Annual Report 2018

Annual Management Report ING Bank Czech Republic 2018

Looking back at 2018, ING Czech Republic had many great achievements. The successful introduction of the Model Bank program was one of the key milestones. It went live at the beginning of December 2018 when ING CZ Retail Banking launched the new international platform. Model Bank is ING's largest transformation program uniting Spain, the Czech Republic, Italy and France on one advanced retail banking platform serving more than seven million customers. Model bank introduces a bold new approach that underlines the necessity of managing business around customer relationships rather than a traditional product-centric model. In addition to a unified and consistent customer experience, it will reduce time to market and development costs because it is one platform used by all.

Despite the extra effort to accomplish this transformation, last year was financially one of the best for us since ING entered the Czech market. Our revised Wholesale Banking Growth Strategy was implemented and led to reaching CZK 36 billion of lending assets. It meant a 38% year-on-year increase and the doubling of lending assets balance over the past two years. At the same time, we are investing in our transformation to prepare for future challenges, product innovations and keeping our customers a step ahead in life and business.

In ING’s retail business, I’ve seen significant success due to the combination of targeted product campaigns with a fresh new advertising concept. The ING Savings Account attracted 13 thousand new clients and reached the final balance sheet total of CZK 86 billion. Despite a stable market, ING Mutual Funds balance sheet grew and increased by 4% up to CZK 5.3 billion. We attracted five thousand new Mutual Funds clients. All of the above efforts resulted in a net profit of CZK 707 million for ING in the Czech Republic.

From a global perspective, ING successfully continued to provide a distinguished experience in 2018 that was notably appreciated by our customers. We ranked number one in seven of our 13 retail markets in net promoter scores (NPS) and ING continued to attract new customers as the global retail customer base grew by one million customers.

Constant and consistent innovation are just two ways that we are preparing ING for the future. We are also transforming our businesses and building a globally standardized technical and operations foundation so that we can move to a platform business model.

Last year was also marked by ING’s settlement with the Dutch authorities in connection with serious shortcomings in the execution of customer due diligence requirements to prevent financial economic crime at ING in the Netherlands in the period investigated (2010-2016). We’ve taken this situation very seriously and take full responsibility for what happened. The trust of our customers and other stakeholders is our license to operate. We are undertaking a number of robust measures to strengthen our management of compliance risks and embed stronger awareness across the entire organization. This includes enhancing our KYC files where necessary and working on various structural improvements in our compliance policies, tooling, monitoring and governance.

The entirety of ING’s culture is that of corporate social responsibility. Overall, ING employees dedicated 2,750 working hours of volunteering activities and charity. In 2018, we introduced HelpING Day during which our employees transformed a boring asphalt mass in our neighborhood into a calm green island oasis in the middle of Prague’s busy city center. We also continued our financial education at elementary and secondary schools. For the fourth time we've partnered with the Teribear Moves Prague sport-charity event, not only as a sponsor, but also as active participants. You could see our colleagues running at the top of Vítkov hill every day to support children in need. Together we broke the record and ran 3,760 km. ING Fund continues to support children to become independent, self-sustaining people by investing in their education and free time activities. That is something we can be proud of every day.

I would like to thank our customers for their loyalty and trust, and our employees for their hard work and commitment in the past year. As we look to the future, trust and commitment are ING's greatest assets, and earning it every day is our most important measure of success.

Isold Heemstra
CEO

General Information

Annual Report Entity:
ING Bank N.V., organizační složka
For the year ended 31 December 2018

The Accounting unit will continue its existing activities.

The data on average number of employees and associated changes, as well as data on the costs spent by the Bank within the scope of employment relationships, is specified in the Notes to the Financial Statements for 2018 that constitutes a part of this Annual Report. The HR policy of ING Bank complies with the company's strategy aimed at efficiency of the services rendered.

In 2018, the Bank had no expenses on activities in the area of research, development and environmental protection.

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This document is an English translation of the Czech auditor's report.
Only the Czech version of the report is legally binding.

Independent Auditor's Report to the founder of ING Bank N.V., organizační složka

Opinion

We have audited the accompanying financial statements of ING Bank N.V., organizační složka ("the Company"), prepared in accordance with Czech accounting legislation, which comprise the balance sheet as at 31 December 2018, and the income statement, the statement of changes in equity for the year then ended, and notes to the financial statements, including a summary of significant accounting policies and other explanatory notes. Information about the Company is set out in Note 1 to the financial statements.

In our opinion, the accompanying financial statements give a true and fair view of the financial position of the Company as at 31 December 2018, and of its financial performance for the year then ended in accordance with Czech accounting legislation.

Basis for Opinion

We conducted our audit in accordance with the Act on Auditors, and Auditing Standards of the Chamber of Auditors of the Czech Republic, consisting of International Standards on Auditing (ISAs) as amended by relevant application guidelines. Our responsibilities under those regulations are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Company in accordance with the Act on Auditors and the Code of Ethics adopted by the Chamber of Auditors of the Czech Republic, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Other Information

In accordance with Section 2(b) of the Act on Auditors, other information is defined as information included in the annual report other than the financial statements and our auditor's report. The statutory body is responsible for the other information.

Our opinion on the financial statements does not cover the other information. In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. In addition, we assess whether the other information has been prepared, in all material respects, in accordance with applicable laws and regulations, in particular, whether the other information complies with laws and regulations in terms of formal requirements and the procedure for preparing the other information in the context of materiality, i.e. whether any non-compliance with those requirements could influence judgments made on the basis of the other information.

Based on the procedures performed, to the extent we are able to assess it, we report that:

- the other information describing matters that are also presented in the financial statements is, in all material respects, consistent with the financial statements; and
- the other information has been prepared in accordance with applicable laws and regulations.

In addition, our responsibility is to report, based on the knowledge and understanding of the Company obtained in the audit, on whether the other information contains any material misstatement. Based on the procedures we have performed on the other information obtained, we have not identified any material misstatement.

Responsibilities of the Statutory Body for the Financial Statements

The statutory body is responsible for the preparation and fair presentation of the financial statements in accordance with Czech accounting legislation and for such internal control as the statutory body determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the statutory body is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the statutory body either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the above regulations will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

KPMG

As part of an audit in accordance with the above regulations, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the statutory body.
- Conclude on the appropriateness of the statutory body's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Statutory Auditor Responsible for the Engagement

Jindřich Vašina is the statutory auditor responsible for the audit of the financial statements of ING Bank N.V., organizační složka as at 31 December 2018, based on which this independent auditor's report has been prepared.

Prague
29 April 2019

KPMG Česká republika Audit

KPMG Česká republika Audit, s.r.o.
Registration number 71

Jindřich Vašina
Partner
Registration number 2059

Company name: ING Bank N.V., organizační složka
Registered office: Českomoravská 2420/15, Libeň, 190 00 Praha 9
Identification number: 492 79 866
Business activity: Bank
Bank code: 3500
Date of preparation of the financial statements: 29 April 2019

BALANCE SHEET
as at 31 December 2018
(Translated from the Czech original)

	in thousands of CZK	Note	31/12/2018	31/12/2017
	ASSETS			
1	Cash in hand and balances with central banks		3 404 150	2 205 968
2	State zero coupon bonds and other securities eligible for refinancing with the central bank	12	5 386 855	2 052 644
	of which: a) securities issued by government institutions		*5 386 855*	*2 052 644*
3	Receivables from banks and credit unions	13	160 724 248	*189 092 398*
	of which: a) repayable on demand		*682 489*	*109 985*
	b) other receivables		*160 041 759*	*188 982 413*
4	Receivables from customers – credit union members	14	35 997 918	26 163 151
	of which: a) repayable on demand		*5 642 103*	*5 679 541*
	b) other receivables		*30 355 815*	*20 483 610*
5	Debt securities	15	2 020 427	2 020 013
	b) issued by other entities		*2 020 427*	*2 020 013*
9	Intangible fixed assets	17	141 922	40 692
10	Tangible fixed assets	18	57 768	48 347
11	Other assets	19	2 959 792	3 505 284
13	Prepaid expenses and accrued income		53 875	33 646
Total assets			**210 746 955**	**225 162 143**

in thousands of CZK		Note	31/12/2018	31/12/2017
	LIABILITIES & EQUITY			
1	Payables to banks and credit unions	20	102 424 671	112 458 030
	of which: a) repayable on demand		*2 534 551*	*10 309 340*
	b) other payables		*99 890 120*	*102 148 690*
2	Payables to customers – credit union members	21	101 080 986	105 035 580
	of which: a) repayable on demand		*98 274 445*	*103 137 730*
	b) other payables		*2 806 541*	*1 897 850*
4	Other liabilities	23	3 247 120	4 082 786
5	Deferred income and accrued expenses		48 890	37 379
6	Provisions	26	113 652	145 868
	c) other		*113 652*	*145 868*
7	Subordinated liabilities	22	1 958 692	1 915 071
	Total liabilities		**208 874 011**	**223 674 714**
12	Capital funds		743	-
13	Revaluation gains (losses)	28	(13 807)	(7 060)
	of which: a) on assets and liabilities		*(13 807)*	*(7 060)*
14	Retained profits (or accumulated losses)	27	1 179 350	1 176 352
15	Profit (loss) for the accounting period		706 658	318 137
	Total equity		**1 872 944**	**1 487 429**
Total liabilities and equity			**210 746 955**	**225 162 143**

in thousands of CZK		Note	31/12/2018	31/12/2017
	OFF-BALANCE SHEET ITEMS			
	Off-balance sheet assets			
1	Commitments and guarantees provided	30	10 118 014	5 682 213
3	Receivables from spot transactions	30	228 867	388 945
4	Receivables from fixed term transactions	30	215 475 589	204 772 260
	Off-balance sheet liabilities			
9	Commitments and guarantees received		34 028 677	29 346 535
10	Collaterals and pledges received	30	128 136 861	105 626 079
11	Liabilities from spot transactions	30	229 439	389 468
12	Liabilities from fixed term transactions	30	214 969 255	203 945 875
14	Values taken into custody, administration and deposit	31	5 282 773	5 077 531

