



## **ING Bank N.V. Hungary Branch**

### **Annual Report 2016**

The English language version of the Annual Report 2016 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 2016 English language Annual Report is the Hungarian language version amended with the Independent Auditors' Report.

Az ING Bank N.V. Magyarországi Fióktelepe 2016-os 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 2016-os éves beszámoló hiteles forrása a könyvvizsgálói záradékkal ellátott magyar nyelvű szöveg.



## **ING Bank N.V. Hungary Branch**

**Balance Sheet and Profit and Loss Statement  
2016**

Description	Previous year data 31 December 2015	Current year data 31 December 2016
<b>ASSETS</b>		
<b>1. Liquid assets</b>	<b>49 774</b>	<b>48 043</b>
<b>2. Government securities</b>	<b>123 851</b>	<b>167 036</b>
a) trading securities	123 912	166 778
b) investment securities	0	0
<b>2/A. Valuation difference on government securities</b>	<b>-61</b>	<b>258</b>
<b>3. Receivables from financial institutions</b>	<b>181 099</b>	<b>245 660</b>
a) on demand	2 747	10 642
b) other receivables from financial services	178 348	235 017
ba) current receivables	178 348	235 017
Of which: - from related parties	164 051	207 264
- from other related parties	0	0
- from the National Bank of Hungary	0	0
- from clearing house	10	13
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	4	1
Of which: - from related parties	0	0
- from other related parties	0	0
- from clearing house	3	3
<b>3/A. Valuation difference on receivables from financial institutions</b>	<b>0</b>	<b>0</b>
<b>4. Receivables from customers</b>	<b>81 603</b>	<b>75 999</b>
a) from financial services	81 603	75 999
aa) current receivables	44 318	41 302
Of which: - from related parties	0	0
- from other related parties	0	0
ab) long-term receivables	37 285	34 697
Of which: - from related parties	0	0
- from other related parties	0	0
b) from investment services	0	0
Of which: - from related parties	0	0
- from other related parties	0	0
ba) receivables from stock exchange investment services	0	0
bb) receivables from OTC investment services	0	0
bc) customer receivables from investment service activities	0	0
bd) receivables from the clearing house	0	0
be) receivables from other investment services	0	0
<b>4/A. Valuation difference on receivables from customers</b>	<b>0</b>	<b>0</b>
<b>5. Debt securities</b>	<b>0</b>	<b>0</b>
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
<b>5/A. Valuation difference on debt securities</b>	<b>0</b>	<b>0</b>

Description	Previous year data 31 December 2015	Current year data 31 December 2016
<b>6. Shares and other securities with variable yields</b>	<b>0</b>	<b>0</b>
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
<b>6/A. Valuation difference on shares and other securities with variable yields</b>	<b>0</b>	<b>0</b>
<b>7. Investment shares and participations</b>	<b>53</b>	<b>10</b>
a) investment shares and participations	53	10
Of which: - participation in financial institutions	0	0
b) value adjustment of investment shares and participations	0	0
Of which: - participation in financial institutions	0	0
<b>7/A Valuation difference on investment shares and participations</b>	<b>0</b>	<b>0</b>
<b>8. Shares and participations in related parties</b>	<b>0</b>	<b>0</b>
a) investment shares and participations	0	0
Of which: - participation in financial institutions	0	0
b) value adjustment of investment shares and participations	0	0
Of which: - participation in financial institutions	0	0
<b>9. Intangible assets</b>	<b>184</b>	<b>112</b>
a) intangible assets	184	112
b) value adjustment of intangible assets	0	0
<b>10. Tangible assets</b>	<b>411</b>	<b>362</b>
a) tangible assets held for financial services and investment purposes	139	121
aa) property	61	51
ab) technical equipment, machines, fixtures, vehicles	78	67
ac) capital expenditures	0	3
ad) advance payments on capital expenditures	0	0
b) tangibles assets not held for financial services and investment purposes	272	241
ba) property	0	0
bb) technical equipment, machines, fixtures, vehicles	272	241
bc) capital expenditures	0	0
bd) advance payments on capital expenditures	0	0
c) value adjustment of tangible assets	0	0
<b>11. Own shares</b>	<b>0</b>	<b>0</b>
<b>12. Other assets</b>	<b>887</b>	<b>480</b>
a) stocks	9	9
b) other receivables	878	471
Of which: - from related parties	426	129
- from other related parties	0	0
<b>12/A. Valuation difference on other receivables</b>	<b>0</b>	<b>0</b>
<b>12/B. Positive valuation difference on derivatives</b>	<b>9 948</b>	<b>21 425</b>
<b>13. Prepaid expenses and accrued income</b>	<b>2 112</b>	<b>2 028</b>
a) accrued income	2 057	1 988
b) prepaid expenses	55	40
c) deferred expenses	0	0
<b>TOTAL ASSETS</b>	<b>449 922</b>	<b>561 155</b>
Of which: - CURRENT ASSETS (1.) + 2. a) + 3. a) + 3. ba) + 3.c) + 4. aa) + 4. b) + 5. aa) + 5. ba) + 6. a) + 6. ba) + 11 + 12 és 2/A, 3/A, 4/A, 5/A, 6/A, 12/A, related items of 12/B)	409 877	523 946
- FIXED ASSETS (2.b) + 3. bb) + 4. ab) + 5. ab) + 5. bb) + 6. bb) + 7+ 8 + 9 + 10 and 2/A, 3/A, 4/A, 5/A, 6/A, 12/A, related items of 12/B)	37 933	35 181

Budapest, 26 May 2017

 Tibor Bodor  
 Country Manager & CEO

 Gyula Réthy  
 Chief Financial Officer

Description	Previous year data 31 December 2015	Current year data 31 December 2016
<b>EQUITY AND LIABILITIES</b>		
<b>1. Liabilities to financial institutions</b>	<b>195 242</b>	<b>150 790</b>
a) on demand	2 430	6 335
b) fixed-term liabilities from financial services	192 812	144 455
ba) current liabilities	142 400	119 573
Of which: - to related parties	8 924	31 413
- to other related parties	0	0
- to the National Bank of Hungary	0	0
- to clearing houses	0	0
bb) long-term liabilities	50 412	24 882
Of which: - to related parties	50 412	24 882
- to other related parties	0	0
- to the National Bank of Hungary	0	0
- to clearing houses	0	0
c) from investment services	0	0
Of which: - to related parties	0	0
- to other related parties	0	0
- to clearing houses	0	0
<b>1/A. Valuation difference on liabilities to financial institutions</b>	<b>0</b>	<b>0</b>
<b>2. Liabilities to customers</b>	<b>193 573</b>	<b>343 611</b>
a) saving deposits	0	0
aa) on demand	0	0
ab) current liabilities	0	0
ac) long-term liabilities	0	0
b) other liabilities from financial services	193 569	343 582
ba) on demand	127 375	132 652
Of which: - to related parties	37	90
- to other related parties	0	0
bb) current liabilities	66 194	210 930
Of which: - to related parties	0	0
- to other related parties	0	0
bc) long-term liabilities	0	0
Of which: - to related parties	0	0
- to other related parties	0	0
c) from investment services	4	29
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	4	29
cd) liabilities from clearing house	0	0
ce) liabilities from other investment services	0	0
<b>2/A. Valuation difference on liabilities to customers</b>	<b>0</b>	<b>0</b>
<b>3. Liabilities from issued securities</b>	<b>0</b>	<b>0</b>
a) issued bonds	0	0
b) other issued debt securities	0	0
c) documents not qualifying as debt securities, treated as securities	0	0
<b>4. Other liabilities</b>	<b>1 543</b>	<b>2 099</b>
a) current liabilities	1 543	2 099
Of which: - to related parties	39	19
- 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
<b>4/A. Negative valuation difference on derivatives</b>	<b>9 859</b>	<b>16 700</b>

