of IT security and fraud working groups. In addition, ING will continue to work to strengthen its resilience to global cybercrime and fraud through strong collaboration with financial industry partners, law enforcement authorities, government (such as the National Cyber Security Center) and internet service providers (ISPs).
- Concerns about the potential impact of insider threats continue to increase, but specific information on occurrences or trends in the financial industry remains limited.
- Increasing outsourcing to services and the implementation of PSD2 are likely to pose challenges in the short term in fraud management and IT security as criminals target financial data outside the traditional banking environment.
- Effective management of current and future fraud threats requires continuous improvement of fraud prevention methodologies and automatic fraud detection, and better co-ordination of the response to cross-border fraud within ING.

36. LEGAL PROCEEDINS

There is no egal proceedings in process, where the Hungary Branch is involved. There are no Litigation provision in the books of the Branch.

37. SUBSEQUENT EVENTS

As of 31 December 2018, from the 'Non-current assets held for sale' VISA shares valued at fair value of HUF 413 million were sold in January 2019 for HUF 422 million.

There were no other significant events after the reporting period.

38. OTHERS

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

Pursuant to Decree 28/2017 (XI.22) of the NBH on data reporting obligations to be fulfilled by money and capital market organisations for the fulfilment of the supervisory tasks of National Bank of Hungary, the Branch shall provide the NBH with regular, ad hoc and reporting data.

The amounts owed to the customers of the ING Bank N.V. Hungary Branch arising from the placement of deposits are guaranteed under the terms and conditions of the Dutch Deposit Guarantee Scheme, whose scope cover both ING Bank N.V. and the ING Bank N.V Hungary Branch. As the ING Bank N.V. Hungary Branch is already a member of a deposit guarantee scheme, as required under Directive 94/19/EC of the European Parliament and the Council (the Dutch Deposit Guarantee Scheme), the ING Bank N.V. Hungary Branch is not a member of the Hungarian Deposit Guarantee Fund under Article 209 (3) of Act CCXXXVII of 2013 on lending institutions and financial companies. Therefore, no payment was made into the Hungarian Deposit Guarantee Fund in the financial year.

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

None of the liabilities disclosed in the Statement of Financial Position 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 Bank'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, 27 May 2019

Tibor Bodor Country Manager	Gyula Réthy Chief Administration Officer

ING Bank N.V. Hungary Branch

Management report

31 December 2018

Management report 2018

In accordance with its medium term strategy ING Bank N.V Hungary Branch has been focusing entirely on corporate and financial institution sectors in 2018, providing its financial services for large Hungarian Corporates, banks and other financial institutions and Hungarian subsidiaries of ING Group's International Clients. Our objective is to be one of the top 5 banks on our target markets in Hungary. In the course of 2018 the Head of ING Wholesale Banking (Isabel Fernandez) has announced the revision of our business strategy in order to facilitate the shift of our business model's focus from product to customer, concentrating more on sector-specific expertise and utilization of regional advantages. Adapted to the new strategy the organizational structure of our Wholesale Banking has been renewed as well becoming more flexible and more agile.
According to the specifics of 'branch' legal status the financial data of the entity are not completely comparable with similar data of local commercial banks, still ING Bank is an outstanding player of the Hungarian wholesale banking market in terms of services.

Macroeconomic environment
Thanks primarily to the extremely strong internal demand Hungarian economy finished 2018 with record results. Consumption and investments were both supported by the ultra lax monetary policy that contributed to the continuous strengthening of inflation approaching the 3 percent target of the National Bank of Hungary. 3 months BUBOR, the most important indicator of the bank sector was 0.12 percent on a year average falling significantly behind the level of the base rate as the result of the targeted, unconventional measures of the NBH. At the same time the NBH strove to maintain long interbank interest rates on a low level in order to further propagate long term fixed rate bank loans through their more favourable pricing. These measures led to fierce competition among commercial banks. The NBH at the same time continued to extend and aggravate its set of macroprudential regulation in order to maintain financial stability that hit mostly those banks that do not have retail business therefore tipically rely on external funds.
The so far unseen economic growth, the dynamic increase of wages, the rise of labor shortage both in the household and the corporate business all contributed to the intensification of lending activity. In the course of year 2018 household loan portfolio increased by 7 percent while the growth rate of the entire corporate loan portfolio reached 14 percent. The latest was the result of the borrowings of the SME sector as well as large volume, individual transaction of large corporates aiming productivity increase or long term cost-savings.