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INCOME STATEMENT
for the year ended 31 December 2018
(Translated from the Czech original)

	in thousands of CZK	Note	2018	2017
1	Interest income and similar income	4	3 631 303	2 735 856
	of which: interest on debt securities		*22 758*	*6 788*
2	Interest expense and similar expense	4	(1 033 054)	(983 685)
	of which: interest on debt securities		*(133 621)*	*(131 546)*
4	Fee and commission income	5	440 477	427 538
5	Fee and commission expense	5	(27 241)	(32 772)
6	Gain or loss from financial operations	6	(446 567)	(439 452)
7	Other operating income	7	761	-
8	Other operating expenses	7	(111 810)	(98 905)
9	Administrative expenses	8	(1 548 497)	(1 140 951)
	of which: a) employee expenses		*(504 466)*	*(389 211)*
	ab) social and health insurance		*(109 928)*	*(87 573)*
	b) other administrative expenses		*(1 044 031)*	*(751 740)*
11	Depreciation, additions and utilisation of provisions and adjustments to tangible and intangible fixed assets	17, 18	(42 180)	(35 226)
12	Release of loss allowances and provisions for receivables and guarantees, income from written-off receivables	26	16 256	11 322
13	Write-offs, additions and use of loss allowances and provisions for receivables and guarantees	26	(23 909)	(2 669)
16	Release of other provisions	26	84 254	23 247
17	Additions and use of other provisions	26	(52 317)	(65 885)
19	**Current year profit (loss) from ordinary activities before tax**		**887 476**	**398 418**
23	Income tax	29	(180 818)	(80 281)
24	**Net profit (loss) for the period**		**706 658**	**318 137**

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STATEMENT OF CHANGES IN EQUITY
for the year ended 31 December 2018
(Translated from the Czech original)

in thousands of CZK	Registered capital	Own shares	Share premium	Reserve funds	Capital funds	Revaluation gains(losses)	Profit (loss)	**Total**
Balance at 1/1/2017	**-**	**-**	**-**	**-**	**-**	**27 884**	**1 804 751**	**1 832 635**
Net profit (loss) for the period	-	-	-	-	-	-	318 137	**318 137**
Other changes	-	-	-	-	-	(34 944)	(628 399)	**(663 343)**
Balance at 31/12/2017	**-**	**-**	**-**	**-**	**-**	**(7 060)**	**1 494 489**	**1 487 429**
Balance at 1/1/2018	**-**	**-**	**-**	**-**	**-**	**(7 060)**	**1 494 489**	**1 487 429**
Changes in accounting policies	-	-	-	-	-	-	2 998	**2 998**
Net profit (loss) for the period	-	-	-	-	-	-	706 658	**706 658**
Other changes	-	-	-	-	743	(6 747)	(318 137)	**(324 141)**
Balance at 31/12/2018	**-**	**-**	**-**	**-**	**743**	**(13 807)**	**1 886 008**	**1 872 944**

1. GENERAL INFORMATION

(a) Description of the Bank

ING Bank N.V., organizační složka („the Bank") was registered on 30 March 1993. The Bank is a branch of ING Bank N.V., having its registered address in Amsterdam, the Netherlands.

Company name and registered office
ING Bank N.V., organizační složka
Českomoravská 2420/15
190 00 Prague 9 - Libeň
Czech Republic

Identification number
49279866

Activities of the Bank
a) Corporate banking
Credit and lending
Structured financing
Investment banking products (debt and equity markets)
Financial markets and Treasury products
Transaction services

b) Retail banking
Savings accounts and term deposits in CZK
Investing in unit trusts

In 2014, the Bank terminated its safekeeping and administration of securities services ("custody services") through the divestment of a part of its business.

Statutury body
The head of the Branch is the Bank´s statutory body. As at 31 December 2018 the head of the Branch was Isold Heemstra, who was appointed to the office by the Board of Directors ING Bank N.V. with effect from 1 September 2016. This fact was recorded in the Commercial Register on 1 September 2016.

(b) Basis of preparation

The financial statements have been prepared on the basis of accounting records maintained in accordance with the Act on Accounting and relevant regulations and decrees valid in the Czech Republic. The financial statements have been prepared under the historical cost convention on the basis of full accrual accounting, except for selected financial instruments that are stated at fair value.

These financial statements have been prepared in accordance with the Czech Ministry of Finance decree regulating the layout and definition of financial statements and disclosure requirements of banks and certain financial institutions, dated 6 November 2002 (No. 501), as amended.

These financial statements are non-consolidated financial statements. The Bank is included in the consolidated group of its parent company (ING Bank N.V., 1102MG Amsterdam, Bijlmerplein 888, NL).
Link to the consolidated annual report: https://www.ing.com/Investor-relations/Annual-Reports.htm

The accompanying balance sheet, income statement and statement of changes in equity are an integral part of the financial statements.

2. SIGNIFICANT ACCOUNTING POLICIES

The Bank's financial statements have been prepared in accordance with the following significant accounting policies:

(a) Transaction date

Depending on the type of transaction, the transaction date is defined as the date of payment or collection of cash; the date of purchase or sale of foreign currency or securities; the date of payment or collection from a customer's account; the date of order to a correspondent to make a payment, the settlement date of the Bank's payment orders with the Czech National Bank ("CNB") clearing center, the value date according to a statement received from a correspondent bank (statement means SWIFT statement, bank notice, received media, bank statement or other documents); the trade date and settlement date of transactions with securities, foreign currency, options or other derivatives; the date of issue or receipt of a guarantee or opening credit commitment; the date of acceptance of assets into custody.

Accounting transactions involving the purchase or sale of financial assets with a usual term of delivery (spot transactions), as well as fixed term and option contracts, are recorded in off-balance sheet accounts from the trade date until the settlement date, except for accounting transactions involving the purchase or sale of debt securities with a usual term of delivery (spot transactions) that are recorded directly in an appropriate asset or liability account on the trade date.

A financial asset or its part is derecognized from the balance sheet if the Bank loses control over the contractual rights to the asset in whole or in part. The Bank loses this control if it exercises the rights to the benefits defined in the contract, if these rights expire, or if these rights are waived by the Bank.

(b) Foreign currency translations

Transactions denominated in foreign currencies are recorded in the local currency at the actual exchange rates prevailing on the date of the transaction. Assets and liabilities denominated in foreign currencies, together with unsettled foreign exchange spot transactions, are translated into the local currency at the CNB foreign exchange rate prevailing on the financial statements date. Foreign exchange gains or losses arising from the translation of foreign currency assets and liabilities and items that hedge currency risk resulting from agreements not yet recorded in the Bank's balance sheet, or as a result of expected future transactions, are recognized in the income statement as a "Gain or loss from financial operations".

(c) Financial assets and financial liabilities – policies effective from 1 January 2018

(i) Recognition and initial measurement

The entity initially recognises selected financial assets and financial liabilities (e.g. receivables from clients, liabilities to clients, subordinated liabilities, etc.) on the date on which they are originated. All other financial instruments (including spot purchases and sales of financial assets) are recognised on the trade date, which is the date on which the entity becomes a party to the contractual provisions of the financial instruments.

A financial asset or financial liability is measured initially at fair value plus, for an item not at FVTPL, transaction costs that are directly attributable to its acquisition or issue. Transaction costs are incremental costs that are directly attributable to acquisition or issue.

(ii) Classification

Financial assets

On initial recognition, a financial asset is classified as measured at:

- amortised cost (AC);
- fair value through other comprehensive income (FVOCI);
- fair value through profit or loss (FVTPL).

A financial asset is measured at amortised cost (AC) if it meets both of the following conditions and is not designated as at FVTPL:

- the asset is held within a business model whose objective is to hold assets to collect contractual cash flows;
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding (the so-called „SPPI test“).

A debt instrument is measured at FVOCI only if it meets both of the following conditions and is not designated as at FVTPL:

- the asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets;
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding (the so-called „SPPI test“).

At initial recognition of an equity investment that is no held for trading, the entity may irrevocably elect to present subsequent changes in fair value in FVOCI – see note 2(f) (Securities – policies effective from 1 January 2018) below. This election is made on an investment-by-investment basis.

All other financial assets are classified as measured at FVTPL.

In addition, the entity may, at initial recognition, irrevocably designate a financial asset that otherwise meets the requirements to be measured at amortised cost or at FVOCI as measured at FVTPL if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise.

Business model assessment

An entity’s business model is determined at a level that reflects how groups of financial assets are managed together to achieve a particular business objective. Accordingly, this condition is not an instrument-by-instrument approach to classification and should be determined on a higher level of aggregation. The entity considers all relevant information and evidence which is available at the assessment date. The information considered includes:

- the stated policies and objectives for the portfolio and the operation of those policies in practice. In particular, whether management’s strategy focuses on earning contractual interest revenue, maintaining a particular interest rate profile, matching the duration of the financial assets to the duration of the liabilities that are funding those assets or realising cash flows through the sale of the assets;
- how the performance of the portfolio and the financial assets held within this business model is evaluated and reported to the entity’s key management personnel;
- the risks that affect the performance of the business model and financial assets held within this business model, and how those risks are managed;
- how managers of the entity are compensated – e.g. whether compensation is based on the fair value of the assets managed or the contractual cash flows collected;
- the frequency, volume and timing of sales in prior periods, the reasons for such sales and its expectations about future sales activity. However, information about sales activity is not considered in isolation, but as part of an overal assessment of how the entity’s stated objective for managing the financial assets is achieved and how cash flows are realised.

Financial assets that are held for trading or managed and whose performance is evaluated on a fair value basis are measured at FVTPL because they are neither held to collect contractual cash flows nor held both to collect contractual cash flows and to sell financial assets.

Assessment whether contracutal cash flows are solely payments of principal and interest (the so-called “SPPI test“)

For the purposes of this assessment, ‘principal‘ is defined as the fair value of the financial asset on initial recognition, ‘interest‘ is defined as consideration for the time value of money and for the credit risk associated with the principal amount outstanding during a particular period of time and for other basic lending risks and costs (e.g. liquidity risk and administrative costs), as well as profit margin.

In assessing whether the contractual cash flows are solely payments of principal and interest, the entityconsiders the contractual terms of the instrument. This includes assessing whether the financial asset contains a contractual term that could change the timing or amount of contractual cash flows such that it would not meet this condition. In making the assessment, the entity considers:

- contingent events that would change the amount and timing of cash flows;
- leverage features;
- prepayment and extension terms;
- terms that limit the entity’s claim to cash flows from specified assets; and
- features that modify consideration of the time value of money (e.g. periodical reset of interest rates).

Reclassification

Financial assets are not reclassified subsequent to their initial recognition, except in the period after the entity changes its business model for managing financial assets.