Description	Previous year data 31 December 2015	Current year data 31 December 2016
<b>5. Accrued expenses and deferred income</b>	<b>2 519</b>	<b>1 696</b>
a) deferred income	204	143
b) accrued expenses	2 315	1 553
c) deferred extraordinary revenues and negative goodwill	0	0
<b>6. Provisions</b>	<b>3 541</b>	<b>1 375</b>
a) provisions for pensions and severance payment	0	0
b) provisions for contingent and future liabilities (commitments)	74	74
c) general risk provisions	1 209	1 209
d) other provisions	2 258	92
<b>7. Subordinated debt</b>	<b>0</b>	<b>0</b>
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
<b>8. Issued capital</b>	<b>2</b>	<b>2</b>
Of which: - participation redeemed at face value	0	0
<b>9. Issued but unpaid capital (-)</b>	<b>0</b>	<b>0</b>
<b>10. Capital reserve</b>	<b>43 643</b>	<b>43 643</b>
a) difference of the nominal value and issuing price of shares and participations (premium)	0	0
b) other	43 643	43 643
<b>11. General reserve</b>	<b>0</b>	<b>0</b>
<b>12. Retained earnings (+ / -)</b>	<b>-38</b>	<b>0</b>
<b>13. Tied-up reserves</b>	<b>0</b>	<b>0</b>
<b>14. Revaluation reserve</b>	<b>0</b>	<b>0</b>
a) revaluation reserve on value adjustments	0	0
b) fair value reserve	0	0
<b>15. Profit or loss for the year (+ / -)</b>	<b>38</b>	<b>1 239</b>
<b>TOTAL EQUITY AND LIABILITIES</b>	<b>449 922</b>	<b>561 155</b>
Of which: - CURRENT LIABILITIES 1. a) + 1. ba) + 1. c) +1/A.+ 2. aa) + 2. ab) + 2. ba) + 2. bb) + 2. c) +2/A + 3. aa) + 3. ba) + 3. ca) + 4. a) +4/A)	349 805	488 318
- LONG-TERM LIABILITIES 1. bb) + 2. ac) + 2. bc) + 3. ab) + 3. bb) + 3. cb) + 4. b) + 7)	50 412	24 882
- EQUITY 8 - 9 + 10 + 11 + /- 12 + 13 + 14 +/- 15	43 645	44 884
Contingent Liabilities	440 543	486 714
Future Liabilities	2 889 539	2 627 769
Contingent Receivables	5	5
Future Receivables	2 857 966	2 622 303

Budapest, 26 May 2017

Tibor Bodor  
Country Manager & CEO

Gyula Réthy  
Chief Financial Officer

Description	Previous year data 2015	Current year data 2016
<b>1. Interest received and similar incomes</b>	<b>13 422</b>	<b>4 567</b>
a) on fixed-interest debt securities	5 385	2 486
Of which: - from related parties	0	0
- from other related parties	0	0
b) other interest received and similar incomes	8 037	2 081
Of which: - from related parties	152	-703
- from other related parties	0	0
<b>2. Interest paid and similar expenditures</b>	<b>2 645</b>	<b>2 238</b>
Of which: - from related parties	1 048	450
- from other related parties	0	0
<b>INTEREST MARGIN (1-2)</b>	<b>10 777</b>	<b>2 329</b>
<b>3. Revenues from securities</b>	<b>17</b>	<b>5</b>
a) revenues from trading shares and securities	0	0
b) revenues from participations in related parties	0	0
c) revenues from other participations	17	5
<b>4. Commissions and fees received or receivable</b>	<b>4 858</b>	<b>4 389</b>
a) from the revenues from other financial services	4 201	4 001
Of which: - from related parties	551	668
- from other related parties	0	0
b) from the revenues from investment services	657	388
Of which: - from related parties	0	0
- from other related parties	0	0
<b>5. Commissions and fees paid or payable</b>	<b>949</b>	<b>795</b>
a) from the expenditures on other financial services	677	612
Of which: - from related parties	433	462
- from other related parties	0	0
b) from the expenditures on investment services	272	183
Of which: - from related parties	0	0
- from other related parties	0	0
<b>6. Net result on financial operations [6.a)-6.b)+6.c)-6.d)]</b>	<b>504</b>	<b>7 575</b>
a) from the revenues from other financial services	7 042	2 038
Of which: - from related parties	3 622	0
- from other related parties	0	0
- valuation difference	0	0
b) from the expenditures on other financial services	10	5
Of which: - to related parties	0	0
- to other related parties	0	0
- valuation difference	0	0
c) from the revenues from investment services	20 771	32 469
Of which: - from related parties	0	0
- from other related parties	0	0
- reversal of the impairment of trading securities	0	0
- valuation difference	0	0
d) from the expenditures on investment services	27 299	26 927
Of which: - to related parties	329	0
- to other related parties	0	0
- impairment of trading securities	0	0
- valuation difference	0	0
<b>7. Other revenues from operations</b>	<b>1 811</b>	<b>3 621</b>
a) revenues from other than financial and investment services	1 588	1 275
Of which: - from related parties	192	169
- from other related parties	0	0
b) other revenues	223	2 346
Of which: - from related parties	47	94
- from other related parties	0	0
- reversal of impairment of stocks	0	0

Description	Previous year data 2015	Current year data 2016
<b>8. General administrative expenses</b>	<b>8 011</b>	<b>7 584</b>
a) personnel costs	2 748	2 708
aa) payroll	1 919	1 890
ab) other personnel costs	216	230
Of which: - social security costs	14	14
- pension related costs	7	7
ac) social security and similar deductions	613	588
Of which: - social security costs	576	552
- pension related costs	0	0
b) material type expenditures (materials and supplies)	5 263	4 876
<b>9. Depreciation</b>	<b>213</b>	<b>204</b>
<b>10. Other expenditures on operations</b>	<b>7 137</b>	<b>6 470</b>
a) expenditures on other than financial and investment services	1 416	1 132
Of which: - to related parties	1	0
- to other related parties	0	0
b) other expenditures	5 721	5 338
Of which: - to related parties	159	229
- to other related parties	0	0
- impairment of stocks	0	0
<b>11. Impairment of receivables and risk provision for commitments and contingent liabilities</b>	<b>545</b>	<b>697</b>
a) impairment of receivables	471	697
b) risk provisions for contingent liabilities and for (future) commitments	74	0
<b>12. Reversal of impairment of receivables and use of risk provision made for commitments and contingent liabilities</b>	<b>9</b>	<b>0</b>
a) reversal of impairment of receivables	9	0
b) use of risk provision made for commitments and contingent liabilities	0	0
<b>12/A. Difference between general risk reserve made and used</b>	<b>0</b>	<b>0</b>
<b>13. Impairment of investment debt securities and shares and participations in related parties and other related parties</b>	<b>0</b>	<b>0</b>
<b>14. Reversal of impairment of investment debt securities and shares and participations in related parties and other related parties</b>	<b>0</b>	<b>0</b>
<b>15. Profit or loss on ordinary activities</b>	<b>1 121</b>	<b>2 169</b>
Of which: - PROFIT ON FINANCIAL AND INVESTMENT SERVICES [1-2+3+4-5+/-6+7.b)-8-9-10.b)-11+12-13+14]	949	2 026
Of which: - PROFIT ON OTHER THAN FINANCIAL INVESTMENT SERVICES [7.a)-10.a)]	172	143
<b>16. Extraordinary revenues</b>	<b>1</b>	<b>0</b>
<b>17. Extraordinary expenditures</b>	<b>2</b>	<b>0</b>
<b>18. Extraordinary result (16-17)</b>	<b>-1</b>	<b>0</b>
<b>19. Profit before tax (+-15+-18)</b>	<b>1 120</b>	<b>2 169</b>
20. Tax liability	1 082	930
<b>21. Profit after tax (+-19-20)</b>	<b>38</b>	<b>1 239</b>
22. General provision made and used (+/-)	0	0
<b>23. Profit or loss for the year (+21-/+22)</b>	<b>38</b>	<b>1 239</b>

Budapest, 26 May 2017

 Tibor Bodor  
 Country Manager & CEO

 Gyula Réthy  
 Chief Financial Officer





## **ING Bank Hungary Branch**

**Notes to the Financial Statements  
2016**

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## 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.

Website of the Branch is the following: <https://www.ingwholesalebanking.hu>

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

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

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

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

### 1.1. The IT environment of the Branch

#### 1.1.1. GBS system

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

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

#### 1.1.2. EXACT system

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

#### 1.1.3. System generating the integrated trial balance of the Branch

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

### 1.2. The Accounting Policies of the Branch

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

The accounting policies set out the rules of:

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

#### 1.2.1. Reporting rules

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

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

With respect of 31 December 2016, the preparation date of the balance sheet was 6 January 2017.

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

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

#### 1.2.2. Valuation policies

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

##### 1.2.2.1. Fair value method

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

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

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

##### 1.2.2.1.1. Securities held for trading

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

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

##### 1.2.2.1.2. Securities available for sale

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

Apart from the securities the available for sale government securities are valued at fair value. They are evaluated according to group recordings at an average price, just like as trading securities. Considering the short-term maturity of government securities, the Management of the Branch has decided on adopting the same valuation rules in case of securities available for sale as for the securities held for trading.

##### 1.2.2.1.3. Derivative transactions

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

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

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

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

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

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

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

#### 1.2.2.2. Historic cost method of valuation

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

##### 1.2.2.2.1. Securities held to maturity

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

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

##### 1.2.2.3. Other valuation rules

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

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

#### 1.2.3. Detailed description of applied procedures

##### 1.2.3.1. Securities

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

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

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

Like bonds, the above money market instruments are valued in GBS system. As this system does not calculate net present value, it is calculated by an application developed for the ING Central European Region. As a basis of this calculation, GBS provides the value of accumulated interest and the auxiliary application calculates additional adjustments (MtM add-on) to establish the net present value. The yield curves used for the calculation of NPVs are taken from the ING Summit system. Input data for constructing yield curves are fed into Summit from the GMDB (Global Market Database). Zero coupon yield curves are derived from par yield curves for both Summit and the regional application to provide a basis for NPV calculation. These are used to calculate discount factors and NPVs. From 2015, processing of FRA deal related transactions – similarly to IRS deals – has been outsourced to the Global Processing Center operating in Amsterdam. For further details please refer to 1.2.3.3.

