ING Bank N.V. Hungary Branch

Annual Report
2015

The English language version of the Annual Report 2015 of ING Bank N.V. Hungary Branch is the non-certified translation of the original and official Hungarian Annual Report and therefore it is considered solely to serve for information purposes only. The source for the 2015 English language Annual Report is the Hungarian language version amended with the Independent Auditors' Report.

Az ING Bank N.V. Magyarországi Fióktelepe 2015-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 2015-es éves beszámoló hiteles forrása a könyvvizsgálói záradékkal ellátott magyar nyelvű szöveg.

ING Bank N.V. Hungary Branch

Balance Sheet and Profit and Loss Statement
2015

BALANCE SHEET 31 December 2015

Data in HUF million

Description	Previous year data 31 December 2014	Current year data 31 December 2015
ASSETS		
1. Liquid assets	**163 488**	**49 774**
2. Government securities	**73 476**	**123 851**
a) trading securities	73 408	123 912
b) investment securities	0	0
2/A. Valuation difference on government securities	**68**	**-61**
3. Receivables from financial institutions	**40 466**	**181 099**
a) on demand	4 879	2 747
b) other receivables from financial services	35 503	178 348
ba) current receivables	35 503	178 348
Of which: - from related parties	7 300	164 051
- from other related parties	0	0
- from the National Bank of Hungary	0	0
- from clearing house	10	10
bb) long-term receivables	0	0
Of which: - from related parties	0	0
- from other related parties	0	0
- from the National Bank of Hungary	0	0
- from clearing house	0	0
c) from investment services	84	4
Of which: - from related parties	0	0
- from other related parties	0	0
- from clearing house	83	3
3/A. Valuation difference on receivables from financial institutions	**0**	**0**
4. Receivables from customers	**177 582**	**81 603**
a) from financial services	177 582	81 603
aa) current receivables	85 999	44 318
Of which: - from related parties	0	0
- from other related parties	0	0
ab) long-term receivables	91 583	37 285
Of which: - from related parties	0	0
- from other related parties	0	0
b) from investment services	0	0
Of which: - from related parties	0	0
- from other related parties	0	0
ba) receivables from stock exchange investment services	0	0
bb) receivables from OTC investment services	0	0
bc) customer receivables from investment service activities	0	0
bd) receivables from the clearing house	0	0
be) receivables from other investment services	0	0
4/A. Valuation difference on receivables from customers	**0**	**0**
5. Debt securities	**0**	**0**
a) issued by local governments or other government institutions	0	0
aa) trading securities	0	0
ab) investment securities	0	0
b) issued by other entities	0	0
ba) trading securities	0	0
Of which: - issued by related parties	0	0
- issued by other related parties	0	0
- redeemed treasury shares	0	0
bb) investment securities	0	0
Of which: - issued by related parties	0	0
- issued by third parties	0	0
5/A. Valuation difference on debt securities	**0**	**0**

BALANCE SHEET 31 December 2015

Data in HUF million

Description	Previous year data 31 December 2014	Current year data 31 December 2015
6. Shares and other securities with variable yields	**0**	**0**
a) trading shares and participations	0	0
Of which: - issued by related parties	0	0
- issued by other related parties	0	0
b) variable-yield securities	0	0
ba) trading securities	0	0
bb) investment securities	0	0
6/A. Valuation difference on shares and other securities with variable yields	**0**	**0**
7. Investment shares and participations	**53**	**53**
a) investment shares and participations	53	53
Of which: - participation in financial institutions	0	0
b) value adjustment of investment shares and participations	0	0
Of which: - participation in financial institutions	0	0
7/A Valuation difference on investment shares and participations	**0**	0
8. Shares and participations in related parties	**0**	0
a) investment shares and participations	0	0
Of which: - participation in financial institutions	0	0
b) value adjustment of investment shares and participations	0	0
Of which: - participation in financial institutions	0	0
9. Intangible assets	**209**	**184**
a) intangible assets	209	184
b) value adjustment of intangible assets	0	0
10. Tangible assets	**358**	**411**
a) tangible assets held for financial services and investment purposes	176	139
aa) property	73	61
ab) technical equipment, machines, fixtures, vehicles	103	78
ac) capital expenditures	0	0
ad) advance payments on capital expenditures	0	0
b) tangibles assets not held for financial services and investment purposes	182	272
ba) property	0	0
bb) technical equipment, machines, fixtures, vehicles	182	272
bc) capital expenditures	0	0
bd) advance payments on capital expenditures	0	0
c) value adjustment of tangible assets	0	0
11. Own shares	**0**	**0**
12. Other assets	**666**	**887**
a) stocks	10	9
b) other receivables	656	878
Of which: - from related parties	234	426
- from other related parties	0	0
12/A. Valuation difference on other receivables	**0**	**0**
12/B. Positive valuation difference on derivatives	**29 919**	**9 948**
13. Prepaid expenses and accrued income	**1 438**	**2 112**
a) accrued income	1 406	2 057
b) prepaid expenses	32	55
c) deferred expenses	0	0
TOTAL ASSETS	**487 655**	**449 922**
Of wich: - CURRENT ASSETS (1.) + 2. a) + 3. a) + 3. ba) + 3.c) + 4. aa) + 4. b) + 5. aa) + 5. ba) + 6. a) + 6. ba) + 11 + 12 és 2/A, 3/A, 4/A, 5/A, 6/A, 12/A, related items of 12/B)	394 014	409 877
- FIXED ASSETS (2.b) + 3. bb) + 4. ab) + 5. ab) + 5. bb) + 6. bb) + 7+ 8 + 9 + 10 és 2/A, 3/A, 4/A, 5/A, 6/A, 12/A, related items of 12/B)	92 203	37 933

Budapest, 27 May 2016

Dr. István Salgó
Chief Executive Officer

Gyula Réthy
Chief Financial Officer

BALANCE SHEET 31 December 2015

Data in HUF million

Description	Previous year data 31 December 2014	Current year data 31 December 2015
EQUITY AND LIABILITIES		
1. Liabilities to financial institutions	**252 831**	**195 242**
a) on demand	14 656	2 430
b) fixed-term liabilities from financial services	238 175	192 812
ba) current liabilities	158 035	142 400
Of which: - to related parties	106 581	8 924
- to other related parties	0	0
- to the National Bank of Hungary	0	0
- to clearing houses	0	0
bb) long-term liabilities	80 140	50 412
Of which: - to related parties	80 140	50 412
- to other related parties	0	0
- to the National Bank of Hungary	0	0
- to clearing houses	0	0
c) from investment services	0	0
Of which: - to related parties	0	0
- to other related parties	0	0
- to clearing houses	0	0
1/A. Valuation difference on liabilities to financial institutions	**0**	**0**
2. Liabilities to customers	**163 843**	**193 573**
a) saving deposits	0	0
aa) on demand	0	0
ab) current liabilities	0	0
ac) long-term liabilities	0	0
b) other liabilities from financial services	163 833	193 569
ba) on demand	94 552	127 375
Of which: - to related parties	3 947	37
- to other related parties	0	0
bb) current liabilities	69 281	66 194
Of which: - to related parties	2 720	0
- to other related parties	0	0
bc) long-term liabilities	0	0
Of which: - to related parties	0	0
- to other related parties	0	0
c) from investment services	10	4
Of which: - to related parties	0	0
- to other related parties	0	0
ca) liabilities from stock exchange investment services	0	0
cb) liabilities from OTC transactions	0	0
cc) liabilities from investment services	10	4
cd) liabilities from clearing house	0	0
ce) liabilities from other investment services	0	0
2/A. Valuation difference on liabilities to customers	**0**	**0**
3. Liabilities from issued securities	**0**	**0**
a) issued bonds	0	0
b) other issued debt securities	0	0
c) documents not qualifying as debt securities, treated as securities	0	0
4. Other liabilities	**8 483**	**1 543**
a) current liabilities	8 483	1 543
Of which: - to related parties	5 986	39
- to other related parties	0	0
- for financial institutions operating as co-operatives: cash contribution of members	0	0
b) long-term liabilities	0	0
Of which: - to related parties	0	0
- to other related parties	0	0
4/A. Negative valuation difference on derivatives	**15 722**	**9 859**

