Annual Report 2012

ING Bank N.V. Hungary Branch

The English language version of the Annual Report of ING Bank N.V. Hungary Branch is the non-certified translation of the original and official Hungarian Annual Report and therefore it is considered solely to serve for information purposes only. The source for the 2012 English language Annual Report is the Hungarian language version amended with the Independent Auditors' Report.

Az ING Bank N.V. Magyarországi Fióktelepe 2012-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 2012-es éves beszámoló hiteles forrása a könyvvizsgálói záradékkal ellátott magyar nyelvű szöveg.

BALANCE SHEET – Assets

Data in HUF million

Description	Opening data 31 Dec 2011	Current year data 31 Dec 2012
1. Liquid assets	**27 187**	**76 417**
2. Government securities	**136 241**	**70 083**
a) trading securities	136 310	70 057
b) investment securities	0	0
2/A Valuation difference on government securities	**-69**	**26**
3. Receivables from financial institutions	**8 959**	**48 892**
a) on demand	2 587	10 843
b) other receivables from financial services	6 241	37 658
ba) current receivables	6 241	37 658
Of which: - from related parties	6 111	37 554
- from other related parties	0	0
- from the National Bank of Hungary	0	0
- from clearing house	115	35
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	131	391
Of which: - from related parties	5	0
- from other related parties	0	0
- from clearing house	117	381
3/A Valuation difference on receivables from financial institutions	**0**	**0**
4. Receivables from customers	**171 048**	**148 235**
a) from financial services	170 966	148 168
aa) current receivables	109 103	90 170
Of which: - from related parties	498	119
- from other related parties	0	0
ab) long-term receivables	61 863	57 998
Of which: - from related parties	558	0
- from other related parties	0	0
b) from investment services	82	67
Of which: - from related parties	17	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	74	57
bd) receivables from the clearing house	0	0
be) receivables from other investment services	8	10
4/A Valuation difference on receivables from customers	**0**	**0**
5. Debt securities	**0**	**0**
a) issued by local governments or other government institutions	0	0
aa) trading securities	0	0
ab) investment securities	0	0
b) issued by other entities	0	0
ba) trading securities	0	0
Of which: - issued by related parties	0	0
- issued by other related parties	0	0
- redeemed treasury shares	0	0
bb) investment securities	0	0
Of which: - issued by related parties	0	0
- issued by third parties	0	0
5/A Valuation difference on debt securities	**0**	**0**
6. Shares and other securities with variable yields	**0**	**0**
a) trading shares and participations	0	0
Of which: - issued by related parties	0	0
- issued by other related parties	0	0
b) variable-yield securities	0	0
ba) trading securities	0	0
bb) investment securities	0	0
6/A Valuation difference on shares and other variable-yield securities	**0**	**0**

Description	Opening data 31 Dec 2011	Current year data 31 Dec 2012
7. Investment shares and participations	**73**	**73**
a) investment shares and participations	73	73
Of which: - participation in financial institutions	0	0
b) adjustment of investment shares and participations	0	0
Of which: - participation in financial institutions	0	0
7/A Valuation difference on investment shares and participations	**0**	**0**
8. Shares and participations in related parties	**0**	**0**
a) investment shares and participations	0	0
Of which: - participation in financial institutions	0	0
b) adjustment of investment shares and participations	0	0
Of which: - participation in financial institutions	0	0
9. Intangible assets	**210**	**175**
a) intangible assets	210	175
b) adjustment of intangible assets	0	0
10. Tangible assets	**567**	**376**
a) tangible assets held for financial services and investment purposes	275	135
aa) property	128	35
ab) technical equipment, machines, fixtures, vehicles	143	100
ac) capital expenditures	4	0
ad) advance payments on capital expenditures	0	0
b) tangibles assets not held for financial services and investment purposes	292	241
ba) property	0	0
bb) technical equipment, machines, fixtures, vehicles	292	241
bc) capital expenditures	0	0
bd) advance payments on capital expenditures	0	0
c) adjustment of tangible assets	0	0
11. Own shares	**0**	**0**
12. Other assets	**1 274**	**1 521**
a) stocks	11	8
b) other receivables	1 263	1 513
Of which: - from related parties	27	553
- from other related parties	0	0
12/A Valuation difference on other receivables	**0**	**0**
12/B Positive valuation difference on derivatives	**30 396**	**7 247**
13. Prepaid expenses and accrued income	**3 947**	**3 306**
a) accrued income	3 888	3 276
b) prepaid expenses	59	30
c) deferred expenses	0	0
Total assets	**379 902**	**356 325**
Of which: - CURRENT ASSETS	313 242	294 397
- FIXED ASSETS	62 713	58 622

Budapest, 15 May 2013

Dr. István Salgó
Chief Executive Officer

Gyula Réthy
Chief Financial Officer

BALANCE SHEET – Equity and Liabilities

Data in HUF million

Description	Opening data 31 Dec 2011	Current year data 31 Dec 2012
1. Liabilities to financial institutions	**174 055**	**144 959**
a) on demand	6 932	22 279
b) fixed-term liabilities from financial services	167 109	122 639
ba) current liabilities	167 069	122 626
Of which: - to related parties	140 189	84 831
- to other related parties	0	0
- to the National Bank of Hungary	0	0
- to clearing houses	0	0
bb) long-term liabilities	40	13
Of which: - to related parties	0	0
- to other related parties	0	0
- to the National Bank of Hungary	0	0
- to clearing houses	0	0
c) from investment services	14	41
Of which: - to related parties	14	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	**124 607**	**140 945**
a) savings deposits	0	0
aa) on demand	0	0
ab) current liabilities	0	0
ac) long-term liabilities	0	0
b) other liabilities from financial services	124 605	140 945
ba) on demand	88 873	97 731
Of which: - to related parties	8 054	4 656
- to other related parties	0	0
bb) current liabilities	35 732	43 214
Of which: - to related parties	8 863	6 890
- 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	2	0
Of which: - to related parties	0	0
- to other related parties	0	0
ca) liabilities from stock exchange investment services	0	0
cb) liabilities from OTC transactions	0	0
cc) liabilities from investment services	2	0
cd) liabilities from clearing house	0	0
ce) liabilities from other investment services	0	0
2/A Valuation difference on liabilities to customers	**0**	**0**
3. Liabilities from issued securities	**0**	**0**
a) issued bonds	0	0
aa) current liabilities	0	0
Of which: - to related parties	0	0
- to other related parties	0	0
ab) long-term liabilities	0	0
Of which: - to related parties	0	0
- to other related parties	0	0
b) other issued debt securities	0	0
ba) current liabilities	0	0
Of which: - to related parties	0	0
- to other related parties	0	0
bb) long-term liabilities	0	0
Of which: - to related parties	0	0
- to other related parties	0	0
c) documents not qualifying as debt securities, treated as securities	0	0
ca) trading securities	0	0
Of which: - to related parties	0	0
- to other related parties	0	0
cb) long-term liabilities	0	0
Of which: - to related parties	0	0
- to other related parties	0	0

BALANCE SHEET – Equity and Liabilities

Description	Opening data 31 Dec 2011	Current year data 31 Dec 2012
4. Other liabilities	**14 249**	**13 703**
a) current liabilities	14 249	13 703
Of which: - to related parties	7 210	8 241
- 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	**17 544**	**7 668**
5. Accrued expenses and deferred income	**3 796**	**4 161**
a) deferred income	614	688
b) accrued expenses	3 180	3 471
c) deferred extraordinary revenues and negative goodwill	2	2
6. Provisions	**2 006**	**1 244**
a) provisions for pensions and severance payment	0	0
b) provisions for contingent and future liabilities (commitments)	2	1
c) general risk provisions	1 209	1 209
d) other provisions	795	34
7. Subordinated debt	**0**	**0**
a) subordinated loan capital	0	0
Of which: - to related parties	0	0
- to other related parties	0	0
b) for financial institutions operating as co-operatives: other cash contribution of members	0	0
c) other subordinated debt	0	0
Of which: - to related parties	0	0
- to other related parties	0	0
8. Issued capital	**2**	**2**
Of which: - participation redeemed at face value	0	0
9. Issued but unpaid capital (-)	**0**	**0**
10. Capital reserve	**43 643**	**43 643**
a) difference of the nominal value and issuing price of shares and	0	0
b) other	43 643	43 643
11. General reserve	**0**	**0**
12. Retained earnings (+-)	**0**	**0**
13. Tied-up reserves	**0**	**0**
14. Revaluation reserve	**0**	**0**
a) revaluation reserve on value adjustments	0	0
b) fair value reserve	0	0
15. Profit or loss for the year (+-)	**0**	**0**
Total equity and liabilities	***379 902***	***356 325***
Of which: - CURRENT LIABILITIES	330 415	307 262
- LONG-TERM LIABILITIES	40	13
- EQUITY	43 645	43 645