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

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

1.2.3.4. Reserves

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

The applied reserves are as follows:

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

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

1.2.3.5. Suspended interests

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

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

1.2.3.6. Settlement of futures, forwards and swaps

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

1.2.3.7. Exchange rates

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

### 1.2.3.8. Intangible assets and tangible assets

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

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

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

	31 December 2015	31 December 2016
Software user licences	33	33
Other concessions, licenses and similar rights	17	17
Servers	33	33
Computers (PCs)	33	33
Other IT equipment	33	33
Communication equipment	33	33
Other technical equipment	20	20
Office furniture, office equipment and other equipment	14.5	14.5
Vehicles	20	20
Improvements on third party property	Closing date of depreciation = December 31, 2019	Closing date of depreciation = December 31, 2019

### 1.3. Other information

The Branch does not have an obligation to prepare consolidated financial statements as at 31 December 2016.

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 2016 is available at [www.ing.com/Investor-relations/Annual-Reports.htm](http://www.ing.com/Investor-relations/Annual-Reports.htm).

The owner of ING Bank N. V. Amsterdam, ING Groep N.V. Amsterdam includes our owner in its consolidated financial statements prepared in accordance with similar principles. The annual report for the year 2016 is available at [www.ing.com/Investor-relations/Annual-Reports.htm](http://www.ing.com/Investor-relations/Annual-Reports.htm).

ING Bank N.V. Amsterdam has fulfilled the instructions with respect to disclosure requirements, Part Eight stated in Regulation (EU) No 575/2013 on prudential requirements for credit institutions and investment firms by the 'Risk Management' chapter (pages 135 - 203) in Annual report 2016 and by the publication "2016 Annual Report ING Group-Remuneration Chapter", which can be found at <http://www.ing.com/About-us/Corporate-Governance/Remuneration-1.htm>.

The Branch – in compliance with the possibility set in the Accounting Law – will prepare the annual report for the business year starting from 1 January 2017 in accordance with the International Financial Reporting Standards. This annual report is the last one, which is compiled by the Accounting Law.



1.3.1. Accounting services

Person responsible for leading and managing the accounting tasks performed in the year 2016:

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

1.3.2. Auditing the annual financial statements of the Branch

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

The annual financial statements of the Branch are audited by:

**KPMG Hungária Könyvvizsgáló, Adó- és Közgazdasági Tanácsadó Kft.**

Registered seat: 1134 Budapest, Váci út 31.  
Company registration No.: 01-09-063183  
Registered at the Chamber under No.: 000202

Auditor:

**Zsuzsanna Nagy** 1028 Budapest, Fenyőerdő utca 20.  
Mother's name: Anna Hevér

The fee for auditing the financial statements for the present financial year is HUF 18 million, including VAT. The Branch recognised HUF 6 million as cost of other services provided by the auditor in the reporting period.

1.3.3. The annual financial statements are signed by:

**Tibor Bodor** ING Bank N.V. Hungary Branch  
Country Manager & CEO  
1022 Budapest, Tulipán u. 3.

**Gyula Réthy** ING Bank N.V. Hungary Branch  
Chief Financial Officer  
1028 Budapest, Harmatcsepp u. 11.

## 2. Specific Notes

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

### 2.1. Owned securities and shares

#### 2.1.1. Owned government securities held for trading

##### 2.1.1.1. Portfolio held for trading – Government securities

Data in HUF million

Description of security	Nominal value	Book value	Valuation difference	Market value
C2017/A	5	5	0*	5
C2017/B	0*	0*	0*	0*
C2018/A	1 620	1 783	1	1 784
C2018/B	240	252	0*	252
C2018/C	980	1 012	-1	1 011
C2018/D	15 662	15 612	54	15 666
C2019/A	8 904	10 119	22	10 141
C2019/C	5 707	5 884	6	5 890
C2020/A	9 140	11 167	105	11 272
C2020/B	11 481	12 262	121	12 383
C2021/B	2 124	2 203	1	2 204
C2022/A	1 023	1 296	0*	1 296
C2023/A	1 712	2 113	-1	2 112
C2024/B	486	496	0*	496
<b>Total</b>	<b>59 084</b>	<b>64 204</b>	<b>308</b>	<b>64 512</b>

\* value below HUF 1 million

##### 2.1.1.2. Portfolio held for trading – Discount securities

Data in HUF million

Description of security	Nominal value	Book value	Accrued interest	Market value
D170316	47	47	0*	47
D170524	16	16	0*	16
<b>Total</b>	<b>63</b>	<b>63</b>	<b>0*</b>	<b>63</b>

\* value below HUF 1 million

#### 2.1.2. Available for-sale portfolio

##### 2.1.2.1. Available for-sale portfolio - Government securities

Data in HUF million

Description of security	Nominal value	Book value	Accrued interest	Market value
C2017/B	7 953	8 078	-50	8 028
<b>Total</b>	<b>7 953</b>	<b>8 078</b>	<b>-50</b>	<b>8 028</b>

2.1.2.2. Available for-sale portfolio - Discount securities

Data in HUF million

Description of security	Nominal value	Book value	Accrued interest	Market value
D170913	16 381	16 348	14	16 362
D170104	10 000	9 989	10	9 999
D170118	10 000	9 989	9	9 998
D170316	15 000	14 982	5	14 987
D170719	15 000	14 975	12	14 987
D170125	4 651	4 646	3	4 649
D171025	18 657	18 602	19	18 621
D170308	4 906	4 902	0*	4 902
<b>Total</b>	<b>94 595</b>	<b>94 433</b>	<b>72</b>	<b>94 505</b>

\* value below HUF 1 million

2.1.3. Owned government securities held for investment

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

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

Data in HUF million

Securities traded on MTS and OTC markets	Current assets		Fixed assets
	MTS	OTC	
Hungarian government bonds	72 282	0	0
Discount treasury bills	64 970	29 526	0
<b>Total</b>	<b>137 252</b>	<b>29 526</b>	<b>0</b>

The Branch has no securities denominated in foreign currency.

2.2. Impairment loss recognised and reversed in the reporting period

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

Data in HUF million

Description	31 December 2015	Increase (made)	Decrease		31 December 2016
			released	used	
Impairment of receivables from customers	471	696	0	0	1 167
Impairment of investment services	15	1	0	0	16
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
<b>Total</b>	<b>486</b>	<b>697</b>	<b>0*</b>	<b>0*</b>	<b>1 183</b>

\* value below HUF 1 million

The Branch recorded HUF 1 million impairment loss with respect to receivables from investment services and HUF 696 million due to receivables from customers becoming doubtful. There was neither release nor use of previous years' impairment in 2016.

### 2.3. Owned shares held for investment

Data in HUF million

Description of share	Nominal value	Historic cost	Market value
Garantiqa Hitelgarancia Zrt.	10	10	10
Shares held as investment *	0*	0*	0*
<b>Total</b>	<b>10</b>	<b>10</b>	<b>10</b>

\* value below HUF 1 million

### 2.4. Tangible assets and intangible assets

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

#### 2.4.1. Gross value of tangible and intangible assets

Data in HUF million

Description	31 December 2015	Purchase	Sale	Capitalization	Other change (reclassification, discarding)	31 December 2016
<b>Intangible assets</b>	<b>917</b>	<b>41</b>	<b>0</b>	<b>18</b>	<b>-20</b>	<b>920</b>
Other concessions, licenses and similar rights	0*	0	0	0	0*	0
Software user licences	917	41	0	18	-20	920
<b>Tangible assets</b>	<b>942</b>	<b>121</b>	<b>14</b>	<b>59</b>	<b>-65</b>	<b>925</b>
<i>Tangible assets serving banking activities directly</i>	<i>568</i>	<i>101</i>	<i>6</i>	<i>59</i>	<i>-65</i>	<i>539</i>
Improvements on third party property	130	7	0	0	0	137
IT equipment	248	29	0	0	-33	244
Other equipment, fittings	190	3	6	0	-32	155
Investment	0	62	0	59	0	3
<i>Tangible assets serving banking activities indirectly</i>	<i>374</i>	<i>20</i>	<i>8</i>	<i>0</i>	<i>0</i>	<i>386</i>
Vehicles	357	20	8	0	0	369
Works of art	17	0	0	0	0	17
Investments	0	0	0	0	0	0
<b>Total</b>	<b>1 859</b>	<b>162</b>	<b>14</b>	<b>77</b>	<b>-85</b>	<b>1 845</b>