Financial liabilities

The entity classifies its financial liabilities, other than financial guarantees and loan commitments, as measured at:

- amortised cost; or
- fair value through profit or loss FVTPL.

(iii) Derecognition

Financial assets

The entity derecognises a financial asset when

- the contractual rights to the cash flows from the financial asset expire ; or
- it transfers the rights to receive the contractual cash flows in a transaction in which substantially all of the risks and rewards of ownership of the fianncial asset are transferred or in which the entity neither transfers nor retains substantially all of the risks and rewards of ownership and it does not retain control of the financial asset.

On derecognition of a financial asset, the difference between

- the carrying amount of the asset (or the carrying amount allocated to the portion of the asset derecognised) and
- the sum of (i) the consideration received (including any new asset obtained less any new liability assumed) and (ii) any cumulative gain or loss that had been recognised in equity

is recognised in profit or loss.

From 1 January 2018, any cumulative gain/loss recognised in equity in respect of equity investment securities designated as at FVOCI is not recognised in profit or loss on derecognition of such securities.

In some cases the entity enters into transactions whereby it transfers assets recognised on its balance sheet, but retains either all or substantially all of the risks and rewards of the transferred assets or a portion of them. In such cases, the transferred assets are not derecognised. Examples of such transactions are securities lending and sale-and-repurchase transactions.

Financial liabilities

The entity derecognises a financial liability when its contractual obligations are discharged or cancelled, or expire.

(iv) Modifications of financial assets and financial liabilities

Financial assets

If the terms of a financial asset are modified, the entity evaluates whether the cash flows of the modified asset are substantially different.

If the cash flows are substantially different, then the contractual rights to cash flows from the original financial asset are deemed to have expired. In this case, the original financial asset is derecognised (see note 2c (iii)) and a new financial asset is recognised at fair value.

If the cash flows of the modified asset at amortised cost are not substantially different, then the modification does not result in derecognition of the financial asset. In this case, the entity recalculates the gross carrying amount of the financial asset and recognises the amount arising from adjusting the gross carrying amount as a modification gain or loss in profit or loss. If such a modification is carried out because of financial difficulties of the borrower (see note 2c (vii)), then the gain or loss is presented in the income statement together with addition, release or utilisation of loss allowances. In other cases, the gain or loss is presented in the income statement together with interest income.

Financial liabilities

The entity derecognises a financial liability when its terms are modified and the cash flows of the modified liability are substantially different. In this case, a new financial liability based on the modified terms is recognised at fair value. The difference between the carrying amount of the finacial liability extinguished and the new financial liability with modified terms is recognised in the income statement.

(v) Offsetting and presentation in the net amount

Financial assets and financial liabilities are offset and the net amount presented in the balance sheet when, and only when, the entity currently has a legally enforceable right to set off the amounts and it intends either to settle them on a net basis or to realise the asset and to settle the liability simultaneously.

Income and expenses are presented on a net basis only when permitted under IFRS, or for gains and losses arising from a group of similar transactions such as in the entity's trading activity.

(vi) Fair value measurement

"Fair value" is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date in the principal or, in its absence, the most advantageous market to which the entity has access at that date. The fair value of a liability reflects its non-performance risk. Non-performance risk includes, but may not be limited to, an entity's own credit risk.

When one is available, the entity measures the fair value of an instrument using the quoted price in an active market for that instrument. A market is regarded as active if transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis.

If there is no quoted price in an active market, then the entity uses valuation techniques that maximise the use of relevant observable inputs and minimise the use of unobservable inputs. The chosen valuation technique incorporates all of the factors that market participants would take into account in pricing a transaction.

The best evidence of the fair value of a financial instrument on initial recognition is normally the transaction price (i.e. the fair value of the consideration given or received).

If the entity determines that the fair value on initial recognition differs from the transaction price and the fair value is evidenced neither by a quoted price in an active market for an identical asset or liability nor based on a valuation technique for which any unobservable inputs are judged to be insignificant in relation to the measurement, then the financial instrument is initially measured at fair value, adjusted to defer the difference between the fair value on initial recognition and the transaction price. Subsequently, that difference is recognised in profit or loss on an appropriate basis over the life of the instrument but no later than when the valuation is wholly supported by observable market data or the transaction is closed out.

If an asset or liability measured at fair value has a bid price and an ask price, the the entity measures

- assets and long positions at a bid price;
- and liabilities and short positions at an ask price.

Portfolios of financial assets and financial liabilities that are exposed to market risk and credit risk that are managed by the entity on the basis of the net exposure to either market or credit risk are measured on the basis of a price that would be received to sell a net long position (or paid to transfer a net short position) for the particular risk exposure. Portfolio-level adjustments (e.g. bid-ask adjustment or credit risk adjustments that reflect the measurement on the basis of the net exposure) are allocated to the individual assets and liabilities on the basis of the relative risk adjustment of each of the individual instruments in the portfolio.

The fair value of a financial liability with a demand feature (e.g. a demand deposit) is not less than the amount payable on demand, discounted from the first date on which the amount could be required to be paid.

Fair value hierarchy

The entity measures fair values using the following fair value hierarchy, which reflects the significance of the inputs used in making the measurements.

Level 1: Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date.

Level 2: Level 2 inputs are inputs other than quoted prices included within level 1 that are observable either directly (i.e. as prices) or indirectly (i.e. derived from prices) for the asset or liability. This category includes instruments valued using:

- quoted market prices in active markets for similar instruments;
- quoted prices for identical or similar instruments in markets that are considered less than active;
- or other valuation techniques in which all significant inputs are directly or indirectly observable from market data.

Level 3: Level 3 inputs are unobservable inputs. This category includes all instruments for which the valuation technique includes inputs that are not observable and the unobservable inputs have a significant effect on the instrument's valuation. This category includes instruments that are valued based on quoted prices for similar instruments for which significant unobservable adjustments or assumptions are required to reflect differences between the instruments.

(vii) Impairment of finacial assets

The entity recognises loss allowances for ECL on the following financial instruments that are not measured at FVTPL:

- financial assets that are debt instruments;
- loan commitments issued;
- financial guarantee contracts issued.

No impairment loss is recognised on equity investments.

The entity measures loss allowances at an amount equal to lifetime ECL, except for the following, for which they are measured as 12-month ECL:

- debt investment securities that are determined to have low credit risk at the reporting date;
- other financial instruments (other than lease receivables) on which credit risk has not increased significantly since their initial recognition.

The entity considers a debt security to have low credit risk when their credit risk rating is equivalent to the globally understood definition of "investment grade".

12-month ECL are the portion of ECL that result from default events on a financial instrument that are possible within the 12 months after the reporting date.

Measurement of ECL

ECL are a probability-weighted estimate of credit losses. They are measured as follows:

- financial assets that are not credit-impaired at the reporting date: as the present value of all cash shortfalls (i.e. the difference between the cash flows due to the entity in accordance with the contract and the cash flows that the entity expects to receive);
- financial assets that are credit-impaired at the reporting date: as the difference between the gross carrying amount of the financial asset and the present value of estimated future cash flows;
- undrawn loan commitments: as the present value of the difference between the contractual cash flows that are due to the entity if the commitment is drawn down and the cash flows that the entity expects to receive;
- financial guarantee contracts: the expected payments to reimburse the holder less any amounts that the entity expects to recover.

The ING Group builds on existing regulatory capital models using Advanced Internal rating Based (AIRB) models for regulatory purposes. See also note 35.

Restructures financial assets

If the terms of a financial asset are renegotiated or modified or an existing financial asset is replaced with a new one due to financial difficulties of the borrower, then an assessment is made of whether the financial asset should be derecognised and ECL are measured as follows:

- If the expected restructuring will not result in derecognition of the existing asset, then the expected cash flows arising from the modified financial asset are included in calculating the cash shortfalls from the existing asset.
- If the expected restructuring will result in derecognition of the existing asset, then the expected fair value of the new asset is treated as the final cash flow from the existing financial asset at the time of its derecognition. This amount is included in calculating the cash shortfalls from the existing financial asset that are discounted from the expected date of derecognition to the reporting date using the original effective interest rate of the existing financial asset.

Credit-impaired financial assets

At each reporting date, the entity assesses whether financial assets measured at amortised cost and debt financial assets measured at FVOCI are credit-impaired. A financial asset is credit-impaired when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred.

Evidence that a financial asset is credit-impaired includes the following observable data:

- significant financial difficulty of the borrower or issuer;
- a breach of contract such as a default or past due event;
- the restructuring of a loan made by the entity on terms that the entity would not consider otherwise;
- it is becoming probable that the borrower will enter bankruptcy or other financial reorganisation; or
- the disappearance of an active market for a security because of financial difficulties.

A loan that has been renegotiated due to a deterioration in the borrower's condition is usually considered to be credit-impaired unless there is evidence that the risk of not receiving contractual cash flows has reduced significantly and there are no other indicators of impairment. In addition, a retail loan that is overdue for 90 days or more is considered impaired.

In making an assessment of whether an investment in bonds is credit-impaired, the entity considers the following factors:

- the market's assessment of creditworthiness as reflected in the bond yields;
- the rating agencies' assessments of creditworthiness;
- the country's ability to access the capital markets for new debt issuance;
- the probability of debt being restructured, resulting in holders suffering losses through voluntary or mandatory debt forgiveness;
- the international support mechanisms in place to provide the necessary support as "lender of last resort" to that country, as well as the intention reflected in public statements, of governments and agencies to use those mechanisms. This includes an assessment of the depth of those mechanisms and, irrespective of the political intent, whether there is the capacity to fulfil the required criteria.

Presentation of ECL in the balance sheet

ECL are presented in the balance sheet as follows:

- finacial assets measured at amortised cost: as a deduction from the gross carrying amount of the assets;
- loan commitments and finacial guarantee contracts: generally as a provision, except for the exception stated in the bullet point below;
- where a financial instrument includes both a drawn component (a financial asset) and an undrawn component (a loan commitment), and the entity cannot separately identify the expected credit losses on the loan commitment component from those on the financial asset component, the expected credit losses on the loan commitment should be recognised together with the loss allowance for the financial asset. To the extent that the combined expected credit losses exceed the gross carrying amount of the financial asset, the expected credit losses should be recognised as a provision.
- debt instruments measured at FVOCI: no loss allowance is recognised in assets in the balance sheet because these instruments are presented at their fair value in assets. However, the loss allowance is disclosed in the notes to the finacial statements and is recognised in "Revaluation gains (losses)" in equity.