BALANCE SHEET 31 December 2015

Data in HUF million

Description	Previous year data 31 December 2014	Current year data 31 December 2015
5. Accrued expenses and deferred income	**1 817**	**2 519**
a) deferred income	377	204
b) accrued expenses	1 440	2 315
c) deferred extraordinary revenues and negative goodwill	0	0
6. Provisions	**1 314**	**3 541**
a) provisions for pensions and severance payment	0	0
b) provisions for contingent and future liabilities (commitments)	0	74
c) general risk provisions	1 209	1 209
d) other provisions	105	2 258
7. Subordinated debt	**0**	**0**
a) subordinated loan capital	0	0
Of which: - to related parties	0	0
- to other related parties	0	0
b) for financial institutions operating as co-operatives: other cash contribution of members	0	0
c) other subordinated debt	0	0
Of which: - to related parties	0	0
- to other related parties	0	0
8. Issued capital	**2**	**2**
Of which: - participation redeemed at face value	0	0
9. Issued but unpaid capital (-)	**0**	**0**
10. Capital reserve	**43 643**	**43 643**
a) difference of the nominal value and issuing price of shares and participations (premium)	0	0
b) other	43 643	43 643
11. General reserve	**0**	**0**
12. Retained earnings (+ / -)	**0**	**0**
13. Tied-up reserves	**0**	**0**
14. Revaluation reserve	**0**	**0**
a) revaluation reserve on value adjustments	0	0
b) fair value reserve	0	0
15. Profit or loss for the year (+ / -)	**0**	**0**
TOTAL EQUITY AND LIABILITIES	**487 655**	**449 922**
Of which: - CURRENT LIABILITIES 1. a) + 1. ba) + 1. c) +1/A.+ 2. aa) + 2. ab) + 2. ba) + 2. bb) + 2. c) +2/A + 3. aa) + 3. ba) + 3. ca) + 4. a) +4/A)	360 739	349 805
- LONG-TERM LIABILITIES 1. bb) + 2. ac) + 2. bc) + 3. ab) + 3. bb) + 3. cb) + 4. b) + 7)	80 140	50 412
- EQUITY 8 - 9 + 10 + 11 + /- 12 + 13 + 14 +/- 15	43 645	43 645

Contingent Liabilities	373 344	440 543
Future Liabilities	2 039 335	2 889 539
Contingent Receivables	6	5
Future Receivables	2 129 564	2 857 966

Budapest, 27 May 2016

Dr. István Salgó
Chief Executive Officer

Gyula Réthy
Chief Financial Officer

PROFIT AND LOSS STATEMENT 2015

Data in HUF million

Description	Previous year data 2014	Current year data 2015
1. Interest received and similar incomes	**17 618**	**13 422**
a) on fixed-interest debt securities	10 188	5 385
Of which: - from related parties	0	0
- from other related parties	0	0
b) other interest received and similar incomes	7 430	8 037
Of which: - from related parties	66	152
- from other related parties	0	0
2. Interest paid and similar expenditures	**3 586**	**2 645**
Of which: - from related parties	1 028	1 048
- from other related parties	0	0
INTEREST MARGIN (1-2)	**14 032**	**10 777**
3. Revenues from securities	**16**	**17**
a) revenues from trading shares and securities	0	0
b) revenues from participations in related parties	0	0
c) revenues from other participations	16	17
4. Commissions and fees received or receivable	**5 485**	**4 858**
a) from the revenues from other financial services	4 649	4 201
Of which: - from related parties	933	551
- from other related parties	0	0
b) from the revenues from investment services	836	657
Of which: - from related parties	7	0
- from other related parties	0	0
5. Commissions and fees paid or payable	**1 129**	**949**
a) from the expenditures on other financial services	826	677
Of which: - from related parties	563	433
- from other related parties	0	0
b) from the expenditures on investment services	303	272
Of which: - from related parties	0	0
- from other related parties	0	0
6. Net result on financial operations [6.a)-6.b)+6.c)-6.d)]	**-3 613**	**504**
a) from the revenues from other financial services	1 718	7 042
Of which: - from related parties	264	3 622
- from other related parties	0	0
- valuation difference	0	0
b) from the expenditures on other financial services	5 406	10
Of which: - to related parties	0	0
- to other related parties	0	0
- valuation difference	0	0
c) from the revenues from investment services	17 089	20 771
Of which: - from related parties	0	0
- from other related parties	0	0
- reversal of the impairment of trading securities	0	0
- valuation difference	0	0
d) from the expenditures on investment services	17 014	27 299
Of which: - to related parties	0	329
- to other related parties	0	0
- impairment of trading securities	0	0
- valuation difference	0	0
7. Other revenues from operations	**2 997**	**1 811**
a) revenues from other than financial and investment services	2 477	1 588
Of which: - from related parties	404	192
- from other related parties	0	0
b) other revenues	520	223
Of which: - from related parties	38	47
- from other related parties	0	0
- reversal of impairment of stocks	0	0

PROFIT AND LOSS STATEMENT 2015

Data in HUF million

Description	Previous year data 2014	Current year data 2015
8. General administrative expenses	**7 155**	**8 011**
a) personnel costs	2 733	2 748
aa) payroll	1 942	1 919
ab) other personnel costs	183	216
Of which: - social security costs	18	14
- pension related costs	9	7
ac) social security and similar deductions	608	613
Of which: - social security costs	571	576
- pension related costs	0	0
b) material type expenditures (materials and supplies)	4 422	5 263
9. Depreciation	**183**	**213**
10. Other expenditures on operations	**4 740**	**7 137**
a) expenditures on other than financial and investment services	2 211	1 416
Of which: - to related parties	0	1
- to other related parties	0	0
b) other expenditures	2 529	5 721
Of which: - to related parties	36	159
- to other related parties	0	0
- impairment of stocks	0	0
11. Impairment of receivables and risk provision for commitments and contingent liabilities	**3**	**545**
a) impairment of receivables	3	471
b) risk provisions for contingent liabilities and for (future) commitments	0	74
12. Reversal of impairment of receivables and use of risk provision made for commitments and contingent liabilities	**2 712**	**9**
a) reversal of impairment of receivables	2 712	9
b) use of risk provision made for commitments and contingent liabilities	0	0
12/A. Difference between general risk reserve made and used	**0**	**0**
13. Impairment of investment debt securities and shares and participations in related parties and other related parties	**0**	**0**
14. Reversal of impairment of investment debt securities and shares and participations in related parties and other related parties	**0**	**0**
15. Profit or loss on ordinary activities	**8 419**	**1 121**
Of which: - PROFIT ON FINANCIAL AND INVESTMENT SERVICES [1-2+3+4-5+/-6+7.b)-8-9-10.b)-11+12-13+14]	8 153	949
Of which: - PROFIT ON OTHER THAN FINANCIAL INVESTMENT SERVICES [7.a)-10.a)]	266	172
16. Extraordinary revenues	**1**	**1**
17. Extraordinary expenditures	**520**	**2**
18. Extraordinary result (16-17)	**-519**	**-1**
19.Profit before tax (+-15+-18)	**7 900**	**1 120**
20. Tax liability	1 952	1 082
21. Profit after tax (+-19-20)	**5 948**	**38**
22. General provision made and used (+-)	0	0
23. Dividends paid from retained earnings	0	0
24. Dividends paid (approved)	5 948	38
Of which: - to related parties	5 948	38
- to other related parties	0	0
25. Profit or loss for the year (+21-/+22+23-24)	**0**	**0**

Budapest, 27 May 2016

Dr. IstvánSalgó
Chief Executive Officer

Gyula Réthy
Chief Financial Officer

ING Bank Hungary Branch

Notes to the Financial Statements
2015

Contents

1. General Notes

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

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

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

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

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

The goal of ING Bank N. V. is to remain, through its branch, a recognized integrated financial service provider in the Hungarian money and capital markets. It places great emphasis on constantly providing quality services which can also meet the needs of a wide range of customers and on introducing new (innovative) products. The intention to achieve these objectives is accompanied with the expectation of ensuring adequate profitability and to exploit the cross-selling opportunities inherent in the activities of different entities belonging to ING group within Europe.

1.1. The IT environment of the Branch

1.1.1. GBS system

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

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

1.1.2. EXACT system

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

1.1.3. System generating the integrated trial balance of the Branch

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

1.2. The Accounting Policies of the Branch

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

The accounting policies set out the rules of:

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

1.2.1. Reporting rules

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

With regard to the applicable requirements of Act C of 2000 on Accounting and Government Decree 250 of 24/12/2000 (on the specific obligations of lending institutions and financial enterprise relating to drawing up the annual financial statements and keeping the accounts), as amended, the Branch draws up annual financial statements following the closing of the calendar year to give a view of its operations, equity, financial position and profitability. Pursuant to the regulations applying to lending institutions, the Branch uses double-entry bookkeeping and calculates profit or loss by applying the turnover cost method. The Branch draws up its balance sheet in accordance with Annex 1 of the Government Decree, its profit and loss account with Annex 2 (Profit and Loss Account 1 vertical structure), and its cash flow statement with Annex 3 (required cash flow structure version A).