\* value below HUF 1 million

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

Data in HUF million

Description	31 December 2015	Ordinary depreciation/amortization	Sale	Capitalization	Other change (reclassification, discarding)	31 December 2016
<b>Intangible assets</b>	<b>733</b>	<b>95</b>	<b>0</b>	<b>0</b>	<b>-20</b>	<b>808</b>
Other concessions, licenses and similar rights	0*	0	0	0	0*	0
Software user licences	733	95	0	0	-20	808
<b>Tangible assets</b>	<b>531</b>	<b>109</b>	<b>11</b>	<b>0</b>	<b>-66</b>	<b>563</b>
<i>Tangible assets serving banking activities directly</i>	<i>429</i>	<i>60</i>	<i>5</i>	<i>0</i>	<i>-66</i>	<i>418</i>
Improvements on third party property	69	17	0	0	0	86
IT equipment	187	36	0	0	-34	189
Other equipment, fittings	173	7	5	0	-32	143
Investment	0	0	0	0	0	0
<i>Tangible assets serving banking activities indirectly</i>	<i>102</i>	<i>49</i>	<i>6</i>	<i>0</i>	<i>0</i>	<i>145</i>
Vehicles	102	49	6	0	0	145
Works of art	0	0	0	0	0	0
Investments	0	0	0	0	0	0
<b>Total</b>	<b>1 264</b>	<b>204</b>	<b>11</b>	<b>0</b>	<b>-86</b>	<b>1 371</b>

\* value below HUF 1 million

2.4.3. Net value of tangible and intangible assets

Data in HUF million

Description	31 December 2015	Changes	Sale	Capitalization	Other change (reclassification, discarding)	31 December 2016
<b>Intangible assets</b>	<b>184</b>	<b>-54</b>	<b>0</b>	<b>18</b>	<b>0</b>	<b>112</b>
Other concessions, licenses and similar rights	0	0	0	0	0	0
Software user licences	184	-54	0	18	0	112
<b>Tangible assets</b>	<b>411</b>	<b>12</b>	<b>3</b>	<b>59</b>	<b>1</b>	<b>362</b>
<i>Tangible assets serving banking activities directly</i>	<i>139</i>	<i>41</i>	<i>1</i>	<i>59</i>	<i>1</i>	<i>121</i>
Improvements on third party property	61	-10	0	0	0	51
IT equipment	61	-7	0	0	1	55
Other equipment, fittings	17	-4	1	0	0	12
Investment	0	62	0	59	0	3
<i>Tangible assets serving banking activities indirectly</i>	<i>272</i>	<i>-29</i>	<i>2</i>	<i>0</i>	<i>0</i>	<i>241</i>
Vehicles	255	-29	2	0	0	224
Works of art	17	0	0	0	0	17
Investments	0	0	0	0	0	0
<b>Total</b>	<b>595</b>	<b>-42</b>	<b>3</b>	<b>77</b>	<b>1</b>	<b>474</b>

\* value below HUF 1 million

By 31 December 2016, HUF 18 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 7 million and fixed assets HUF 3 million non-capitalized acquisitions.

New IT equipment was purchased at a value of HUF 29 million.

During the year 3 company cars were purchased at a value of HUF 20 million, and 1 company car was sold at a book value of HUF 2 million.

## 2.5. Prepaid expenses and accrued income

The amount of prepaid expenses and accrued income on the balance sheet on 31 December 2016 was HUF 2 028 million (and HUF 2 112 million on 31 December 2015). The details are as follows:

Data in HUF million

Description	31 December 2015	31 December 2016
<b>Accrued income</b>	<b>2 057</b>	<b>1 988</b>
Interest receivable from Central Bank and financial institutions	91	-20
Interest receivable from customers	115	103
Interest receivable on securities	1 292	1 269
Interest receivable from interest rate swaps	204	313
Other accrued income	355	323
<b>Prepaid expenses</b>	<b>55</b>	<b>40</b>
Prepaid expenses	55	40
<b>Total prepaid expenses and accrued income</b>	<b>2 112</b>	<b>2 028</b>

Note: Accrued interest on cash and equivalents placed with negative interests is recorded in the annual report as decreasing item on Prepaid expenses and accrued income as well as on Interest income.

## 2.6. Liabilities from investment services

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

Data in HUF million

Name of bank account manager	31 December 2015	31 December 2016
Branch	0	0
Other credit institution	4	29
<b>Total</b>	<b>4</b>	<b>29</b>

## 2.7. Accrued expenses and deferred income

Accrued expenses and deferred income amounted to HUF 1 696 million on 31 December 2016 (and HUF 2 519 million at 31 December 2015). The details are as follows:

Data in HUF million

Description	31 December 2015	31 December 2016
<b>Deferred income</b>	<b>204</b>	<b>143</b>
Deferred commission income	153	117
Deferred guarantee fees	51	26
<b>Accrued expenses</b>	<b>2 315</b>	<b>1 553</b>
Interest payable to financial institutions	54	22
Interest payable to customers	39	95
Interest payable in connection with interest rate swaps	136	374
Other accrued payables	2 086	1 062
<b>Deferred revenues</b>	<b>0</b>	<b>0</b>
Deferred revenues	0	0
<b>Total accrued expenses and deferred income</b>	<b>2 519</b>	<b>1 696</b>

Note: Accrued interest on cash and equivalents enrolled with negative interests is recorded in the annual report as decreasing item on Accrued expenses and deferred income as well as on Interest expense.

## 2.8. Provisions made and used in the reporting period

At 31 December 2016 the total value of the provisions in the books of the Branch was HUF 1 375 million.

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

Other provision amounted to HUF 2 258 million on 31 December 2015. In 2015 the provision to cover VAT self-revision due to invoices paid to the parent company between 2012 and 2014 in the amount of HUF 1 780 million was fully released and – due to the relating NAV audit on this subject – provision at a value of HUF 68 million was made in 2016. From the provision made for suspense settlements on derivatives in the amount of HUF 350 million, HUF 346 million was used and HUF 4 million was released in 2016.

At 31 December 2015 other provision to cover losses due to default of counterparties increased by HUF 8 million, and from provision made by the Company to cover the cost of redundancies due to reorganization in the amount of HUF 112 million HUF 34 million was used and HUF 78 million was released.

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

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

Provisions made and released in the reporting period:

Data in HUF million

Description	31 December 2015	Increase (made)	Decrease		31 December 2016
			released	used	
Provisions for pension and severance pay	0	0	0	0	0
Provisions for contingent and future liabilities	74	0	0*	0	74
Provisions for general risks	1 209	0	0	0	1 209
Other provisions	2 258	76	82	2 160	92
<b>Total</b>	<b>3 541</b>	<b>76</b>	<b>82</b>	<b>2 160</b>	<b>1 375</b>

\* value below HUF 1 million

## 2.9. Subordinated debts including subordinated loan capital

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

## 2.10. Changes in shareholders' equity during the year

Data in HUF million

Description	31 December 2015	Changes in 2016			31 December 2016
		Increase	Decrease	Transfer	
Issued capital / Dotation capital	2	0	0	0	2
Capital reserve	43 643	0	0	0	43 643
General reserve	0	0	0	0	0
Retained earnings	-38	0	0	38	0
Tied-up reserves	0	0	0	0	0
Revaluation reserve	0	0	0	0	0
Profit or loss for the year	38	1 239	0	-38	1 239
<b>Shareholders' equity</b>	<b>43 645</b>	<b>1 239</b>	<b>0</b>	<b>0</b>	<b>44 884</b>

2.10.1. Endowment capital (Issued capital)

The endowed capital of the Branch amounted to HUF 2 million on 31 December 2016 and is made up of HUF 1 million paid up by the Owner and HUF 1 million of the capital reserve of the acquired companies transferred to the endowed capital pursuant to the decision of the Founder.

2.10.2. Capital reserve

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

2.10.3. Retained earnings

Retained earnings amounted to zero, the retained earnings (losses) of the acquired Companies were transferred to the capital reserve after the merger and since the branch transformation the profit after tax of each financial year (2015 also) was paid out to the Founder as dividends. Due to the regulatory changes on dividend's presentation the amount of Retained Earnings for the year 2015 has been changed from nil to - 38 million HUF and amount of profit and loss for the year 2015 also has been changed from nil to 38 million HUF. In 2016 the Retained Earnings and profit and loss for the year have been reclassified accordingly.

2.10.4. General reserve

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

**2.11. Repurchase transactions, securities lending**

At the time of closing the balance sheet, the books of the Branch included amounts due from financial institutions on special repurchase transactions at a value of HUF 21 045 million and amounts due to financial institutions at a value of HUF 20 897 million (There were no such open items at the end of 2015).

There were no open securities lending transactions in the books neither at the end of 2016 nor in 2015.