Contingent liabilities	430 951	358 485
Future liabilities	1 524 706	862 310
Contingent receivables	9	9
Future receivables	1 532 070	913 415

Budapest, 15 May 2013

Dr. István Salgó
Chief Executive Officer

Gyula Réthy
Chief Financial Officer

PROFIT AND LOSS STATEMENT

Data in HUF million

	Description	Opening data 31 Dec 2011	Current year data 31 Dec 2012
1.	**Interest and similar income received**	**30 748**	**33 817**
	a) on fixed-interest debt securities	20 283	21 828
	Of which: - from related parties	0	0
	- from other related parties	0	0
	b) other interest and similar income received	10 465	11 989
	Of which: - from related parties	392	308
	- from other related parties	0	0
2.	**Interest payable and similar expenditures**	**9 115**	**9 789**
	Of which: - from related parties	4 094	3 470
	- from other related parties	0	0
	INTEREST MARGIN (1-2)	**21 633**	**24 028**
3.	**Revenues from securities**	**44**	**39**
	a) revenues from trading shares and securities	0	0
	b) revenues from participations in related parties	0	0
	c) revenues from other participations	44	39
4.	**Commissions and fees received or due**	**4 164**	**3 436**
	a) from the revenues from other financial services	2 674	2 099
	Of which: - from related parties	660	441
	- from other related parties	0	0
	b) from the revenues from investment services	1 490	1 337
	Of which: - from related parties	279	113
	- from other related parties	0	0
5.	**Commissions and fees paid or payable**	**1 141**	**956**
	a) from the expenditures on other financial services	539	466
	Of which: - from related parties	100	106
	- from other related parties	0	0
	b) from the expenditures on investment services	602	490
	Of which: - from related parties	10	6
	- from other related parties	0	0
6.	**Net profit/loss on financial operations [6.a)-6.b)+6.c)-6.d)]**	**-6 096**	**-8 079**
	a) from the revenues from other financial services	1 581	13 673
	Of which: - from related parties	307	4 460
	- from other related parties	0	0
	- valuation difference	0	0
	b) from the expenditures on other financial services	11 307	96
	Of which: - to related parties	0	0
	- to other related parties	0	0
	- valuation difference	0	0
	c) from the revenues from investment services	13 044	14 573
	Of which: - from related parties	0	74
	- 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	9 414	36 229
	Of which: - to related parties	86	103
	- to other related parties	0	0
	- impairment of trading securities	0	0
	- valuation difference	0	0
7.	**Other revenues from operations**	**4 356**	**5 439**
	a) revenues from other than financial and investment services	3 885	4 132
	Of which: - from related parties	320	262
	- from other related parties	0	0
	b) other revenues	471	1 307
	Of which: - from related parties	2	509
	- from other related parties	0	0
	- reversal of impairment of stocks	0	0

PROFIT AND LOSS STATEMENT

	Description	Opening data 31 Dec 2011	Current year data 31 Dec 2012
8.	**General administrative expenses**	**7 222**	**7 263**
	a) payments to personnel	3 327	3 101
	aa) payroll	2 419	2 220
	ab) payments to personnel	210	213
	Of which: - social security costs	26	26
	= pension related costs	10	11
	ac) social security and similar deductions	698	668
	Of which: - social security costs	652	625
	= pension related costs	573	0
	b) material type expenditures (materials and supplies)	3 895	4 162
9.	**Depreciation**	**352**	**257**
10.	**Other expenditures on operations**	**5 246**	**5 239**
	a) expenditures on other than financial and investment services	3 753	4 037
	Of which: - to related parties	107	5
	- to other related parties	0	0
	b) other expenditures	1 493	1 202
	Of which: - to related parties	3	6
	- to other related parties	0	0
	- impairment of stocks	0	0
11.	**Impairment of receivables and risk provision for commitments and contingent liabilities**	**3**	**8**
	a) impairment of receivables	3	7
	b) risk provisions for contingent liabilities and for (future) commitments	0	1
12.	**Reversal of impairment of receivables and use of risk provision made for commitments and contingent liabilities**	**41**	**18**
	a) reversal of impairment of receivables	21	16
	b) use of risk provision made for commitments and contingent liabilities	20	2
	12/A Difference between general risk reserve allocated and used	0	0
13.	**Impairment of investment debt securities and shares and participations in related parties and other related parties**	**0**	**0**
14.	**Reversal of impairment of investment debt securities and shares and participations in related parties and other related parties**	**0**	**0**
15.	**Profit or loss on ordinary activities**	**10 178**	**11 158**
	Of which: - PROFIT ON FINANCIAL AND INVESTMENT SERVICES	10 046	11 063
	Of which: - PROFIT ON OTHER THAN FINANCIAL INVESTMENT	132	95
16.	**Extraordinary revenues**	**1**	**1**
17.	**Extraordinary expenditures**	**1 018**	**1 002**
18.	**Extraordinary profit/loss (16-17)**	**-1 017**	**-1 001**
19.	**Profit before tax (+/-15+/-18)**	**9 161**	**10 157**
20.	Tax liability	1 961	1 949
21.	**Profit after tax (+/-19-20)**	**7 200**	**8 208**
22.	**General provision made and used (+/-)**	**0**	**0**
23.	**Dividends paid from retained earnings**	**0**	**0**
24.	**Dividends paid (approved)**	**7 200**	**8 208**
	Of which: - to related parties	7 200	8 208
	- to other related parties	0	0
25.	**Profit or loss for the year (+21-/+22+23-24)**	**0**	**0**

Budapest, 15 May 2013

Dr. István Salgó
Chief Executive Officer

Gyula Réthy
Chief Financial Officer

Notes to the Financial Statements

31 December 2012

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NOTES TO THE FINANCIAL STATEMENTS 31 DECEMBER 2012

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 the group.

The ING Group announced the complete separation of its bank and insurance operations in October 2009, aiming to finish the separation by the end of 2013. ING Group has been preparing for the structural changes under Readiness project from 2010. In respect of Hungary the project aims physical separation, cancellation and simplification of common operational processes. In 2012 the project did not have any significant impact on the Bank's performance.

The IT environment of the Branch

<u>GBS system</u>

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.

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.

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.

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.

Reporting rules

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

With regard to the applicable requirements of Act C of 2000 on Accounting and Government Decree 250 of 24.12.2000 (on the specific obligations of lending institutions and financial enterprise relating to drawing up the annual financial statements and keeping the accounts), as amended, the Branch draws up annual financial statements following the closing of the calendar year to give a view of its operations, equity, financial position and profitability. Pursuant to the regulations applying to lending institutions, the Branch uses double-entry bookkeeping and calculates profit or loss by applying the turnover cost method. The Branch draws up its balance sheet in accordance with Annex 1 to the Government Decree, its profit and loss account with Annex 2 (Profit and Loss Account 1 vertical structure), and its cash flow statement with Annex 3 (required cash flow structure version A)

In respect of 31 December 2012, the date of drawing up the balance sheet was 5 January 2013.

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

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

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.

Fair value method

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

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

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

<u>Securities held for trading</u>

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.

<u>Securities available for sale</u>

Valuation method of securities available for sale depends on the type of the security.

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

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

In the case of securities available for sale, the valuation difference shows the fair value exceeding the historic cost (purchase price). It can only be positive, and it is not part of the book value of these assets. The Branch recognizes this valuation difference in the revaluation reserve. If the fair value of an asset is below the historic cost (purchase price) at the time of the valuation, then the valuation difference must be written off against the revaluation reserve of the valuation at fair value and an impairment loss must be recognized if the fair value decreases permanently and significantly.