In respect of 31 December 2015, the preparation date of the balance sheet was 8 January 2016.

The internal accounting rules of the Branch are designed to ensure that the information needs of the Hungarian Central Bank (NBH) can be met at any time of the year. (Furthermore the information needs of Hungarian Financial Supervisory Authority was also met till the merger into NBH on 1 October 2013.) The Branch closes its asset and equity & liabilities accounts, expenditure and profit and loss accounts and calculates their balances as at the last day of each month and prepares a trial balance and a summary of contingencies recorded in Account Class 0 to support the reports prepared for the Hungarian Central Bank (NBH) during the year.

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

1.2.2. Valuation policies

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

1.2.2.1. Fair value method

The Branch uses the fair value method of valuation in compliance with the rules laid down in Articles 59/A to 59/F of the Accounting law and 9/A to 9/F of Government Decree 250 of 24/12/2000, in accordance with the detailed requirements described in the accounting policies. The main aspects are summarized below:

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

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

1.2.2.1.1. Securities held for trading

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

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

1.2.2.1.2. Securities available for sale

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

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

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

1.2.2.1.3. Derivative transactions

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

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

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

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

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

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

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

1.2.2.2. Historic cost method of valuation

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

1.2.2.2.1. Securities held to maturity

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

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

1.2.2.3. Other valuation rules

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

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

1.2.3. Detailed description of applied procedures

1.2.3.1. Securities

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

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

1.2.3.2. Financial instruments - forward, swap, FRA (in respect of FRA deals concluded before November 2015)

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

From 2015, processing of FRA deal related transactions – similarly to IRS deals – has been outsourced to the Global Processing Center operating in Amsterdam. For furter details please refer to 1.2.3.3.

1.2.3.3. Financial instruments - Interest rate swaps, FRA (in respect of FRA deals concluded after November 2015)

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

1.2.3.4. Reserves

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

The applied reserves are as follows:

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

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

1.2.3.5. Suspended interests

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

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

1.2.3.6. Settlement of futures, forwards and swaps

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

1.2.3.7. Exchange rates

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

1.2.3.8. Intangible assets and tangible assets

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

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

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

	31 December 2014	31 December 2015
Software user licences	33	33
Other concessions, licenses and similar rights	17	17
Servers	33	33
Computers (PCs)	33	33
Other IT equipment	33	33
Communication equipment	33	33
Other technical equipment	20	20
Office furniture, office equipment and other equipment	14.5	14.5
Vehicles	20	20
Improvements on third party property	Closing date of depreciation = December 31, 2019	Closing date of depreciation = December 31, 2019

1.3. Other information

The Branch does not have an obligation to prepare consolidated financial statements as at 31 December 2015.

The owner ING Bank N. V. Amsterdam includes in its consolidated financial statements prepared in compliance with the International Accounting Standards accepted by the European Union all shareholdings exceeding 50% – including the Branch – fully. The annual report for the year 2015 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 2015 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 146-213) in Annual report 2015 and by the publication "2015 Annual Report ING Group-Remuneration Chapter", which can be found at http://www.ing.com/About-us/Corporate-Governance/Remuneration-1.htm.

1.3.1. Accounting services

Person responsible for leading and managing the accounting tasks performed in the year 2015:

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

1.3.2. Auditing the annual financial statements of the Branch

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

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

Auditor:

Gergely Szabó	1202 Budapest, Mézes utca 35. Mother's name: Zsuzsanna Kis

The fee for auditing the financial statements for the present financial year is HUF 21 million, including VAT. The Branch recognised HUF 4 million as cost of other services provided by the auditor in the reporting period.

1.3.3. The annual financial statements are signed by:

Dr. István Salgó	ING Bank N.V. Hungary Branch Chief Executive Officer 1023 Budapest, Apostol u. 8.
Gyula Réthy	ING Bank N.V. Hungary Branch Chief Financial Officer 1028 Budapest, Harmatcsepp u. 11.

2. Specific Notes

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

2.1. Tangible assets and intangible assets

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

2.1.1. Gross value of tangible and intangible assets

Data in HUF million

Description	31 December 2014	Purchase	Sale	Capitali-zation	Other change (reclassify-cation, discarding)	31 December 2015
Intangible assets	**842**	**238**	**0**	**163**	**0**	**917**
Other concessions, licenses and similar rights	0*	0	0	0	0	0*
Software user licences	842	238	0	163	0	917
Tangible assets	**926**	**392**	**147**	**196**	**-33**	**942**
Tangible assets serving banking activities directly	*576*	*222*	*1*	*196*	*-33*	*568*
Improvements on third party property	127	3	0	0	0	130
IT equipment	264	16	0	0	-32	248
Other equipment, fittings	185	7	1	0	-1	190
Investment	0	196	0	196	0	0
Tangible assets serving banking activities indirectly	*350*	*170*	*146*	*0*	*0*	*374*
Vehicles	333	170	146	0	0	357
Works of art	17	0	0	0	0	17
Investments	0	0	0	0	0	0
Total	**1 768**	**630**	**147**	**359**	**-33**	**1 859**

* value below HUF 1 million

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

Data in HUF million

Description	31 December 2014	Ordinary deprecia-tion/amor-tization	Sale	Capitali-zation	Other change (reclassifi-cation, discarding)	31 December 2015
Intangible assets	**633**	**100**	**0**	**0**	**0**	**733**
Other concessions, licenses and similar rights	0*	0	0	0	0	0*
Software user licences	633	100	0	0	0	733
Tangible assets	**568**	**113**	**117**	**0**	**-33**	**531**
Tangible assets serving banking activities directly	*400*	*62*	*0*	*0*	*-33*	*429*
Improvements on third party property	54	15	0	0	0	69
IT equipment	186	33	0	0	-32	187
Other equipment, fittings	160	14	0	0	-1	173
Investment	0	0	0	0	0	0
Tangible assets serving banking activities indirectly	*168*	*51*	*117*	*0*	*0*	*102*
Vehicles	168	51	117	0	0	102
Works of art	0	0	0	0	0	0
Investments	0	0	0	0	0	0
Total	**1 201**	**213**	**117**	**0**	**-33**	**1 264**

* value below HUF 1 million

2.1.3. Net value of tangible and intangible assets

Data in HUF million

Description	31 December 2014	Changes	Sale	Capitali-zation	Other change (reclassifi-cation, discarding)	31 December 2015
Intangible assets	**209**	**138**	**0**	**163**	**0**	**184**
Other concessions, licenses and similar rights	0	0	0	0	0	0
Software user licences	209	138	0	163	0	184
Tangible assets	**358**	**279**	**30**	**196**	**0**	**411**
Tangible assets serving banking activities directly	*176*	*160*	*1*	*196*	*0*	*139*
Improvements on third party property	73	-12	0	0	0	61
IT equipment	78	-17	0	0	0	61
Other equipment, fittings	25	-7	1	0	0	17
Investment	0	196	0	196	0	0
Tangible assets serving banking activities indirectly	*182*	*119*	*29*	*0*	*0*	*272*
Vehicles	165	119	29	0	0	255
Works of art	17	0	0	0	0	17
Investments	0	0	0	0	0	0
Total	**567**	**417**	**30**	**359**	**0**	**595**

* value below HUF 1 million

Until 31 December 2015, HUF 163 million software user licences had been capitalized. The Branch invested this amount into developments to its existing systems, software upgrades and renewal of licences. At the end of the year, intangible assets included HUF 1 million non-capitalized acquisitions.

HUF 16 million new IT equipment (servers) and HUF 7 million other equipment, fittings were purchased.

During the year 26 company cars were purchased at a value of HUF 170 million, and 27 company cars were sold at a book value of HUF 146 million.

2.2. Provisions made and used in the reporting period

At 31 December 2015 the total value of the provisions in the books of the Branch was HUF 3 541 million.

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.