**2.12. Items under special evaluation rules**

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

Data in HUF million

Description	Problem-free	Monitoring	Below average	Doubtful	Bad	Total
<b>Government securities</b>	<b>166 778</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>166 778</b>
Historic cost	166 778	0	0	0	0	166 778
Impairment	0	0	0	0	0	0
<b>Receivables from financial institutions</b>	<b>245 660</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>245 660</b>
Historic cost	245 660	0	0	0	0	245 660
Impairment	0	0	0	0	0	0
<b>Receivables from customers</b>	<b>75 825</b>	<b>0</b>	<b>0</b>	<b>0*</b>	<b>174</b>	<b>75 999</b>
Historic cost	75 825	0	0	0*	1 357	77 182
Impairment	0	0	0	0*	1 183	1 183
<b>Contingent liabilities</b>	<b>486 714</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>486 714</b>
Historic cost	486 714	0	0	0	0	486 714
Provision	0	0	0	0	0	0
<b>Future liabilities</b>	<b>2 627 769</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>2 627 769</b>
Historic cost	2 627 769	0	0	0	0	2 627 769
Provision	0	0	0	0	0	0

\* value below HUF 1 million



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

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

Data in HUF million

Description of balance sheet item	Maturity within 3 months	Maturity over 3 months but within 1 year	Maturity over 1 year	Maturity over 5 years	Total
<b>Receivables</b>	<b>240 626</b>	<b>35 693</b>	<b>33 260</b>	<b>1 437</b>	<b>311 016</b>
From credit institutions	201 487	33 530	0	0	235 017
From customers	39 139	2 163	33 260	1 437	75 999
<b>Payables</b>	<b>318 295</b>	<b>12 209</b>	<b>24 881</b>	<b>0</b>	<b>355 385</b>
To credit institutions	119 574	0	24 881	0	144 455
To customers	198 721	12 209	0	0	210 930

### 2.14. Balance sheet structure

The balance sheet total of the Branch in the reporting period was HUF 561 billion, which represents a 25% increase compared to the balance sheet total of 31 December 2015. The majority of the assets are current assets (93%), what are mainly government securities and receivables from financial institutions. Government securities represent 30% of the total assets, while proportion of receivables from financial institutions reach 44% thereof.

The proportion of short-term liabilities is 87% out of the balance sheet total. 27% of the balance sheet total are liabilities towards financial institutions, other significant part of it (61%) are short-term deposits of customers. The proportion of liabilities over one year is 4% in the Branch's books on 31 December 2016.

#### 2.14.1. Foreign currency denominated assets and liabilities expressed in HUF and HUF denominated assets and liabilities within assets and liabilities

Data in HUF million

Description	Assets 31 December 2015	Assets 31 December 2016	Liabilities 31 December 2015	Liabilities 31 December 2016
FX (expressed in HUF)	236 619	256 993	165 161	210 127
HUF	213 303	304 162	284 761	351 028
<b>Total</b>	<b>449 922</b>	<b>561 155</b>	<b>449 922</b>	<b>561 155</b>

#### 2.14.2. HUF denominated assets and liabilities

The value of HUF denominated assets increased by 43% (from HUF 213 billion to 304 billion) compared to 31 December 2015. The value of HUF denominated government securities increased (from HUF 124 billion to 167 billion), which represent 55% of HUF denominated assets. The ratio of HUF denominated interbank placements increased significantly (from HUF 4 billion to HUF 25 billion) in 2016.

HUF denominated liabilities increased by 23% (from HUF 285 billion to 351 billion), from which financial institutions related balances sum up to 21% of the total, while customer deposits reach 58% thereof.

#### 2.14.3. FX denominated assets and liabilities

The value of FX denominated assets increased by 8% (from HUF 237 billion to 257 billion) compared to last year. FX denominated interbank placements increased by 21% compared to the year-end of 2015, while FX denominated loans to customers decreased by 30%.

The value of the FX denominated liabilities increased (from HUF 165 billion to 210 billion) compared to previous period, mainly because of the increase in FX denominated customer deposits.

2.15. Highlighted items from the balance sheet

Data in HUF million

Description	31 December 2015	31 December 2016
Liquid assets	49 774	48 043
Loans denominated in HUF*	22 560	34 783
Loans denominated in FX*	59 043	41 216
Interbank lending denominated in HUF*	4 531	25 029
Interbank lending denominated in FX*	173 817	209 988
Securities held for trading	123 851	167 036
Customer deposits denominated in HUF*	93 963	204 405
Customer deposits denominated in FX*	99 606	139 177
Interbank borrowings denominated in HUF*	128 081	74 945
Interbank borrowings denominated in FX*	64 731	69 511

\* items arising from financial services

On Asset side receivables from financial institutions and government securities increased significantly, while receivables from customers decreased slightly.

Increase in balance sheet total is linked to decrease in liabilities towards credit institutions on Liability side and to the significant increase in deposits towards customers.

## 2.16. Off-balance sheet items

### 2.16.1. Contingent liabilities and future liabilities

#### 2.16.1.1. Contingent liabilities

Data in HUF million

Description	31 December 2015	31 December 2016
Issued guarantee	32 748	38 987
Unused credit facility	370 749	402 378
Other contingent liabilities	37 046	45 349
<b>Total of contingent liabilities</b>	<b>440 543</b>	<b>486 714</b>

#### 2.16.1.2. Future liabilities

Data in HUF million

Description	31 December 2015	31 December 2016
Spot transactions	534 316	335 872
Forward transactions	2 270 477	2 185 551
Forward rate agreements	115	39
Interest rate swaps	732	4 256
Security purchase commitment	79 896	101 951
Assigned transactions	0	0
Term deposit placement	4 003	100
<b>Total of future liabilities</b>	<b>2 889 539</b>	<b>2 627 769</b>

##### 2.16.1.2.1. Contractual value, split by maturity of open forward contracts

###### 2.16.1.2.1.1. Spot transactions

Spot foreign exchange purchases and sale transactions are recorded in Account Class 0 amounted to HUF 335 872 million on 31 December 2016, calculated at the applicable MNB exchange rate (on 31 December 2015 the value of these transactions was HUF 534 316 million at MNB exchange rate). These transactions matured by the date of the balance sheet preparation.

###### 2.16.1.2.1.2. Forward transactions

The Branch records forward transactions until their maturity in Account Class 0. At the end of 2016, the year-end value of forward foreign exchange transactions and foreign exchange swap transactions calculated at the applicable MNB exchange rate were HUF 2 185 551 million (on 31 December 2015, the value of these transactions was HUF 2 270 477 million). The rules of the fair value method of valuation were used to recognize the results of these transactions.

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

Data in HUF million

Maturity	Maturity within 3 months	Maturity over 3 months but within 1 year	Maturity over 1 year	Maturity over 5 years	Total
<b>Total as at 31 December 2016</b>	1 868 156	290 969	26 426	0	2 185 551
<b>Total as at 31 December 2015</b>	2 030 804	229 307	10 366	0	2 270 477

2.16.1.2.1.3. Future liabilities from forward rate agreements

Future liabilities of sold forward rate agreements are also recorded in Account Class 0, and their value was HUF 39 million on 31 December 2016 (and HUF 115 million on 31 December 2015).

Data in HUF million

Maturity	Maturity within 3 months	Maturity over 3 months but within 1 year	Maturity over 1 year	Maturity over 5 years	Total
<b>Total as at 31 December 2016</b>	0	39	0	0	39
<b>Total as at 31 December 2015</b>	0	115	0	0	115

2.16.1.2.1.4. Interest rate swaps

As a result of interest rate swaps, HUF 4 256 million forward liabilities are recorded as off-balance sheet item at the end of the year 2016 (on 31 December 2015 HUF 732 million).

Data in HUF million

Maturity	Maturity within 3 months	Maturity over 3 months but within 1 year	Maturity over 1 year	Maturity over 5 years	Total
<b>Total as at 31 December 2016</b>	112	1 689	2 455	0	4 256
<b>Total as at 31 December 2015</b>	157	324	251	0	732

2.16.1.2.1.5. Forward securities transactions

The Branch records forward securities transactions in Account Class 0 at contractual value. On 31 December 2016, the contractual value of the forward purchases of securities were HUF 101 951 million (on 31 December 2015 HUF 79 896 million). These transactions were matured by the date of the balance sheet preparation.

2.16.1.2.2. Assigned transactions

The Branch records the assigned transactions as contingent liabilities in Account Class 0, which value was HUF 0 million on 31 December 2016 (on 31 December 2015 also HUF 0 million).