Loss allowances and provisions established by debiting expenses are recognised in "Write-offs, additions and use of loss allowances and provisions for receivables and guarantees" in the income statement. This item also includes any subsequent use of loss allowances.

The release of loss allowances no longer considered necessary is recognised in "Release of loss allowances and provisions for receivables and guarantees, income from written-off receivables" in the income statement.

Tax loss allowances

The tax-deductible portion of total loss allowances established in the accounting period for credit losses is calculated in accordance with Section 5 ("Banking reserves and loss allowances") and Section 8 ("Loss allowances for receivables from borrowers") of Act No. 593/1992 Coll., on Reserves, as amended. Loss allowances are recorded in sub-ledger accounts for the purpose of determining the tax liability.

Write-off

Loans and debt securities are written off (either partially or in full) when there is no realistic prospect of recovery. This is generally the case when the entity determines that the borrower does not have assets or sources of income that could generate sufficient cash flows to repay the amounts subject to the write-off. However, financial assets that are written off could still be subject to enforcement activities in order to comply with the entity's procedures for recovery of amounts due.

The write-off of receivables is recognised in "Write-offs, additions and use of loss allowances and provisions for receivables and guarantees" in the income statement. If a fully-provisioned receivable is written off, the loss allowance relating to the same item of the income statement is reduced by an identical amount. Income from loans previously written off is included in “Release of loss allowances and provisions for receivables and guarantees, income from written-off receivables” in the income statement.

(d) Receivables from banks and customers

Receivables are recognised at cost less impairment losses. Accrued interest income is part of the carrying amount of these receivables.

Accounting loss allowances

Receivables are monitored for recoverability, which is the basis for determining the impairment loss in respect of individual receivables. Unless the entity directly writes off the portion of receivables corresponding to the impairment loss, a loss allowance is established for that portion of receivables. The method of calculating loss allowances is described in note 35 (a), (b) and (c). Loss allowances established by debiting expenses are reported in “Write-offs, additions and use of loss allowances and provisions for receivables and guarantees”.

Tax loss allowances

The tax-deductible portion of total loss allowances established in the accounting period for credit losses is calculated in accordance with Section 5 (“Banking reserves and loss allowances”) and Section 8 (“Loss allowances for receivables from borrowers”) of Act No. 593/1992 Coll., on Reserves, as amended. Loss allowances are recorded in sub-ledger accounts for the purpose of determining the tax liability.

Receivables write-off is subject to approval by Global Credit Restructuring (part of Group Credit Risk) in Amsterdam.

The entity also accrues interest income on non-performing receivables. The Bank subsequently creates provisions against such accruals in accordance with the Group Credit Risk procedures in Amsterdam.

The write-off of unrecoverable receivables is recorded in “Write-offs, additions and use of loss allowances and provisions for receivables and guarantees” in the income statement. If a fully-provisioned receivable is written off, the loss allowance relating to the same item of the income statement is reduced by an identical amount. Income from loans previously written off is included in the income statement under “Release of loss allowances and provisions for receivables and guarantees, income from written-off receivables”.

When the entity purchases a financial asset and simultaneously enters into an agreement to resell the asset (or a substantially similar asset) at a fixed price on a future date (reverse repo or stock borrowing), then this transaction is accounted for as a loan or advance, and the underlying asset is not recognised in the entity’s balance sheet.

(e) Financial guarantees and loan commitments – policies effective from 1 January 2018

Financial guarantees are contracts that require the entity to make specified payments to reimburse the holder for a loss that it incurs because a specified borrower fails to make payment when it is due in accordance with the terms of a debt instrument.

Loan commitments are firm commitments to provide credit under pre-specified terms and conditions.

The entity has issued no loan commitments that are measured at FVTPL.

Financial guarantees and loan commitments issued are recognised in the subledger items in “Commitments and guarantees provided”.

(f) Debt securities – policies effective from 1 January 2018

Debt securities recognised in the balance sheet items “State zero coupon bonds and other securities eligible for refinancing with the central bank” and “Debt securities” include the following measurement categories:

- debt securities measured at amortised cost; they are, at initial recognition, measured at fair value plus incremental direct transaction costs, and subsequently measured at their amortised cost using the effective interest rate method;
- debt securities measured at fair value through other comprehensive income (FVOCI);
- debt securities mandatorily measured at FVTPL or designated as at FVTPL; these are measured at fair value with changes recognised immediately in profit or loss.

For debt securities measured at FVOCI, gains and losses are recognised in “Revaluation gains (losses)” in equity, except for the following, which are recognised in profit or loss in the same manner as for financial assets measured at amortised cost:

- interest income using the effective interest rate method;
- creation, release or use of loss allowances for ECL; and
- foreign exchange gains and losses.

When a debt security measured at FVOCI is derecognised, the cumulative gain or loss previously recognised in “Revaluation gains (losses)” in equity is reclassified from equity to the income statement.

Gains and losses which are presented in the income statement are recognised in “Gain or loss from financial operations”. Fair value used for the valuation of debt securities is determined in accordance with ING Group policy (see fair value measurement).

Derecognition of securities

When debt securities measured at FVOCI or at amortised cost are sold, the entity uses the first-in, first-out method to measure the disposal of the securities.

(g) Debt securities – policies effective until 31 December 2017

Treasury bills, bonds and other debt securities ("debt securities") are classified into a held-to-maturity portfolio, a fair value through profit or loss portfolio or available-for-sale portfolio, based on the Bank’s intention.

Debt securities are carried at amortized cost, which includes the proportional part of discount or premium. Accrued interest income is included in the carrying amount of these securities.

Premiums or discounts on debt securities are amortized through the income statement over the period from the date of purchase to the date of maturity using the effective interest rate method. In the case of securities which have a residual maturity of less than one year from the date of purchase, the premium and the discount are amortized through the income statement over the period from the date of purchase to the date of maturity.

Debt securities valued at fair value through profit and loss are measured at fair value and gains/losses from this revaluation are charged to the income statement in “Gain or loss from financial operations”. The same method applies to debt securities that were acquired in long or short positions.

Available for sale securities are measured at fair value and gains/losses from this revaluation are charged to equity in “Gains (losses) from revaluation”. When the security is sold the respective revaluation difference is charged to the income statement in “Gain or loss from financial operations”.

The fair value used for the revaluation of debt securities is determined as a final purchase price published at the European regulated market or a foreign market similar to the regulated market published as at the date of the fair value measurement.

If the market value is not available from a public market (i.e. the Bank cannot prove that it is possible to sell the securities for such a market price), the fair value is estimated in a qualified estimate taking into consideration the credit risk. For such a valuation the Bank uses only available market data (e.g. information on transactions from the primary market, the market value of similar debt securities, etc.)

Transactions where securities are sold under a commitment to repurchase (repurchase commitment) at a predetermined price or purchased under a commitment to resell (resale commitment) are treated as collateralized borrowing and lending transactions. The legal title to securities subject to resale or repurchase commitments is transferred to the lender. Securities transferred under a repurchase commitment are henceforth included in the relevant items of securities in the Bank’s balance sheet, while the borrowing is recorded in “Due to banks and cooperative savings associations” or “Due to customers - cooperative savings association’s members”.

Securities received under a resale commitment are recorded in off-balance sheet accounts in “Collaterals and pledges received”. The lending granted under a resale commitment is recorded in “Receivables from banks and cooperative savings associations” or “Receivables from customers – cooperative savings association’s members”.

Interest on debt securities transferred under a repurchase commitment is accrued, while interest on debt securities received under a resale commitment is not accrued.

Income and expenses arising from repurchase and resale commitments as the difference between the sale and purchase price are accrued over the period of the transaction and charged to the income statement as “Interest income and similar income” or “Interest expense and similar expense”.

(h) Securities transctions for customers

Securities taken by the Bank into custody, administration or deposits are accounted for at their fair values and recorded in an off-balance sheet account “Values taken into custody, administration and deposit”. The Bank’s payables to customers resulting from cash received for the purchase of securities or cash to be refunded to customers, etc., are accounted for in balance sheet liability accounts.

(i) Ownership interests with controlling or significant influence

The Bank has no shareholdings in subsidiaries and associated.

(j) Financial derivatives

Trading derivatives

Financial derivatives held for trading are carried at fair value and gains (losses) from changes in the fair value are recorded in the income statement in “Gain or loss from financial operations”. The interest income and expense on financial derivatives are recorded in the income statement in “Interest income and similar income” or “Interest expense or similar expense”.

Hedging derivatives

The Bank makes use of a fair value hedge to manage interest rate risk.

Hedging derivatives are recognised at fair value and gains and losses on this measurement are included in the income statement in “Interest income and similar income” or "Interest and similar expense" and "Gain or loss on financial operations”.

Fair value of financial derivatives

The fair value of financial derivatives is the present value of expected cash flows from these transactions, using valuation models generally accepted on the market, such as Black-Scholes model used for certain types of options. The parameters used in these models are ascertained on the active market, such as foreign exchange rates, yield curves, volatility of the relevant financial instruments, etc.

(k) Hedging derivatives

Fair value hedges

Fair value hedges are used to minimize the variability of the fair value of retail deposits portfolio due to changes in interest rates (a hedged instrument) having an impact on gain or loss. Retail deposits are recorded in the Bank’s liabilities in “Payables to clients – members of cooperative savings associations”, specifically in “due on demand” category. Interest rate swaps (IRSs) are designated as a hedging instrument.

Due to fact that the hedged instrument is measured at cost, the gain or loss from changes in the fair value of the hedged instrument, which is attributable to the hedged risk, adjusts the carrying amount of the hedged instrument and is recognized in the income statement in “Gain or loss from financial operations”. These changes in the fair value of the hedged instrument are recognized in the balance sheet as a decrease / increase of the hedging instrument in “Due to customers - cooperative savings association’s members”. Accounting for hedging derivatives is described in Note 2(j).

Hedge accounting is applied only if:

- the hedge is in line with the entity’s risk management strategy,
- the hedge relationship is formally documented at the inception of the hedge,
- it is expected that the hedging relationship will be highly effective during the period for which the hedging relationship is designated (i.e. if the changes in fair value of hedging instruments attributable to the hedged risk are within a range of 80 - 125% of changes in the fair values of hedged instruments attributable to the hedged risk),
- the effectiveness of the hedge relationship can be objectively measured,
- the hedge relationship is effective throughout the accounting period.