The Branch did not have any available for sale financial assets apart from the investment shares during 2012.

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.

Detailed description of applied procedures

Securities

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

Financial instruments (forward, swap, FRA)

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

Interest rate swaps

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

Historic cost method of valuation – other valuation rules

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.

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%.

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.

Reserves

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

The applied reserves are as follows:

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

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

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

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

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.

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.

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 2011	31 December 2012
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	25 or 33	20
**Improvements on third party property	Closing date of depreciation = August 31, 2014	Closing date of depreciation = December 31, 2019

* In 2012 the Branch sets the depreciation rate of vehicles to 20% in accordance with the internal policies

** In 2012 the Branch recognizes the depreciation rate of improvements on third party property in alignment with the maturity of the new lease agreement.

Other information

The Branch does not have an obligation to prepare consolidated financial statements as at 31 December 2012.

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 2012 is available at www.ing.com.

The owner of ING Bank N. V. Amsterdam, ING Groep N.V. Amsterdam includes our owner in its consolidated financial statements prepared in accordance with similar principles. The annual report for the year 2012 is available at www.ing.com.

Accounting services

Person responsible for leading and managing the accounting tasks performed in the year 2012

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

Auditing the annual financial statements of the Branch

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

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

Auditor:

Gabriella Virágh	1032 Budapest, Kiscelli út 74. Mother's name: Erzsébet Kiss

The fee for auditing the financial statements for the present financial year is HUF 19 million, including VAT. The Branch recognised HUF 3 million as cost of other services provided by the auditor in the reporting period.

The annual financial statements are signed by:

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

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.

Gross value of tangible and intangible assets

Figures in HUF m

Description	31 December 2011	Purchase	Sale	Capitali-zation	Other change (reclassifi-cation, discarding)	31 December 2012
Intangible assets	**583**	**188**	**0**	**82**	**-54**	**635**
Other concessions, licenses and similar rights*	0	0	0	0	0	0
Software user licences	583	188	0	82	-54	635
Tangible assets	**954**	**116**	**48**	**60**	**-167**	**795**
Tangible assets serving banking activities directly	*562*	*76*	*5*	*40*	*-167*	*426*
Improvements on third party property	240	0	0	0	-165	75
IT equipment	195	3	4	0	-1	193
Other equipment, fittings	123	37	1	0	-1	158
Investment	4	36	0	40	0	0
Tangible assets serving banking activities indirectly	*392*	*40*	*43*	*20*	*0*	*369*
Vehicles	375	20	43	0	0	352
Works of art	17	0	0	0	0	17
Investments	0	20	0	20	0	0
Total	**1 537**	**304**	**48**	**142**	**-221**	**1 430**

* value below HUF 1 million

Accumulated depreciation of tangible assets and accumulated amortization of intangible assets

Figures in HUF m

Description	31 December 2011	Ordinary deprecia-tion/amor-tization	Sale	Capitali-zation	Other change (reclassifi-cation, discarding)	31 December 2012
Intangible assets	**373**	**88**	**0**	**0**	**-1**	**460**
Other concessions, licenses and similar rights*	0	0	0	0	0	0
Software user licences	373	88	0	0	-1	460
Tangible assets	**387**	**169**	**29**	**0**	**-108**	**419**
Tangible assets serving banking activities directly	*287*	*116*	*4*	*0*	*-108*	*291*
Improvements on third party property	112	34	0	0	-106	40
IT equipment	104	48	4	0	-1	147
Other equipment, fittings	71	34	0	0	-1	104
Investment	0	0	0	0	0	0
Tangible assets serving banking activities indirectly	*100*	*53*	*25*	*0*	*0*	*128*
Vehicles	100	53	25	0	0	128
Works of art	0	0	0	0	0	0
Investments	0	0	0	0	0	0
Total	**760**	**257**	**29**	**0**	**-109**	**879**

* value below HUF 1 million

Net value of tangible and intangible assets

Figures in HUF m

Description	31 December 2011	Changes	Sale	Capitali-zation	Other change (reclassifi-cation, discarding)	31 December 2012
Intangible assets	**210**	**100**	**0**	**82**	**-53**	**175**
Other concessions, licenses and similar rights*	0	0	0	0	0	0
Software user licences	210	100	0	82	-53	175
Tangible assets	**567**	**-53**	**19**	**60**	**-59**	**376**
Tangible assets serving banking activities directly	*275*	*-40*	*1*	*40*	*-59*	*135*
Improvements on third party property	128	-34	0	0	-59	35
IT equipment	91	-45	0	0	0	46
Other equipment, fittings	52	3	1	0	0	54
Investment	4	36	0	40	0	0
Tangible assets serving banking activities indirectly	*292*	*-13*	*18*	*20*	*0*	*241*
Vehicles	275	-33	18	0	0	224
Works of art	17	0	0	0	0	17
Investments	0	20	0	20	0	0
Total	**777**	**47**	**19**	**142**	**-112**	**551**

* value below HUF 1 million

Until 31 December 2012, HUF 82 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 28 million non-capitalized acquisitions.

HUF 3 million new IT equipment (servers) and HUF 37 million other equipment, fittings were purchased.

In accordance with the new lease agreement the Branch recorded HUF 59 million impairments on improvements of third party properties.

During the year 2 company cars were purchased at a value of HUF 20 million, and 8 company cars were sold at a book value of HUF 18 million.

Provisions made and used in the reporting period

At 31 December 2012 the total value of the provisions in the books of the Branch was HUF 1 244 million.

At 31 December 2011, the books of the Branch included HUF 2 million provisions for contingent and future liabilities related to derivative deals out of which HUF 2 million was released and HUF 1 million was built in 2012. As a consequence at the end of 2012 the total provision for derivative deals amounted to HUF 1 million.

At 31 December 2011, the other provision comprised of the following items: HUF 372 million for losses due to default of counterparties, HUF 273 million for future office rent, HUF 64 million amortization costs of third party properties improvements and HUF 86 million for redundancies due to reorganization. In the reporting period the Branch released HUF 353 million from provision on losses due to default of the counterparty. The entire provision for future rent was terminated due to the new lease agreement in 2012: the Branch released and used provision with value of HUF 225 and 48 million respectively. Depreciation of improvements of third party properties was offset by the usage of HUF 64 million. HUF 71 million provision was used by the Company to cover the cost of redundancies.

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

Provisions made and released in the reporting period:

Figures in HUF m

Description	31 December 2011	Increase (made)	Decrease		31 December 2012
			released	used	
Provisions for pension and severance pay	0	0	0	0	0
Provisions for contingent and future liabilities	2	1	2	0	1
Provisions for general risks	1 209	0	0	0	1 209
Other provisions	795	0	578	183	34
Total	**2 006**	**1**	**580**	**183**	**1 244**

Impairment loss recognised and reversed in the reporting period

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

Figures in HUF m

Description	31 December 2011	Increase (made)	Decrease		31 December 2012
			released	used	
Impairment of receivables from customers	15	1	15	0	1
Impairment of investment services	231	6	1	0	236
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	**246**	**7**	**16**	**0**	**237**

The Branch recorded HUF 7 million impairment loss with respect to doubtful receivables and the HUF 16 million previous years' impairment was released in 2012.