2.16.1.2.3. 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 2016, and the following revaluation differences were recognized in the profit and loss account until 31 December 2016:

2.16.1.2.3.1. Revaluation gain on derivatives

Data in HUF million

Description	31 December 2015	31 December 2016	Impact of revaluation on result
FX swap transactions	8 289	19 435	11 146
Forward transactions	1 279	1 287	8
Forward rate agreements	0	9	9
Interest rate swaps	380	694	314
<b>Total</b>	<b>9 948</b>	<b>21 425</b>	<b>11 477</b>

2.16.1.2.3.2. Revaluation loss on derivatives

Data in HUF million

Description	31 December 2015	31 December 2016	Impact of revaluation on result
FX swap transactions	6 702	12 820	6 118
Forward transactions	2 692	3 077	385
Forward rate agreements	115	27	-88
Interest rate swaps	350	776	426
<b>Total</b>	<b>9 859</b>	<b>16 700</b>	<b>6 841</b>

The aggregate impact of using fair valuation method for derivative transactions was HUF 4 636 million increase in profit and loss on 31 December 2016 (as at 31 December 2015 the impact was HUF 14 108 million aggregate decrease).

## 2.16.2. Contingent and future receivables

### 2.16.2.1. Contingent receivables

Data in HUF million

Description	31 December 2015	31 December 2016
Receivables subject to litigation	5	5
<b>Total of contingent receivables</b>	<b>5</b>	<b>5</b>

### 2.16.2.2. Future receivables

Data in HUF million

Description	31 December 2015	31 December 2016
Spot transactions	534 235	336 493
Forward transactions	2 270 486	2 189 805
Security sale commitment	50 817	82 538
Assigned transactions	0	0
Forward rate agreements	0	9
Interest rate swaps	828	4 046
Term deposit placement	1 600	9 412
<b>Total of future receivables</b>	<b>2 857 966</b>	<b>2 622 303</b>

## 2.16.3. Other contingent assets and liabilities

Data in HUF million

Description	31 December 2015	31 December 2016
Third party securities	43 765	22 684
Guarantee received	1 096	1 089
Securities received	112 996	121 951
Suspended interests	0*	48
Nominal value of FRA purchase	80 000	60 000
Nominal value of FRA sale	20 000	10 000
Nominal value of interest rate swaps	15 131	188 032
Nominal value of securities on repurchase transactions	0	18 465

\* value below HUF 1 million

### 2.16.3.1. Total of third party securities

Data in HUF million

Type of security	Total nominal value	Place of storage				
		Clearing house	Third party premises	Bank's own Treasury	Dematerialized	Printed
Custody securities	22 684	22 684	0	0	20 957	1 727
Brokerage securities	0	0	0	0	0	0
<b>Total as at 31 December 2016</b>	<b>22 684</b>	<b>22 684</b>	<b>0</b>	<b>0</b>	<b>20 957</b>	<b>1 727</b>
<b>Total as at 31 December 2015</b>	<b>43 765</b>	<b>43 745</b>	<b>0</b>	<b>20</b>	<b>36 721</b>	<b>7 044</b>

2.16.3.1.1. Third party custody securities

Data in HUF million

Type of security	Total nominal value	Place of storage			Dematerialized	Printed
		Clearing house	Third party premises	Bank's own Treasury		
Hungarian government bonds	1 727	1 727	0	0	0	1 727
Shares	20 957	20 957	0	0	20 957	0
<b>Total as at 31 December 2016</b>	<b>22 684</b>	<b>22 684</b>	<b>0</b>	<b>0</b>	<b>20 957</b>	<b>1 727</b>
<b>Total as at 31 December 2015</b>	<b>43 765</b>	<b>43 745</b>	<b>0</b>	<b>20</b>	<b>36 721</b>	<b>7 044</b>

2.16.3.1.2. Third party brokerage securities

Data in HUF million

Type of security	Total nominal value	Place of storage			Dematerialized	Printed
		Clearing house	Third party premises	Bank's own Treasury		
<b>Total as at 31 December 2016</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>Total as at 31 December 2015</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>

2.16.3.2. Details of assets received as security or collateral

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

Data in HUF million

Description of security	31 December 2015	31 December 2016
Cash	1 038	320
Assignment of receivables	4 919	4 067
Mortgages	24 718	20 009
Other collaterals (corporate guarantee)	80 566	93 620
Other collaterals (letters of credit)	179	0
Other collaterals	1 576	3 935
<b>Total</b>	<b>112 996</b>	<b>121 951</b>

2.16.3.3. Suspended interests

The value of suspended interest was HUF 48 million as at 31 December 2016. (The Branch recorded suspended interest with value below HUF 1 million on 31 December 2015.)

2.17. Interest received by geographical region

Data in HUF million

Description	Domestic	Within EU	Other	Total
Interest received on securities	2 486	0	0	2 486
Other interest received	2 494	-492	79	2 081
<b>Total as at 31 December 2016</b>	<b>4 980</b>	<b>-492</b>	<b>79</b>	<b>4 567</b>
<b>Total as at 31 December 2015</b>	<b>12 419</b>	<b>860</b>	<b>143</b>	<b>13 422</b>

## 2.18. Revenues from and expenditures on investment services

Data in HUF million

Description	31 December 2015	31 December 2016
<b>Revenues from investment services</b>	<b>21 428</b>	<b>32 857</b>
Commissions on custody	583	334
Revenue from brokerage activities	74	54
Revenue from securities trading	20 138	26 243
Revenue of fair value from securities held for trading	54	419
Revenue from foreign exchange forward transactions	0	4 646
Revenue from interest rate swaps	527	994
Revenue from forward rate agreements	52	167
<b>Expenditures on investment services</b>	<b>27 571</b>	<b>27 110</b>
Commissions paid on custody	49	36
Expenditure on brokerage activities	223	147
Expenditure on securities trading	21 754	25 403
Expenditure of fair value on securities held for trading	214	100
Expenditure on foreign exchange forward transactions	4 688	0
Expenditure on interest rate swaps	528	1 133
Expenditure on forward rate agreements	115	291

## 2.19. Non-financial and investment service expenditures

In 2015 the total balance of non-financial and investment service expenditures – similarly to previous year – results from recharged costs (on December 31, 2016 HUF 1 132 million, on December 31, 2015 HUF 1 416 million).

## 2.20. Reclassification of extraordinary revenues and expenditures

Items reported under Extraordinary revenues and expenditures in 2015 were recognised under Other revenues and expenditures in 2016 in accordance with the Accounting Law and the Government Decree on credit institutions.

Data in HUF million

Description	31 December 2015	31 December 2016
<b>Extraordinary revenues</b>	<b>1</b>	<b>0</b>
<b>Extraordinary expenditures</b>	<b>2</b>	<b>6</b>
Donations, film sponsorship	0*	1
Cancelled receivables	2	5

\* value below HUF 1 million

## 2.21. Costs in a breakdown by operational expenses

Total costs show a 5% decrease in comparison with the previous year, which, by keeping the level of total personnel costs, was caused by the decrease in material type expenditures. The total personnel and material type of expenditures represent 35% and 62% respectively, while the depreciation takes 3%. Compared to 2015, the cost structure did not change significantly.

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

The decrease of material type of expenditures can be explained by the reduction of fees paid for the services rendered by the parent company and by other ING entities. Depreciation decreased slightly by 4% in comparison with 2015. Within total costs the portion of depreciation is not significant.

Data in HUF million

Description	31 December 2015	31 December 2016
Payroll	1 919	1 890
Other personnel costs	216	230
Social security and similar deductions	613	588
<b>Total personnel costs</b>	<b>2 748</b>	<b>2 708</b>
Material costs	53	47
Material type services used costs	609	601
Other services used costs	4 592	4 218
Other costs	9	10
<b>Material type expenditures</b>	<b>5 263</b>	<b>4 876</b>
<b>Depreciation charge</b>	<b>213</b>	<b>204</b>
<b>Total costs</b>	<b>8 224</b>	<b>7 788</b>

## 2.22. Profitability

The Branch's profit after tax as at 31 December 2016 shows a significant increase compared to the profit of the preceding year, due in particular to large one-off expenditures recognised in the profit and loss account for the business year of 2015.

Profitability was influenced by the following factors:

The net interest result decreased significantly by 78% compared to previous year, which is explained by the 66% and 15% fall in interest received and interest paid respectively. During 2016 the decrease of reference rates remained a general trend on the interbank market as well as the use of negative rates, accordingly the interest of reference rate linked products has changed. In parallel, realised interest income on trading derivatives has also fallen significantly compared to previous year. These two facts led to the decrease both in interest income and interest expenditures.

Our dividends earned on shares amounted to HUF 5 million in 2016.

Our net commissions earned until 31 December 2016 amounted to HUF 3 594 million, which is 8% lower than the gain from commissions in 2015 (HUF 3 909 million). The decrease was due to the drop in commissions realised in respect of lending services as well as in securities trading.

The net result of financial operations show a profit on 31 December 2016 (HUF 7 575 million) compared to the profit on 31 December 2015 (HUF 504 million). This is due to significant increase (HUF 6 billion) in revenues on trading derivatives. Furthermore the Branch sold the shares held in Budapest Stock Exchange, from which income at a value of HUF 425 million was recognised.