At 31 December 2014, the other provision comprised of the following items: HUF 43 million for losses due to default of counterparties and HUF 62 million for redundancies due to reorganization. In the reporting period the Branch has released HUF 27 million from the provision on losses due to default of the counterparty. HUF 62 million provision was used by the Company to cover the cost of redundancies and recording of provision in the amount of HUF 112 million was required. The Bank made HUF 1 780 million provision to cover VAT self-revision due to invoices paid to the parent company between 2012 and 2014, and a furher HUF 350 million provision to cover suspended settlements in regards to IRS deals.

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

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

Provisions made and released in the reporting period:

Data in HUF million

Description	31 December 2014	Increase (made)	Decrease		31 December 2015
			released	used	
Provisions for pension and severance pay	0	0	0	0	0
Provisions for contingent and future liabilities	0*	74	0	0	74
Provisions for general risks	1 209	0	0	0	1 209
Other provisions	105	2 242	27	62	2 258
Total	**1 314**	**2 316**	**27**	**62**	**3 541**

* value below HUF 1 million

2.3. Impairment loss recognised and reversed in the reporting period

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

Data in HUF million

Description	31 December 2014	Increase (made)	Decrease		31 December 2015
			released	used	
Impairment of receivables from customers	10	470	9	0	471
Impairment of investment services	14	1	0	0	15
Impairment of other receivables	0	0	0	0	0
Impairment of shares	0	0	0	0	0
Impairment of debt securities	0	0	0	0	0
Total	**24**	**471**	**9**	**0**	**486**

The Branch recorded HUF 1 million impairment loss with respect to receivables from investment services and HUF 470 million due to receivables from customers becoming doubtful. HUF 9 million previous years' impairment was released in 2015.

2.4. Items under special evaluation rules

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

Data in HUF million

Description	Problem-free	Monitoring	Below average	Doubtful	Bad	Total
Government securities	**123 912**	**0**	**0**	**0**	**0**	**123 912**
Historic cost	123 912	0	0	0	0	123 912
Impairment	0	0	0	0	0	0
Receivables from financial	**181 099**	**0***	**0**	**0**	**0**	**181 099**
Historic cost	181 099	0*	0	0	0	181 099
Impairment	0	0*	0	0	0	0*
Receivables from customers	**80 693**	**0***	**0**	**910**	**0**	**81 603**
Historic cost	80 693	0*	0	1 380	1	82 074
Impairment	0	0*	0	470	1	471
Contingent liabilities	**440 465**	**3**	**0**	**0**	**0**	**440 468**
Historic cost	440 465	3	0	0	0	440 468
Provision	0	0*	0	0	0	0*
Future liabilities	**2 889 539**	**0**	**0**	**0**	**0**	**2 889 539**
Historic cost	2 889 539	0	0	0	0	2 889 539
Provision	0	0	0	0	0	0

* value below HUF 1 million

2.5. Owned securities and shares

2.5.1. Owned government securities held for trading

2.5.1.1. Portfolio held for trading – Government securities

Data in HUF million

Description of security	Nominal value	Book value	Valuation difference	Market value
C2017/A	130	143	0*	143
C2017/B	251	267	0*	267
C2017/C	26 000	25 924	11	25 935
C2018/A	332	362	-1	361
C2018/B	7 752	8 088	-14	8 074
C2018/C	9 832	9 867	36	9 903
C2018/D	11 959	11 912	11	11 923
C2019/A	4 302	4 880	-13	4 867
C2019/B	652	638	0*	638
C2020/A	3 760	4 582	-18	4 564
C2020/B	1 072	1 114	-2	1 112
C2021/A	800	792	-2	790
C2022/A	12 250	15 056	-57	14 999
C2023/A	2 788	3 304	-10	3 294
C2024/B	46	44	0*	44
C2025/B	31	36	0*	36
C2028/A	1 137	1 496	-2	1 494
Total	**83 094**	**88 505**	**-61**	**88 444**

* value below HUF 1 million

2.5.1.2. Portfolio held for trading – Discount securities

Data in HUF million

Description of security	Nominal value	Book value	Accrued interest	Market value
D160106	11	11	0*	11
D160203	30	30	0*	30
D160210	3	3	0*	3
D160217	42	42	0*	42
Total	**86**	**86**	**0***	**86**

* value below HUF 1 million

2.5.2. Available for-sale portfolio

Data in HUF million

Description of security	Nominal value	Book value	Accrued interest	Market value
D160106	3 000	2 997	2	2 999
D160203	5 030	5 021	0*	5 021
D160413	12 600	12 455	114	12 569
D160608	15 000	14 848	90	14 938
Total	**35 630**	**35 321**	**206**	**35 527**

* value below HUF 1 million

2.5.3. Owned government securities held for investment

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

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

Data in HUF million

Securities traded on MTS and OTC markets	Current assets		Fixed assets
	MTS	OTC	
Hungarian government bonds	88 505	0	0
Discount treasury bills	27 345	8 062	0
Total	**115 850**	**8 062**	**0**

The Branch has no securities denominated in foreign currency.

2.5.4. Owned shares held for investment

Data in HUF million

Description of share	Nominal value	Historic cost	Market value
Hitelgarancia Alapítvány	22	22	22
Garantiqa Hitelgarancia Zrt.	10	10	10
Budapesti Értéktőzsde Zrt.	13	21	21
Shares held as investment *	0*	0*	0*
Total	**45**	**53**	**53**

* value below HUF 1 million

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

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

Data in HUF million

Description of balance sheet item	Maturity within 3 months	Maturity over 3 months but within 1 year	Maturity over 1 year	Maturity over 5 years	Total
Receivables	**216 336**	**6 331**	**35 074**	**2 210**	**259 951**
From credit institutions	178 348	0	0	0	**178 348**
From customers	37 988	6 331	35 074	2 210	**81 603**
Payables	**179 315**	**29 279**	**50 412**	**0**	**259 006**
To credit institutions	142 087	313	50 412	0	**192 812**
To customers	37 228	28 966	0	0	**66 194**

2.7. Subordinated debts including subordinated loan capital

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

2.8. Items relating to headquarters, other branches and other related parties

Data in HUF million

Description	Founder	Other branch	Other related party	Total
Receivables from financial institutions within one year	162 321	1 730	0	**164 051**
Receivables from financial institutions arising from	0	0	0*	**0***
Other receivables within one year	313	82	31	**426**
Liabilities to financial institutions within one year	8 924	0	0	**8 924**
Liabilities to financial institutions over one year	50 412	0	0	**50 412**
Liabilities to customers on demand	0	0	37	**37**
Other liabilities within one year	38	0	1	**39**
Other interest received and similar incomes	88	10	54	**152**
Interest payable and similar expenditures	598	7	443	**1 048**
Commissions received from the revenues from other financial services	432	41	78	**551**
Commissions received from the revenues from investment services	0*	0	0*	**0***
Commissions paid on the expenditures on other financial services	22	366	45	**433**
Revenues from other financial services	2 178	0	1 444	**3 622**
Expenditures on investment services	184	1	144	**329**
Revenues from other than financial and investment services	62	102	28	**192**
Other revenues	23	17	7	**47**
Expenditures on other than financial and investment services	1	0	0	**1**
Other expenditures	145	9	5	**159**
Dividends approved	38	0	0	**38**

* value below HUF 1 million

2.9. Prepayments and accruals

The amount of prepaid expenses and accrued income on the balance sheet on 31 December 2015 was HUF 2 112 million (and HUF 1 438 million on 31 December 2014). Accrued expenses and deferred income amounted to HUF 2 519 million on 31 December 2015 (and HUF 1 817 million at 31 December 2014). The details are as follows:

2.9.1. Prepaid expenses and accrued income

Data in HUF million

Description	31 December 2014	31 December 2015
Accrued income	**1 406**	**2 057**
Interest receivable from Central Bank and financial institutions	95	91
Interest receivable from customers	243	115
Interest receivable on securities	378	1 292
Interest receivable from interest rate swaps	188	204
Other accrued income	502	355
Prepaid expenses	**32**	**55**
Prepaid expenses	32	55
Total prepaid expenses and accrued income	**1 438**	**2 112**

2.9.2. Accrued expenses and deferred income

Data in HUF million

Description	31 December 2014	31 December 2015
Deferred income	**377**	**204**
Deferred commission income	308	153
Deferred guarantee fees	69	51
Accrued expenses	**1 440**	**2 315**
Interest payable to financial institutions	71	54
Interest payable to customers	31	39
Interest payable in connection with interest rate swaps	125	136
Other accrued payables	1 213	2 086
Deferred revenues	**0**	**0**
Deferred revenues	0	0
Total accrued expenses and deferred income	**1 817**	**2 519**

2.10. Changes in shareholders' equity during the year

Data in HUF million

Description	31 December 2014	Changes in 2014		31 December 2015
		Increase	Decrease	
Issued capital / Dotation capital	2	0	0	2
Capital reserve	43 643	0	0	43 643
General reserve	0	0	0	0
Retained earnings	0	0	0	0
Tied-up reserves	0	0	0	0
Revaluation reserve	0	0	0	0
Profit or loss for the year	0	0	0	0
Shareholders' equity	**43 645**	**0**	**0**	**43 645**

2.10.1. Endowment capital (Issued capital)

The endowed capital of the Branch amounted to HUF 2 million on 31 December 2015 and is made up of HUF 1 million paid up by the Owner and HUF 1 million of the capital reserve of the acquired companies transferred to the endowed capital pursuant to the decision of the Founder.