Items under special evaluation rules

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

Figures in HUF m

Description	Problem-free	Monitoring	Below average	Doubtful	Bad	Total
Government securities	**70 057**	**0**	**0**	**0**	**0**	**70 057**
Historic cost	70 057	0	0	0	0	70 057
Impairment	0	0	0	0	0	0
Receivables from financial institution	**48 892**	**0**	**0**	**0**	**0**	**48 892**
Historic cost	48 892	0	0	0	0	48 892
Impairment	0	0	0	0	0	0
Receivables from customers	**148 169**	**3**	**4**	**1**	**58**	**148 235**
Historic cost	148 169	3	5	1	294	148 472
Impairment	0	*0	1	*0	236	237
Contingent liabilities	**358 447**	**38**	**0**	**0**	**0**	**358 485**
Historic cost	358 447	39	0	0	0	358 486
Provision	0	1	0	0	0	1
Future liabilities	**862 310**	**0**	**0**	**0**	**0**	**862 310**
Historic cost	862 310	0	0	0	0	862 310
Provision	0	0	0	0	0	0

* value below HUF 1 million

Owned securities and shares

Owned government securities held for trading

Portfolio held for trading

Figures in HUF m

Description of security	Nominal value	Book value	Valuation difference	Market value
2013/D	600	601	*0	601
2013/E	19	19	*0	19
2014/C	743	743	1	744
2014/D	740	756	1	757
2015/A	1 765	1 850	5	1 855
2015/B	77	75	*0	75
2015/C	1 887	1 975	7	1 982
2016/C	305	304	*0	304
2017/A	22	23	*0	23
2017/B	33	34	*0	34
2019/A	1	1	*0	1
2020/A	595	639	10	649
2022/A	74	78	*0	78
2023/A	124	121	2	123
2028/A	31	33	*0	33
Total	**7 016**	**7 252**	**26**	**7 278**

* value below HUF 1 million

Figures in HUF m

Description of security	Nominal value	Book value	Accrued interest	Market value
D130102	100	100	*0	100
D130109	264	264	*0	264
D130123	2	2	*0	2
D130130	9	9	*0	9
D130220	2 247	2 221	7	2 228
D130227	19	19	*0	19
D130320	13	13	*0	13
D130417	1 283	1 243	19	1 262
D130529	2 937	2 865	6	2 871
D130724	1 450	1 402	4	1 406
D130918	1 116	1 058	15	1 073
D131113	979	934	*0	934
MNB130102	1 548	1 545	1	1 546
MNB130109	51 236	51 130	8	51 138
Total	**63 203**	**62 805**	**60**	**62 865**

* value below HUF 1 million

Portfolio held-to-maturity

The Branch had no held-to-maturity portfolio at year-end 2012.

Securities traded on a stock exchange and in OTC markets in a breakdown by balance sheet item

The table below shows the book values of securities listed in a stock exchange and included in the assets disclosed in the balance sheet in a breakdown by balance sheet items:

Figures in HUF m

Securities traded on a stock exchange and in OTC markets	Current assets		Fixed assets
	Traded on a stock exchange	OTC	
Hungarian government bonds	7 252	0	0
Discount treasury bills	10 130	0	0
NBH bond	0	52 675	0
Total	**17 382**	**52 675**	**0**

The Branch does not have any foreign securities.

Owned shares held for investment

Figures in HUF m

Description of share	Face value	Historic cost	Market value
GIRO Zrt.	20	20	20
Hitelgarancia Alapítvány	22	22	22
Garantiqa Hitelgarancia Zrt.	10	10	10
Budapesti Értéktőzsde Zrt.	13	21	21
Magyar SEPA Egyesület *	*0	*0	*0
Shares held as investment *	*0	*0	*0
Total	**65**	**73**	**73**

* value below HUF 1 million

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

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

Figures in HUF m

Description of balance sheet item	Maturity within 3 months	Maturity over 3 months but within 1 year	Maturity over 1 year	Maturity over 5 years	Total
Receivables					
From credit institutions	37 658	0	0	0	**37 658**
From customers	70 338	19 832	52 600	5 398	**148 168**
Payables					
To credit institutions	122 609	17	13	0	**122 639**
To customers	43 209	5	0	0	**43 214**

Subordinated debts including subordinated loan capital

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

Items relating to headquarters, other branches and other related parties

Figures in HUF m

Description	Founder	Other branch	Other related party	Total
Receivables from financial institutions within one year	30 022	0	7 532	**37 554**
Receivables from financial institutions arising from investment services	0	*0	*0	***0**
Receivables from customers arising from financial services within one year	0	0	119	**119**
Receivables from customers arising from investment services within one year	0	*0	*0	***0**
Other receivables within one year	549	2	2	**553**
Liabilities to financial institutions within one year	83 761	270	800	**84 831**
Liabilities to customers on demand	0	0	4 656	**4 656**
Current liabilities to customers	0	0	6 890	**6 890**
Other liabilities within one year	8 208	26	7	**8 241**
Other interest and similar income received	147	54	107	**308**
Interest payable and similar charges	2 221	358	891	**3 470**
Commissions received from the revenues from other financial services	211	18	212	**441**
Commissions received from the revenues from investment services	37	23	53	**113**
Commissions paid on the expenditures on other financial services	16	77	13	**106**
Commissions paid on the expenditures on investment services	2	0	4	**6**
Revenues from other financial services	4 100	0	360	**4 460**
Revenues from investment services	74	0	0	**74**
Expenditures on investment services	0	0	103	**103**
Revenues from other than financial and investment services	43	63	156	**262**
Other revenues	509	0	0	**509**
Other expenditures on other than financial and investment services	0	0	5	**5**
Other expenditures	1	4	1	**6**
Dividends approved	8 208	0	0	**8 208**

* value below HUF 1 million

Prepayments and accruals

The amount of prepaid expenses and accrued income on the balance sheet on 31 December 2012 was HUF 3 306 million (and HUF 3 947 million on 31 December 2011). Accrued expenses and deferred income amounted to HUF 4 161 million on 31 December 2012 (and HUF 3 796 million at 31 December 2011). The details are as follows:

Prepaid expenses and accrued income

Figures in HUF m

Description	31 December 2011	31 December 2012
Accrued income	**3 888**	**3 276**
Interest receivable from Central Bank and financial institutions	147	170
Interest receivable from customers	467	313
Interest receivable on securities	977	354
Interest receivable from interest rate swaps	2 009	2 036
Other accrued income	288	403
Prepaid expenses	**59**	**30**
Prepaid expenses	59	30
Total of accrued income and prepaid expenses	**3 947**	**3 306**

Accrued expenses and deferred income

Figures in HUF m

Description	31 December 2011	31 December 2012
Deferred income	**614**	**688**
Deferred commission income	539	643
Deferred guarantee fees	75	45
Accrued expenses	**3 180**	**3 471**
Interest payable to financial institutions	246	80
Interest payable to customers	179	151
Interest payable in connection with interest rate swaps	1 637	2 180
Other accrued payables	1 118	1 060
Deferred extraordinary revenues	**2**	**2**
Deferred extraordinary revenues	2	2
Total of accrued expenses and deferred income	**3 796**	**4 161**

Changes in shareholders' equity during the year

Figures in HUF m

Description	31 December 2011	Changes in 2012		31 December 2012
		Increase	Decrease	
Issued capital / Dotation capital	2	0	0	2
Capital reserve	43 643	0	0	43 643
General reserve	0	0	0	0
Retained earnings / losses	0	0	0	0
Revaluation reserve	0	0	0	0
Profit or loss for the year	0	0	0	0
Shareholders' equity	**43 645**	**0**	**0**	**43 645**

Endowment capital (Issued capital)

The endowed capital of the Branch amounted to HUF 2 million on 31 December 2012 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.

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.

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 the profit after tax of 31 December 2011 was paid out to the Founder as dividends.

General reserve

Under Article 3/A (2) of Act CXII of 1996, the Branch is not required to make a general reserve, and therefore no general reserve appears in the books.

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. Amount of liabilities from investment services is low, does not reach HUF 1 million.