Other revenues from business operations doubled, while other expenditures decreased by 9% compared to the previous year. The significant rise in revenue is explained by the fact that in 2015 the amount of other provision was released. The decrease in expenditures was due to the compositional changes both in bank tax and credit institution tax.

General administrative costs decreased by 5% compared to the preceding period. Their detailed analysis can be found in the section on costs in a breakdown by operational expenses.

It had a negative impact on the Branch's result for 2016, that the Branch accounted impairment for accounts receivable in the amount of HUF 697 million.



### 2.23. Key indices

Description		31 December 2015	31 December 2016
Return on Equity (ROE)	Profit after tax / Shareholders' equity	0,09	2,76
Return on Assets (ROA)	Profit after tax / Total assets	0,01	0,22
Quick ratio	Liquid assets + securities / Current liabilities	51,09	45,55
Capitalisation ratio	Shareholders' equity / Total liabilities	9,70	8,00
Fixed asset ratio	Fixed assets / Total assets	8,43	6,27
Gross margin of fixed assets	Shareholders' equity / Fixed assets	115,06	127,58

### 2.24. Items relating to headquarters, other branches and other related parties

Data in HUF million

Description	Founder	Other branch	Other related party	Total
Receivables from financial institutions within one year	206 457	693	114	207 264
Other receivables within one year	16	109	4	129
Liabilities to financial institutions within one year	31 413	0	0	31 413
Liabilities to financial institutions over one year	24 882	0	0	24 882
Liabilities to customers on demand	0	0	90	90
Other liabilities within one year	19	0	0	19
Other interest received and similar incomes	-763	8	52	-703
Interest payable and similar expenditures	211	2	237	450
Commissions received from the revenues from other financial services	441	182	45	668
Commissions received from the revenues from investment services	0*	0	0	0*
Commissions paid on the expenditures on other financial services	98	342	22	462
Revenues from other than financial and investment services	24	123	22	169
Other revenues	92	0*	2	94
Expenditures on other than financial and investment services	0*	0	0	0*
Other expenditures	219	0*	10	229

\* value below HUF 1 million

### 3. Informative Notes

#### 3.1. Data of employees

##### 3.1.1. Number of employees

	Head	
	31 December 2015	31 December 2016
Actual number of staff on 31 December	154	146
Annual average statistical number of staff	162	156
- of which: part-time employees	9	6

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

	Data in HUF million	
Description of employee group	31 December 2015	31 December 2016
Payroll costs of full-time employees	1 867	1 846
Payroll costs of part-time employees	52	44
<b>Total</b>	<b>1 919</b>	<b>1 890</b>

##### 3.1.3. Payments to personnel

	Data in HUF million	
Description	31 December 2015	31 December 2016
Meal, relocation and vehicle cost reimbursement, allowances, travelling to and from work	21	27
Other payments (entertainment expenses, per diem, life insurance, etc.)	7	2
Non-repayable support provided by employer	40	26
Severance allowances	0	26
Fringe benefits	148	149
<b>Total</b>	<b>216</b>	<b>230</b>

#### Other information

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

### 3.2. Items adjusting the corporate tax base

In 2016 the corporate tax base determined in the general ledger was reduced by HUF 3 142 million and increased by HUF 2 586 million to reach the corporate tax base in line with corporate tax act.

The corporate tax liability calculated for the year 2016 was HUF 262 million, of which HUF 455 million was paid in advance. The bank tax paid by the Branch amounted to HUF 668 million in the reporting period. In addition the Branch was paid HUF 59 million to the credit institution tax in 2016.

Pursuant to the owner's decision, the full amount of the profit after tax 2016 will be paid out as dividend in 2017.

Data in HUF million

Description	31 December 2015	31 December 2016
<b>Profit before tax</b>	<b>1 120</b>	<b>2 169</b>
<b>Items increasing the tax base</b>	<b>2 574</b>	<b>2 586</b>
Provisions for future liabilities and expenses	2 316	76
Amortization/depreciation in accordance with accounting law	243	206
Costs incurred outside the normal course of business	1	1
Penalties, fines	0*	0
Costs identified by self-correction	14	2 303
<b>Items reducing the tax base</b>	<b>965</b>	<b>3 142</b>
Released provisions for future liabilities and expenses	88	2 242
Amortization/depreciation in accordance with corporate tax law	223	214
Dividends received	17	5
Donations to foundations	0*	0
Revenues identified by self-correction	29	13
Bank tax	608	668
<b>Tax base</b>	<b>2 729</b>	<b>1 613</b>
Corporate tax	474	262
<b>Tax benefits</b>	<b>0</b>	<b>0</b>
Film sponsorship	0	0
<b>Paid tax in abroad</b>	<b>0</b>	<b>0</b>
<b>Corporate tax liability</b>	<b>474</b>	<b>262</b>
Bank tax	608	668
<b>Total tax liability</b>	<b>1 082</b>	<b>930</b>
<b>Profit after tax</b>	<b>38</b>	<b>1 239</b>
General provision made and used	0	0
<b>Profit for the year</b>	<b>38</b>	<b>1 239</b>

\* value below HUF 1 million

### 3.3. Cash Flow Statements

Data in HUF million

	Description	31 December 2015	31 December 2016
1	+ Interest received	13 422	4 567
2	+ Revenues from other financial services	11 243	6 039
3	+ Other revenues	134	104
4	+ Revenues from investment services	21 129	26 961
5	+ Revenues from other than financial and investment services	1 588	1 275
6	+ Dividends received	17	5
7	+ Extraordinary revenues	1	0
8	- Interest paid	2 645	2 238
9	- Expenditures on other financial services	687	617
10	- Other expenditures	3 480	5 262
11	- Expenditures on investment services	13 034	26 169
12	- Expenditures on other than financial and investment services	1 416	1 132
13	- General administrative expenses	8 224	7 788
14	- Extraordinary expenditures	2	0
15	- Tax liability	1 082	930
16	- Dividends paid	38	0
17	<b>Operating cash flows (Lines 01 to 16)</b>	<b>16 926</b>	<b>-5 185</b>
18	+ / - Movements in accounts liabilities	-34 799	106 142
19	+ / - Movements in accounts receivables	-45 338	-59 247
20	+ / - Movements in stocks	1	0
21	+ / - Movements in securities recorded under current assets	-50 504	-42 866
22	+ / - Movements in securities recorded under fixed assets	0	43
23	+ / - Movements in investments	0	-3
24	+ / - Movements in intangible assets	25	72
25	+ / - Movements in tangible assets	-53	52
26	+ / - Movements in prepaid expenses and accrued income	-674	84
27	+ / - Movements in accrued expenses and deferred income	702	-823
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
	<b>Net cash flows (lines 17 to 31)</b>	<b>-113 714</b>	<b>-1 731</b>
32	Of which:		
	- movements in cash	127	-376
	- movements in money on accounts	-113 841	-1 355

\* value below HUF 1 million

### 3.4. Other

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

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

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

None of the liabilities disclosed in the balance sheet is secured or encumbered by mortgage or similar rights.

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

Budapest, 26 May 2017

Tibor Bodor  
Country Manager & CEO

Gyula Réthy  
Chief Financial Officer



## **ING Bank N.V. Hungary Branch**

**Management Report  
2016**

## Management Report 2016

### 1. Financial Results

The profit after tax of ING Bank N.V. Hungary Branch raised from HUF 38 million to HUF 1.24 billion, parallelly the profit before tax has reached HUF 2.17 billion from previous year's HUF 1.1 billion.

The so called 'Scandia' case was booked in 2015 and caused a one-time result worsening effect of HUF 1.8 billion. (In light of the verdict on the Skandia case No. C-7/13 by the European Court of Justice, on 7 October 2015 the National Tax and Customs Administration of Hungary published an explanation regarding the domestic application of being subject to group taxation. As an effect, the Bank paid VAT in 2016 related to the invoices issued against the services provided by the Amsterdam Headquarters in the frame of self-review for the period 2012-2015 and had made a provision of HUF 1.8 billion).

Even if we disregard this one-off item, the operational result of the Bank decreased in 2016 compared to 2015.

Of the macroeconomic processes, mainly the interest rate environment had an effect on the Bank's profitability. Due to the low inflation environment the National Bank of Hungary took further loosening measures. In 3 steps, NBH lowered the Central Bank base rate by 15 bps to 0.90 percent, and later with further non-conventional tools (inter alia by the quantitative restriction of the 3 months benchmark central bank instrument) oriented the interbank interests to an even lower rate.

With the macroeconomic environment, the low rate of the benchmark interest rate, the negative interest and the adequacy to the regulatory requirements, it has been and continues to be a real stretch to maintain profitability, not only to our Bank but also for the whole sector. The situation is further complicated by the fast spreading alternative services offered by non-financial intermediators. On the other hand this also offers new opportunities for development for the banks on the long run.

The falling interest rate environment caused a decline of the Bank's interest margin by HUF 8.4 billion. The interest income of deposits and securities kept at NBH dropped to the greatest extent.

