ING Bank N.V. Hungary Branch

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

31 December 2017

The English language version of the Financial Statements 2017 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 2017 English language Financial Statements is the Hungarian language version amended with the Independent Auditors' Report.

Az ING Bank N.V. Magyarországi Fióktelepe 2017-es éves beszámolójának angol nyelvű szövege az eredeti magyar nyelven elkészített éves beszámoló nem hiteles fordítása, ezért az angol nyelvű szöveg csak és kizárólag tájékoztató jellegű anyagnak minősül. A 2017-es éves beszámoló hiteles forrása a könyvvizsgálói záradékkal ellátott magyar nyelvű szöveg.

Contents

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

as at 31 December

in HUF million	Notes	31 December 2017	31 December 2016	1 January 2016
Assets				
Cash and balances with National Bank of Hungary	2	27 167	48 022	49 722
Loans and advances to banks	3	195 405	298 574	216 392
Financial assets at fair value through profit or loss	4			
- trading assets		6 190	28 273	82 116
- derivatives		18 762	21 701	10 121
Available-for-sale financial assets	5	121 087	113 190	36 182
Loans and advances to customers	6	107 138	109 951	126 104
Current tax assets	29	411	280	184
Non-current assets held for sale	9	905	0	446
Deferred tax assets	29	57	33	380
Property and equipment	7	370	365	411
Intangible assets	8	76	95	118
Other assets	10	1 363	573	934
Total assets		**478 931**	**621 057**	**523 110**
Liabilities				
Deposits from banks	11	40 338	153 965	206 381
Customer deposits	12	356 728	390 930	233 344
Financial liabilities at fair value through profit or loss	13			
- trading liabilities		7 254	9 178	21 378
- derivatives		19 615	17 041	9 993
Financial guarantees		18	26	51
Current tax liabilities	29	0	0	47
Deferred tax liabilities	29	109	109	230
Provisions	14	0	98	74
Other liabilities	15	9 904	3 192	5 591
Total liabilities		**433 966**	**574 539**	**477 089**
Equity	17			
Share capital		2	2	2
Capital reserves		43 643	43 643	43 643
Retained earnings		-692	1 037	327
Revaluation reserve		912	736	1 070
Other reserves		1 100	1 100	979
Total equity		**44 965**	**46 518**	**46 021**
Total liabilities and equity		**478 931**	**621 057**	**523 110**

Budapest, 29 May 2018

Tibor Bodor
Country Manager & CEO

Gyula Réthy
Chief Financial Officer

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

for the year ended 31 December

in HUF million	Notes	2017	2016
Interest income		4 541	6 121
Interest expense		5 166	4 124
Net interest income	18	**-625**	**1 997**
Investment income	19	**6**	**430**
Commission income		4 951	4 576
Commission expense		687	795
Net commission income	20	**4 264**	**3 781**
Valuation results and net trading income	21	8 156	7 109
Other income	22	1 340	1 379
Total operating income		**13 141**	**14 696**
Addition to loan loss provisions	23	**-267**	**-604**
Staff expenses	24	2 734	2 735
Other operating expenses	25	5 617	5 017
Other expenditures	26	4 298	4 180
Total expenses and expenditures		**12 649**	**11 932**
Result before tax		**225**	**2 160**
Taxation	29	715	1 412
Net result		**-490**	**748**
Other comprehensive income			
Items that may subsequently be reclassified to the statement of profit or loss:			
Unrealised revaluations available-for-sale investments and other revaluations		**211**	**91**
Realised gains/losses transferred to the statement of profit or loss		**-35**	**-425**
Total comprehensive income		**-314**	**414**

Budapest, 29 May 2018

Tibor Bodor
Country Manager & CEO

Gyula Réthy
Chief Financial 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 2016 by IFRS	2	43 643	327	1 070	979	46 021
Current year net result without realised gains/losses			323			323
Dividends paid			-38			-38
Tax rate change (deferred tax)					121	121
Unrealised revaluations available-for-sale investments and other revaluations				91		91
Realised gains/losses transferred to the statement of profit or loss			425	-425		0
Balance as at 31 December 2016	**2**	**43 643**	**1 037**	**736**	**1 100**	**46 518**

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
Paid dividends			-1 239			-1 239
Unrealised revaluations available-for-sale investments and other revaluations				211		211
Realised gains/losses transferred to the statement of profit or loss			35	-35		0
Balance as at 31 December 2016	**2**	**43 643**	**-692**	**912**	**1 100**	**44 965**

Budapest, 29 May 2018

Tibor Bodor
Country Manager & CEO

Gyula Réthy
Chief Financial Officer

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

for the year ended 31 December

in HUF million		Notes	2017	2016
Cash flows from operating activities				
Result before tax			**225**	**2 160**
Adjusted for:	– depreciation and amortisation		143	137
	– addition to loan loss provision		267	604
	– addition to impairment of other assets		506	0
	– provision		-98	24
	– changes in fair value of financial assets and liabilities at fair value through profit or loss		5 569	-4 521
	realised fair value difference of available-for-sale financial assets		-35	0
Dividend income			-6	-5
Taxation paid			-739	-1 065
Changes in:	– loans and advances to banks		-7 135	-57 407
	– financial assets at fair value through profit or loss		21 664	53 802
	– loans and advances to customers		2 545	15 463
	– other assets		-1 436	264
	– deposits from banks		-22 543	-21 766
	– financial liabilities at fair value through profit or loss		-1 553	-12 001
	– customer deposits		-34 202	157 586
	– other liabilities		6 740	-2 477
Net cash flow from / (used in) operating activities		28	**-30 088**	**130 798**
Cash flows from investing activities				
Investments and advances:	– available for sale investments		6 320	-55 613
	– non-currents assets held for sale		0	21
	– acquisition of property, equipment and intangible assets		-156	-70
	– disposal of property, equipment and intangible assets		27	2
	– dividend income		6	5
Net cash flow from / (used in) investing activities			**6 197**	**-55 655**
Net cash flow from financing activities				
Dividends paid			-1 239	-38
Net cash flow from / (used in) financing activities			**-1 239**	**-38**
Net cash flow			**-25 130**	**75 105**
Cash and cash equivalents at the beginning of year			207 540	132 435
Cash and cash equivalents at the end of year			182 410	207 540
Changes in cash and cash equivalents		27	**-25 130**	**75 105**

Reference is made to Note 27 'Cash and cash equivalents'

Budapest, 29 May 2018

Tibor Bodor
Country Manager & CEO

Gyula Réthy
Chief Financial 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 2017.

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 2017 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 2017 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 131 - 196) in Annual report 2017 and by the publication 'Capital Requirements Regulation (CRR) 2017 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 2017:

Gyöngyi Steiner	Noémi utca 21, 1028 Budapest Registration number: 167986

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 Financial 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 2017, were authorised by the delegated managers of the ING Bank N.V. with signing of Founder Resolution No. 3/2018.

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) as adopted by the European Union (EU) and the relevant article of the Hungarian Accounting Law.

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.

1.1. Changes in IFRS effective in 2017

Present Financial Statements contain changes in IFRS effective in 2017.

1.2. Upcoming changes in IFRS after 2017

Changes to IFRS effective in 2018 and onwards expected to have no significant impact on Branch

The following published amendments are not mandatory for 2017 and have not been early adopted by the Branch. 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 standalone Financial Statements of the Branch.

The list of upcoming changes of IFRS, which are applicable for the Branch:

Effective in 2018 (* - endorsed by the EU, the rest not yet endorsed by the EU):

- * IFRS 9 'Financial instruments',
- * IFRS 15 'Revenue from Contracts with Customers',
- * IFRIC 22 a 'Foreign Currency Transactions and Advance Consideration'

Effective in 2019 (* - endorsed by the EU, the rest not yet endorsed by the EU):

- IFRIC 23 'Uncertainty over Income Tax Treatments';
- IAS 12 'Income Taxes',
- * IFRS 16 'Leases',
- Amendments to IAS 19: 'Employee Benefits': Plan Amendment, Curtailment or Settlement.

Major new IFRSs

1.2.1. IFRS 9 'Financial instruments'

IFRS 9 'Financial Instruments' was issued by the IASB in July 2014 and endorsed by the EU in November 2016. IFRS 9 replaces IAS 39 'Financial Instruments: Recognition and Measurement' and includes requirements for the classification and measurement of financial assets and liabilities, impairment of financial assets, and hedge accounting. The new requirements are effective for annual periods beginning on or after 1 January 2018 and will be applied by the Branch as of 1 January 2018. The Branch applies the classification, measurement, and impairment requirements retrospectively by adjusting the opening balance sheet and opening equity at 1 January 2018. In October 2017, the IASB issued an amendment to IFRS 9 with regard to prepayment features with negative compensation. This change allows financial assets with prepayment features that permit or require a party to a contract either to pay or receive reasonable compensation for the early termination of the contract, to be measured at amortised cost or at fair value through other comprehensive income. The amendment will be effective for annual period beginning or after 1 January 2018.

IFRS 9 program governance and status

The IFRS 9 program was initiated in 2015 and was set-up based on the three pillars of the IFRS 9 standard: Classification and Measurement, Impairment, and Hedge Accounting. These central – ING Bank level - work streams consisted of experts from Finance, Risk, Bank Treasury, Operations, and the Business. The IFRS 9 Technical Board consisted of the heads of various Finance and Risk functions supporting the IFRS 9 Steering Committee by reviewing the interpretations of IFRS 9, the central guidance, and instructions as prepared by the central work streams. The IFRS 9 Steering Committee was the key decision making body and consists of senior managers from Finance, Risk, Bank Treasury and Wholesale Banking Lending Services. The Management Board Banking and the Audit Committee were periodically updated about IFRS 9 and the key decisions.

In 2017 the program's focus was on:

- Performing three 'parallel runs' to test readiness of systems, processes and a number of controls for transition to IFRS 9 as per 1 January 2018;
- Developing and validating of the new expected credit loss models;
- Developing and implementing processes for staging and using forward looking economic guidance in the Expected Credit Losses models;
- Finalising technical interpretation of the IFRS 9 standard;
- Finalising the business model assessment and solely payments of principal and interest testing for Classification and Measurement purposes;
- Implementing and testing system changes;
- Updating the policies, governance, and control frameworks that are impacted by IFRS 9 and starting to embed these changes into everyday business and financial reporting cycles;
- Preparing the IFRS 9 transition disclosure plan.