Figures in HUF m

Name of bank account manager	31 December 2011	31 December 2012
Branch	15	0
Other credit institution	1	41
Total	**16**	**41**

Contingent liabilities and contingent assets

Contingent liabilities

Figures in HUF m

Description	31 December 2011	31 December 2012
Issued guarantee	86 263	25 787
Unused credit facility	344 688	332 698
Promised guarantees	0	0
Liabilities arising from litigations	0	0
Total of contingent liabilities	**430 951**	**358 485**

Future liabilities

Figures in HUF m

Description	31 December 2011	31 December 2012
Spot transactions	123 867	95 698
Forward transactions	1 360 329	671 237
Security purchase commitment	10 441	81 305
Assigned transactions	10 742	646
Forward rate agreements	268	119
Interest rate swaps	19 059	13 305
Term deposit lending	0	0
Total of future liabilities	**1 524 706**	**862 310**

Contingent receivables

Figures in HUF m

Description	31 December 2011	31 December 2012
Receivables subject to litigation	9	9
Total of contingent receivables	**9**	**9**

Future receivables

Figures in HUF m

Description	31 December 2011	31 December 2012
Spot transactions	123 703	95 660
Forward transactions	1 372 139	670 548
Security sale commitment	5 640	80 909
Assigned transactions	10 742	646
Forward rate agreements	399	128
Interest rate swaps	19 447	13 097
Term deposit placement	0	52 427
Total of future receivables	**1 532 070**	**913 415**

Other contingent assets and liabilities

Figures in HUF m

Description	31 December 2011	31 December 2012
Third party securities	1 156 172	892 250
Guarantee received	5 891	7 116
Securities received	226 156	152 553
Nominal value of FRA purchase	100 000	90 000
Nominal value of FRA sale	100 000	50 000
Nominal value of interest rate swaps	181 942	160 273

Total of third party securities

Figures in HUF m

Type of security	Total nominal value	Place of storage				
		Clearing house	Third party premises	Treasury	Demate-rialized	Printed
Deposited securities	884 307	882 174	1	2 132	835 850	48 457
Consignment securities	7 943	7 943	0	0	7 938	5
Total as at 31 December 2012	**892 250**	**890 117**	**1**	**2 132**	**843 788**	**48 462**
Total as at 31 December 2011	**1 156 172**	**1 153 899**	**53**	**2 220**	**1 104 216**	**51 596**

Third party securities deposited

Figures in HUF m

Type of security	Total nominal value	Place of storage				
		Clearing house	Third party premises	Treasury	Demate-rialized	Printed
Foreign government bonds	4 726	4 726	0	0	1 988	2 738
Investment notes	7 994	7 994	0	0	157	7 837
Discount treasury bills	104 001	104 001	0	0	104 001	0
Corporate bonds	1 746	1 746	0	0	1 746	0
Debenture bonds	47 163	47 163	0	0	47 163	0
Compensation notes*	0	0	0	0	0	0
Hungarian government bonds	575 268	575 268	0	0	565 040	10 228
Shares	143 409	141 276	1	2 132	115 755	27 654
Total as at 31 December 2012	**884 307**	**882 174**	**1**	**2 132**	**835 850**	**48 457**
Total as at 31 December 2011	**1 147 072**	**1 144 804**	**53**	**2 215**	**1 095 121**	**51 951**

* value below HUF 1 million

Third party securities on consignment

Figures in HUF m

Type of security	Total nominal value	Place of storage				
		Clearing house	Third party premises	Treasury	Demate-rialized	Printed
Investment notes	40	40	0	0	35	5
Discount treasury bills	4 084	4 084	0	0	4 084	0
Hungarian government bonds	3 819	3 819	0	0	3 819	0
Total as at 31 December 2012	**7 943**	**7 943**	**0**	**0**	**7 938**	**5**
Total as at 31 December 2011	**9 100**	**9 095**	**0**	**5**	**9 095**	**5**

Details of assets received as security or collateral

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

Figures in HUF m

Description of security	31 December 2011	31 December 2012
Cash	456	1 142
Securities	2 475	2 550
Assignment of receivables	6 720	9 695
Mortgages	30 477	31 798
Other securities (corporate guarantee)	186 028	107 368
Total	**226 156**	**152 553**

Suspended interests

The Branch recorded suspended interest with value below HUF 1 million on 31 December 2012 (no suspended interest existed as at 31 December 2011.)

Contractual value, split by maturity and expected impact on profit or loss of open forward contracts

Spot transactions

Spot foreign exchange purchases and sale transactions are recorded in Account Class 0 amounted to HUF 95 698 million on 31 December 2012, calculated at the applicable MNB exchange rate (on 31 December 2011 the value of these transactions was HUF 123 867 million at MNB exchange rate). These transactions matured by the date of the balance sheet preparation.

Forward transactions

The Branch records forward transactions until their maturity in Account Class 0. At the end of 2012, the year-end value of forward foreign exchange transactions and foreign exchange swap transactions calculated at the applicable MNB exchange rate were HUF 671 237 million (on 31 December 2011, the value of these transactions was HUF 1 360 329 million). The rules of the fair value method of valuation were used to recognize the results of these transactions.

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

Figures in HUF m

Maturity	Maturity within 3 months	Maturity over 3 months but within 1 year	Maturity over 1 year	Maturity over 5 years	Total
Total as at 31 December 2012	573 119	96 692	1 426	0	671 237
Total as at 31 December 2011	1 052 557	298 810	8 962	0	1 360 329

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 119 million on 31 December 2012 (on 31 December 2011 was HUF 268 million).

Figures in HUF m

Maturity	Maturity within 3 months	Maturity over 3 months but within 1 year	Maturity over 1 year	Maturity over 5 years	Total
Total as at 31 December 2012	0	66	53	0	119
Total as at 31 December 2011	259	9	0	0	268

Interest rate swaps

As a result of interest rate swaps, HUF 13 305 million forward liabilities are recorded as off-balance sheet item at the end of the year 2012 (on 31 December 2011 HUF 19 059 million).

Figures in HUF m

Maturity	Maturity within 3 months	Maturity over 3 months but within 1 year	Maturity over 1 year	Maturity over 5 years	Total
Total as at 31 December 2012	4 129	4 814	4 325	37	13 305
Total as at 31 December 2011	3 063	7 161	8 478	357	19 059

Forward securities transactions

The Branch records forward securities transactions in Account Class 0 at contractual value. On 31 December 2012, the contractual value of the forward purchases of securities were HUF 81 305 million (on 31 December 2011 HUF 10 441 million). These transactions were matured by the date of the balance sheet preparation.

Assigned transactions

The Branch records the assigned transactions as contingent liabilities in Account Class 0, which value was HUF 646 million on 31 December 2012 (on 31 December 2011 HUF 10 742 million).

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 2012, and the following revaluation differences were recognized in the profit until 31 December 2012:

Revaluation gain on derivatives

Figures in HUF m

Description	31 December 2011	31 December 2012	Impact of revaluation on profit
FX swap transactions	17 066	3 810	-13 256
Forward transactions	11 638	2 433	-9 205
Forward rate agreements	521	239	-282
Interest rate swaps	1 171	765	-406
Total	**30 396**	**7 247**	**-23 149**

Revaluation loss on derivatives

Figures in HUF m

Description	31 December 2011	31 December 2012	Impact of revaluation on profit
FX swap transactions	10 421	3 100	-7 321
Forward transactions	5 475	3 411	-2 064
Forward rate agreements	405	328	-77
Interest rate swaps	1 243	829	-414
Total	**17 544**	**7 668**	**-9 876**

The aggregate impact of using fair valuation method for derivative transactions was HUF 13 273 million decrease in profit on 31 December 2012 (as at 31 December 2011 a HUF 15 561 million aggregate increase impact was).

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 2011).

Revenues from and expenditures on investment services

Figures in HUF m

Description	31 December 2011	31 December 2012
Revenues from investment services	**14 534**	**15 910**
Commissions on custody	1 049	1 075
Revenue from brokerage activities	441	262
Revenue from securities trading	6 759	10 898
Fair value of revenue from securities held for trading	121	95
Revenue from foreign exchange forward transactions	3 648	0
Revenue from interest rate swaps	1 586	2 405
Revenue from forward rate agreements	930	1 175
Expenditures on investment services	**10 016**	**36 719**
Commissions paid on custody	254	228
Expenditure on brokerage activities	348	262
Expenditure on securities trading	6 859	10 888
Fair value of expenditure on securities held for trading	69	0
Expenditure on foreign exchange forward transactions	0	21 515
Expenditure on interest rate swaps	1 726	2 485
Expenditure on forward rate agreements	760	1 341

Operational expenses

Total costs expenses remained at the last year's level caused by the 7% decrease in total payments to personnel, 7% increase in material type expenditures as well as 27% decrease in depreciation. Compared to 2011 the cost structure did not change significantly, the total personnel and material type of expenditures represent 41% and 55% proportion, while the depreciation takes 4%.

The 7% decrease of total payments to personnel was caused by the drop of the payroll costs and related social charges. Decrease in total payments to personnel can be explained by the close down of equity markets and restructuring of custody management business lines as well as the strict headcount and payroll management.

The material type expenditures show an increase, mostly caused by other services used. The substantial part of these costs are EUR-based and in the course of 2012 the HUF/EUR rate was higher than last year, resulting in an increased cost level.