The Bank tests the effectiveness of the hedging relationship periodically, at a minimum as at the last day of each calendar month.

The hedging relationship is discontinued if the hedging instrument expires or is sold, terminated or exercised, or if the hedge is no longer effective. In this case, the unamortized fair value adjustment for the hedged instrument is amortized in the income statement in "Gain or loss from financial operations" over the remaining term of the original hedging relationship using the EIR method. If the hedged instrument is derecognized, the unamortized fair value adjustment for the hedged instrument is recognized immediately in the income statement in "Gain or loss from financial operations".

(l) **Interest – policies effective from 1 January 2018**

Effective interest rate

Interest income and interest expense are recognised in the income statement under "Interest income and similar income ", or if appropriate under "Interest expense and similar expense" using the effective interest rate method.

The effective interest rate is the interest rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument to:

- the gross carrying amount of the financial asset;
- the amortised cost of the financial liability.

When calculating the effective interest rate for financial instruments other than credit-impaired assets, the entity estimates future cash flows considering all contractual terms of the financial instrument, but not expected credit losses. For credit-impaired finacial assets, a credit-adjusted effective interest rate is calculated using estimated future cash flows including expected credit losses.

The calculation of the effective interest rate includes transaction costs and fees and points paid or received that are an integral part of the effective interest rate. Transaction costs include incremental costs that are directly attributable to the acquisition or issue of a financial asset or financial liability.

Amortised cost and gross carrying amount

"The amortised cost" of a financial asset or financial liability is the amount at which the financial asset or financial liability is measured on initial recognition minus the principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between that initial amount and the maturity amount and, for finacial assets, adjusted for any expected credit loss allowance.

"The gross carrying amount" of a financial asset is the amortised cost of a financial asset before adjusting for any expected credit loss allowance.

Calculation of interest income and interest expense

In calculating interest income and interest expense, the effective interest rate is applied to:

- to the gross carrying amount of the asset (when the asset is not credit-impaired); or
- to the amortised cost of the liability.

However, for finacial assets that have become credit-impaired subsequent to initial recognition, interest income is calculated by applying the effective interest rate to the amortised cost of the financial asset. If the asset is no longer credit-impaired, then the calculation of interest income reverts to the gross basis.

For financial assets that were credit-impared on initial recognition, interest income is calculated by applying the credit-adjusted effective interest rate to the amortised cost of the asset. The calculation of interest income does not revert to a gross basis, even if the credit risk of the asset improves.

Presentation

Interest income and interest expense presented in the income statement under "Interest income and similar income ", or ir appropriate under "Interest expense and similar expense", include:

- interest on financial assets and finacial liabilities measured at amortised cost calculated on an effective interest rate basis;
- interest on debt instruments measured at FVOCI calculated on an effective interest rate basis;

Interest income and interest expense on all assets and liabilities held for trading and other financial assets and financial liabilities at FVTPL are presented together with all changes in the fair value of these financial assets and financial liabilities in the income statement under “Gain or loss from financial operations” and “Interest income and similar income”.

(m) Interest – policies effective until 31 December 2017

Interest income and interest expense from interest bearing financial instruments are recognised in the income statement under “Interest income and similar income “, or if appropriate under “Interest expense and similar expense”.

(n) Commission and fee income

Fees and commissions are recognised on an accrual basis at the date of service in the income statement in “Fee and commission income” and “Fee and commission expense”.

(o) Provisions

A provision represents a probable cash outflow of uncertain timing or amount. A provision is recognised if the following criteria are met:

- a present obligation (legal or constructive) exists as a result of a past event,
- it is probable or certain that an outflow of economic benefits will be required to settle the obligation (“probable” means a probability exceeding 50%),
- the amount of the obligation can be estimated reliably.

The creation of provisions is recognized in the relevant income statement caption. Use of the provision is recognized in the relevant income statement caption, together with the costs or losses for which the provisions were created. The relese of provisions in case they are no longer necessary is recognized in the relevant income statement caption.

(p) Tangible and intangible fixed assets

Tangible and intangible fixed assets are stated at the purchase price less accumulated depreciation/amortization and are depreciated/amortized using the straight-line method over their estimated useful lives.

The estimated useful economic lives for each category of intangible and tangible fixed asset are as follows:

- Inventory and technical improvement of buildings 5 -10 years
- Machinery and equipment 3 - 5 years
- Software 3 years

Intangible assets with a cost of less than CZK 250 thousand and tangible assets with a cost of less than CZK 250 thousand, except for PC sets (personal computers) are charged to the income statement in the period in which they are acquired. All PC sets are classified as tangible assets and are depreciated over a period of three years.

(q) Recognition of revenues and expenses

The interest income and expense on interest bearing financial instruments are recognized in the income statement in “Interest income and similar income” or “Interest expense or similar expense” using the accrual principle.
Fees and commissions are recognized in the income statement in “Income on fees and commissions” and “Expense from fees and commissions” using the accrual principle as at the date when the services have been rendered.

(r) Taxation

Tax non-deductible expenses are added to and non-taxable income is deducted from the profit for the period to arrive at the taxable income, which is further adjusted by tax allowances and relevant credits.

In the course of the year the Bank creates a provision for income tax that is released when the current tax expense is confirmed in the tax return. At the date of release of the provision the Bank accounts for the actual tax expense. In the course of the year the Bank accounts for obligatory advances for corporate income tax that are separately reported in other assets.

The deferred tax position reflects all temporary differences between the carrying amounts of assets and liabilities for accounting and tax purposes, using a statutory tax rate that is expected to apply in the period when the temporary differences are realized.

A deferred tax asset is recognized only to the extent that there are no doubts that there will be future taxable profits available against which this asset can be utilized.

(s) Prior period items and changes in accounting policies

Prior period items are reported as income or expenses in the current period income statement, with the exception of corrections of significant errors in the recording of the income and expenses of prior periods and the effects of changes in the accounting policies, which are reported in "Retained earnings (or accumulated losses) from previous years" in the Bank's equity.

3. CHANGES IN ACCOUNTING POLICIES

(a) Effect of changes in accounting policies

Based on Decree No. 501/2002 Coll., effective from 1 January 2018 and amended by Decree No. 442/2017 Coll. dated 7 December 2017, financial instruments have been reported, values and information on them have been disclosed in the notes to the financial statements in accordance with the International Financial Reporting Standards adjusted by directly applicable regulations of the European Union on applying the international accounting standards ("International Accounting Standards" or "IFRS") since 1 January 2018. The new accounting policies applied to financial instruments are described in note 2 to these financial statements.

The Bank has decided not to recalculate comparative data and to recognize the carrying amounts of financial assets and liabilities in the initial retained earnings at the effective date of the amendments arising from this decree - on 1 January 2018.

Since 1 January 2018, the application of IFRS 9 Financial Instruments has had a major impact on the Bank with regard to the classification of receivables from customers and the calculation of credit losses (i.e. loss allowances). As a result of the application of IFRS 9, the Bank changed from the model of incurred losses to the model of expected losses.

For the purpose of classification, the Bank newly assesses the individual receivables from customers based on the:

- business model for managing the financial assets (i.e. the model under which the Entity manages its financial assets in order to collect cash flows);
- and the characteristics of contractual cash flows following from the financial assets (i.e. whether the contractual terms of the financial asset give rise, on specific dates, to cash flows that are solely payments of principal and interest).

As of 1 January 2018, there was no reclassification between financial instrument valuation categories as part of the implementation of IFRS for financial instruments.

In determining the credit losses (i.e. loss allowances), the Entity divided the receivables from customers in three stages based both on quantitative and qualitative criteria:

- credit risk has not increased significantly since initial recognition (the so-called "stage 1");
- credit risk has increased significantly since initial recognition (the so-called "stage 2");
- credit impaired (the so-called "stage 3").

Initial appliccation of IFRS 9

Measurement categories and reconciliation of the amounts of financial assets

The following table includes the original measurement categories of financial assets and financial liabilities under Decree No. 501/2002 effective until 31 December 2017 and the new measurement categories under IFRS 9 as at 1 January 2018 and the carrying amounts of financial assets under Decree No. 501/2002 effective until 31 December 2017 and under IFRS 9 as at 1 January 2018:

In thousands of CZK	31.12.2017 under Decree No. 501/2002 effective until 31/12/2017	Reclassification	Remeasure -ment	1 January 2018 under IFRS 9
Cash in hand and balances with central banks from amortised cost to amortised cost	2,205,968	-	-	2,205,968
Receivables from banks and credit unions from amortised cost to amortised cost	189,092,398	-	- 1,431	189,090,967
Receivables from customers – credit union members from amortised cost to amortised cost	26,163,151	-	4,629	26,167,780
Debt securities from amortised cost to amortised cost	2,020,013	-	-	2,020,013
Subtotal for financial assets measured at amortised cost	217,275,562	-	3,198	217,278,760
State zero coupon bonds and other securities eligible for refinancing with the central bank from available-for-sale to FVOCI	2,052,644	-	-	2,052,644
Total	**225,010,419**	**-**	**3,198**	**225,014,120**

Reconcilliation of loss allowances and provisions

The following table reconciles:

- the closing balances of loss allowances to financial assets under Decree No. 501/2002 effective until 31 December 2017 and provisions for loan commitments and financial guarantee contracts as at 31 December 2017 to the opening balance of the loss allowances for expected credit losses (ECL) under IFRS 9 as at 1 January 2018:

In thousands of CZK	31 December 2017 under Decree No. 501/2002 effective until 31 December 2017	Reclassification	Remeasure -ment	1 January 2018 under IFRS 9
Receivables from banks and credit unions from amortised cost to amortised cost	77	-	1,431	1,508
Receivables from customers – credit union members from amortised cost to amortised cost	14,959	-	-4,629	10,330
Debt securities from amortised cost to amortised cost	-	-	-	-
Subtotal for financial assets measured at amortised cost	15,036	-	-3,198	11,838
State zero coupon bonds and other securities eligible for refinancing with the central bank from available-for-sale to FVOCI	-	-	-	-
Loan commitments and financial guarantee contracts issued	561	-	-503	58
Total	**15,597**	**-**	**-3,701**	**11,896**

Net impact of transition to IFRS 9 on euquity

The following table analyses the net impact of transition to IFRS 9 on revaluation gains (losses) and retained profits (or accumulated losses):

In thousands of CZK	Impact of adopting IFRS 9 as at 1 January 2018
Retained profits or accumulated losses	
Closing balance as at 31 December 2017 (under Decree No. 501/2002 effective until 31 December 2017)	1,494,489
Recognition of expected credit losses (ECL) under IFRS 9 (including ECL for loan commitments and financial guarantee contracts)	3,701
Impact of deferred tax	-703
Opening balance as at 1 January 2018 (under IFRS 9)	**1,497,487**

4. NET INTEREST INCOME

In thousands of CZK	2018	2017
Interest income and similar income		
from deposits	1,926 002	1,317,982
from loans	672,456	343,782
from financial assets for trading	886,949	754,921
from available-for-sale financial assets	22,758	6,788
other	1,273	1,069
from interest rate derivatives	121,865	311,314
Total	3,631,303	2 735 856
Interest expense and similar expense		
from deposits	387,969	293,526
from financial liabilities for trading	480,329	559,058
other	164,756	131,101
Total	1,033,054	983,685
Net interest income	**2,598,249**	**1,752,171**

Other expenses consist mainly of expenses from debt securities of CZK 133,621 thousand (2017: CZK 130,771 thousand).