During 2017, the IFRS 9 program was subject to reviews by Dutch supervisors and audits by ING Bank N.V. internal audit department. ING Bank N.V. has almost completed the implementation of IFRS 9. The main procedures that are in the process of being finalised are the transfer of program activities, further embedding internal controls in the processes, and the last model validations.

Classification and Measurement

IFRS 9 is built on a single classification and measurement approach for financial assets that reflects the business model in which they are managed and their cash flow characteristics. Financial assets are therefore classified in their entirety rather than being subject to complex bifurcation requirements.

Two criteria are used to determine how financial assets should be classified and measured at amortised cost (AC), fair value through other comprehensive income (FVOCI) or fair value through profit or loss (FVPL):

- The business model assessment, performed to determine how a portfolio of financial instruments as a whole is managed in order to classify the business model as Hold to Collect (HtC), Hold to Collect & Sell (HtC&S), or other; and
- The contractual cash flow characteristics test, performed to determine whether the financial instruments give rise to cash flows that are Solely Payments of Principal and Interest (SPPI). Principal is defined as the fair value of the financial asset on initial recognition. Interest is defined as consideration for the time value of money, for the credit risk associated with the principal amount outstanding during a particular period and for other basic lending risk and costs as well as margin.

A financial asset is measured at AC (amortised cost) if it is held within a HtC business model, the contractual cash flows are solely SPPI and if it is not designated as at FVPL. A financial asset is measured at FVOCI if it is held within a HtC&S business model, the contractual cash flows are solely SPPI and if it is not designated at FVPL. Financial assets not classified as AC or FVOCI are measured at FVPL.

ING Bank N.V.'s business models are based on the existing management structure of the bank, and refined based on an analysis of how businesses are evaluated and reported, how their specific business risks are managed and on historic and expected future sales. The SPPI testing was carried out on a sample basis conducted after the financial assets within the business models were stratified based on an analysis of product characteristics. In performing the SPPI testing, ING considered the contractual terms of the instruments. This included assessing whether the financial assets contained a contractual term that would change the amount or timing of contractual cash flows such that they would no longer be SPPI compliant. In making the assessment, terms such as the following were considered:

- Prepayment terms;
- Leverage features, which increase the variability of the contractual cash flows with the result that they do not have the economic characteristics of interest;
- Terms that limit the groups claim to cash flows from specified assets – e.g. non-recourse asset arrangements. This could be the case if payments of principal and interest are met solely by the cash flows generated by the underlying asset, for example in real estate, shipping and aviation financing;
- Features that modify consideration for the time value of money. These are contracts with for example an interest rate which is reset every month to a one-year rate.

A number of key accounting policy choices were required for the Classification and Measurement of ING Bank N.V.'s financial assets, such as the level of permissible sales in a HtC business model, the FVOCI option for equity investments and accounting prepayments. The decision making process for such policy choices followed the IFRS 9 programme governance, with technical matters researched, decisions documented, and conclusions proposed by ING's IFRS 9 Technical Board for approval by the IFRS 9 Steering Committee.

IFRS 9 largely retains the existing requirements in IAS 39 for the classification of financial liabilities. However, under IAS 39 all fair value changes of financial liabilities designated at FVPL are recognised in the statement of profit or loss (SOPL), whereas under IFRS 9 the fair value changes are presented as follows:

- The amount of change in the fair value that is attributable to changes in the credit risk of the liability is presented in the Statement of other comprehensive income (SOCI). Upon derecognition this Debt Valuation Adjustment (DVA) impact shall not be recycled from other comprehensive income (OCI) to the SOPL; and
- The remaining amount of change in the fair value is presented in the SOPL.

Impact on Hungary Branch

As a result of the combined application of the business model analysis and SPPI test, the classification and measurement of the following portfolios will change:

- The most significant change is the reclassification of the available-for-sale (AFS) investment portfolio into the portfolio classified at AC based on HtC business model of IFRS 9. The reclassification from AFS to AC will result in a reduction of the unrealised revaluation gains in equity HUF 7 million and increase HUF 17,9 million in amortised cost at transition date.

Impairment

The implementation of IFRS 9 has 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 on-balance sheet financial assets accounted for at AC and FVOCI 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;
- Forbearance status;
- Watch list status. Loans on the watch list are individually assessed for Stage 2 classification;
- Intensive care management;
- Internal rating;
- Arrears; and the
- More than 30 days past due backstop for Stage 1 to Stage 2 transfers.

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 account 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.

Impact on Hungary Branch
As a result of the new IFRS 9 impairment requirements, Branch expects that the loan loss provisions (LLP) to decrease by approximately EUR 62 million (pre-tax). The split of the ECL to different stages of our portfolio is further detailed in the table below. The decrease in the level of impairments due to the IFRS 9 transition is mainly the result of IFRS 9 Stage 1 loans for which 12 month credit losses need to be calculated.

IFRS 9 transition – estimated expected credit loss (ECL) as at 1 January 2018

in HUF million	IAS 39 loan loss provision	IFRS 9 impairment stages	IFRS 9 change in estimated expected credit loss (ECL)	IFRS 9 estimated expected credit loss (ECL)
Incurred but Not Reported (IBNR)	206	Stage 1 – 12 month ECL	-64	123
		Stage 2 – lifetime ECL	-6	13
Individual provisions (ISFA)	1 415	Stage 3 – lifetime ECL	8	1 423
Total	**1 621**	**Total**	**-62**	**1 559**

IFRS 9 impact on Equity of Hungary Branch

IFRS 9 transition – estimated impact on equity as at 1 January 2018

in HUF million	Estimated impact on equity
Loan loss provision	62
Securities transferred from AFS to HtC portfolio	11
Total impact	**73**

There are neither hedge deals nor financial assets at fair value through profit or loss and through other comprehensive income in the books currently, which would be measured at fair value based on the Branch's own decision (Fair Value Option).

1.2.2. IFRS 15 'Revenue from Contracts with Customers'

IFRS 15 'Revenue from Contracts with Customers' is effective for annual periods beginning on or after 1 January 2018 and has been endorsed by the EU. IFRS 15 introduces a five-step approach for recognising revenue as and when the agreed performance obligations are satisfied. Agreed performance obligations are individual promises made to the customer that deliver benefit from the customer's perspective. Revenue should either be recognised at a point-in-time or over-time depending on the service being delivered to the customer.

Hungary Branch assessed the impact of IFRS 15 and expects that it will have no significant effect on Hungary Branch's Net result and/or Other comprehensive income and equity.

1.2.3. IFRS 16 'Leases'

During 2018 ING Bank N.V. examines the impact of the standard's adoption on the banking group.

1.3. Significant judgements and critical accounting estimates and assumptions

The preparation of the standalone Financial Statements requires management to make judgements in the process of applying its accounting policies and to use estimates and assumptions. The estimates and assumptions affect the reported amounts of the assets and liabilities and the amounts of the contingent liabilities at the balance sheet date, as well as reported income and expenses for the year. The actual outcome may differ from these estimates. The process of setting assumptions is subject to internal control procedures and approvals.

The Hungary Branch has identified areas that require management to make significant judgements and use critical accounting estimates and assumptions based on the information and financial data that may change in future periods. These areas are:

- The determination of the fair values of financial assets and liabilities;
- Loan loss provisions; and
- Provisions.

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 account the original cost, excepting the below cases:

- Derivative financial instruments are evaluated on a fair value basis,
- Financial assets and liabilities at fair value through profit or loss are presented at fair value,
- Available-for-sale financial assets are evaluated on a fair value basis,

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.

1.4.1. Foreign currency translation

Functional and presentation currency

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

Exchange rate differences in the statement of profit or loss are generally included in 'Valuation results and net trading income'. Reference is made to Note 21 'Valuation results and net trading income', which discloses the amounts included in the statement of profit or loss.

1.4.2. Recognition and derecognition of financial instruments

At initial recognition, the Branch measures all financial assets and financial liabilities at their fair value plus or minus, - in the case of a financial asset or financial liability not 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.

Recognition of financial assets

All purchases and sales of financial assets classified at fair value through profit or loss, held-to-maturity and available-for-sale that require delivery within the time frame established by regulation or market convention ('regular way' purchases and sales) are recognised at trade date, which is the date on which the Branch commits to purchase or sell the asset. Loans and receivables are recognised at settlement date, which is the date on which the Branch receives or delivers the asset.

Derecognition of financial assets

Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or where the Branch has transferred substantially all risks and rewards of ownership. If the Branch neither transfers nor retains substantially all the risks and rewards of ownership of a financial asset, it derecognises the financial asset if it no longer has control over the asset.

Recognition of financial liabilities

Financial liabilities are recognised on the date that the entity becomes a party to the contractual provisions of the instrument.

Derecognition of financial liabilities
Financial liabilities are removed from the balance sheet when the obligation specified in the contract is discharged, cancelled or expired. The difference between the carrying amount of a financial liability that has been extinguished and the consideration paid is recognised in profit or loss.

1.4.3. Classification of financial instruments

1.4.3.1 Financial assets and liabilities at fair value through profit or loss

Financial assets at fair value through profit or loss include debt securities, derivatives and other, and comprise the following sub-categories: trading assets, non-trading derivatives. Financial liabilities at fair value through profit or loss comprise the following sub-categories: trading liabilities, non-trading derivatives.

A financial asset or financial liability is classified at fair value through profit or loss if acquired principally for the purpose of selling in the short term or if designated by management as such. Management will designate a financial asset or a financial liability as such only if this eliminates a measurement inconsistency or if the related assets and liabilities are managed on a fair value basis.

Transaction costs on initial recognition of financial assets and liabilities classifies at fair value through profit and loss are recognised in the statement of profit or loss. Interest income and expense from financial instruments is classified at fair value through profit or loss is recognised in 'Net interest income' and the remaining changes in fair value of such instruments are recognised in 'Valuation results and net trading income' in the statement of profit or loss.

For derivatives reference is made to the 1.4.6 'Derivatives and hedge accounting' section.

1.4.3.2 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.
Currently there are no investment classified as held-to-maturity in the books of Hungary Branch.