Depreciation dropped by 27% since the net value of some property rights (software rights) amounted to zero in 2012 and in case of vehicles the depreciation rate has been changed. Within the total costs the portion of depreciation is not significant.

Figures in HUF m

Description	31 December 2011	31 December 2012
Payroll	2 419	2 220
Payments to personnel	210	213
Social security and similar deductions	698	668
Total of payments to personnel	**3 327**	**3 101**
Material costs	95	84
Material type services used	753	687
Other services used	3 036	3 382
Other costs	11	9
Material type expenditures	**3 895**	**4 162**
Depreciation charge	**352**	**257**
Total costs	**7 574**	**7 520**

Extraordinary revenues and expenditures

Figures in HUF m

Description	31 December 2011	31 December 2012
Extraordinary revenues	**1**	**1**
Extraordinary expenditures	**1 018**	**1 002**
Donations	1 015	1000
Amounts transferred free of charge	2	0
Assumption of debt	0	1
Cancelled receivables	1	1

Balance sheet structure

The balance sheet total of the Branch in the reporting period was HUF 356 billion, which represents a 6% decrease compared to the balance sheet total of 31 December 2011. The majority of the assets are current assets (83%), mainly receivables from customers, government securities and liquid assets. Receivables from customers represent 42% of the total assets.

The proportion of short-term liabilities is 86% out of the total liabilities, and the portion of long-term liabilities is below 1%. 41% of the balance sheet total are liabilities towards lending institutions, 40% are short-term deposits of customers.

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

Figures in HUF m

Description	Assets 31 December 2011	Assets 31 December 2012	Liabilities 31 December 2011	Liabilities 31 December 2012
FX (expressed in HUF)	132 148	150 398	211 690	125 395
HUF	247 754	205 927	168 212	230 930
Total	**379 902**	**356 325**	**379 902**	**356 325**

HUF denominated assets and liabilities

The value of HUF denominated assets dropped by 17% (from HUF 248 billion to 206 billion). The value of government securities decrease (from HUF 136 billion to 70 billion), 34% of the HUF denominated assets are government securities.

HUF denominated liabilities increased by 37% (from HUF 168 billion to 231 billion). Customer related balances sums up to 37% of the total.

FX denominated assets and liabilities

The value of FX denominated assets increased by 14% (from HUF 132 billion to 150 billion). FX denominated lending to customers was dropped to 2011, while the FX denominated interbank placements significantly increased.

The value of the FX denominated liabilities significantly decreased (from HUF 212 billion to 125 billion), because of the decrease both in FX denominated interbank liabilities and FX denominated deposits from customers.

Highlighted items from the balance sheet

Figures in HUF m

Description	31 December 2011	31 December 2012
Liquid assets	27 187	76 417
Loans denominated in HUF*	46 658	37 665
Loans denominated in FX*	124 308	110 503
Interbank lending denominated in HUF*	475	7 164
Interbank lending denominated in FX*	5 766	30 494
Securities held for trading	136 241	70 083
Customer deposits denominated in HUF*	61 993	85 877
Customer deposits denominated in FX*	62 612	55 068
Interbank borrowings denominated in HUF*	22 311	60 058
Interbank borrowings denominated in FX*	144 798	62 581

* items arising from financial services

The balance sheet is analysed on the basis of the highlighted balance sheet items. Essentially, the changes in the balance sheet structure were influenced by eight balance sheet lines: significant changes can be observed in liquid assets, securities, receivables from financial institutions, receivables from customers and positive valuation difference on derivative deals under assets and in short-term liabilities toward financial institutions and customers as well as negative valuation difference on derivative deals under liabilities.

Significant realignment was taken place on the assets side in 2012, while the structure of liabilities slightly changed. The value of liquid assets and receivables from financial institutions were increased by three times and five times respectively, while the assets held in securities decreased by 50%. The rose of liquid assets is explained by the increase in short-term money market placements contracted with National Bank Hungary.

Receivables from financial institutions also increased significantly. The structural change shows that at the end of 2012 the Branch preferred other assets than securities and placed its assets mainly in the interbank market.

The activity in general corporate lending decreased by 13% in 2012 mainly due to fall in short-term receivables, following its stable balance experienced in the previous years. It is mainly explained by the decrease of overdrafts. The portion of foreign currency loans is still dominant in the loan portfolio. At 2012 year-end the applied NBH rate for calculating the foreign currency loans to HUF was much lower than the official NBH rate as at 2011 year-end, which also resulted a decrease of loans expressed in HUF.

Short-term interbank borrowings denominated in foreign currency were much lower than in the preceding year, while HUF denominated liabilities to financial institutions increased significantly. Foreign currency interbank borrowings decreased with greater intensity than the HUF denominated placements increased, which led to a drop in liabilities to financial institutions.

Other liabilities from financial services towards customers rose by 13%. The growth in customer deposits denominated in HUF was higher than the reduction in foreign currency denominated customer deposits. Under liabilities toward customers the HUF denominated deposits represent higher ratio compared to foreign currency deposits. Our customers continue to prefer short-term deposits and current account deposits over long-term deposit facilities.

The value of receivables and liabilities from investment services and the movement therein reflect changes in unsettled securities, which may cause significant variances depending on daily turnover figures. At the end of 2012 the balance of receivables and liabilities did not change significantly compared to the previous period.

Considering the different sectors of the economy, our corporate customers mainly belong to the processing, energy and retail industries sector similar to the preceding years.

The revaluation difference on derivatives show considerable fluctuations in terms of composition and market rates of foreign exchange forward and swap transactions. At the end of 2012 compared to previous year, both the positive and negative valuation difference decreased significantly explained mainly by the lower number of open deals as at year-end. The valuation difference of forward rate agreements and interest rate swap deals dropped also as a result of lower numbers of transactions.

Profitability

The Branch's profit after tax as at 31 December 2012 shows a 14% increase compared to the profit of the preceding year.

Profitability was influenced by the following factors:

The net interest result rose by 11%, which is explained by the 10% and 7% increase in interest received and interest paid respectively. During 2012 in money market the increase of short-term HUF reference rates (overnight BUBOR) was a general trend, accordingly the interest of reference rate linked products has risen. This fact led to the increase both in interest income and interest expenditures. In the course of 2012 the average balances of assets as well as liabilities did not change significantly compared to previous year.

Our dividends earned on shares amounted to HUF 39 million in 2012.

Our net commissions earned until 31 December 2012 amounted to HUF 2 480 million, which is 18% lower than the gain from commissions in 2011 (HUF 3 023 million). The close down of equity markets business line as well as the restructuring of custody management business line led to a significant reduction in revenue from commissions.

The loss from net result of financial services increased by 33% compared to the loss of 2011, which comes from the valuation difference related to the valuation of derivative transactions at fair value. Within revenues and expenditures on investment services the proportion of securities trading is quite significant. From the sale of securities the Branch realized HUF 100 million gain in 2012 and HUF 9 million loss in 2011. We reached a HUF 80 million loss on interest swap transactions, which is lower by 42% compared to the HUF 139 million loss realized in 2011.

Other revenues from business operations increased significantly, while the expenditures remained stable compared to previous year. One reason of the significant income increase is that the Branch entirely released the provision for future office rent due to the new lease agreement. Risk part of the bilateral valuation adjustment was settled with the Parent Company in the amount of HUF 508 million contributing to the rose of other income.

General costs remained flat compared to the preceding period. Their detailed analysis can be found in the section on costs in a breakdown by operational expenses.

Extraordinary expenses did not change compared to previous year: participation level in film sponsorship was in-line with previous year.