5. COMMISSION AND FEE INCOME AND EXPENSE

In thousands of CZK	2018	2017
Income from fees and commissions		
lending activities	52,799	50,635
payment processing	59,071	49,328
services for securities brokerage	51,744	47,005
guarantees issued	7,361	11,841
sale of financial instruments	231,577	194,060
other	37,925	74,669
Total	**440,477**	**427,538**
Commission and fee expense from		
securities transactions	2,920	1,397
management, administration, deposits and custody	7,784	6,647
payment processing	11,580	8,803
services for securities and other financial instruments brokerage	1,484	10,232
other	3,473	5,693
Total	**27,241**	**32,772**

6. GAIN OR (LOSS) FROM FINANCIAL OPERATIONS

In thousands of CZK	2018	2017
Gain/(loss) from securities transactions	-13,663	-15,295
Gain/(loss) from derivative transactions	-1,759	-195,106
of which gain/(loss) from interest tools (incl. interest rate derivatives)	14,202	25,018
of which gain/(loss) from currency tools (incl. currency derivatives)	-15,961	-220,124
Gain/(loss) from hedge accounting	-7,116	-88,822
Gain/(loss) from foreign exchange transactions	101,279	90,040
Foreign exchange gain/ (loss)	-525,308	-230,269
Total	**-446,567**	**-439,452**

7. OTHER OPERATING INCOME AND EXPENSES

In thousands of CZK	2018	2017
Other operating income		
income from transfer of tangible and intangible assets	761	-
Total	**761**	**-**

In thousands of CZK	2018	2017
Other operating expenses		
The deposit insurance Fund (DGS in the Netherlands)	103,088	93,456
Losses from errors	4,173	732
Returned penalties	4	-80
Net carrying amount of tangible fixed assets sold	584	
Shortages and damage	24	-
Insurance	3,659	4,259
Other	278	538
Total	**111,810**	**98,905**

8. ADMINISTRATIVE EXPENSES

In thousands of CZK	2018	2017
Personnel and related expenses		
Wages and salaries paid to employees	394,538	301,638
Thereof: Wages and salaries paid to management	26,856	34,713
Social security and health insurance	109,928	87,573
	504,466	389,211
Intercompany services	440,409	299,642
Other administrative expenses	603,622	452,098
Thereof: expense for audit, legal and tax advisory	84,340	27,568
Thereof: remuneration of the statutory auditor – statutory audit	2,421	2,357
	1,044,031	751,740
Total	**1,548,497**	**1,140,951**

The average number of the Bank’s employees was as follows:

	2018	2017
Employees	307	251
Management	8	8

9. EXTRAORDINARY INCOME AND EXPENSES

In 2018 and 2017, the Bank had no extraordinary income or extraordinary costs.

10. INCOME AND EXPENSE ACCORDING TO SEGMENTS

Geographical segments

	Czech Republic		European Union		Central and Eastern Europe		Other		Total	
In thousands of CZK	2018	2017	2018	2017	2018	2017	2018	2017	2018	2017
Interest income and similar income	1,649,865	656,513	1,955,538	2,047,979	194	4,260	25,707	27,104	3,631,304	2,735,856
Interest expense and similar expense	-428,499	-460,420	-604,471	-523,149	-17	-45	-67	-71	-1,033,054	-983,685
Income from fees and commissions	438,624	427,538	1,853	-	-	-	-	-	440,477	427,538
Commission and fee expense from	-27,192	-32,721	-40	-25	-4	-5	-5	-21	-27,241	-32,772
Gain/(loss) from financial operations	-255,361	-254,981	-181,877	-166,261	-	15	-9,329	-18,225	-446,567	-439,452
Other operational income	761	-	-	-	-	-	-	-	761	-
Other operational expense	-111,850	-5,458	40	-93,447	-	-	-	-	-111,810	-98,905

11. TRANSACTIONS WITH RELATED PARTIES

In thousands of CZK	2018	2017
Receivables – total	**51,762,503**	**85,024,808**
Receivables from banks and cooperative savings associations	47,167,835	79,516,106
due on demand	600,365	73,196
other receivables	46,567,470	79,442,910
Receivables from clients – members of cooperative savings associations	1,913,580	2,044,974
due on demand	-	1
other receivables	1,913,580	2,044,973
Other assets	2,681,088	3,463,728
Payables – total	**104,284,037**	**107,063,477**
Payables to banks and cooperative savings associations	101,473,715	104,438,392
due on demand	1,824,872	2,324,253
other liabilities	99,648,843	102,114,139
Payables to clients – members of cooperative savings associations	519,475	359,575
due on demand	519,475	359,575
other liabilities	-	-
Other liabilities	2,290,847	2,265,510
Net interest income	1,202,736	1,410,920
Net income from commissions and fees	704,378	360,178
Gain/(loss) from financial operations	1,599,632	-3,515,046
Administrative expenses and other operating expenses	-454,607	-315,010

The above schedule includes all transactions with related parties.

12. STATE ZERO COUPON BONDS AND OTHER SECURITIES ELIGIBLE FOR RE-FINANCING WITH THE CENTRAL BANK

(a) Net book value of state zero coupon bonds and other securities eligible for re-financing with the CNB

In thousands of CZK	2018	2017
State bonds	5,386,855	2,052,644
Net book value	**5,386,855**	**2,052,644**

(b) Classification of state zero coupon bonds and other securities eligible for re-financing with the CNB into individual portfolios based on the Bank's intention

In thousands of CZK	2018	2017
State zero coupon bonds and other securities FVOCI/available-for-sale	5,386,855	2,052,644
Net book value	**5,386,855**	**2,052,644**

(c) Repo and reverse repo transactions

As at 31 December 2018, under reverse repo transactions, the Bank has acquired state zero coupon bonds and other securities with a market value of CZK 110,866,190 thousand (31 December 2017: CZK 90,935,000 thousand), which are recorded off-balance sheet in "Collaterals and pledges received".

13. RECEIVABLES FROM BANKS AND COOPERATIVE SAVINGS ASSOCIATIONS

(a) Receivables from banks and cooperative savings associations by type

In thousands of CZK	2018	2017
Current accounts (nostro accounts)	595,815	109,977
Term deposits	49,551,184	97,668,096
Reverse repos with CNB	93,260,125	81,008,944
Reverse repos with other banks	17,232,048	10,305,450
Other	86,674	8
Total	160,725,846	189,092,475
Loss allowances for potential losses from receivables	-1,598	-77
Net receivables from banks	**160,724,248**	**189,092,398**

In 2018 and 2017, the Bank did not restructure any receivables from banks.

All receivables from banks as at 31 December 2018 are measured at amortised cost under IFRS 9. All receivables are in stage 1 with internal rating 4-13.

(b) Receivables from banks and cooperative savings associations – classification and loss allowance – 31 December 2017

In thousands of CZK	2017
Standard	189,092,475
Watched	-
Substandard	-
Doubtful	-
Loss	-
Total	189,092,475
Loss allowances for potential losses from receivables	-77
Net receivables from banks and cooperative savings associations	**189,092,398**

(c) Analysis of receivables from banks by type of collateral received

In thousands of CZK	2018	2017
Securities	110,866,190	90,935,000
Unsecured	49,858,058	98,157,398
Total	**160,724,248**	**189,092,398**

(d) Subordinated receivables from banks

In 2018 and 2017, the Bank did not provide subordinated loans to other banks.

The Bank recognized a subordinated receivable originated in 1999 in the form of a deposit with ING Bank N.V., London totaling CZK 1,958,692 thousand as at 31 December 2018 (2017: CZK 1,915,071 thousand). The nominal value of the receivable, which is due on 17 December 2019, is CZK 2,000,000 thousand. The receivable bears a fixed interest rate of 4.5% p.a.; interest income is payable every year in arrears on 17 December.

(e) Receivables from banks written-off and recovered

In 2018, the Bank did not write-off any receivables from banks (as well as in 2017).

14. Receivables from customers – members of cooperative savings associations

(a) Receivables from customers by type

In thousands of CZK	2018	2017
Receivables from loans	36,015,846	26,178,110
Total	36,015,846	26,178,110
Loss allowances for potential losses from receivables	-17,928	-14,959
Net receivables from customers	**35,997,918**	**26,163,151**

In 2018, the Bank did not restructure any receivables from customers (as well as in 2017).

(b) Receivables from customers by measurement categories

All receivables from customers as at 31 December 2018 are measured at amortised cost under IFRS 9.

(c) Receivables from customers by credit risk rating grades

In thousands of CZK	2018			
	Stage 1	Stage 2	Stage 3	Total
Rating 1-10	25,603,473	29	-	25,603,502
Rating 11-17	10,144,597	267,197	-	10,411,794
Rating 20-22	-	-	550	550
Total	35,748,070	267,226	550	36,015,846
Loss allowances for potential losses from receivables	-15,838	-2,090	-	-17,928
Net receivables from customers	**35,732,232**	**265,136**	**550**	**35,997,918**

(d) Classification of receivables from customers - 31 December 2017

In thousands of CZK	2017
Standard	26,178,110
Watch	-
Substandard	-
Doubtful	-
Loss	-
Total	26,178,110
Loss allowances for potential losses from receivables	-14,959
Net receivables from customers	**26,163,151**

(e) Receivables from customers by type

In thousands of CZK	2018	2017
Residents, of which:		
financial institutions	6,440,494	5,278,813
non-financial institutions	20,788,162	14,451,853
resident individuals	-	53
Non-residents	8,787,190	6,447,391
Total	**36,015,846**	**26,178,110**

(f) Subordinated receivables from banks

In 2018 and 2017, the Bank did not provide subordinated loans to other banks.