1.4.3.3 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.

Financial liabilities 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.

1.4.3.4 Intangible asset, 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.

1.4.3.5 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.

1.4.4. Fair values of financial 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.

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.

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.

1.4.5. Credit risk management classification and maximum credit risk exposure
The maximum credit risk exposure for items in the statement of financial position is generally the carrying value for the relevant financial assets. For the off-balance sheet items the maximum credit exposure is the maximum amount that could be required to be paid. Reference is made to Note 33.2 'Contingent liabilities' for these off-balance sheet items. Collateral received is not taken into account when determining the maximum credit risk exposure.

1.4.6. 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.

1.4.7. 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.

1.4.8. Repurchase transactions and reverse repurchase 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.

1.4.9. Impairments of financial assets at amortised cost (loan loss provisions)
Hungary 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.

1.4.10. Impairment of available for sale financial assets
At each balance sheet date, the Hungary Branch assesses whether there is objective evidence that a financial asset or a group of financial assets is impaired. In the specific case of equity investments classified as available-for-sale, a significant or prolonged decline in the fair value of the security below its cost is considered in determining whether the assets are impaired. Significant and prolonged are interpreted on a case-by-case basis for specific equity securities; generally 25% and six months are used as triggers. If any objective evidence exists for available-for-sale debt and equity investments, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in net result – is removed from equity and recognised in the statement of profit or loss. Impairment losses recognised on equity instruments can never be reversed. If, in a subsequent period, the fair value of a debt instrument classified as available-for-sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in the statement of profit or loss, the impairment loss is reversed through the statement of profit or loss.

1.4.11. 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.

1.4.12. 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'.

1.4.13. 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'.

1.4.14. 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.

1.4.15. 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 2017	31 December 2016	1 January 2016
Amounts held at National Bank of Hungary	26 693	47 551	48 906
Cash	494	492	868
Accrued interest	7	18	80
Loan loss provisions	-27	-39	-132
	27 167	**48 022**	**49 722**

In 2017, 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 32 'Assets not freely disposable' for restrictions on Cash and balances with National Bank of Hungary.

3. LOANS AND ADVANCES TO BANKS

Loans and advances to banks	31 December 2017	31 December 2016	1 January 2016
Short term loans to banks	172 146	213 958	178 306
Overdrafts of other banks' current accounts	5 662	5 205	144
Reverse repurchase transactions	2 289	64 013	0
Nostro accounts	7 161	5 437	2 603
Margin accounts	6 685	0	0
Receivables from clearing house	12	13	13
Other receivables	1 292	10 010	35 332
Accrued interest	195	-37	12
Loan loss provisions	-37	-25	-18
	195 405	**298 574**	**216 392**

Reference is made to Note 32 'Assets not freely disposable' for restrictions on Loans and advances to banks.

The maturity date of all financial assets included in the line 'Short term loans to banks' is less than one year, therefore their book value and fair value are equivalent. In all other cases the book value and fair value are equivalent.

No individual loans and advances to banks has terms and conditions that significantly affect the amount, timing or certainty of consolidated cash flows of the Branch.

4. FINANCIAL ASSETS AT FAIR VALUE TRHOUGH PROFIT AND LOSS

4.1. Trading assets

Trading assets by type

	31 December 2017	31 December 2016	1 January 2016
Debt securities	6 190	28 273	82 116
	6 190	**28 273**	**82 116**

Book value and Market value of trading assets – government bonds

31 December 2017	Face value	Book value	Interest	Fair value difference	Market 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*
	5 665	**6 166**	**51**	**-27**	**6 190**

* value below HUF 1 million

4.2. Derivatives

Derivatives by type

	31 December 2017	31 December 2016	1 January 2016
Interest Rate Swaps	2 651	1 007	584
Forward Rate Agreements	111	9	0
Forwards, Swaps	16 000	20 685	9 537
	18 762	**21 701**	**10 121**

Face value and Market value of derivatives

31 December 2017	Face value	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**

Face value and Market value of derivatives

31 December 2016	Face value	Market value
Interest Rate Swaps	108 411	1 007
Forward Rate Agreements	10 000	9
Forwards, Swaps	1 483 303	20 685
	1 601 714	**21 701**

Face value and Market value of derivatives		
1 January 2016	Face value	Market value
Interest Rate Swaps	6 000	584
Forward Rate Agreements	0	0
Forwards, Swaps	1 308 316	9 537
	1 314 316	**10 121**

5. AVAILABLE FOR SALE FINANCIAL ASSETS

Available for sale financial assets by type	31 December 2017	31 December 2016	1 January 2016
Equities	10	711	655
Debt securities	121 077	112 479	35 527
	121 087	**113 190**	**36 182**

Book value and Market value of available for sale financial assets – treasury bills				
31 December 2017	Face value	Book value	Fair value difference	Market 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
	121 108	**121 070**	**7**	**121 077**

* value below HUF 1 million

6. LOANS AND ADVANCES TO CUSTOMERS

Loans and advances to customers by type	31 December 2017	31 December 2016	1 January 2016
Customers' current accounts	50 523	32 445	24 018
Short term loans to customers	14 454	10 042	20 744
Long term loans to customers	25 185	34 660	37 233
Reverse repurchase transactions	6 878	2 106	0
Other receivables	11 579	31 891	44 611
Accrued interest	93	113	115
Loan loss provisions	-1 574	-1 306	-617
	107 138	**109 951**	**126 104**

In case of financial assets included in the line 'Long term loans to customers' the Branch examined that the assets' book value and fair value do not differ significantly from each other, the whole portfolio consists of variable rate loans.
In all other cases the book value and fair value are equivalent.

No individual loans and advances to customers has terms and conditions that significantly affect the amount, timing or certainty of consolidated cash flows of the Branch.

Loan loss provision by type	31 December 2017	31 December 2016	1 January 2016
Individual provision (ISFA)	-1 415	-1 167	-471
Custody receivables	-16	-16	-15
Incurred but Not Reported (IBNR)	-143	-123	-131
	-1 574	**-1 306**	**-617**

Movement in loan loss provisions is presented as 'Addition to loan loss provisions' in the statement of profit or loss.

7. PROPERTY AND EQUIPMENT

Changes in Property and equipment

	Tangible assets serving banking activities directly			Tangible assets serving banking activities indirectly			Total		
	31 Dec 2017	31 Dec 2016	1 Jan 2016	31 Dec 2017	31 Dec 2016	1 Jan 2016	31 Dec 2017	31 Dec 2016	1 Jan 2016
Opening balance	124	139	176	241	272	182	365	411	358
Additions	209	101	222	85	20	170	294	121	392
Capitalised	-145	-59	-196	0	0	0	-145	-59	-196
Depreciation	-59	14	-29	41	-43	66	-18	-29	37
Disposal	-8	-6	-1	-116	-8	-146	-124	-14	-147
Other (reclassification, scrapping)	-2	-65	-33	0	0	0	-2	-65	-33
Closing balance	**119**	**124**	**139**	**251**	**241**	**272**	**370**	**365**	**411**
Gross book value as at 31 December	538	539	568	355	386	374	893	925	942
Accumulated depreciation as at 31 December 31	419	415	429	104	145	102	523	560	531
Net book value as at 31 December	**119**	**124**	**139**	**251**	**241**	**272**	**370**	**365**	**411**

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.

8. INTANGIBLE ASSETS

Changes in intangible assets

	Softwares' user rights			Other concession and similar rights			Total		
.	31 Dec 2017	31 Dec 2016	1 Jan 2016	31 Dec 2017	31 Dec 2016	1 Jan 2016	31 Dec 2017	31 Dec 2016	1 Jan 2016
Opening balance	95	118	209	0	0	0*	95	118	209
Additions	18	26	238	0	0	0	18	26	238
Capitalised	-11	-18	-163	0	0	0	-11	-18	-163
Amortisation	-26	-11	308	0	0*	0*	-26	-11	308
Disposal	0	0	0	0	0	0	0	0	0
Other (reclassification, scrapping)	0	-20	-474	0	0*	0	0	-20	-474
Closing balance	**76**	**95**	**118**	**0**	**0**	**0**	**76**	**95**	**118**
Gross book value as at 31 December	389	431	443	0	0*	0*	389	431	443
Accumulated depreciation as at 31 December 31	313	336	325	0	0*	0*	313	336	325
Net book value as at 31 December	**76**	**95**	**118**	**0**	**0**	**0**	**76**	**95**	**118**

* value below HUF 1 million

Until 31 December 2017, HUF 11 million software user rights had been capitalized. The Branch invested this amount into developments to its existing systems, software upgrades. At the end of the year, intangible assets included HUF 2 million non-capitalized acquisitions.

9. NON-CURRENT ASSETS HELD FOR SALE

Non-current assets held for sale by type	31 December 2017	31 December 2016	1 January 2016
Budapest Stock Exchange share	0	0	446
Mastercard share	905	0	0
	905	**0**	**446**

10. OTHER ASSETS

Other assets by type	31 December 2017	31 December 2016	1 January 2016
Receivables related to settlement of derivatives	893	0	0
Tax receivables	506	0	0
Receivables from customers	33	129	433
Fair value difference related to staff loans	19	38	52
Other accrued assets	391	364	410
Loss on value	-506	0	0
Other	27	42	39
	1 363	**573**	**934**

ING

LIABILITIES

11. DEPOSITS FROM BANKS

Deposits from banks by type	31 December 2017	31 December 2016	1 January 2016
Short term deposits from banks	31 642	81 374	142 400
Long term deposits from banks	0	24 882	50 412
Current accounts of banks	7 476	6 314	2 430
Nostro overdrafts	0	21	0
Repurchase transactions	255	37 171	0
Accrued interest	6	22	53
Other	959	4 181	11 086
	40 338	**153 965**	**206 381**

The maturity date of all financial liabilities included in the line 'Short term deposits from banks' is less than one year, therefore their book value and fair value are equivalent.
In all other cases the book value and fair value are also equivalent.

12. CUSTOMER DEPOSITS

Customer deposits by type	31 December 2017	31 December 2016	1 January 2016
Short term deposits from customers	205 293	210 931	66 194
Current accounts of customers	139 123	132 651	127 375
Accrued interest	185	95	40
Other	12 127	47 253	39 735
	356 728	**390 930**	**233 344**

The maturity date of all financial liabilities included in the line 'Short term deposits from customers' is less than one year, therefore their book value and fair value are equivalent.
In all other cases the book value and fair value are also equivalent.