2.10.2. Capital reserve

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

2.10.3. Retained earnings

Retained earnings amounted to zero, the retained earnings (losses) of the acquired Companies were transferred to the capital reserve after the merger and since the branch transformation the profit after tax of each financial year (2015 also) was paid out to the Founder as dividends.

2.10.4. General reserve

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.

2.11. Liabilities from investment services

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

Data in HUF million

Name of bank account manager	31 December 2014	31 December 2015
Branch	0	0
Other credit institution	10	4
Total	**10**	**4**

2.12. Off-balance sheet items

2.12.1. Contingent liabilities and future liabilities

2.12.1.1. Contingent liabilities

Data in HUF million

Description	31 December 2014	Reclassification*	Corrected 31 December 2014	31 December 2015
Issued guarantee	33 027	-42	32 985	32 748
Unused credit facility	306 721	0	306 721	370 749
Other contingent liabilities	33 596	+42	33 638	37 046
Total of contingent liabilities	**373 344**	**0**	**373 344**	**440 543**

*The balance of issued letters of credit for year-end 2014 was incorrectly represented in Issued guarantee row. It was reclassified in Other contingent liabilities at year-end 2015.

2.12.1.2. Future liabilities

Data in HUF million

Description	31 December 2014	31 December 2015
Spot transactions	122 712	534 316
Forward transactions	1 822 435	2 270 477
Forward rate agreements	0	115
Interest rate swaps	1 332	732
Security purchase commitment	77 511	79 896
Assigned transactions	15 045	0
Term deposit placement	300	4 003
Total of future liabilities	**2 039 335**	**2 889 539**

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

2.12.1.2.1.1. Spot transactions

Spot foreign exchange purchases and sale transactions are recorded in Account Class 0 amounted to HUF 534 316 million on 31 December 2015, calculated at the applicable MNB exchange rate (on 31 December 2014 the value of these transactions was HUF 122 712 million at MNB exchange rate). These transactions matured by the date of the balance sheet preparation.

2.12.1.2.1.2. Forward transactions

The Branch records forward transactions until their maturity in Account Class 0. At the end of 2015, the year-end value of forward foreign exchange transactions and foreign exchange swap transactions calculated at the applicable MNB exchange rate were HUF 2 270 477 million (on 31 December 2014, the value of these transactions was HUF 1 822 435 million). The rules of the fair value method of valuation were used to recognize the results of these transactions.

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

Data in HUF million

Maturity	Maturity within 3 months	Maturity over 3 months but within 1 year	Maturity over 1 year	Maturity over 5 years	Total
Total as at 31 December 2015	2 030 804	229 307	10 366	0	2 270 477
Total as at 31 December 2014	1 651 292	166 215	4 928	0	1 822 435

2.12.1.2.1.3. Future liabilities from forward rate agreements

Future liabilities of sold forward rate agreements are also recorded in Account Class 0, and their value was HUF 115 million on 31 December 2015 (and HUF 0 million on 31 December 2014).

Data in HUF million

Maturity	Maturity within 3 months	Maturity over 3 months but within 1 year	Maturity over 1 year	Maturity over 5 years	Total
Total as at 31 December 2015	0	115	0	0	115
Total as at 31 December 2014	0	0	0	0	0

2.12.1.2.1.4. Interest rate swaps

As a result of interest rate swaps, HUF 732 million forward liabilities are recorded as off-balance sheet item at the end of the year 2015 (on 31 December 2014 HUF 1 332 million).

Data in HUF million

Maturity	Maturity within 3 months	Maturity over 3 months but within 1 year	Maturity over 1 year	Maturity over 5 years	Total
Total as at 31 December 2015	157	324	251	0	732
Total as at 31 December 2014	171	369	792	0	1 332

2.12.1.2.1.5. Forward securities transactions

The Branch records forward securities transactions in Account Class 0 at contractual value. On 31 December 2015, the contractual value of the forward purchases of securities were HUF 79 896 million (on 31 December 2014 HUF 77 511 million). These transactions were matured by the date of the balance sheet preparation.

2.12.1.2.2. Assigned transactions

The Branch records the assigned transactions as contingent liabilities in Account Class 0, which value was HUF 0 million on 31 December 2015 (on 31 December 2014 HUF 15 045 million).

2.12.1.2.3. Repurchase transactions, securities lending and borrowing agreements

At the time of closing the balance sheet, the books of the Branch did not include any real repurchase transactions, securities lending and borrowing agreements (nor in 2014).

2.12.1.2.4. Fair value of derivatives

As a result of applying the fair value method of valuation, the following revaluations had to be taken into account at 31 December 2015, and the following revaluation differences were recognized in the profit and loss account until 31 December 2015:

2.12.1.2.4.1. Revaluation gain on derivatives

Data in HUF million

Description	31 December 2014	31 December 2015	Impact of revaluation on result
FX swap transactions	25 355	8 289	-17 066
Forward transactions	3 955	1 279	-2 676
Forward rate agreements	0	0	0
Interest rate swaps	609	380	-229
Total	**29 919**	**9 948**	**-19 971**

2.12.1.2.4.2. Revaluation loss on derivatives

Data in HUF million

Description	31 December 2014	31 December 2015	Impact of revaluation on result
FX swap transactions	11 536	6 702	-4 834
Forward transactions	3 624	2 692	-932
Forward rate agreements	0	115	115
Interest rate swaps	562	350	-212
Total	**15 722**	**9 859**	**-5 863**

The aggregate impact of using fair valuation method for derivative transactions was HUF 14 108 million decrease in profit and loss on 31 December 2015 (as at 31 December 2014 the impact was HUF 22 405 million aggregate increase).

2.12.2. Contingent and future receivables

2.12.2.1. Contingent receivables

Data in HUF million

Description	31 December 2014	31 December 2015
Receivables subject to litigation	6	5
Total of contingent receivables	**6**	**5**

2.12.2.2. Future receivables

Data in HUF million

Description	31 December 2014	31 December 2015
Spot transactions	122 691	534 235
Forward transactions	1 836 296	2 270 486
Security sale commitment	91 002	50 817
Assigned transactions	18 030	0
Forward rate agreements	0	0
Interest rate swaps	1 440	828
Term deposit placement	60 105	1 600
Total of future receivables	**2 129 564**	**2 857 966**

2.12.3. Other contingent assets and liabilities

Data in HUF million

Description	31 December 2014	31 December 2015
Third party securities	69 730	43 765
Guarantee received	2 047	1 096
Securities received	145 742	112 996
Suspended interests	0*	0*
Nominal value of FRA purchase	0	80 000
Nominal value of FRA sale	0	20 000
Nominal value of interest rate swaps	12 000	15 131

* value below HUF 1 million

2.12.3.1. Total of third party securities

Data in HUF million

Type of security	Total nominal value	Place of storage				
		Clearing house	Third party premises	Bank's own Treasury	Dematerialized	Printed
Custody securities	43 765	43 745	0	20	36 721	7 044
Brokerage securities	0	0	0	0	0	0
Total as at 31 December 2015	**43 765**	**43 745**	**0**	**20**	**36 721**	**7 044**
Total as at 31 December 2014	**69 730**	**69 710**	**0**	**20**	**65 442**	**4 288**

2.12.3.1.1. Third party custody securities

Data in HUF million

Type of security	Total nominal value	Place of storage				
		Clearing house	Third party premises	Bank's own Treasury	Dematerialized	Printed
Hungarian government bonds	11 360	11 360	0	0	9 048	2 312
Shares	27 095	27 075	0	20	27 075	20
Other bonds	5 310	5 310	0	0	598	4 712
Total as at 31 December 2015	**43 765**	**43 745**	**0**	**20**	**36 721**	**7 044**
Total as at 31 December 2014	**69 730**	**69 710**	**0**	**20**	**65 442**	**4 288**

2.12.3.1.2. Third party brokerage securities

Data in HUF million

Type of security	Total nominal value	Place of storage				
		Clearing house	Third party premises	Bank's own Treasury	Dematerialized	Printed
Total as at 31 December 2015	**0**	**0**	**0**	**0**	**0**	**0**
Total as at 31 December 2014	**0**	**0**	**0**	**0**	**0**	**0**

2.12.3.2. Details of assets received as security or collateral

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

Data in HUF million

Description of security	31 December 2014	31 December 2015
Cash	837	1 038
Assignment of receivables	2 849	4 919
Mortgages	36 105	24 718
Other collaterals (corporate guarantee)	105 043	80 566
Other collaterals (letters of credit)	0	179
Other collaterals	908	1 576
Total	**145 742**	**112 996**

2.12.3.3. Suspended interests

The value of suspended interest was below HUF 1 million as at 31 December 2015. (The Branch recorded suspended interest with value below HUF 1 million on 31 December 2014 too.)