(g) Net receivables from customers written-off

In 2018 and 2017, the Bank did not writte off any receivables from customers.

(h) Syndicated loans

As at 31 December 2018, in accordance with syndicated loan agreements, the Bank served as the principal agent of a syndicated loan with an original total facility value of CZK 858,000 thousand (2017: CZK 1,027000 thousand), of which the Bank's share was CZK 570,002 thousand (2017: CZK 682,275 thousand) and other syndicate members' share was CZK 287,998 thousand (2017: CZK 344,725 thousand).

(i) Receivables from persons with a special relationship to the Bank

In 2018 and 2017, the Bank had no commitments to employees.

In 2018 and 2017, the Bank did not provide any loans to members of managerial bodies.

15. DEBT SECURITIES

In thousands of CZK	Estimated fair value	Carrying amount
At 31 December 2018		
Issued by non-financial institutions		
Unlisted securities held to maturity	2,008,166	2,020,427
At 31 December 2017		
Issued by non-financial institutions		
Unlisted securities held to maturity	2,027,690	2,020,013

As at 31 December 2018, the Bank owned one debt security at amortised cost. The debt security is in stage 1 with internal rating 12.

In 2018, the Bank created loss allowance in nonsignificant amount.

16. SHARES, UNITS AND OTHER INVESTMENTS

As at 31 December 2018 and 2017, the Bank did not hold any shares, units and other investments.

The Bank did not acquire any shares, units and other investments under resale commitments in 2018 and 2017.

17. INTANGIBLE FIXED ASSETS

Movements in intangible fixed assets

In thousands of CZK	Software	Acquisition of software	Other	Total
Cost				
At 1 January 2017	119,685	14,963	11,023	145,671
Additions	22,699	3,142	-	25,841
Disposals	-1,383	-2,751	-	-4,134
At 31 December 2017	141,001	15,354	11,023	167,378
At 1 January 2018	141,001	15,354	11,023	167,378
Additions	102,392	17,276	-	119,668
Disposals	-37,626	-771	-	-38,397
At 31 December 2018	205,767	31,859	11,023	248,649
Accumulated amortisation and allowances				
At 1 January 2017	104,544	-	2,974	107,518
Charge for the year	13,039	-	6,129	19,168
Disposals	-	-	-	-
At 31 December 2017	117,583	-	9,103	126,686
At 1 January 2018	117,583	-	9,103	126,686
Charge for the year	18,193	-	1,857	20,050
Disposal	-38,655	-	-1,354	-40,009
At 31 December 2018	97,121	-	9,606	106,727
Net book value				
At 31 December 2017	**23,418**	**15,354**	**1,920**	**40,692**
At 31 December 2018	**108,646**	**31,859**	**1,417**	**141,922**

18. TANGIBLE FIXED ASSETS

Movements in tangible fixed assets

In thousands of CZK	Technical improvement of buildings	Fixtures and fittings	Equipment	Tangible assets under construction	Total
Cost					
At 1 January 2017	3,854	15,095	120,759	272	139,980
Additions	6,697	7,874	16,285	-	30,856
Disposals	-	-314	-1,856	-272	-2,442
At 31 December 2017	10,551	22,655	135,188	-	168,394
At 1 January 2018	10,551	22,655	135,188	-	168,394
Additions	94	13,752	25,010	-	38,856
Disposals	-6,697	-1,715	-9,280	-	-17,692
At 31 December 2018	3,948	34,692	150,918	-	189,558
Accumulated depreciation and allowances					
At 1 January 2017	1,608	5,037	99,087	-	105,732
Charge fot the year	770	3,945	11,343	-	16,058
Disposals	-	-	-1,743	-	-1,743
At 31 December 2017	2,378	8,982	108,687	-	120,047
At 1 January 2018	2,378	8,982	108,687	-	120,047
Charge fot the year	770	6,736	14,624	-	22,130
Disposals	-	-1,462	-8,925	-	-10,387
At 31 December 2018	3,148	14,256	114,386	-	131,790
Net book value					
At 31 December 2017	**8,173**	**13,673**	**26,501**	**-**	**48,347**
At 31 December 2018	**800**	**20,436**	**36,532**	**-**	**57,768**

19. OTHER ASSETS

In thousands of CZK	2018	2017
Positive fair value of derivatives	2,824,608	3,259,167
Receivables from unsettled payment transactions	4,386	2,244
Estimated receivables	39,491	31,716
Paid advances	4,130	4,104
Deferred tax asset (see Note 30)	33,330	42,130
Corporate income tax	47,683	91,619
Other debtors	6,164	74,304
Total	**2,959,792**	**3,505,284**

Income from hedging interest rate derivatives is noted in Note 4, loss on hedge accounting is disclosed in Note 6 to the financial statements. Contractual and fair values of hedging derivatives are disclosed in Note 30 to these financial statements.

In 2018, the Bank created provision for corporate income tax of CZK 168,305 thousand (2017: CZK 87,624 thousand) and paid advances of CZK 215,988 thousand (2017: CZK 179,243 thousand) resulting in receivable for corporate income tax of CZK 47,683 thousand (2017: receivable of CZK 91,619 thousand).

In 2018 and 2017, the Bank did not write off other assets.

In 2018 and 2017, the Bank did not create any loss allowance to Other debtors.

20. PAYABLES TO BANKS AND CREDIT UNIONS

Analysis of due to banks and cooperative savings associations by residual maturity

In thousands of CZK	2018	2017
Repayable on demand	2,534,551	10,309,340
Up to 3 months	93,442,661	101,279,166
3 months to 1 year	101,841	-
1 year to 5 years	6,345,618	869,524
Total	**102,424,671**	**112,458,030**

21. PAYABLES TO CUSTOMERS AND COOPERATIVE SAVINGS ASSOCIATION'S MEMBERS

(a) Analysis of due to customers and cooperative savings association's members by sectors

In thousands of CZK	Repayable on demand	Term deposits with fixed maturity	Other	Total
At 31 December 2018				
Residents, of which				
Financial institutions	911,788	455,135	-	1,366,923
Non-financial institutions	9,279,201	1,635,427	-	10,914,628
Insurance institutions	170,465	-	-	170,465
Government sector	9,137	-	-	9,137
Non-profit organizations	99	-	-	99
Resident individuals	86,310,014	-	25,087	86,335,101
Non-residents	2,491,255	690,892	-	3,182,147
Changes of FV from Hedge accounting	-897,514	-	-	-897,514
Total	**98,274,445**	**2,781,454**	**25,087**	**101,080,986**

In thousands of CZK	Repayable on demand	Term deposits with fixed maturity	Other	Total
At 31 December 2017				
Residents, of which				
Financial institutions	889,318	803,368	-	1,692,686
Non-financial institutions	13,245,514	396,139	-	13,641,653
Insurance institutions	174,181	-	-	174,181
Non-profit organizations	86	-	-	86
Resident individuals	87,783,964	19,486	46,315	87,849,765
Non-residents	1,956,707	632,542	-	2,589,249
Changes of FV from Hedge accounting	-912,040	-	-	-912,040
Total	**103,137,730**	**1,851,535**	**46,315**	**105,035,580**

(b) Due to persons with a special relationship to the Bank

In 2018, the Bank had no commitments to persons with a special relationship to it (as well as in 2017).

22. SUBORDINATED LIABILITIES

In thousands of CZK	2018	2017
Subordinated bonds	1,958,692	1,915,071
Total	**1,958,692**	**1,915,071**

On 17 December 1999, the Bank issued subordinated bonds amounting to CZK 2,000,000 thousand, which are repayable on 17 December 2019. The bonds bear a fixed interest rate of 4.5% p.a., which is payable annually in arrears on 17 December. The nominal value of each bond is CZK 1,000 thousand. Earlier redemption of the liability is not possible and the liability could not be transferred to equity.

23. OTHER LIABILITIES

In thousands of CZK	2018	2017
Negative fair values of derivatives	2,460,175	2,613,511
Clearing accounts – settlement of transactions with securities	13,677	11,421
Clearing accounts – settlement of payment transactions	498,008	1,215,481
Other payables including current income tax liability	88,693	69,579
Estimated payables	186,567	172,794
Total	**3,247,120**	**4,082,786**

24. REGISTERED CAPITAL

The Bank was founded as a branch of ING Bank N.V., a public limited company with its registered office at Bijlmerplein 888, 1102 MG, Amsterdam, the Netherlands; listed in the Commercial Register of the Amsterdam Chamber of Commerce and Industry, file number 33031431. In accordance with the Act on Banks the Bank is not obligated to maintain registered capital.

25. EQUITY-BASED REMUNERATION

The Bank is incorporated as a branch and therefore it does not have any program of bonuses tied to equity.

26. PROVISIONS AND ALLOWANCES

(a) Allowances for credit losses

In thousands of CZK	
Balance at 1 January 2017	22,258
Additions during the year	2,669
Release of allowances no longer considered necessary	-9,891
Total allowances for credit losses at 31 December 2017	**15,036**
Balance at 31 December 2017	15,036
Effect on IFRS 9	-3,198
Balance at 1 January 2018	11,838
Additions during the year	23,870
Release of allowances no longer considered necessary	-16,182
Total allowances for credit losses at 31 December 2018	**19,526**

(b) Provisions for possible guarantee losses

In thousands of CZK	
Balance at 1 January 2017	1,992
Release of excess provisions	-1,431
Balance of tax non-deductible provisions for possible guarantee losses at 31 December 2017	**561**
Total provisions for possible guarantee losses at 31 December 2017	**561**
Balance at 31 December 2017	561
Effect on IFRS 9	-503
Balance at 1 January 2018	58
Additions during the year (guarantees)	39
Release of excess provisions	-74
Balance of tax non-deductible provisions for possible guarantee losses at 31 December 2018	**23**
Total provisions for possible guarantee losses at 31 December 2018	**23**

(c) Other provisions

In thousands of CZK	Financial instruments	Restructuring	Other	Total
Balance at 1 January 2017	97,206	-	12,389	109,595
Additions during the year	62,485	8,100	-	70,585
Utilisation during the year	-	-	-4,700	-4,700
Release of excess provisions	-19,262	-	-3,985	-24,678
Foreign exchange gain/ (loss)	-6,926	-	-	-6,926
Balance of other provisions at 31 December 2017	**133,503**	**8,100**	**3,704**	**145,307**
Balance at 1 January 2018	133,503	8,100	3,704	145,307
Additions during the year	52,227	90	-	52,317
Release of excess provisions	- 81,414	-2,190	-650	-84,254
Foreign exchange gain/ (loss)	259	-	-	259
Balance of other provisions at 31 December 2018	**104,575**	**6,000**	**3,054**	**113,629**

Provisions for financial instruments include reserves to cover risk exposure to futures transactions (CVA Reserve and AVA Reserve) reflecting the settlement currency and client's country of residence. These provisions are created in compliance with Corporate Market Risk procedures in Amsterdam.