13. FINANCIAL LIABILITIES AT FAIR VALUE THROUGH PROFIT AND LOSS

13.1. Trading liabilities

Trading liabilities by type	31 December 2017	31 December 2016	1 January 2016
Liabilities from short position of securities	7 254	9 178	21 378
	7 254	**9 178**	**21 378**

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**

13.2. Derivatives

Derivatives by type	31 December 2017	31 December 2016	1 January 2016
Interest Rate Swaps	3 548	1 149	486
Forward Rate Agreements	56	27	115
Forwards, Swaps	16 011	15 865	9 392
	19 615	**17 041**	**9 993**

Face value and Market value of derivatives

31 December 2017	Face value	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**

Face value and Market value of derivatives

31 December 2016	Face value	Market value
Interest Rate Swaps	79 621	1 149
Forward Rate Agreements	60 000	27
Forwards, Swaps	1 042 995	15 865
	1 182 616	**17 041**

Face value and Market value of derivatives

1 January 2016	Face value	Market value
Interest Rate Swaps	9 131	486
Forward Rate Agreements	100 000	115
Forwards, Swaps	1 496 405	9 392
	1 605 536	**9 993**

14. PROVISIONS

Provisions by type	31 December 2017	31 December 2016	1 January 2016
Provisions for contingent and future liabilities	0	30	74
Other provisions	0	68	0
	0	**98**	**74**

All provisions were short-term in nature, therefore we did not calculate with the time value of money.
In view of the ongoing legal proceedings against the Branch, based on the lawyers' assessment of the litigation, no provision was justified.

14.1. Provisions for contingent and future liabilities

Changes in provisions for contingent and future liabilities	31 December 2017	31 December 2016	1 January 2016
Opening balance	30	74	0
Additions	0	0	74
Unused amounts reversed	0	0	0
Used amounts	30	44	0
Other changes	0	0	0
Closing balance	**0**	**30**	**74**

In 2015 the Bank made provisions for its pending and future liabilities in the value of HUF 74 million for portion of the fine falling on the Branch, which was imposed by the Hungarian Competition Authority on the Hungarian Banking Association, this liability is still outstanding in the books at the end of 2016.
In 2017 Branch fulfilled its remaining payment obligation and parallel with this the provision was used.

14.2. Other provisions

Changes in other provisions	31 December 2017	31 December 2016	1 January 2016
Opening balance	68	0	0
Additions	0	68	0
Unused amounts reversed	0	0	0
Used amounts	68	0	0
Other changes	0	0	0
Closing balance	**0**	**68**	**0**

Because of an issued ministry - tax authority guidelines VAT self-revisions were submitted in 2015 due to invoices paid to the parent company between 2012 and 2015. The Branch disagreed with the content of the guidelines, therefore in a frame of a repeated self-revision, sought repayment for a period on the VAT paid.
Due to the related tax authority audit on this subject – other provision at a value of HUF 68 million was created in 2016. In 2017 the provision was used.

15. OTHER LIABILITIES

Other liabilities by type	31 December 2017	31 December 2016	1 January 2016
Amounts to be settled	8 283	1 753	1 182
Tax liabilities	350	290	2 009
Other staff related liabilities	37	32	35
Liabilities related to settlement of derivatives	0	4	102
Cost payable	1 022	1 028	2 215
Others	212	85	48
	9 904	**3 192**	**5 591**

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 expected to settle shortly after the balance sheet date.

16. SUBORDINATED LOANS

As the Company operates as a branch, there were no subordinated loan in its books neither as at 31 December 2017, 31 December 2016 nor as at 1 January 2016.

EQUITY

17. EQUITY

Total equity by type	31 December 2017	31 December 2016	1 January 2016
Share capital	2	2	2
Capital reserves	43 643	43 643	43 643
Retained earnings	-692	1 037	327
Revaluation reserve	912	736	1 070
Other reserves			
– previous general risk provision	1 209	1 209	1 209
– deferred tax on previous general risk provision	-109	-109	-230
Total equity	**44 965**	**46 518**	**46 021**

17.1. Endowment capital (Issued capital)

The endowed capital of the Branch amounted to HUF 2 million on 31 December 2017. This amount is unchanged from 2008 (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.

17.2. 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.

17.3. Retained Earnings

The positive amount of retained earnings contains the dividend amount approved, concerning the given year. Retained earnings as at 1 January 2016 also consists of the difference of IFRS transition in the amount of HUF 289 million in addition to the dividend approved concerning the year of 2015.
Since the branch transformation the profit after tax of each financial year was paid out to the Founder as dividends.

17.4. 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 realized 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.

17.5. Reconciliation of IFRS transition difference

17.5.1. Changes in statement of financial position as at 1 January 2016, the date of IFRS transition

Transition differences

	31 Dec 2015 by HAL*	Securi-ties	Loans	Provi-sion / Loss on value	Revalu-ation	Taxes	Others	1 Jan 2016 by IFRS
Assets								
Cash and balances with National Bank of Hungary	49 854	0	0	-132	0	0	0	49 722
Loans and advances to banks	181 110	35 300	0	-18	0	0	0	216 392
Financial assets at fair value through profit or loss								
- trading assets	89 617	-7 501	0	0	0	0	0	82 116
- derivatives	10 135	0	0	0	0	0	-14	10 121
Available-for-sale financial assets	35 560	0	0	0	645	0	-23	36 182
Loans and advances to customers	81 718	44 596	-80	-130	0	0	0	126 104
Current tax assets	184	0	0	0	0	0	0	184
Non-current assets held for sale	21	0	0	0	425	0	0	446
Deferred tax assets	0	0	0	0	0	380	0	380
Property and equipment	411	0	0	0	0	0	0	411
Intangible assets	184	0	0	0	0	0	-66	118
Other assets	1 112	0	56	0	0	0	-234	934
Total assets	**449 906**	**72 395**	**-24**	**-280**	**1 070**	**380**	**-337**	**523 110**
Liabilities								
Deposits from banks	195 295	11 086	0	0	0	0	0	206 381
Customer deposits	193 613	39 731	0	0	0	0	0	233 344
Financial liabilities at fair value through profit or loss								
- trading liabilities	0	21 378	0	0	0	0	0	21 378
- derivatives derivatives	9 995	0	0	0	0	0	-2	9 993
Financial guarantees	51	0	0	0	0	0	0	51
Current tax liabilities	47	0	0	0	0	0	0	47
Deferred tax liabilities	0	0	0	0	0	230	0	230
Provisions	2 316	0	0	-1 892	0	0	-350	74
Other liabilities	3 735	0	-25	1 815	0	0	66	5 591
Total liabilities	**405 052**	**72 195**	**-25**	**-77**	**0**	**230**	**-286**	**477 089**
Equity								
Share capital	2	0	0	0	0	0	0	2
Capital reserves	43 643	0	0	0	0	0	0	43 643
Retained earnings	0	200	1	-203	0	380	-51	327
Revaluation reserve	0	0	0	0	1 070	0	0	1 070
Other reserves	1 209	0	0	0	0	-230	0	979
Total equity	**44 854**	**200**	**1**	**-203**	**1 070**	**150**	**-51**	**46 021**
Total liabilities and equity	**449 906**	**72 395**	**-24**	**-280**	**1 070**	**380**	**-337**	**523 110**

* HAL: Hungarian Accounting Law

The column **'Securities'** contains the effect on transition from the previous settlement date to trade date accounting, the column **'Loans'** consists of adjustments to amortised cost value, the column **'Provision / Loss on value'** contains liabilities, which cannot be classified as provision under IFRS and recognition of 'incurred but not reported' impairment (IBNR), the column **'Revaluation'** consists of adjustments to the securities' market value, the column **'Taxes'** contains the deferred taxes.
In addition to the adjustment items in the separate columns, the column **'Other'** contains reclassification between the lines of the statement of financial position and derecognition of items, which do not comply with the definition of assets and liabilities under IFRS.

17.5.2. Changes in statement of financial position as at 31 December 2016

Transition differences	31 Dec 2016 by HAL*	Securi-ties	Loans	Provi-sion / Loss on value	Revalu-ation	Taxes	Others	31 Dec 2016 by IFRS
Assets								
Cash and balances with National Bank of Hungary	48 060	0	0	-38	0	0	0	48 022
Loans and advances to banks	245 623	52 977	0	-26	0	0	0	298 574
Financial assets at fair value through profit or loss								
- trading assets	65 770	-37 497	0	0	0	0	0	28 273
- derivatives	21 714	0	0	0	0	0	-13	21 701
Available-for-sale financial assets	102 544	9 945	0	0	701	0	0	113 190
Loans and advances to customers	76 102	33 981	-57	-123	0	0	48	109 951
Current tax assets	280	0	0	0	0	0	0	280
Non-current assets held for sale	0	0	0	0	0	0	0	0
Deferred tax assets	0	0	0	0	0	33	0	33
Property and equipment	361	0	0	0	0	0	4	365
Intangible assets	112	0	0	0	0	0	-17	95
Other assets	564	0	40	-44	0	0	13	573
Total assets	**561 130**	**59 406**	**-17**	**-231**	**701**	**33**	**35**	**621 057**
Liabilities								
Deposits from banks	150 946	3 019	0	0	0	0	0	153 965
Customer deposits	343 706	47 224	0	0	0	0	0	390 930
Financial liabilities at fair value through profit or loss								
- trading liabilities	0	9 178	0	0	0	0	0	9 178
- derivatives derivatives	17 073	0	0	0	0	0	-32	17 041
Financial guarantees	26	0	0	0	0	0	0	26
Current tax liabilities	0	0	0	0	0	0	0	0
Deferred tax liabilities	0	0	0	0	0	109	0	109
Provisions	142	0	0	-44	0	0	0	98
Other liabilities	3 144	0	-17	32	0	0	33	3 192
Total liabilities	**515 037**	**59 421**	**-17**	**-12**	**0**	**109**	**1**	**574 539**
Equity								
Share capital	2	0	0	0	0	0	0	2
Capital reserves	43 643	0	0	0	0	0	0	43 643
Retained earnings	1 239	-50	0	-219	0	33	34	1 037
Revaluation reserve	0	35	0	0	701	0	0	736
Other reserves	1 209	0	0	0	0	-109	0	1 100
Total equity	**46 093**	**-15**	**0**	**-219**	**701**	**-76**	**34**	**46 518**
Total liabilities and equity	**561 130**	**59 406**	**-17**	**-231**	**701**	**33**	**35**	**621 057**

* HAL: Hungarian Accounting Law

The column **'Securities'** contains the effect on transition from the previous settlement date to trade date accounting, and the impact of repurchase transactions under IFRS, the column **'Loans'** consists of adjustments to amortised cost value, the column **'Provision / Loss on value'** contains liabilities, which cannot be classified as provision under IFRS and recognition of 'incurred but not reported' impairment (IBNR), the column **'Revaluation'** consists of adjustments to the securities' market value, the column **'Taxes'** contains the deferred taxes. In addition to the adjustment items in the separate columns, the column **'Other'** contains reclassification between the lines of the statement of financial position and derecognition of items, which do not comply with the definition of assets and liabilities under IFRS.