1. Financial Result
Net result of ING Bank N.V. Hungary Branch based on IFRS standards increased from a loss of HUF 490 million to a profit of HUF 1.3 billion in 2018. Other comprehensive income increased from HUF 176 million to HUF 413 million accordingly Total comprehensive income turned from a previous years' loss of HUF 314 million to a profit of HUF 1.7 billion.
Total operating income increased significantly by HUF 2.8 billion (this corresponds to an increase of 21%) while Total expenses and expenditures and Addition to loan loss provisions increased with altogether HUF 1.2 billion (8% growth).
Result before tax increased significantly from HUF 225 million to HUF 1.85 billion.

Profit and Loss categories

Net interest income
Attributable to the decreasing interest rate environment net interest income of the Bank continued to decrease by HUF 685 million compared to the previous year, resulting a loss of HUF 1.3 billion. Due to the strong competition and our internal interest rate policy the enforceability of negative interest rates in case of liability side products (client deposits) is sitll limited.
Most important components of the decrease of Net interest income:

- Interest income from trading securities is decreased by HUF 631 million compared to the previous year
- Interest expense paid to the National Bank of Hungary increased by HUF 569 million
- Interest income of customers increased by HUF 311 million.

Net commission income
Net commission income reached HUF 4.58 billion representing an increase of HUF 312 million or 7%. In Payment and Cash Management both client activity and turnover increased remarkably resulting the increase of incomes as well.

Valuation results and net trading income
In this category the income growth is particularly strong, HUF 2.9 billion corresponding to a growth of 36%. The increase is attributable mainly to the IFRS transactions.

Other Income
Other income remained on 2017's level there has been no substantial shift in this income category.

Expenses
Total Expenses increased by 6%. Parallel to the HUF 177 million decrease of Staff expenses Other operating expenses increased by 11% (HUF 624million) and Other expenditures increased by 7% (HUF 297 million). Head Office Overhead costs make up considerable part of operating expenses, which show a significant increase. Account management-related costs increased by HUF 676 million. In case of other expenditures banktax grew by HUF 183 million, transaction duty by HUF 297 million, Loss on value of other receivables by HUF 174 million.
Addition to loan loss provisions
Addition to loan loss provisions is HUF 695 million loss. Out of this amount HUF 609 million is related to one customer.

Total Assets
The Bank's Balance Sheet Total increased from HUF 479 billion to HUF 571 billion. There are the following items behind the HUF 92 billion growth:
On asset side Loans and advances to banks increased by HUF 22 billion, while Loans and advances to customers increased by HUF 59 billion. Within this category long term loans to customers increased by HUF 48 billion. We would like highlight one of our transactions: we disbursed an EUR 170 million long term loan to one of our customers at the end of November 2018.
On Liabilities side Deposits from banks increased by HUF 105 billion while Customer deposits dropped back by HUF 32 billion. Complying with with financial stability indicators - DEM, DMM – still play significant role in the assets and liabilities management of the Bank and in the development of total assets.

2.Divisions' Reports

2.1. Trading

2018 in full was characterized by remarkable volatility. Forint interest rate markets were governed by the fine tuned monetary instruments of the Central Bank (MIRS tenders, mortgage securities purchase program, fixed swap tenders). The latest two measures resulted in abundant Forint liquidity that had influence on the pricing of money market instruments at the end of each quarters, as these are the special dates when financial institution have reporting obligation: spreads became wider and extreme negative Forint interest rates appeared on money markets.
Further significant exchange rate and yield movements were induced by the expectations regarding the FED's rate increase (its extent and timing), the economy related announcements of the US President and the expectation regarding the euro zone growth. Trading activity was preserved at high level in terms of volume by sufficient liquidity and the volatility of quoting spreads (apart from the above-mentioned quarter end dates). ING Bank N.V. Hungary Branch was able to maintain its decisive market position in the continuously changing market environment.