2.13. Revenues from and expenditures on investment services

Data in HUF million

Description	31 December 2014	31 December 2015
Revenues from investment services	**17 925**	**21 428**
Commissions on custody	66	583
Revenue from brokerage activities	770	74
Revenue from securities trading	12 865	20 138
Revenue of fair value from securities held for trading	125	54
Revenue from foreign exchange forward transactions	2 761	0
Revenue from interest rate swaps	546	527
Revenue from forward rate agreements	792	52
Expenditures on investment services	**17 317**	**27 571**
Commissions paid on custody	74	49
Expenditure on brokerage activities	229	223
Expenditure on securities trading	15 634	21 754
Expenditure of fair value on securities held for trading	38	214
Expenditure on foreign exchange forward transactions	0	4 688
Expenditure on interest rate swaps	544	528
Expenditure on forward rate agreements	798	115

2.14. Costs in a breakdown by operational expenses

Total costs show a 12% increase in comparison with the previous year, which, by keeping the level of total payments to personnel, was caused by a 19% increase in material type expenditures and a 17% increase in depreciation. The total personnel and material type of expenditures represent 33% and 64% respectively, while the depreciation takes 3%. Compared to 2014, the cost structure did not change significantly.

Keeping the level of total personnel cost is due to the strict headcount and payroll management.

The increase of material type of expenditures can be explained by the raise in numbers of centrally managed processes at regional level on the one hand. On the other hand, services rendered by the parent company – in accordance with statutory regulations – as of 2015, are to be settled at the value increased by VAT.

Depreciation rose by 17% in comparison with 2014, mainly in respect of softwares and IT devices. Within total costs the portion of depreciation is not significant.

Data in HUF million

Description	31 December 2014	31 December 2015
Payroll	1 942	1 919
Other personnel costs	183	216
Social security and similar deductions	608	613
Total personnel costs	**2 733**	**2 748**
Material costs	72	53
Material type services used costs	599	609
Other services used costs	3 743	4 592
Other costs	8	9
Material type expenditures	**4 422**	**5 263**
Depreciation charge	**183**	**213**
Total costs	**7 338**	**8 224**

2.15. Non-financial and investment service expenditures

In 2015 the total balance of non-financial and investment service expendirues – similarly to previous year – results from recharged costs (on December 31, 2015 HUF 1 416 million, on December 31, 2014 HUF 2 211 million).

2.16. Extraordinary revenues and expenditures

Data in HUF million

Description	31 December 2014	31 December 2015
Extraordinary revenues	**1**	**1**
Extraordinary expenditures	**520**	**2**
Donations, film sponsorship	518	0*
Cancelled receivables	2	2

* value below HUF 1 million

2.17. Balance sheet structure

The balance sheet total of the Branch in the reporting period was HUF 450 billion, which represents an 8% decrease compared to the balance sheet total of 31 December 2014. The majority of the assets are current assets (91%), what are mainly goverment securities and receivables from financial institutions. Goverment securities represent 28% of the total assets, while proportion of receivables from financial institutions reach 40% thereof.

The proportion of short-term liabilities is 78% out of the total liabilities. 43% of the balance sheet total are liabilities towards financial institutions, other significant part of it (43%) are short-term deposits of customers. The proportion of liabilities over one year is 11% in the Branch's books on 31 December 2015.

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

Data in HUF million

Description	Assets 31 December 2014	Assets 31 December 2015	Liabilities 31 December 2014	Liabilities 31 December 2015
FX (expressed in HUF)	184 555	236 619	284 825	165 161
HUF	303 100	213 303	202 830	284 761
Total	**487 655**	**449 922**	**487 655**	**449 922**

2.17.2. HUF denominated assets and liabilities

The value of HUF denominated assets decreased by 30% (from HUF 303 billion to 213 billion) compared to 31 December 2014. The value of HUF denominated government securities increased (from HUF 73 billion to 124 billion), which represent 58% of HUF denominated assets.. The ratio of HUF denominated cash and equivalents decreased significantly (from HUF 163 billion to HUF 49 billion), which represent 23% of HUF denominated assets.

HUF denominated liabilities increased by 40% (from HUF 203 billion to 285 billion), from which financial institutions related balances sum up to 46% of the total.

2.17.3. FX denominated assets and liabilities

The value of FX denominated assets increased by 28% (from HUF 185 billion to 237 billion) compared to last year. FX denominated interbank placements increased significantly compared to the year-end of 2014.

The value of the FX denominated liabilities decreased (from HUF 285 billion to 165 billion) compared to previous period, mainly because of the decrease in FX denominated deposits from financial institutes.

2.18. Highlighted items from the balance sheet

Data in HUF million

Description	31 December 2014	31 December 2015
Liquid assets	163 488	49 774
Loans denominated in HUF*	17 392	22 560
Loans denominated in FX*	160 190	59 043
Interbank lending denominated in HUF*	16 610	4 531
Interbank lending denominated in FX*	18 893	173 817
Securities held for trading	73 476	123 851
Customer deposits denominated in HUF*	81 338	93 963
Customer deposits denominated in FX*	82 495	99 606
Interbank borrowings denominated in HUF*	37 329	128 081
Interbank borrowings denominated in FX*	200 846	64 731

* items arising from financial services

The balance sheet total decreased by 8% in 2015 compared to the preceding business year. Significant structural changes took place on Asset side, which were influenced by several factors. On Liability side no such change was experienced, the Liability side's structure remained similar to previous year.

On Asset side remarkable decrease in liquid assets and receivables from customers, while significant increase in government securities and receivables from financial institutions were observed. Behind the decerase of traditional corporate lending stand the repayment of certain significant loans, as well as the realignment of portfolio. The decrease realised mainly in the EUR portfolio.

Reduction in total liabilities is primarily linked to decrease in liabilities towards credit institutions, which was largely offset by the increase in corporate deposits.

2.19. Profitability

The Branch's profit after tax as at 31 December 2015 shows a significant decrease compared to the profit of the preceding year. Profitability was influenced by the following factors:

The net interest result decreased by 23% compared to previous year, which is explained by the 24% and 26% fall in interest received and interest paid respectively. During 2015 in money market the decrease of short-term HUF reference rates (overnight BUBOR) remained a general trend, accordingly the interest of reference rate linked products has changed. Furthermore the volume of classical bank activities (corporate lending and payment services) has also fallen compared to previous year. These two facts led to the decrease both in interest income and interest expenditures.

Our dividends earned on shares amounted to HUF 17 million in 2015.

Our net commissions earned until 31 December 2015 amounted to HUF 3 909 million, which is 10% lower than the gain from commissions in 2014 (HUF 4 356million). The decrease was due to the drop in commissions realised in respect of financial services as well as in securities trading.

The net result of financial services shows a profit at 31 December 2015 (HUF 504 million) compared to the loss on 31 December 2014 (HUF 3 613 million). This is due to profit result from FX revaluation (contrary to the loss in 2014), which was decreased by the overall loss accounted in regards to the derivative transactions.

Other revenues from business operations decreased by 40%, while other expenditures augmented by 51% compared to previous year. The significant raise in expenditure is explained by the fact that in 2015 HUF 2 242 million other provision was made, whereas the drop in revenues can be explained by the decrease in revenues from recharges costs.

General administrative costs increased by 12% compared to the preceding period. Their detailed analysis can be found in the section on costs in a breakdown by operational expenses.