17.5.3. Changes in statement of total comprehensive income for the year ended 31 December 2016

Transition differences	by HAL*	Securi-ties	Loans	Provision/ Loss on value	Revalu-ation	Taxes	Reclas-sification	Others	by IFRS
Interest income	5 137	-217	18	0	0	0	1 135	48	6 121
Interest expense	2 865	124	0	0	0	0	1 135	0	4 124
Net interest income	**2 272**	**-341**	**18**	**0**	**0**	**0**	**0**	**48**	**1 997**
Investment income	**430**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**430**
Commission income	4 576	0	0	0	0	0	0	0	4 576
Commission expense	795	0	0	0	0	0	0	0	795
Net commission income	**3 781**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**3 781**
Valuation results and net trading income	7 063	42	0	0	0	0	0	4	7 109
Other income	1 379	0	0	0	0	0	0	0	1 379
Total operating income	**14 925**	**-299**	**18**	**0**	**0**	**0**	**0**	**52**	**14 696**
Addition to loan loss provisions	**-697**	**0**	**0**	**93**	**0**	**0**	**0**	**0**	**-604**
Staff expenses	2 720	0	18	-3	0	0	0	0	2 735
Other operating expenses	5 069	0	0	0	0	0	0	-52	5 017
Other expenditures	3 417	0	0	112	0	669	0	-18	4 180
Total expenses and expenditures	**11 206**	**0**	**18**	**109**	**0**	**669**	**0**	**-70**	**11 932**
Result before tax	**3 022**	**-299**	**0**	**-16**	**0**	**-669**	**0**	**122**	**2 160**
Taxation	1 733	0	0	0	0	-321	0	0	1 412
Net result	**1 289**	**-299**	**0**	**-16**	**0**	**-348**	**0**	**122**	**748**
Other comprehensive income									
Items that may subsequently be reclassified to the statement of profit or loss:									
Unrealised revaluations available-for-sale investments and other revaluations	**- 50**	**85**	**0**	**0**	**56**	**0**	**0**	**0**	**91**
Realised gains/losses transferred to the statement of profit or loss	**0**	**0**	**0**	**0**	**-425**	**0**	**0**	**0**	**-425**
Total comprehensive income	**1 239**	**-214**	**0**	**-16**	**-369**	**-348**	**0**	**122**	**414**

* HAL: Hungarian Accounting Law

The column **'Securities'** contains the effect on transition from the previous settlement date to trade date accounting, and the impact of repurchase transactions under IFRS, the column **'Loans'** consists of adjustments to amortised cost value, the column **'Provision / Loss on value'** contains liabilities, which cannot be classified as provision under IFRS and recognition of 'incurred but not reported' impairment (IBNR), the column **'Revaluation'** consists of adjustments to the securities' market value, the column **'Taxes'** contains the deferred taxes and the reclassification of special tax of financial institutions to 'Other expenditures', the column **'Reclassification'** contains the settlement between the negative received and paid interests.
In addition to the adjustment items in the separate columns, the column **'Other'** contains reclassification between the lines of the statement of financial position and derecognition of items, which do not comply with the definition of assets and liabilities under IFRS.

The transition from the Hungarian Accounting Law to IFRS has no significant effect on the statement of cash flow.

17.5.4. Reconciliation of equity

Reconciliation of Equity		
1 January 2016	by IFRS	by HAL*
Share capital	2	2
Capital reserves	43 643	43 643
Retained earnings	327	327
Revaluation reserve	1 070	1 070
Other reserves	979	0
Total equity	**46 021**	**45 042**

* HAL: Hungarian Accounting Law

'Other reserves' contains the previously recognised but unused general risk provision and the related deferred tax liabilities. This reserve cannot be used for dividend payment.

Reconciliation of Equity		
31 December 2016	by IFRS	by HAL*
Share capital	2	2
Capital reserves	43 643	43 643
Retained earnings	1 037	1 037
Revaluation reserve	736	736
Other reserves	1 100	0
Total equity	**46 518**	**45 418**

* HAL: Hungarian Accounting Law

'Other reserves' contains the previously recognised but unused general risk provision and the related deferred tax liabilities. This reserve cannot be used for dividend payment.

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

'Other reserves' contains the previously recognised but unused general risk provision and the related deferred tax liabilities. This reserve cannot be used for dividend payment.

Notes to the standalone statement of total comprehensive income

All figures are in HUF million unless otherwise indicated.

18. NET INTEREST INCOME

Net interest income	2017	2016
Interest income from banks	1 264	2 136
Interest income from trading securities	1 134	2 681
Interest income from derivatives	1 130	336
Interest income from customers	934	942
Interest income from reversed repurchase transactions	77	21
Others	2	5
Interest received	**4 541**	**6 121**
Interest expense paid to banks	3 692	3 250
Interest expense from derivatives	1 245	576
Interest expense paid to customers	29	122
Interest expense from repurchase transactions	13	9
Others	187	167
Interest expenses	**5 166**	**4 124**
Net interest income	**-625**	**1 997**

By the effect of the descending interest environment net interest income of the Branch decreased by HUF 2,6 billion and shows a loss in the amount of HUF 625 million.

The external interest environment on Asset side was continually negative on the interbank market in EUR, HUF was around zero almost throughout the year, occasionally in negative zone. 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) especially regarding HUF deposits was limited. As a consequence the Branch has negative interest margin.

19. INVESTMENT INCOME

In 2017 we recorded dividend received in the amount of HUF 6 million on this line, while in 2016 in addition to the dividend received in the amount of HUF 5 million, income on the sale of investment securities amounting to HUF 425 million was also recognised.

20. NET COMMISSION INCOME

20.1. Commission incomes

Commission incomes	2017	2016
Funds transfer fee and commission incomes	2 926	2 698
Brokerage income within ING group	565	537
Incomes from loans	563	587
Incomes from brokerage activities	454	334
Commission incomes on guarantees and letter of credits	315	289
Incomes from custody	43	54
Others	85	77
	4 951	**4 576**

20.2. Commission expenses

Commission expenses	2017	2016
Brokerage expense within ING group	307	348
Funds transfer fee and commission expenses	151	145
Expenses from brokerage activities	128	147
Expenses from custody	37	36
Expenses on postal services	5	6
Commission expenses on guarantees and letter of credits	5	6
Others	54	107
	687	**795**

21. VALUATION RESULTS AND NET TRADING INCOME

Valuation results and net trading income	2017	2016
Changes in fair value of derivatives:		
– Interest Rate Swaps	-628	-113
– Forward Rate Agreements	73	97
– Forwards, Swaps	-4 835	4 674
Result from securities trading	478	882
Result from foreign exchange	2 172	2 563
Revaluation of balance sheet	10 803	-981
Others	93	-13
	8 156	**7 109**

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, corporate clients, and governments. 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 2017, Derivatives trading results includes HUF 22 million CVA/DVA adjustments on trading derivatives, compared with HUF -8 million CVA/DVA adjustment in 2016.

22. OTHER INCOMES

Other incomes	2017	2016
Income from recharged costs	992	1 132
Income from legal cases	118	0
Income from consultancy	112	136
Others	118	111
	1 340	**1 379**

23. ADDITION TO LOAN LOSS PROVISIONS

Addition to loan loss provisions	2017	2016
Opening balance	1 370	766
Write-offs	0	0
Reversal of loan loss provision	153	112
Increase in loan loss provision	420	716
Closing balance	**1 637**	**1 370**

24. STAFF EXPENSES

Staff expenses	2017	2016
Payroll	1 974	1 890
Other personnel costs	211	248
Social security and similar deductions	510	588
Training costs	34	12
Changes in provision on untaken holiday	5	-3
	2 734	**2 735**

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	2017	2016
Actual number of staff on 31 December	145	146
Annual average statistical number of staff	147	156
- of which: part-time employees	5	6

Payroll costs of employees in a breakdown by employee groups	2017	2016
Payroll costs of full-time employees	1 941	1 846
Payroll costs of part-time employees	33	44
	1 974	**1 890**

25. OTHER OPERATING EXPENSES

Other operating expenses	2017	2016
Material costs	50	47
Material type services used costs	648	602
Other services used costs	4 766	4 206
Other costs	10	10
Depreciation and amortisation	143	152
	5 617	**5 017**

Auditing the annual Financial Statements and other audit services
The fee for auditing the financial statements for the present financial year is HUF 22 million, including VAT. The Branch recognised HUF 8 million as cost of other services provided by the auditor in the reporting period.

26. OTHER EXPENDITURES

Other expenditures	2017	2016
Taxation	2 480	2 313
Expenses of recharged costs	993	1 132
Changes in loss on value of other receivables	506	0
Changes in provision	-98	24
Others	417	711
	4 298	**4 180**

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.

27. CASH AND CASH EQUIVALENTS

Cash and cash equivalents	31 December 2017	31 December 2016	1 January 2016
Treasury bills and other securities	44 472	29 526	8 062
Loans and advances to banks / Deposits from banks	110 744	129 953	74 520
Cash and balances with National Bank of Hungary	27 194	48 061	49 853
Cash and cash equivalents at the end of the year	**182 410**	**207 540**	**132 435**

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 32 'Assets not freely disposable' for restriction on 'Cash and balances with National Bank of Hungary'.