Financial and Capital Markets Sales

In 2018 FM Sales Team continued providing spot and forward foreign exchange and deposit transactions as well as offering complex financial risk management solutions to its corporate and institutional clients. Due to decline in foreign exchange turnover, FM Sales Team made efforts to broaden its customer base by acquisition of new clients using FX conversions. From clients' perspective, just like in the previous years, the pursuit continued to minimize margins used on banking products. Along with this competition strengthened among financial service providers targeting the same client base, both in case of corporate and institutional clients. As a result, the turnover and revenue of foreign exchange transactions and conversions at the Bank's official rate could not increase.
Due to the uncertainties experienced in the market environment on FX, money and capital markets the level of financial market risks continued to be high. FM Sales Team encouraged Corporate Clients to mitigate financial market risks emphasizing the importance of assessing the risks and choosing the proper risk-mitigating solution. Attention was also drawn to the permanently low level of interest rates and the possibilities of long term interest rate risk management arising from this.
Low market interest rate environment continued to sustain moderate attention towards depositing compared to previous years. On the other hand, there was a significant interest in securities trading transactions among financial institutions especially among investment fund managers.
We organized professional Client events and seminars where we discussed not only actual market trends but we also tried to draw their attention to different market risk managment solutions.

2.3. Transaction Services Sales (TS Sales)

In accordance with the strategy of the Bank TS Sales provides services for large Hungarian Corporates and Hungarian subsidiaries of ING Group's International Clients.
In 2018 Transaction Services Sales took part in several tenders, many of them coming from the Bank's international client network. To offset the challenges coming from the relatively stable interest rate environment, negative euro and low forint interest rates, Payments and Cash Management made substantial efforts on maintaining its market share by widening the scope of services provided to current client portfolio and through new client acquisitions. Enhancing clients' re-contracting to conditions conforming to current interest rate environment helped sustain and even improve profitability of the business line.
Within Trade Finance Services business line we can emphasize the efforts made to increase volumes and market share within the existing and the newly acquired client portfolio that contributed to the expected revenue growth.
In Trade Finance Services the possibility of electronic signatures (E-Sign service) was introduced for the comfort of our customers while in Payment and Cash Management new e-statement formats have been implemented.
Instant Payments Services is introduced as of 1 July 2019 which is planned to be accessible through our electronic banking platform. In order to be able to do so, we have continued to actively participate in the preparation processes and also proceeded with technical developments.

2.4 Lending

In 2018 the demand for general corporate lending, provided by commercial banks, somewhat increased compared to the previous years especially for medium- and long term products. Lending conditions were favourable due to the country's external risk classification, which – through lower country risk conversion factor - contributed to further decrease of interest rate of corporate loans compared to last year. Commercial banks tried to compensate low interest rates partly by volume increases that also resulted in the intensification of competition and further - but compared to previous years to a lesser extent - lowering of margins in corporate lending.
Throughout the year reference interest rates reached a record low level, thus Forint exposure became even more important similarly to 2017. Besides on the Hungarian target market of ING Bank especially in servicing Hungarian subsidiaries of ING Group's International Clients demand for euro denominated lending is still significant.
From maturity point of view there is a minor change: average duration of the lending portfolio has increased. At the same time the overwhelming majority of our exposure is still short term, working capital financing facility.
As in previous years energy sector related lending activity was significant: several - among domestic market conditions outstanding – transactions were signed both in general lending and in acquisition and project finance. We managed to broaden our Trade and Commodity Finance activity which is available for our domestic customers with the involvement of our foreign centers of excellence. Following the growing market demand we have started the financing of renewable energy – primarily solar power plant – projects; we are investigating several similar business opportunities right now.
Beside energy sector we are committed to provide our services to Hungarian large corporates that are active in other sectors of the economy as well. Our credit exposure increased in automotive and in agri sectors during the course of 2018 as well.
Environmental protection and sustainability are top priorities for ING Bank. We are especially proud that in 2018 we could provide significant amount of so called green loan to a Hungarian investment supporting e-mobility.
ING Bank provides its services to the players of the financial institutions sector as well. Through mainly medium term euro denominated financing to commercial banks we could increase our credit exposure.