Extraordinary expenses dropped significantly compared to previous year. The reason being that the Bank did not provide supplementary support in relation to film sponsorship in 2015 contrary to preceeding years.

It had a further negative impact on the Branch's result for 2015, that the Branch accounted impairment for accounts receivable in the amount of HUF 471 million.

2.20. Interest received by geographical region

Data in HUF million

Description	Domestic	Within EU	Other	Total
Interest received on securities	5 385	0	0	5 385
Other interest received	7 034	860	143	8 037
Total as at 31 December 2015	**12 419**	**860**	**143**	**13 422**
Total as at 31 December 2014	**16 836**	**735**	**47**	**17 618**

2.21. Key indices

Description		31 December 2014	31 December 2015
Return on Equity (ROE)	Profit after tax / Shareholders' equity	13,63	0,09
Return on Assets (ROA)	Profit after tax / Total assets	1,22	0,01
Quick ratio	Liquid assets + securities / Current liabilities	68,66	51,09
Capitalisation ratio	Shareholders' equity / Total liabilities	8,95	9,70
Fixed asset ratio	Fixed assets / Total assets	18,91	8,43
Gross margin of fixed assets	Shareholders' equity / Fixed assets	47,34	115,06

3. Informative Notes

3.1. Data of employees

3.1.1. Number of employees

Head

	31 December 2014	31 December 2015
Actual number of staff on 31 December	163	154
Annual average statistical number of staff	156	162
- of which: part-time employees	9	9

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

Data in HUF million

Description of employee group	31 December 2014	31 December 2015
Payroll costs of full-time employees	1 885	1 867
Payroll costs of part-time employees	57	52
Total	**1 942**	**1 919**

3.1.3. Payments to personnel

Data in HUF million

Description	31 December 2014	31 December 2015
Meal, relocation and vehicle cost reimbursement, allowances, travelling to and from work	22	21
Other payments (entertainment expenses, per diem, life insurance, etc.)	7	7
Non-repayable support provided by employer	21	40
Fringe benefits	133	148
Total	**183**	**216**

Other information

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

3.2. Items adjusting the corporate tax base

In 2015 the corporate tax base determined in the general ledger was reduced by HUF 965 million and increased by HUF 2 574 million to reach the corporate tax base in line with corporate tax act.

The corporate tax liability calculated for the year 2015 was HUF 474 million, of which HUF 657 million was paid in advance. The bank tax paid by the Branch amounted to HUF 608 million in the reporting period. In addition the Branch was paid HUF 908 million to the credit institution tax in 2015.

Pursuant to the decision of the owner, the full amount of the profit after tax 2015 will be paid out as dividends.

Data in HUF million

Description	31 December 2014	31 December 2015
Profit before tax	**7 900**	**1 120**
Items increasing the tax base	**431**	**2 574**
Provisions for future liabilities and expenses	100	2 316
Amortization/depreciation in accordance with accounting law	208	243
Costs incurred outside the normal course of business	68	1
Penalties, fines	0*	0*
Costs identified by self-correction	55	14
Items reducing the tax base	**1 772**	**965**
Released provisions for future liabilities and expenses	21	88
Amortization/depreciation in accordance with corporate tax law	207	223
Dividends received	16	17
Donations to foundations	4	0*
Revenues identified by self-correction	8	29
Bank tax	1 516	608
Tax base	**6 559**	**2 729**
Corporate tax	1 201	474
Tax benefits	**765**	**0**
Film sponsorship	765	0
Paid tax in abroad	**0**	**0**
Corporate tax liability	**436**	**474**
Bank tax	1 516	608
Total tax liability	**1 952**	**1 082**
Profit after tax	**5 948**	**38**
General provision made and used	0	0
Dividends paid from retained earnings	0	0
Dividends approved	5 948	38
Profit for the year	**0**	**0**

* value below HUF 1 million

3.3. Cash Flow Statements

Data in HUF million

	Description		31 December 2014	31 December 2015
1	+	Interest received	17 618	13 422
2	+	Revenues from other financial services	6 367	11 243
3	+	Other revenues	499	134
4	+	Revenues from investment services	17 223	21 129
5	+	Revenues from other than financial and investment services	2 477	1 588
6	+	Dividends received	16	17
7	+	Extraordinary revenues	1	1
8	-	Interest paid	3 586	2 645
9	-	Expenditures on other financial services	6 232	687
10	-	Other expenditures	2 428	3 480
11	-	Expenditures on investment services	39 109	13 034
12	-	Expenditures on other than financial and investment services	2 211	1 416
13	-	General administrative expenses	7 338	8 224
14	-	Extraordinary expenditures	520	2
15	-	Tax liability	1 952	1 082
16	-	Dividends paid	5 948	38
17	**Operating cash flows** (Lines 01 to 16)		**-25 123**	**16 926**
18	+ / -	Movements in accounts liabilities	-104 394	-34 799
19	+ / -	Movements in accounts receivables	-66 242	-45 338
20	+ / -	Movements in stocks	-7	1
21	+ / -	Movements in securities recorded under current assets	337 917	-50 504
22	+ / -	Movements in securities recorded under fixed assets	20	0
23	+ / -	Movements in investments	0	0
24	+ / -	Movements in intangible assets	-25	25
25	+ / -	Movements in tangible assets	-57	-53
26	+ / -	Movements in prepaid expenses and accrued income	2 332	-674
27	+ / -	Movements in accrued expenses and deferred income	-731	702
28	+	Shares issued at sales price	0	0
29	+	Non-repayable liquid assets received in accordance with	0	0
30	-	Non-repayable liquid assets transferred in accordance with law	0	0
31	-	Nominal value of redeemed own share, property note	0	0
32	**Net cash flows** (lines 17 to 31) Of which: - movements in cash - movements in money on accounts		**143 690** 270 143 420	**-113 714** 127 -113 841

* value below HUF 1 million

3.4. Other

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 balance sheet is secured or encumbered by mortgage or similar rights.

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

Budapest, 27 May 2016

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

ING Bank N.V. Hungary Branch

Management Report
2015

Management Report 31 December 2015

Economic environment

In the year 2015 the economic growth reached 2.9 %, which is to be considered a slight slow-down compared to the growth of 3.7 % in 2014. This slow-down is caused by the shortfall in harvest due to bad weather that could not be compensated by the increased growth of the service sector. Nonetheless industrial/manufacturing is continuously growing to a significant extent due to the increase of the automotive industry. Growth in other industrial subsectors was weak thus industrial production shows significant concentration.

Consumption is playing a major role in growth while the public investment boom of 2014 seems to be slowing down. The volume of private investments remains moderate due to either weak FDI inflows or the risk avoidence of corporates. On the other hand export has started to grow, while the improvement of terms of trade (significant price drop of oil and raw materials) import showed a moderate increase in 2015. As a resultant of the two effects external trade has reached a historic peak (year-on-year above EUR 8 billion) and the contribution of net export to GDP-growth has exceeded 1 percentage point.

Inflation reached a historical all time low -1.4 % in January 2015 despite the favourable growth figures. Deflation was caused mainly by significant decrease of oil prices leading to the decrease of fuel prices. Core inflation remained more or less constant and what is even more important, positive. Consumer prices rose slightly during the rest of the year, but this rise remained behind analysts' and NBH expectations. That's why the Monetary Council began a five-step interest rate cutting cycle in March 2015, and lowered the Central Bank's benchmark interest rate to 1.35% by 15 basic point cuts each. In terms of the exchange rate of the Hungarian Forint the year 2015 may be divided into 3 sections. From January to mid-April a continuous appreciation of the Forint against the Euro, thus the exchange rate declined to 296.5 HUF/EUR. The rate cutting cycle and the decreasing risk appetite of international investors (due to the concerns about GREXIT, slowing down of Chinese economy and its unpredictable monetary policy and concerns for the rising US interest rates) resulted in weakening of the Hungarian Forint between April-July. In the third section the exchange rate stabilized between 310-317.5 HUF/EUR.

The budgetary discipline was exemplary despite of increasing capital expenditures, since the accrual (ESA) deficit was only 1.9%, thus resulting in a real deficit less than the targeted 2.4%. These favourable processes were supported by several factors: on one hand labour market consolidation and growth in consumption increased the tax base, and on the other hand interest rates decreased due to low inflation, resulting in significant decrease of interest expenses. The Government Debt Management Agency (ÁKK) did not issue foreign currency bonds last year, i.e. redeemed the maturing debt in Forints. Excess HUF issuance was financed by the population and banks' books. The volume of government bonds owned by the population thus reached a historic peak, thanks to the favourable interest rate conditions, while purchasing of bonds by the banks was supported by the self-financing programme of the National Bank of Hungary.