28. CASH FLOWS FROM OPERATING ACTIVITIES

Notes to the cash flows from operating activities:

Cash flows from operating activities	2017	2016
Interest income	4 619	6 088
Interest expenses	4 818	3 721
Dividend income	6	5
Income taxes paid	848	1 210

Other notes to the standalone Financial Statements

All figures are in HUF million unless otherwise indicated.

29. 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 year. 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 2016 the corporate income tax was calculated progressively, 10% on the part of the result before tax not exceeding HUF 500 million and 19% on the exceeding part.

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

	2017	2016
Corporate Income Tax	71	262
Local Business Tax	668	803
Deferred tax	-24	347
	715	**1 412**

Deferred tax assets and liabilities

	2017		2016	
	Deferred tax assets	Deferred tax liabilities	Deferred tax assets	Deferred tax liabilities
Securities	0	0	1	0
Loan loss provision related to receivable from banks and customers	0	0	17	0
Receivables from customers (amortised cost, suspended interest)	0	0	0	4
Intangible assets, Property and equipment	8	0	7	6
Loss on value of other receivables	46	0	0	0
Provisions	3	0	18	0
Total	57	0	43	10
Deferred tax assets	**57**		**33**	
Previous general risk provision	0	109	0	109
Deferred tax liabilities		**109**		**109**

Effective tax rate

	2017		2016	
	HUF million	%	HUF million	%
Result before tax	**225**		**2 160**	
Theoretical tax expense with the statutory corporate income tax rate	-	-	411	19,00
Tax based on income (profit) minimum tax base	71	31,47	-	-
Tax base modifiers:	-	-	-106	-4,89
- *Items increasing the tax base*	-	-	*491*	*22,74*
- *Items reducing the tax base*	-	-	*-597*	*-27,64*
Effect of the new (10%) tax rate	-	-	-45	-2,08
Changes in the deferred tax	-24	-10,91	349	16,17
Other income taxes	668	297,04	803	37,18
Income tax with effective tax rate	**715**	**317,61**	**1 412**	**65,38**

30. FINANCIAL ASSETS BY MATURITY

Financial assets by maturity

31 December 2017	Less than 1 year	Over 1 year	Without maturity	Total
Cash and balances with National Bank of Hungary	27 167	0	0	**27 167**
Loans and advances to banks	195 405	0	0	**195 405**
Financial assets at fair value through profit or loss			0	
- trading assets	61	6 129	0	**6 190**
- derivatives	18 222	540	0	**18 762**
Available-for-sale financial assets	121 077	0	10	**121 087**
Loans and advances to customers	83 576	23 562	0	**107 138**
Non-current assets held for sale	905	0	0	**905**

Financial assets by maturity

31 December 2016	Less than 1 year	Over 1 year	Without maturity	Total
Cash and balances with National Bank of Hungary	48 022	0	0	**48 022**
Loans and advances to banks	298 574	0	0	**298 574**
Financial assets at fair value through profit or loss				
- trading assets	914	27 359	0	**28 273**
- derivatives	21 025	676	0	**21 701**
Available-for-sale financial assets	112 479	0	711	**113 190**
Loans and advances to customers	73 597	36 354	0	**109 951**

Financial assets by maturity

1 January 2016	Less than 1 year	Over 1 year	Without maturity	Total
Cash and balances with National Bank of Hungary	49 722	0	0	**49 722**
Loans and advances to banks	216 392	0	0	**216 392**
Financial assets at fair value through profit or loss				
- trading assets	86	82 030	0	**82 116**
- derivatives	10 102	19	0	**10 121**
Available-for-sale financial assets	35 527	0	655	**36 182**
Loans and advances to customers	86 775	39 329	0	**126 104**
Non-current assets held for sale	446	0	0	**446**

31. FINANCIAL LIABILITIES BY MATURITY

Financial liabilities by maturity				
31 December 2017	Less than 1 year	Over 1 year	Without maturity	Total
Deposits from banks	40 338	0	0	**40 338**
Customer deposits	356 728	0	0	**356 728**
Financial liabilities at fair value through profit or loss				
- trading liabilities	0	7 254	0	**7 254**
- derivatives	19 232	383	0	**19 615**
Financial guarantees	7	11	0	**18**

Financial liabilities by maturity				
31 December 2016	Less than 1 year	Over 1 year	Without maturity	Total
Deposits from banks	129 084	24 881	0	**153 965**
Customer deposits	390 930	0	0	**390 930**
Financial liabilities at fair value through profit or loss				
- trading liabilities	9 178	0	0	**9 178**
- derivatives	16 631	410	0	**17 041**
Financial guarantees	9	17	0	**26**

Financial liabilities by maturity				
1 January 2016	Less than 1 year	Over 1 year	Without maturity	Total
Deposits from banks	155 937	50 444	0	**206 381**
Customer deposits	233 344	0	0	**233 344**
Financial liabilities at fair value through profit or loss				
- trading liabilities	21 378	0	0	**21 378**
- derivatives	9 897	96	0	**9 993**
Financial guarantees	24	27	0	**51**

32. ASSETS NOT FREELY DISPOSABLE

Assets not freely disposable			
	31 December 2017	31 December 2016	1 January 2016
Cash and balances with National Bank of Hungary	6 540	5 544	13 046
Loans and advances to banks	6 685	0	0
Financial assets at fair value through profit or loss – trading assets	34 000	29 526	7 988
	47 225	**35 070**	**21 034**

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' 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.

33. CONTINGENT ASSETS AND LIABILITIES

33.1 Contingent assets

Contingent assets	31 December 2017	31 December 2016	1 January 2016
Receivables subject to litigation	4	5	5
	4	**5**	**5**

33.2 Contingent liabilities

Contingent liabilities	31 December 2017	31 December 2016	1 January 2016
Issued guaranties	58 742	38 987	32 748
Unused credit facilities	403 855	402 378	370 749
Other contingent liabilities	109 108	45 349	37 046
	571 705	**486 714**	**440 543**

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 on 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.

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

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**
Financial assets at fair value through profit or loss	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 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.

35. RISK MANAGEMENT

ING Bank N.V. Hungary Branch is a deeply integrated element of ING Bank N.V.'s global risk management system. The risk management system of ING Bank N.V. is set up in harmony with the three lines of defence principle. The Bank's integrity and good business reputation are of key importance for carrying on with a successful business model. ING Bank N.V. attaches particular importance to ensuring that everyone is familiar with the shared internal values that lay the foundation of the bank group's long-term success and implementation of its long-term strategic objectives.
The Bank is firmly convinced that efficient risk management can only be implemented if fully-fledged risk management principles and culture are deeply rooted in the organisation. For this reason, the scope of responsibilities of each co-worker in the field of risk management is well-defined, and the linked scopes of responsibility constitute a transparent system. The risk management function is embedded in the day-to-day business processes. This is to enforce the principle that ING only assumes assessed and controlled risks, in order to maintain its good financial performance.

The global risk management system in ING has a two-tier governance structure: Tier 1 consists of regional and local business units that bear direct responsibility for risk-related decisions in respect of the portfolio within their scope of responsibility, and report to the Amsterdam-based central risk management business units (Tier 2) in addition to their local management.

The Amsterdam-based central risk management function consists of four main units: Financial Risks, Non-Financial Risks, Model Management, and Risk Management Operations.

Financial Risk is responsible for developing the business risk management strategies and for financial risks, while Non-Financial Risk focuses on operating risk management and compliance. Model Management's responsibility is to set up and validate the applied internal models. Risk Management Operations is responsible for operating the risk management systems and for harmonising the risk management practices.

The ING Bank N.V.'s Chief Risk Officer (CRO) is responsible for setting the risk appetite and strategy within the group, broken down to geographical areas, sectors and other considerations, and for developing the policies and minimum standards on the same grounds, which also define the frameworks of annual financial planning.

Stress tests
Regular stress tests constitute a fundamental part of ING's risk management and capital planning strategy. The purpose of stress testing is to assess ING's capital and liquidity positions in various plausible stress scenarios. Stress testing provides insights into the vulnerabilities of certain portfolio elements, with regards to adverse macroeconomic, geopolitical and money market environments. ING performs periodical stress tests on a one-year horizon at a 90 % confidence level. The simulation with these parameters is applied to the entire portfolio and shows the resulting value of additional CRWA; moreover, economic capital and provisioning calculations are performed on the simulated portfolio. In addition to the periodical tests, ING also performs targeted ad hoc tests, which may be initiated internally or by the regulators. Stress testing helps determine the future risk appetite strategy, on the one hand, and the test results ensure that ING provides for adequate levels of Pillar 1 and Pillar 2 capital, in addition to providing adequate capital levels to sustain such severe but plausible scenarios as tested.

Credit Risk
Credit risk is the risk of financial loss resulting from clients' default and/or credit rating deterioration. Credit risks arise in lending, financial markets and investment activities.
The credit risk management of ING Bank N.V. Hungary Branch is part of the Bank's Tier 1 risk function and its second line of defence. The local risk management functionally reports to the Bank's Tier 2 risk management function. Tier 2, or central risk management function, is responsible for consolidated portfolio management, for setting the risk appetite, for defining the frameworks of the risk management function, and for developing internal models and credit policies.
ING's credit strategy is to create an internationally diversified loan and bond portfolio at a consolidated level, and to avoid the specific concentration of risk. ING sets risk limits at a consolidated level for countries, client groups, sectors, products, collateral types and for investment activities. The aim is to support global client relations, while maintaining the guidelines and controls related to risk/return expectations.
Credit risk at a portfolio level is monitored using metrics such as economic capital, regulatory capital, exposure at default (EAD), probability of default (PD) and loss given default (LGD). Risk limits are set at a portfolio level, while transaction-level approval focuses on the client-level risk exposure, tenor, structure of the facility, and risk profile.
Within ING Bank N.V., the ultimate level of risk approval authority is held by the Management Board Banking (MBB). The MBB has delegated authorities to certain persons holding mandates at lower levels in the organisation, based on a combination of loan amounts, tenors and client or partner risk ratings. Most transactions are approved via a dual signatory approval system where sign-off requires an agreement between signatories, one from the business and one from the risk management department.
Credit proposals involving large amounts or higher credit risks are approved by a credit committee, where the final decision is made by the chair representing Credit Risk, based on the members' suggestions.
The method of measuring credit risk depends on whether the specific exposure is booked under an ING office that uses the advanced internal rating based (AIRB) approach approved by the ECB, or under an ING office that uses the standardised approach (SA).
Hungary Branch uses the AIRB approach to measure credit risk.