Interest received by geographical region

Figures in HUF m

Description	Domestic	Within EU	Other	Total
Interest received on securities	21 828	0	0	21 828
Other interest received	10 899	1 032	58	11 989
Total as at 31 December 2012	**32 727**	**1 032**	**58**	**33 817**
Total as at 31 December 2011	**29 506**	**1 199**	**43**	**30 748**

Key indices

Description		31 December 2011	31 December 2012
Return on Equity (ROE)	Profit after tax / Shareholders' equity	16.5	18.8
Return on Assets (ROA)	Profit after tax / Total assets	1.9	2.3
Quick ratio	Liquid assets + securities / Current liabilities	52.3	48.9
Capitalisation ratio	Shareholders' equity / Total liabilities	11.5	12.2
Fixed asset ratio	Fixed assets / Total assets	16.5	16.5
Gross margin of fixed assets	Shareholders' equity / Fixed assets	69.6	74.5

3. Informative Notes

Data of employees

Number of employees

	31 December 2011	31 December 2012
Actual number of staff on 31 December	213	191
Annual statistical number of staff	220	207
- of which: part-time employees	9	10

Payroll costs of employees in a breakdown by employee groups

Payroll costs in a breakdown by employee groups:

Figures in HUF m

Description of employee group	31 December 2011	31 December 2012
Payroll costs of full-time employees	2 361	2 160
Payroll costs of part-time employees	58	60
Total	**2 419**	**2 220**

Other payments to personnel

Figures in HUF m

Description	31 December 2011	31 December 2012
Meal, working clothes, relocation and vehicle cost reimbursement, allowances, travelling to and from work	25	29
Other payments (entertainment expenses, per diem, life insurance, etc.)	40	45
Non-repayable support provided by employer	17	25
Fringe benefits	128	114
Total	**210**	**213**

Payments, advancements and loans to directors, supervisory board members and senior executives

As the Company operates as a branch, it does not have a Board of Directors and a Supervisory Board.

Items adjusting the corporate tax base

In 2012, the corporate tax base determined in the general ledger was reduced by HUF 2 731 million and increased by HUF 351 million to reach the corporate tax base in line with corporate tax act.

The corporate tax liability calculated for the year 2012 was HUF 433 million, of which HUF 587 million was paid in advance. The Branch supported film production in a value of 1 000 million HUF in 2012. The bank tax paid by the Branch amounted to HUF 1 516 million in the reporting period. In addition the Branch was not subject to the credit institution tax in 2012.

Pursuant to the decision of the owner, the full amount of the profit after tax 2012 was paid out as dividends.

Figures in HUF m

Description	31 December 2011	31 December 2012
Profit before tax	**9 161**	**10 157**
Items increasing the tax base	**1 073**	**351**
Amounts transferred free of charge	2	0
Provisions for future liabilities and expenses	588	*0
Amortization/depreciation in accordance with accounting law	382	337
Costs incurred outside the normal course of business	15	1
Penalties, fines	2	4
Forgiven debt	1	0
Costs identified by self-correction	47	9
Representation costs	36	0
Items reducing the tax base	**2 391**	**2 731**
Released provisions for future liabilities and expenses	405	763
Amortization/depreciation in accordance with corporate tax law	353	397
Dividends received	44	39
Received revenues from forgiven debts	1	0
Donations to foundations	16	*0
Revenues identified by self-correction	56	16
Bank tax	1 516	1 516
Tax base	**7 843**	**7 777**
Corporate tax	1 445	1 433
Tax benefits	**1 000**	**1 000**
Film sponsorship	1 000	1 000
Paid tax in abroad	***0**	***0**
Corporate tax liability	**445**	**433**
Bank tax	1 516	1 516
Total tax liability	**1 961**	**1 949**
Profit after tax	**7 200**	**8 208**
General provision made and used	0	0
Dividends paid from retained earnings	0	0
Dividends approved	7 200	8 208
Profit for the year	**0**	**0**

* value below HUF 1 million

Cash Flow Statements 2012

Figures in HUF m

		Description	31 December 2011	31 December 2012
1	+	Interest received	30 748	33 817
2	+	Revenues from other financial services	4 255	15 772
3	+	Other revenues	87	546
4	+	Revenues from investment services	-2 158	13 366
5	+	Revenues from other than financial and investment services	3 885	4 132
6	+	Dividends received	44	39
7	+	Extraordinary revenues	1	1
8	-	Interest paid	9 115	9 789
9	-	Expenditures on other financial services	11 846	562
10	-	Other expenditures	904	1 202
11	-	Expenditures on investment services	8 939	20 997
12	-	Expenditures on other than financial and investment services	3 753	4 037
13	-	General administrative expenses	7 574	7 520
14	-	Extraordinary expenditures	1 018	1 002
15	-	Tax liability	1 961	1 949
16	-	Dividends paid	7 200	8 208
17		**Operating cash flows** (Lines 01 to 16)	**-15 448**	**12 407**
18	+ / -	Movements in liabilities	-31 209	-13 304
19	+ / -	Movements in receivables	21 836	- 17 361
20	+ / -	Movements in stocks	-2	3
21	+ / -	Movements in securities recorded under current assets	-10 748	66 253
22	+ / -	Movements in securities recorded under fixed assets	0	0
23	+ / -	Movements in investments	75	4
24	+ / -	Movements in intangible assets	17	35
25	+ / -	Movements in tangible assets	-15	187
26	+ / -	Movements in prepaid expenses and accrued income	-805	641
27	+ / -	Movements in accrued expenses and deferred income	914	365
28	+	Shares issued at sales price	0	0
29	+	Non-repayable liquid assets received in accordance with law	0	0
30	-	Non-repayable liquid assets transferred in accordance with law	0	0
31	-	Nominal value of redeemed own share, property note	0	0
32		**Net cash flows** (lines 17 to 31) Of which: - movements in cash - movements in money on accounts	**-35 385** -37 -35 348	**49 230** -44 49 274

Other

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

The amounts owed to the customers of the ING Bank N.V. Hungarian 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 Hungarian Branch. As the ING Bank N.V. Hungarian 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. Hungarian Branch is not a member of the Hungarian Deposit Guarantee Fund under Article 97(3) of Act CXII of 1996 on lending institutions and financial companies. Therefore, no payment was made into the Hungarian Deposit Guarantee Fund in the financial year.

The amounts owed to the customers of the ING Bank N.V. Hungarian 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. Hungarian Branch. As ING Bank N.V. Hungarian 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. Hungarian 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, 15 May 2013

Dr. István Salgó
Chief Executive Officer

Gyula Réthy
Chief Financial Officer

Management Report

December 31, 2012

The economic environment

In 2012 the Gross Domestic Product of the Hungarian economy decreased by 1.7% on a year-on-year basis. This rate of decline deepened in the second half of the year and was far below expectations. Beside the depressed internal demand, export activity also recoiled due to the slowing European economies. The performance of the agricultural sector fell well below the average, economy was further slowed down by the closure of telecommunication and electronic plants that could not be counterbalanced by the evolving automotive investments and growth in their production.

The government has committed itself to the reduction of the budgetary deficit and government debt. Special taxes imposed on certain sectors are still in force, furthermore the special tax of the financial sector will not be moderated in 2013 either. The early repayment of the FX denominated loans at a fixed interest rate had also contributed to losses in the financial sector. The banking sector's lending appetite continued to deteriorate, specifically in view of its risk averse approach, while on the other hand demand for loans was flat.

Major international credit rating agencies kept Hungary's credit rating in the non-investment category ('junk') but two of them changed the country's outlook status from 'negative' to 'stabile'. Parallel to appreciating the efforts of the government to keep of the budgetary deficit on a low level and to reduce government debt, they expressed their concerns about the adverse economic growth outlook.

In 2012 the Hungarian forint devaluated against both the Swiss franc and the euro. For this reason the redemptions of foreign currency loans remained high, further increasing the ratio of the late and the non-performing loans both in the retail and the corporate sectors. Unchanged unemployment situation has also aggravated loan repayments. The net saving position of both the household and the corporate sectors continued to improve thus the country's current account balance has accumulated significant assets in 2012. Moreover, the depressed domestic consumption and the export performance still positive on annual basis resulted a foreign trade surplus only slightly below the 2011 figure.

Hungary insisted on financing its public debt from the market in 2012 as well. The Government Debt Management Agency successfully generated both HUF and EUR funds from the households that contributed to the successful and seamless fulfilment of the country's payment obligations even without a newer IMF programme.

The sudden economic downturn in the second half of 2012 may have impacts on the first half of 2013 as well but according to general expectations in the second half of 2013 the performance of the economy might show a slight recovery. Nevertheless uncertainty around the economy exceeds the usual level thus analysts' forecasts vary between 1% growth and 1% recession. In accordance with the international trends the central bank has initiated a series of base rate cuts, the trend is expected to continue in 2013 as well. Thanks to this effort the consumer price index might be moderated to the targeted 3% level from the 2012 average level of 5-7%., while unfavourable growth outlook might result further ease of monetary policy. On the other hand the forint is quite vulnerable, significant rate volatility can be expected, that may result in the slowing down of the pace of base rate cuts. No major expansion is expected neither in consumption nor in the lending market.