S&P upgraded the national sovereign debt rating by 1 notch in 2015. Accordingly the country is 1 notch behind the „Recommended for investment" category at all credit rating agencies. Moreover, both Fitch and Moody's have changed its prospects to „Positive" from former „Stable". Although Hungary did not get back to the recommended category with any of the major credit rating agencies, a very significant step has been made towards it.

Financial Results

The after-tax profit was HUF 38 million in 2015. This is far behind last year's HUF 5.9 billion which is caused by 2 major factors:

1) A decrease in results of HUF 3.2 billion due to change in impairment

At year-end 2013 the Bank had to create a loan loss of HUF 2.5 billion behind a transaction that could entirely be released in 2014. This item improved profits by HUF 2.5 billion. During 2015 one of our clients' credit rating classification worsened significantly, resulting in an impairment of HUF 0.5 billion. Comparing years 2015 and 2014 the change in the volume of total impairment is HUF 3.2 billion.

2) The effect of the „Skandia" case is a loss in profits of HUF 1.8 billion

In light of the decision on the Skandia case No. C-7/13 by the European Court of Justice, the National Tax and Customs Administration of Hungary published an explanation on 7 October 2015 regarding the domestic application of being subject to group taxation. As an effect, the Bank paid VAT in 2016 related to the invoices issued against the services provided by the Amsterdam Headquarters in the frame of self-monitoring for the period 2012-2015 and had made a provision of HUF 1.8 billion.

The decrease in operational results (excluding the Skandia case and the loan loss provision) was HUF 0.9 billion. The decrease in business revenues was attributable to traditional bank operations. Both general lending and transaction services results (current account keeping, documentary services) decreased. In the first case the significant decrease in the portfolio, while in the second decrease of interest rate margins explains the decline in profitability.

General administrative expenses increased by 12%, from whereby personnel expenses remained on the level of 2014. Material type expenditures grew by 19% or HUF 0.8 billion, caused by the VAT-payment due to the ruling of the Skandia case already mentioned above (HUF 0.7 billion for year 2015) and the raised central expenditures (HUF 0.1 billion). Increase in regulatory costs should be emphasized within central expenditures as payments into the central Resolution Fund (SRM).

Interest margin of the Bank amounted to HUF 10.8 billion which is lower by 23% compared to the previous year level. As the result of decreasing interest rates margins narrowed, our net interest margin dropped back by HUF 3.2 billion.

Net commissions and fees reached HUF 3.9 billion, being HUF 0.4 billion behind last years' figure. Lower commission income was realized in guarantees provided, in structured lending and in account management.

Net profit/loss on Financial Operations improved from HUF -3.6 billion to HUF +0.5 billion. The increase of more than HUF 4 billion is attributable to the Bank's foreign currency trading results and the revaluation of foreign currency positions.

The Balance Sheet Total of the Bank reached HUF 449.9 billion at year end 2015, meaning a decrease of 8% compared to the end of 2014. The average balance sheet total figure remained on last year's level; the balance sheet structure of the business lines and the composition of portfolios remained unchanged. Exemption is corporate lending with significant decrease in the portfolio. Both the balance of short and long-term loans are decreased.

Trading

The year 2015 - similar to 2014 - was characterized by remarkable volatility. Forint interest rate markets were influenced by the repeated base rate lowering cycle of the Central Bank, the length of the cycle and the fine tuning of the monetary instruments. Further exchange rate and yield movements were induced by the expectations regarding the FED's rate increase (its extent and timing). 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 aimed to maintain its decisive market position among the continuously changing market environment.

Financial and Capital Markets Sales

In 2015 FM Sales Team worked on stopping the decrease in foreign exchange turnover and selling complex financial risk management solutions. The business line managed to broaden its customer base by several new acquisitions and prepared some further ones. In order to maintain existing customers professional client trainings and seminars were organized. The high volatility of FX-, money-, and capital markets and the unstable market environment resulted in the high level of financial risks. Just like in previous years, the expectation from clients to decrease the bank's margins on treasury products was sustained. At the same time competition strengthened among service providers targeting the same client base, especially among large corporates. As a result, the turnover of foreign exchange transactions and conversions at the bank's official rate stagnated. FM Sales encouraged their corporate clients to the mitigation of financial market risks, emphasizing the importance of measuring risks and choosing the appropriate financial solution. Our Clients' attention was drawn to the significant drop of interest rates and the possibilities to reduce interest rate risks deriving from this. This year there was a significant interest in securities transactions among financial institutions especially among investment fund managers.

Transaction Services

Income was slightly below expectations inTransaction Services Sales, which among others covers Trade Finance Services and Payments and Cash Management. The decrease in Trade Finance Services was primarily caused by much lower demand in bank guarantee compared to the previous year, while with Payments and Cash Management the continuous decrease of interest rate margins negatively influenced profitability.

In 2015 Transaction Services Sales took part in more biddings, in several cases received from the Bank's international client network. Despite further decrease in interest rate margins, this field made a lot of efforts to maintain its market share by widening the scope of services for current clients and also by new client acquisitions. Enhancing clients' re-contracting to conditions conforming to current interest rate environment helped to sustain profitability. In the field of Trade Finance Services we can emphasize the growth of market share within the current client portfolio and the activity towards increasing volumes that helped to increase to the expected growth.

After successful preparations for Business, Operation and IT, IG2 cycle concentration was realized during Q3 2015. The Bank's electronic channel connected to the account management system has been renamed (from ING Online to Inside Business Payment) which at the same time meant harmonization of the login surface with ING's global banking electronic channel. Implementation of SEPA transfers (changing former EUP Payment transfer) during Q4 2015 was also successful. Implementation of SEPA collection is planned for Q1 2016.

Corporate and Financial Institution Lending

In 2015 corporate lending came to a turning point. The increase of the previous period has stopped, most of the corporations had prepaid their loans before their original expiry and they have been financing their operation with their own resources rather than with bank loans. This is also visible in the decrease of number of club deals. The low number of transactions has caused increase of competition resulting in a more significant fall back of interest margins.

Due to the HUF reference interest rates Lending is getting to be more emphasised, though majority of exposure is in Euros.

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

Structured Finance

Structured Finance business line closed a very good year in 2015. The performance of existing business areas (syndicated loans, club deals, LBO finance, project finance and related advisory activity) continued to be decisive. The product portfolio of the business line was continued to be broadened by Trade and Commodity Finance activity. In advisory (Corporate Finance) transactions – in close cooperation with ING international network – one transaction has been closed successfully and further possibilities are in the pipeline.

Credit, Market and Operational Risk Management

Since 2008 ING Wholesale Banking has been running an integrated Risk Management model that covers corporate lending, counterparty risk management, and market risk management as well as operational risk management, IT and physical security areas. The basic role of Integrated Risk Management continues to be to ensure compliance with local 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 2015 as well. The Bank continued to ensure good profitability and stable liquidity similar to previous years. There was no operational or physical security incident that would have negatively influenced going concern operation or profitability.

The liquidity of the branch continues to be stable, thanks to local customer deposits and interbank funds as well as continuously available funding limits established for us at ING's Amsterdam Head Office. The practice of using liquidity premium reflecting the effects of financial crisis remained unchanged in 2015, but still not applied for shorter than 1 year tenor. We continued to focus on the efficient management of counterparty and market risk management limits. These limits have been changing throughout 2015 in accordance with the demands related to risk considerations and changes of the legal environment for the financial sector and their importance increased in line with the macroeconomic events.

The quality of the lending portfolio remained good, supported by the monitoring activity that had been strengthened during the last years and maintained in 2015. The result of lending clients has 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" like car-manufacturing, trading, transportation, construction or the financial sector are continued to be closely monitored by the Bank. As the exchange rate has become volatile from time-to-time we insisted on our cautious lending policy and provided FX denominated loans mainly to those of our customers that provide a natural hedge for their FX exposure (by their FX incomes) or by other hedging instruments. At the end of 2015 loan loss provisions related to the lending portfolio and counterparty risks were not significant.

Human Resources and Leadership Development

The Branch had 154 active employees on 31 December 2015. This means 5.5% decrease compared to the end of 2014 level (163 employees) that can be explained by partial outsourcing of the Information and Cash Management Department into the Administrative Centre.

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

Budapest, 27 May 2016

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