The AIRB approach has five main elements:
- Probability of Default (PD): an index number based on the client's or the trade partner's risk rating, which measures the probability of the partner's default within a given period. Each partner has a risk rating. The scale of 1 to 22 used in ING Bank for PD models (1 represents the best, 22 the worst rating) translates into the scales used by renowned credit rating agencies (Standard & Poor's, Moody's and Fitch).
- The second element of the AIRB approach is Exposure at Default (EAD), which is intended to estimate the bank's exposure at the time of default.
- The third element is Loss Given Default (LGD), which is intended to estimate the recovery rate in respect of a collateral linked to a given exposure.
- The fourth element is the Time to Maturity (M). Pursuant to the CRR/CRDIV, the shortest tenure applicable is one year, the longest is five years.
- Finally, the fifth element is the Exposure Class, which is a kind of portfolio concentration coefficient.

The expected loss (EL) amount is the potential credit loss calculated from the factors mentioned above; in its basic form, the expected loss can be represented as: EL = PD * EAD * LGD.

ING uses the above elements of the AIRB approach to calculate regulatory and economic capital amounts also for provisioning purposes. The described risk models also form the basis for the IFRS9 provisioning framework. ING has implemented and used nearly 72 internal models for its lending activity.

The used PD, EAD and LGD models fall into two main types: models fully based on statistical methods, and hybrid models (which rely on statistics and knowledge, and partly on estimates).

Targeted Review of Internal Models (TRIM)
The European Central Bank (ECB) launched the TRIM project in June 2017, aiming to review the internal models used in banks, and to ensure convergence of the models in order to reduce their number through a harmonisation process. The ultimate goal is to restore trust in the use of internal models. The TRIM project is expected to be completed in 2019, and is expected to result in a more stringent regulation regarding the use of internal models for ING.

Within the ING Group, countries are also assigned credit ratings; it is GC10 for Hungary, which is also an upper limit in respect of the credit rating of clients and partners operating in Hungary. The portfolio managed by ING Bank N.V. Hungary Branch mostly falls in the 10 to 11 rating range. The credit portfolio at the end of 2017 mostly contains short term credits, includes a significant proportion of current account overdraft credit agreements, is typically uncommitted, and 2/3 of the portfolio is denominated in EUR. Significant sector concentration is seen in the energy sector and in the public utilities.

ING Bank N.V. Hungary Branch individually assesses each non-performing loan for provisioning requirements. For performing loans, the Hungary Branch uses group assessment. At the end of 2017, the Hungary Branch had one non-performing loan in its books; the amount of the loan loss provision was insignificant in relation to the full size of the portfolio exposure.

Market Risk
Market risk is the risk where changes in interest rates, foreign exchange rates, prices, spreads negatively impact the bank's earnings. In addition, the adverse effects may impact the capital, the company's market value and liquidity position.
Market risk may equally affect the trading book and non-trading (banking) book positions of the Hungary Branch. The trading book positions are typically held by the Hungary Branch with an intention of short-term trading while the non-trading book positions are intended to be held for a long term (or until maturity) or for liquidity. Using the market risk management framework, the Hungary Branch identifies, assesses, control, measures and reports its risks.
The Hungary Branch uses the historic Value at Risk (VaR) method to measure market risks at a one-sided, 99% confidence level, on a 1 to 10-day horizon. Moreover, the Hungary Branch quantifies Value ate Risk also for the stress period. The stress period uses a historically high-volatility one-year period. These risks are measured and reported by the Hungary Branch in respect of both interest rate risks and foreign exchange risks.
Value at Risk figures in 2017 for the Hungary Branch were as follows:

Value at Risk 2017

in HUF million	Trading Book		Banking Book
	interest	exchange rate	interest
Average value	84,5	50,2	56,3
Maximum value	140,6	170,3	104,7
Minimum value	37,5	9,4	27,3

For non-trading books, the Hungary Brach only calculates interest rate HVaR, in addition to quantifying Earnings at Risk and changes in Net Present Value (NPV) at Risk. Foreign exchange rate risk is limited by low position limits adjusted to the extent of the activity.

In harmony with the relevant regulatory requirements, the Hungary Branch quantifies also the Incremental Risk Charge, and performs stress tests to simulate extreme market situations for which the VaR figure is unsuited.

In respect of organisational structure, Market Risk Management supports and supervises the business areas as part of the Independent Risk Management Directorate. The Risk Management area constitutes the second line of defence for the Hungary Branch, in addition to the business area representing the first line of defence and the internal control representing the third line of defence. The head of Market Risk Management sits in the Asset-Liability Committee of the Hungary Branch as a vice-chair, and chairs the Local Parameter Committee of the Hungary Branch.
In their control activity, the Market Risk Management area operates a broad system of limits. The system of limits includes limits on sensitivity and position, among others, under which Basis Point Value (BPV) sensitivity limits are applied per foreign currency and maturity, and for yield curves related to the asset. In order to avoid excessive concentration, the Hungary Branch uses issuer, country and sector limits. The Hungary Branch applies upper and lower position limits on foreign exchange trading.

Funding and liquidity risk
Funding and liquidity risk is the risk that ING Bank or one of its subsidiaries is unable to meet its financial liabilities at a reasonable expense and in a timely manner.

The business strategy of ING N.V. includes funding and liquidity risk management, applying a funding and liquidity risk management framework in order to manage such risks within pre-defined limits. The primary objective of ING N.V.'s funding and liquidity risk management is to maintain an adequate market liquidity for safe and reliable operation under normal market circumstances and in case of a crisis (stress situation).

Within ING Bank N.V., the MBB, the departments headed by the CRO and the Chief Financing Officer (CFO), Capital Management, and Bank Treasury supervise and are responsible for funding and liquidity risk management.

Within ING Bank N.V., liquidity risk management is supervised by the Asset and Liability Committee, which defines the liquidity risk (limit) framework and risk appetite, which is subsequently applicable to the whole organisation. ING's liquidity risk framework is based on the three lines of defence concept, whereby risk management principles are incorporated, controlled and supervised within the bank in the functions of the first and second line functions.

The liquidity buffer ING holds is part of the counterbalancing capacity, i.e. the total of available sources and measures within ING to generate liquidity (including also limiting professional lending), and serves as a cushion for liquidity needs under normal and stressed conditions.

The size and composition of the Liquidity buffer depends on ING's risk appetite and regulatory liquidity standards. In the buffer, only assets are included that are 'unencumbered' and freely available for liquidity purposes. Bank Treasury ensures functional management of all liquidity buffers within ING Bank N.V., both buffers at ING level and buffers at local business unit level.

ING Group's liquidity risk appetite expresses the level of liquidity risk ING is willing to take in pursuit of its strategic objectives. The Liquidity Risk Appetite Statements (RAS) are aligned with the ING Group's strategy and are allocated to the ING entities by way of limits.

ING Group takes an integrated approach to assessing the adequacy of its funding and liquidity position in relation to its balance sheet profile and its operating environment, whilst taking into account the interests of its various stakeholders.

The starting point for the assessment of ING Group's liquidity position is the overall business strategy and risk appetite, i.e. the level of financial risk, which ING Group is willing to accept beside growth and value creation, while maintaining sound financial position.

As of the end of 2017, the Hungary Branch holds a credit facility worth EUR 1,750 million with the Amsterdam Head Office of ING Bank, which can be drawn down at any time, or be flexibly and quickly increased if necessary. This facility is typically used by the Hungary Branch to set the daily liquidity balance, or most often to finance resource requirements in USD and EUR. There is continuing client demand for long-term HUF and EUR denominated deposits. In case of money market partner institutions, no significant changes in limits regarding the Hungary Branch have been detected in domestic or foreign institutions. Similarly, no changes have been detected in limits set up for the country. Market liquidity tends to be good, except for certain special dates, such as the Central Bank of Hungary's settlement days of EUR/HUF FX Swap tenders and other auctions (Wednesdays), and at the end of months and quarters. The FX Swap market is active up to a maturity of one year.
On the whole, the Hungary Branch has a stable liquidity position with stable resources, adequate levels of liquid assets and financing limits that are available and can be drawn down at any time.

36. LEGAL PROCEEDINS

There are two legal proceedings are in process, where the Hungary Branch is involved. In both cases the chance of success of the Branch is positive. There are no Litigation provision in the books of the Branch.

37. SUBSEQUENT EVENTS

The Mastercard shares – which were shown as 'Non-current assets held for sale' in the statement of financial position 31 December 2017 - were sold in May 2018 in the amount of HUF 1 149 million.

As mentioned earlier in No. 14 'Provisions' the Resolution of the Tax Authority was annulled by the Court shortly after the balance sheet date and the Tax Authority is requested by the Court to carry out a new tax audit at the Branch for the affected period.

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.

According to the Decree 51/2014 (XII.9.) of the National Bank of Hungary with respect to reporting obligations, the branches are required to provide for the central bank information system with regular, occasional and an assignment based data supply, thus enabling the National Bank of Hungary to fulfil its supervisory function.

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

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

None of the liabilities disclosed in the 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, 29 May 2018

Tibor Bodor
Country Manager & CEO

Gyula Réthy
Chief Financial Officer

Management Report 2017

In accordance with its medium term strategy ING Bank N.V Hungary Branch has been focusing entirely on corporate and financial institution sectors in 2017, providing its financial services for large Hungarian Corporates, Financial Institutions (banks, fund managers, brokerage companies, etc.) and Hungarian subsidiaries of ING Group's International Clients.
Coming from its legal status ('branch') 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. In 2017 ING Bank N.V. Hungary Branch was awarded as the 'Best Commercial Bank in Hungary' by World Finance Magazine, while ING has been rewarded with 'Best Bank Payments and Collections in Western, Central and Eastern Europe' award by Global Finance Magazine.