The interest income of general lending decreased in 2016. On medium run we try to compensate the drop of interest incomes by new revenue sources and client acquisitions.

Net commission income dropped by HUF 315 million. Although we experienced decrease in case of Structured Finance and Lending, we managed to increase commission incomes in case of payments.

Net result on financial operations increased significantly – from HUF 0.5 billion to HUF 7.5 billion. This increase of more than HUF 7 billion is in relation with the Bank's securities trading activity and the revaluation of the balance sheet position.

General administrative expenses dropped by 5.3 percent. Personnel expenses remained at almost the same level as in 2015, while other regulatory costs decreased by HUF 387 million. This drop is due to the more cost-efficient operation and the lower level of Head Office charges.

The Bank's Balance Sheet Total reached HUF 561.2 billion from previous year's HUF 449.9 billion. This means a 25 percent increase, thanks mainly to HUF 43.2 billion increase of Government securities and HUF 64.6 billion increase of Receivables from financial institutions. Receivables from customers dropped by HUF 5.6 billion.

On liabilities side our Liabilities to financial institutions reduced by HUF 44.4 billion, while Liabilities to customers grew by HUF 150 billion.

## 2. Divisions' Reports

### 2.1. Trading

2016 in full was characterized by remarkable volatility.

Forint interest rate markets were governed by the fine tuning and changes of the monetary instruments of the Central Bank. Further significant exchange rate and yield movements were induced by the expectations regarding the FED's rate increase (its extent and timing) and the US Presidential Elections. Trading activity was preserved at high level in terms of volume by sufficient liquidity and the volatility of spreads in the quotes. ING Bank N.V. Hungary Branch was able to maintain its decisive market position in the continuously changing market environment.

### 2.2. Financial and Capital Markets Sales

In 2016 FM Sales Team continued selling complex financial risk management solutions. Due to decline in foreign exchange turnover, the Team made efforts to broaden its customer base by new acquisition and succeeded with both Corporate and Financial Institution clients. From clients' perspective, just like in 2015, the pursuit continued to minimize margins used on banking products. Along with this competition strengthened among service providers targeting the same client base, both among large companies and institutional clients. As a result, the turnover and revenue of foreign exchange transactions and conversions at the Bank's official rate could not increase.

Due to the uncertainties experienced in the market environment on FX, money and capital markets the level of financial market risks continued to be high. FM Sales Team encouraged Corporate Clients to mitigate financial market risks emphasizing the importance of assessing the risks and choosing the proper risk-mitigating solution. Attention was also drawn to significant drop of interest rates and the possibilities of interest rate risk management arising from this.

Low market interest conditions led to moderate interest in depositing compared to previous years. On the other hand, there was a significant interest in securities transactions among financial institutions especially among investment fund clients.

We worked on retaining our existing client portfolio through organizing professional client trainings and seminars.

### 2.3. Transaction Services Sales (TS Sales)

Income was slightly below expectations in Transaction Services Sales, which among others covers Trade Finance Services and Payments & Cash Management. Trade Finance Services performed above expectations in 2016 and was able to realize increase in terms of both volume and revenue compared to 2015, but the profitability of Payments and Cash Management was unfavourably and negatively influenced by the continuous decrease of Forint interest rate margins and the negative Euro interest rate environment.

In 2016 Transaction Services Sales took part in several tenders, many of them received from the Bank's international client network. Despite of the decrease of interest rate margins, Payments and Cash Management made serious efforts on maintaining its market share by widening the scope of services provided to current client portfolio and through new client acquisitions. Enhancing clients' re-contracting to conditions conforming to current interest rate environment helped sustain profitability, however those clients who hadn't re-contracted yet, had a negative effect on the field's revenues. With Trade Finance Services we can emphasize the efforts made to increase volumes and wallet share within the existing and the newly acquired client portfolio that contributed to the expected revenue growth.

During 2Q 2016 a new electronic banking channel, the so called 'InsideBusiness Portal' was launched with the aim to create a unified platform for clients holding accounts within the ING network so that they can manage their accounts, notwithstanding in which country they have them. Besides the currently used InsideBusiness Payment CEE channel (which enables users to manage their payments) the range of available products and services was continuously expanding. In addition to the successful implementation of SEPA transfers in 2015, SEPA collection was also implemented as planned by the October 2016 deadline.



## **2.4. General Lending**

In 2016 the trend of previous years' continued and within the corporate segment general credit demand remained low. Large corporations acquire growing amount of own resources that result in strengthening liquidity and stagnating demand for general working capital financing. Along with the improvement of the country's external risk classification (all three major Ratings Agencies rated Hungary as Recommended for Investment in 2016), the criteria for lending also improved significantly that was reflected in lower interest rate margins compared to last year.

By the end of 2016 the reference interest rate reached a record low level, thus Forint exposure became more important compared to previous years.

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

## **2.5. Structured Finance**

Structured Finance business line closed a very good year in 2016 again. The performance of existing major business areas (syndicated loans, club deals, LBO finance, project finance and related advisory activity) continued to be decisive. Portfolio building and optimization continued by completing activities by Trade and Commodity Finance during 2016. In advisory (Corporate Finance) transactions – in close cooperation with ING International network – one transaction has been closed successfully and further possibilities are in the pipeline.

## **3. Credit, Market and Operational Risk Management**

Since 2008 ING Wholesale Banking has been running an integrated Risk Management model, covering corporate lending, counterparty risk management, and market risk management as well as operational risk management, IT and physical security areas. The basic role of Integrated Risk Management continues to ensure compliance with local regulation, global ING policies and specific local procedures. Activity and operation of the Branch continued to stay in line with the strategy and risk appetite of ING Group during 2016 as well. Just like earlier, the Bank continued to ensure good profitability and stable liquidity. There was no operational or physical security incident that would have negatively influenced the ongoing concern operation or profitability.

Thanks to local customer deposits and interbank funds as well as continuously available funding limits established for us at ING's Amsterdam Head Office, the Branch's liquidity remains stable. The practice of using liquidity premium reflecting the effects of financial crisis remained unchanged in 2016, but still hadn't been applied for shorter than 1 year tenor. We continued to focus on the efficient management of counterparty and market risk management limits. These limits were changing throughout 2016 in accordance with the demands related to risk considerations and changes of the legal environment for the financial sector and their importance increased in line with the macroeconomic events.

The quality of the lending portfolio remained good, supported by the monitoring activity that had been strengthened during the last years and maintained in 2016. The result of lending clients has been improving following the negative effects of the crisis. Certain sectors have to face new challenges since the crisis, such as continuously low oil prices, change of raw material prices, restrictive effect of the regulatory environment on their business model and profitability, etc. The so-called "crisis sectors" are continuously closely monitored by the Bank. As the exchange rate has become volatile from time-to-time, we insisted on our cautious lending policy and provided FX denominated loans mainly to those of our customers that provide a natural hedge for their FX exposure (by their FX incomes) or by other hedging instruments. At the end of 2016 loan loss provisions related to the lending portfolio and counterparty risks per segment were not significant.

## **4. Human Resources and Leadership Development**

On 31 December 2016 the Branch had 146 active employees. This means 5.2% decrease compared to the end of 2015 (154 employees) that can be explained with increased fluctuation specific to the whole Banking sector in the 2<sup>nd</sup> half of last year (we closed the year with 5 open positions) as well as with 2 colleagues continuing their careers in different countries within ING (The Netherlands and Russia).

Beyond mandatory trainings 82 percent of the employees and 100 percent of Managers took part in different training programmes in 2016.

## 5. Research and Development, Environmental Protection, Social Responsibility

ING Bank N.V. Hungary Branch joined ING's global Innovation Bootcamp for the third time in 2016, aiming to find innovative solutions in the field of financial services. Hungarian success is best shown by the fact that all 4 Hungarian initiatives got into the top 100 (of the total 856 initiatives), and within that we even got in the top 25 percent.

ING Bank N.V. Hungary Branch conforms to the sustainability principles of ING Group which considers environmental protection as one of its elements. In 2016 we further broadened building Sustainability guidelines into our business operation, whether it was about client filtering (ESR: Economic and Social Risk Policy), account-keeping or investment relationship. The development and dissemination of Circular Economy and Sharing Economy model came into view. In Hungary we continued deepening the responsible procurement practice and testing our suppliers from sustainability point of view. ING joined the „Earth Hour” initiative again in 2016, and we also continued with the Paperless Office programme and selective waste collection.

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

Our Parent Company, ING Bank N.V. publishes a separate Annual Report. We would like to highlight our GRI-report and reports on non financial data that can also be found on the following link: <https://www.ing.com/About-us/Annual-reporting-suite/Annual-Report/2016-Annual-Report-Accelerate/Other-downloads-1.htm>.

Budapest, 26 May 2017

Tibor Bodor  
Country Manager & CEO

Gyula Réthy  
Chief Financial Officer