Financial result

ING Bank N.V. Hungary Branch closed its 2012 financial year with an after-tax profit of HUF 8 208 million, representing a 14% increase year-on-year.
The higher net result is attributable to the increase of income rather, as general and administrative expenses remained on the same level.

Income increased despite the unfavourable macroeconomic environment, growth was especially spectacular in the financial markets business line. Profitability of (corporate and financial institutions') lending business line also strengthened but at the same time the close down of equity markets business line and the restructuring of custody business lines worked against income growth.

Net interest income of the Bank amounted to HUF 24 028 million, exceeding the 2011 level by 11%. Both interest income on securities and on loans increased.
Net fees and commissions reached HUF 2 480 million, which is 18% below last year's level. The close down of the equity markets business line in the third quarter of the year and the restructuring of custody business line together with the reduction of its customer base had a notable effect on fee incomes. Moreover fee, incomes on corporate payments and cash management also decreased by 6%.

Net result on financial operations decreased compared to the previous year and amounted to HUF -8 079 million and was attributable to the foreign currency trading activity of the Bank.

General administrative expenses of HUF 7 263 million was only 0.6% higher compared to the 2011 level.
Personnel expenditures decreased by 7%, depreciation by 27%, while on the other hand material type expenses increased by 7%. The decline of personnel expenses can be explained by the close down of equity markets business line and the strict control of headcounts and salary type payments.
Increase in material type of expenditures exceeded the increase of consumer prices: due to the weakening of the HUF, the HUF counter value of the services paid in EUR increased.

The Balance Sheet Total of the Bank reached HUF 356 325 million at the end of 2012, slightly lagging behind the same figure of the previous year. The balance sheet structure and the composition of portfolios of the different business lines have not changed significantly. Due to the modest increase of the savings deposit portfolio the so called Loan to Deposit ratio gradually improved during the year.

Trading

The year 2012 (just like 2011) was characterized by remarkable volatility. Extreme movements of the prices could be witnessed especially in the period between January and June. In the background the uncertainty around the negotiations between Hungary and the IMF and the concerns of the financing of budget deficits of the countries on the European Union's periphery could be observed. The Trading department managed to realize sizeable profits, even exceeding that of 2011.

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

Financial Markets Sales

In 2012 the FM Sales team worked on the enhancement of the turnover of simple foreign exchange products and on the roll-out of sophisticated financial risk management solutions. The business line managed to acquire only a few new clients from the corporate and financial institution segments, at the same time strove for maintaining the existing customer base by organizing professional client trainings and seminars. The high volatility of FX-, money-, and capital markets and the unstable market environment resulted an increase of financial risks. The expectation from clients for the decrease of margins related to treasury products became more intensive than ever before. At the same time competition among service providers targeting the same client base strengthened. The turnover of foreign exchange transactions and conversions at the bank's official rate showed declining tendency. 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.

Payment and Cash Management Services

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

ING Bank, as one of the forerunners of those European banks that are the main supporters of the Single Euro Payments Area (SEPA) initiative has played a decisive role in the implementation phase of SEPA. As the launch date of SEPA is approaching (February 2014 in the EUR zone, October 2016 in the European Economic Area) the development of region-wide operational system got to its final stage, and in accordance with the timing our branch has also taken the appropriate steps during 2012. The developments are supported also by the introduction of the intra-day clearing in 2012 which is based on SEPA and unified domestic standards (HCT Hungarian Credit Transfer).

Our list of services is continuously expanded: In the course of 2012 we decided upon the further development of local and international cash pool services and their related settlements.

Corporate and Financial Institutions Lending

In the first half of 2012 the asset size of the lending portfolio stagnated on the average 2011 level while in the second half of the year it fell back nearly by 15% mainly due to the lower outstanding of overdraft facilities which can be traced back to the shaping of the economic environment.
The income of Corporate and Financial Institutions Lending Business Line has been increasing for the third consecutive years due mainly to higher average interest margins that can be explained by the downgrading of Hungary into the non-investment category in 2012. The increased country risk and cost of capital infiltrated into the prices.

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

In accordance with the 2012 tendencies we expect the low utilization of working capital financing facilities and the stagnation of the investment loan portfolio in 2013 as well, that can be significantly influenced by the changes of the economic environment. From the point of view of the Business line's profitability external factors e.g. the credit rating of the country or access and cost of funding are getting more and more important. Negative external factors can partially be compensated by projects aiming to improve efficiency and cutting costs in a way that our bank remains one of the most active participants in the Hungarian corporate lending market.

The quality of the portfolio is stable and good due to the consistent and conservative lending and decision taking practice.

Structured Finance

The result of the Structured Finance department in 2012 contributed to the profitability of the branch in accordance with the budget.

The department continued to reach good results in its existing business areas (syndicated loans, LBO finance, project finance and related advisory activity).The product portfolio of the business line was broadened by Trade and Commodity Finance activity.

Beyond the managing of the existing portfolio SF participated in new transactions both in financing and advisory despite of the narrowing market opportunities.

Counting on the relative intensification of the market Structured Finance Business Line is expected to continue its successful and profitable operation in 2013.

Securities Services and Correspondent Banking

The transfer of the private pension funds' assets to the Pension Reform and Debt Reduction Fund in June 2011 has had a longer term negative impact on the growth of Assets Under Custody size and also on revenues of the business line. The significant drop of the fee incomes deriving from the above contributed to the decision of ING to close that part of Securities Services business line that provide services for domestic pension and investment funds and where the service includes the daily evaluation of assets, the monitoring of investment limits and the activity of the asset manager and in general the monitoring activity of the custodian laid down by the law.

In 2012 the result of the business unit remained below the targeted level due both to the crisis and the decrease of fee incomes on the domestic clients.

Human Resources and Leadership Development

The Branch had 191 active employees on 31 December 2012. This means a 10.3% decrease compared to the end of 2011 level (213 employees). One of the reasons of the decrease is that taking into consideration the capital markets' developments in the CEE region and especially in Hungary, ING decided to close down the equity market business line and restructure the custody business line.

In 2012 human resources development activity focused on trainings for mid-managers and competency development for the Client facing team.

In the course of the year an online performance appraisal system was introduced.

As the result of cost-cutting measurement bonus scheme was standardized, and fringe benefits decreased.

Credit, Market and Operational Risk Management

Since 2008 ING Bank Budapest Branch has been running an integrated Risk Management model that brings corporate lending, counterparty risk management, and market risk management, as well as operational risk management, IT and physical security areas under one roof. The main role of Integrated Risk Management continues to be to ensure compliance with local regulation, global ING policies and specific local procedures. Activity and operation of our Branch continued to stay in line with the strategy and risk appetite of ING Group during 2012 as well. Similar to previous years, our bank continued to ensure good profitability and stable liquidity. There was no operational or physical security incident that would have negatively influenced going concern operation or profitability.

Our Bank's liquidity continues to be stable thanks to local customer deposits and interbank sources as well as continuously available funding limits established for us by our Amsterdam Head Office. The level of liquidity premium resulted by the financial crisis and applied by Amsterdam remained unchanged in 2012, 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 the year in accordance with the demands related to risk considerations and changes of the legal environment for the financial sector, and their importance increased in the last quarter of 2012 in line with the macroeconomic events.

The quality of the lending portfolio remained good, supported by the monitoring activity that had been strengthened during the crisis. Following the negative effects of the crisis the results of lending clients have been improving. The so-called "crisis sectors" like car-manufacturing, trading, transportation, construction or the financial sector are continued to be closely monitored by our Bank. As the exchange rate has become volatile from time to time we insisted on our cautious lending policy and provided FX denominated loans mainly to those of our customers that can hedge their FX exposure naturally (by their FX incomes) or by other hedging instruments. At the end of 2012 loan losses and provisions related to the lending portfolio and counterparty risks were not significant, which is considered as an excellent performance within the sector and within the region.

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

Budapest, 15 May 2013

István Salgó	Gyula Réthy
Chief Executive Officer	Chief Financial Officer