1. Financial Result

Net result of ING Bank N.V. Hungary Branch based on IFRS standards decreased from a profit of HUF 748 million to a loss of HUF 490 million parallel the total comprehensive income changed from a previous year's profit of HUF 414 million to a loss of HUF 314 million. Total operating income decreased by HUF 1.55 billion while Total expenses and expenditures and Addition to loan loss provisions increased with an altogether HUF 380 million. Other comprehensive income increased from a loss of HUF 334 million to a profit of HUF 176 million in correlation with 'Unrealised revaluations result of available-for-sale investments'.
Result before tax declined from HUF 2.16 billion to HUF 225 million.

Macroeconomic environment

Of the macroeconomic processes, interest rate environment had the most remarkable influence on the profitability of the Bank. The National Bank of Hungary introduced several new measures in reaction to the strengthening but still remaining well below the targeted 3 percent inflation rate. The objective of these measures was to reduce short interbank interest rates to the lowest level possible. As a consequence the gap between the 3-months-BUBOR and the base rate increased, by the end of 2017 BUBOR decreased to 3 basis points. The decrease of 3-months-deposits to HUF 75 billion has to be mentioned as well. The regulation of interbank liquidity and the loosening of monetary policy was further supported by longer tenor, fine-tuning swap assets.
The booming macroeconomic environment, the dynamic increase of wages coupled with labour shortage triggered the restart of both corporate and retail lending activity. In the corporate segment a fierce competition arose, banks without retail business line became impaired as banks with retail business line were not forced to lower their margins in the household segment. To change this situation the National Bank of Hungary introduced the so called qualified consumer-friendly housing loan instrument in order to stimulate competition in the household segment as well. The effect of this measure on the overall bank sector were less perceptible during the course of 2017.

Profit and Loss categories

Net interest income

Attributable to the decreasing interest rate environment net interest income of the Bank decreased by HUF 2.6 billion resulting a loss of HUF 625 million.
On asset side external interest rate environment on the inter-bank market was persistently negative in 2017 in Europe, it moved around zero level in HUF nearly all year around as well dropping occasionally into the negative intervals. 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 limited especially in case of HUF deposits. This results negative interest margin for the Bank.
Most important components of the decrease of Net interest income:

- On asset side interest income from trading securities is HUF 1.5 billion lower compared to the previous year despite of the increase in average portfolio volume.
- On liabilities side Interest expense paid to customers increased significantly – increase in average portfolio volume is even more substantial here.
- Average interest rate margin was 39 basis points in 2016, which fell back to minus 10 basis points.
- Interest rate margin realized on asset side products decreased from 82 basis points to 48 basis points. This decrease of 35 basis points could not be enforced on deposit side, moreover average cost of fund increased from 43 basis points to 58 basis points. Liabilities side increase appeared with USD time deposits: in 2017 USD interest rates were increased twice by an average 50 basis points.

Net commission income

Net commission income increased by HUF 483 million, nearly by 13%. In Payment and Cash Management both client activity and turnover increased remarkably resulting the increase of incomes as well.

Expenses

Expenses, expenditures and loan loss provisions increased by an altogether 3% which is in line with internal expectations and strict cost management of the Branch. Staff expenses remained on previous year's level. The 12% growth of other operating expenses can be explained by the increased regulatory and overhead costs. Operating expenses contain Head Office overhead costs in nearly HUF 380 million amount and the Values Added Tax Payable on Head Office charges in HUF 730 million amount.

Total Assets

The Bank's Balance Sheet Total decreased to HUF 479 billion from previous year's HUF 621 billion. There are the following items behind the HUF 142 billion decline: on asset side Loans and advances to banks decreased by HUF 103 billion while Cash and balances with the National Bank of Hungary fell back by HUF 21 billion. Trading securities decreased by HUF 22 billion. Loans and advances to customers have not changed significantly, standing at HUF 107 billion at year end which is 2.6% lower compared to previous year's level. On Liabilities side Deposits from banks decreased by HUF 114 billion while Customer deposits fell back by HUF 34 billion. Complying with the DEM and DMM ratios of the National Bank of Hungary (ratios aiming to reduce external vulnerability of the country) play significant role in the moderation of Balance Sheet Total.

2. Divisions' Reports

2.1. Trading

2017 in full was characterized by remarkable volatility.
Forint interest rate markets were governed by the fine tuning and changes of the monetary instruments of the Central Bank (introduction of MIRS, mortgage securities purchase program). Further significant exchange rate and yield movements were induced by the expectations regarding the FED's rate increase (its extent and timing) and the economy related announcements of the US President. Trading activity was preserved at high level in terms of volume by sufficient liquidity and the volatility of spreads in the quotes. ING Bank N.V. Hungary Branch was able to maintain its decisive market position in the continuously changing market environment.

2.2. Financial and Capital Markets Sales

In 2017 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 client 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 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 conditions 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 worked on retaining our existing client portfolio among others through organizing professional client trainings and seminars.

2.3. Transaction Services Sales (TS Sales)

Income was slightly below expectations in Transaction Services Sales, which among others covers Trade Finance Services and Payments & Cash Management. Trade Finance Services performed above expectations in 2017 and was able to realize increase in terms of both volume and revenue compared to 2016, but the profitability of Payments and Cash Management was unfavourably and negatively influenced by the continuous decrease of Forint interest rate margins and the negative Euro interest rate environment.
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 2017 Transaction Services Sales took part in several tenders, many of them coming from the Bank's international client network. Despite of the decrease of interest rate margins, 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 profitability. With Trade Finance Services we can emphasize the efforts made to increase volumes and wallet share within the existing and the newly acquired client portfolio that contributed to the expected revenue growth and even beyond expectation.
During 2Q2016 a new electronic banking channel, the so called 'InsideBusiness Portal' was launched with the aim to create a unified platform for clients keeping accounts within the ING network so that they can manage their accounts, notwithstanding in which country they have them. Besides the currently used InsideBusiness Payment CEE channel (which enables users to manage their payments) the range of available products and services has been continuously expanding. As of 2017 our clients may register their users through electronic banking channels with the so called Corporate Administrator function. Further innovation of the system is the opportunity to launch online Service Requests and follow their statuses. Instant Payments Services (to be introduced as of 1 July 2019) is planned to be accessible through this IBS Portal as well.

2.4. General Lending

In 2017 the trend of previous years' continued and demand for general corporate lending (provided by commercial banks) remained relatively low. Net cash position of large corporations has been accumulating that has resulted in strengthening liquidity and stagnating demand for general working capital financing. The country's external risk classification in 2017 was favourable from lending point of view, which – through lower country risk ratings - contributed to further decrease of interest rate margins of corporate loans compared to last year. Commercial banks tried to compensate low interest rates by volume increases that also resulted in the intensification of competition and further lowering of margins in corporate lending.
Throughout the year reference interest rates reached a record low level, thus Forint exposure became more important compared to previous years.
From maturity point of view there is no significant change: the overwhelming majority of our exposure is short term, working capital financing facility.

2.5. Structured Finance

Structured Finance business line closed a very good year in 2017 again. The performance of existing major business areas (syndicated loans, club deals, LBO finance, project finance and related advisory activity) continued to be decisive. Portfolio building and optimization continued by completing Trade and Commodity Finance transactions during 2017; Hungarian clients may access these services through other branches of ING Group from outside of Hungary. In advisory (Corporate Finance) transactions – in close cooperation with ING International network – several transaction have been closed successfully and further business opportunities are in the pipeline.

3. Credit, Market and Operational Risk Management

Since 2008 ING Wholesale Banking has been running an integrated Risk Management model, covering corporate lending, counterparty risk management, and market risk management as well as operational risk management, IT and physical security areas. The basic role of Integrated Risk Management continues to 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 2017 as well. Just like earlier, the Bank continued to ensure profitability and stable liquidity. There was no operational or physical security incident that would have significantly influenced the going concern operation or profitability of the Bank.

Thanks to local customer deposits and interbank funds as well as continuously available funding limits established for us at ING's Amsterdam Head Office, the Branch's liquidity has remained stable. The practice of using liquidity premium reflecting the effects of financial crisis remained unchanged in 2017, 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 2017 in accordance with the demands related to risk considerations and changes of the legal environment for the financial sector and their importance increased in line with the macroeconomic events.

The quality of the lending portfolio overall remained good. The results of lending clients have been improving following the negative effects of the crisis. Certain sectors have to face new challenges since the crisis, such as continuously low oil prices, change of raw material prices, restrictive effect of the regulatory environment on their business model and profitability, etc. 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 2017 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 2017 the Branch had 145 active employees. This means 0.6% decrease compared to the end of 2016 (146 employees). At year-end the Branch had 3 vacant positions. Thanks to HR actions implemented during 2017 targeting the maintenance of staff annual fluctuation decreased by 20 % compared to 2016 (to 15.17%) and remained below the average fluctuation rate of the bank sector as well. During the year 7 of our employees spent 3-6 months abroad on assignment, 3 of our colleagues joined ING entities in other countries permanently (The Netherlands, United Kingdom and Germany).

Beyond mandatory trainings and e-learning courses 100 percent of our employees and Managers took part in different training programmes in 2017. Expenses on talent development were 137% higher than in 2016.

5. Research and Development, Environmental Protection, Social Responsibility

ING Bank N.V. Hungarian Branch joined ING's global Innovation Bootcamp for the fourth time in 2017, aiming to find innovative solutions in the field of financial services.

ING Bank N.V. Hungarian Branch conforms to the sustainability principles of ING Group which considers environmental protection as one of its elements. In 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. In 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. ING joined the 'Earth Hour' initiative again in 2017, and we also continued with the Paperless Office programme and selective waste collection.

Our employees also took part in several social initiatives individually; the Bank participated as organizer in the collection of toys and sports equipment for children in need. As one of the founders of BCSDH (Business Council for Sustainable Development in Hungary), we supported the Future Leaders programme, aiming to develop young leaders.

Our Parent Company, ING Bank N.V. publishes a separate Annual Report. We would like to highlight our GRI-report and reports on non-financial data that can also be found on the following link: www.ing.com/Investor-relations/Annual-Reports.htm

Budapest, 29 May 2018

Tibor Bodor Country Manager & CEO	Gyula Réthy Chief Financial Officer