3. Credit, Market and Operational Risk Management

Since 2008 ING Wholesale Banking has been running an integrated Risk Management model, covering credit-, counterparty-,market-, operational- and IT risk management as well as and physical security areas. The basic role of Integrated Risk Management continues 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 2018 as well. Just like earlier, the Bank continued to ensure profitability and stable liquidity. There was no operational or banksecurity incident that would have significantly influenced the going concern operation or profitability of the Bank.
Liquidity of the Branch is remained stable. This is due not only to customer deposits and interbank funds but also to the liquidity facilities continuously available at ING's Amsterdam headquarters. The practice of using liquidity premium reflecting the effects of financial crisis remained unchanged in 2018 but still hadn't been applied for shorter than 1 year tenor. We continued to focus on the efficient management of counterparty and market risk management limits. These limits were changing throughout 2018 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 in 2018 as well.
The quality of the lending portfolio overall remained good. We are monitoring new challenges that would have to face with by certain sectors which have significant exposure in our credit portfolio. These contain the changes of oil prices and raw material prices, climate changes, possible increase in the cost of financing, restrictive effect of the change in the regulatory environment on the business model and profitability. The so-called 'crisis sectors' are continuously 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 can hedge their FX exposure conventionally (by their FX incomes) or by other hedging instruments. At the end of 2018 loan loss provisions related to the lending portfolio and counterparty risks were not significant in sector comparison.

4. Human Resources and Leadership Development
On 31 December 2018 the Branch had 137 employees. This means 5.5% decrease compared to the end of 2017, when the number of employees was 145, at the same time the number of interns, participating in higher education, increased fom 14 to 16. At year-end the Branch had 9 vacant positions. Annual fluctuation (20.48%) was increased by a third compared to 2017. That can be explained by the year-end vacant positions and national labor shortage. During the year we hosted two colleagues from other countries and sent 1 of our employees abroad on short term (3 or 6 months) assignment, 2 of our colleagues joined ING entities in other countries permanently (Belgium, France).
Beyond mandatory professional trainings and e-learning courses 73 percent of our employees 100 percent of our Managers took part in different training programmes or conferences in 2018. Expenses on talent development were 38% lower than in 2017. The reason behind is that the cost of several professional trainings and an extensive management training program were covered by ING Head Office. Moreover, in 2017 we initiated an all-employee training program of which contributed significantly to the fact that our training expenses in 2017 were remarkably high, 137% higher than our previous expenses in 2016.

5. Research and Development, Environmental Protection, Social Responsibility

In its activities ING Bank N.V. Hungarian Branch conforms to the sustainability principles of ING Group which considers environmental protection as one of its elements. As of 2017 we further broadened building Sustainability guidelines into our business operation, whether it was about client filtering (ESR: Economic and Social Risk Policy), account-keeping or investment relationship. Also as of 2017 we started to introduce loan products that encourage sustainable management. The development and dissemination of Circular Economy and Sharing Economy model came into view. In Hungary we continued deepening the responsible procurement practice and testing our suppliers from sustainability point of view. we have further deepened responsible sourcing practices, examining suppliers from a sustainability perspective.A good example for our commitment towards sustainable economy that Ing Bank N.V. Hungary Branch hosted the official establishment of Circular Economy Platform in November 2018. We were among the first to sign the Platform's Memorandum as the Bank considers it a key task to assemble the most important stakeholders who envision a circular economic transition in Hungary at a forum which creates a great place for sharing global experiences. It was also in November 2018 that we disbursed our first so called „green loan".

Budapest, 27 May 2019

Tibor Bodor
Country Manager

Gyula Réthy
Chief Administration Officer