In 2018, the Bank created provision for corporate income tax of CZK 168,305 thousand (2017: CZK 87,624 thousand) and paid advances of CZK 215,988 thousand (2017: CZK 179,243 thousand) resulting in receivable for corporate income tax of CZK 47,683 thousand (2017: receivable of CZK 91,619 thousand). See note 19.

27. RETAINED EARNINGS OR ACCUMULATED LOSSES FROM PREVIOUS YEARS, RESERVE FUNDS AND OTHER FUNDS CREATED FROM PROFIT

As at 29 April 2019, the Bank did not decide about the distribution of profit for 2018.

Profit from 2017 in the amount of CZK 318,137 thousand was transferred to the parent company ING Bank N.V. in July 2018.

28. REVALUATION GAINS AND LOSSES

In thousands of CZK	FVOCI/Available-for-sale securities (incl. deferred tax)	Total
Balance at 1 January 2017	27,884	27,884
Decrease	-37,944	-37,944
Balance at 31 December 2017	**-7,060**	**- 7,060**
Balance at 1 January 2018	-7,060	-7,060
Decrease	-6,747	-6,747
Balance at 31 December 2018	**-13,807**	**-13,807**

29. INCOME TAX AND DEFERRED TAX ASSET / LIABILITY

(a) Income tax payable

In thousands of CZK	2018	2017
Current year profit before tax	887,476	398,418
Income not liable to tax	- 6,040	-2,142
Tax non-deductible expenses	680	64,907
Sub-total	882,116	461,183
Income tax calculated using a tax rate of 19%	**167,602**	**87,625**
Adjustment of tax from previous years	2,129	-1,316
Total income tax expense	**169,731**	**86,309**

(b) Deferred tax liability/asset

Deferred income tax is calculated on all temporary differences using the tax rates valid for the periods in which the tax asset/liability is expected to be utilized, i.e. 19% for 2018 and 2017.

Deferred income tax assets and liabilities are attributable to the following items:

	2018		2017	
In thousands of CZK	Deferred tax asset	Deferred tax liability	Deferred tax asset	Deferred tax liability
Allowances and provisions for loan losses	1,872	-	2,958	-
Other provisions	21,589	-	27,608	-
Estimates for bonuses and social security and health insurance from bonuses	8,932	-	11,143	-
Tangible and intangible fixed assets	-	1,236	-	53
Other items related to prior years	-	1,769	-	1,182
Net deferred tax asset recorded in the Income statement	**29,388**		**40,474**	
Loss allowances and provisions for loans as at 1 January 2018	703	-	-	-
Valuation of securities	3,239	-	1,656	-
Net deferred tax liability recorded in Equity	**3,942**	**-**	**1,656**	**-**
Total deferred tax asset/liability (see Notes 24 and 19)	**33,330**	**-**	**42,130**	**-**

In 2018, the Bank reported income as a result of deferred tax totaling CZK 11,086 thousand in the income statement (in 2017 the Bank reported expense of CZK 6,028 thousand as a result of deferred tax).

30. OFF-BALANCE SHEET ITEMS

(a) Irrevocable contingent liabilities arising from acceptances and endorsements, other written contingent liabilities and assets pledged as collateral

In thousands of CZK	2018	2017
Banks		
Payables resulting from guarantees	700,200	824,498
Total	**700,200**	**824,498**

In thousands of CZK	2018	2017
Customers		
Payables resulting from guarantees	1,443,044	1,070,430
Unused credit lines	7,974,770	3,787,285
Total	**9,417,814**	**4,857,715**

Provisions of CZK 23 thousand (2017: CZK 561 thousand), which are included in "Provisions – other" in the balance sheet, have been created to provide for the risks associated with the Bank's guarantees issued.

(b) Collaterals and pledges received

In thousands of CZK	2018	2017
Collaterals received under resale commitments	110,866,189	90,935,000
Other securities received as pledges	42,707	156,393
Real estate received as collaterals	10,161,899	7,560,305
Received monetary collaterals	27,860	368,808
Other collaterals received	7,038,206	6,605,573
Total	**128,136,861**	**105,626,079**

(c) Off-balance sheet financial instruments

In thousands of CZK	Contractual amounts 2018	2017	Fair value 2018	2017
Hedging instruments				
Interest rate swap contracts (IRS)	34,510,000	37,240,000	-749,126	-672,658
Trading instruments				
Spot currency transactions			-574	-719
Spot currency transactions (purchases)	228,867	388,945	-	-
Spot currency transactions (sales)	-229,439	-389,468	-	-
Forward foreign exchange contracts (FX)			-150,485	85,764
Forward FX purchase contracts	55,676,618	24,121,080	-	-
Forward FX sale contracts	-55,984,420	-24,067,062	-	-
Interest rate cross currency swap contracts (IRCS)			1,377,076	1,390,961
IRCS purchase contracts	62,954,571	65,006,254	-	-
IRCS sale contracts	-62,140,436	-64,233,888	-	-
Interest rate swaps (IRS)			-112,458	-157,692
Interest rate swaps (purchases)	62,334,398	78,404,925		
Interest rate swaps (sales)	-62,334,398	-78,404,925		

All of the above transactions were concluded on the over-the-counter (OTC) interbank market.

(d) Residual maturity of financial derivatives

The nominal values of the individual types of financial derivatives according to their residual maturity are as follows:

In thousands of CZK	Up to 3 months	3 months to 1 year	1 year to 5 years	Over 5 years	Total
At 31 December 2018					
Hedging instruments					
Interest rate swap contracts (IRS)	19,975,000	300,000	7,275,000	6,960,000	34,510,000
Trading instruments					
Forward FX purchase contracts	33,501,539	22,175,079	-	-	55,676,618
Forward FX sale contracts	-33,662,623	-22,321,797	-	-	-55,984,420
IRCS purchase contracts	36,737,849	2,314,703	15,502,019	8,400,000	62,954,571
IRCS sale contracts	-36,097,231	-2,280,423	-15,757,832	-8,004,950	-62,140,436
Interest rate swaps (purchases)	39,131,708	5,358,453	12,255,537	5,588,700	62,334,398
Interest rate swaps (sales)	-39,131,708	-5,358,453	-12,255,537	-5,588,700	-62,334,398
At 31 December 2017					
Hedging instruments					
Interest rate swap contracts (IRS)	300,000	1,600,000	14,850,000	20,490,000	37,240,000
Trading instruments					
Forward FX purchase contracts	24,121,080	-	-	-	24,121,080
Forward FX sale contracts	-24,067,062	-	-	-	-24,067,062
IRCS purchase contracts	6,408,000	4,831,200	29,847,353	23,919,701	65,006,254
IRCS sale contracts	-6,679,785	-4,792,236	-29,866,144	-22,895,724	-64,233,889
Interest rate swaps (purchases)	3,300,000	36,236,946	30,345,122	8,522,857	78,404,925
Interest rate swaps (sales)	-3,300,000	-36,236,946	-30,345,122	-8,522,857	-78,404,925

31. ASSETS HELD IN CUSTODY

In thousands of CZK	2018	2017
Other assets	5,282,773	5,077,531
Total	**5,282,773**	**5,077,531**

Other assets consist of mutual funds of CZK 5,282,773 thousand (2017: CZK 5,077,531 thousand).

32. ASSETS PLACED INTO ADMINISTRATION AND MANAGEMENT

In 2018 and 2017, the Bank did not place any assets into custody.

33. FINANCIAL INSTRUMENTS – MARKET RISK

The Bank is exposed to market risks arising from open positions of transactions with interest rate and currency instruments that are sensitive to changes in financial market conditions.

(a) Trading

The Bank holds trading positions in certain financial instruments, including financial derivatives. The majority of the Bank's business activities are conducted according to the requirements of the Bank's customers. According to the estimated demand of its customers the Bank holds a certain supply of financial instruments.

The Bank manages the risks associated with its trading activities at the level of individual risks and individual types of financial instruments. The basic instruments used for risk management are the volume limits of individual transactions, stop-loss limits and Value at Risk (VaR) limits. The quantitative methods applied to risk management are included in "Risk management methods" in Note 34 (c).

The majority of derivatives are contracted in the OTC market due to the absence of a public market for financial derivatives in the Czech Republic.

(b) Risk management

The selected risks to which the Bank is exposed as a result of its activities, management of the positions arising as a result of these activities and the Bank's approach to the management of these risks, are described below. More details on the procedures used by the Bank to measure and manage these risks are included in "Risk management methods" in Note 34 (c).

Liquidity risk

Liquidity risk arises from the type of financing of the Bank's activities and management of its positions, e.g. when the Bank is unable to finance its assets using instruments with appropriate maturity or to dispose of its assets for the appropriate price within the appropriate time period.

The Bank has access to diversified sources of funds, which comprise deposits and other savings, securities issued, loans accepted including subordinated loans and equity. This diversification makes the Bank flexible and limits its dependency on one financing source. The Bank regularly evaluates the liquidity risk, in particular by monitoring changes in the structure of its financing and comparing these changes with the Bank's liquidity risk management strategy, which is approved by the Bank's management. The Bank also holds a portion of its assets in highly liquid funds, such as state treasury bills and similar bonds, as part of its Liquidity risk management strategy.

The below tables show the residual maturity of the book value of the individual financial instruments, not the total cash flows resulting from the instruments.

Residual maturity of the Bank's assets and liabilities

In thousands of CZK	Up to 3 months	3 months to 1 year	1 year to 5 years	Over 5 years	Not specified	Total
At 31 December 2018						
Cash and balances with CB	3,404,150	-	-	-	-	3,404,150
State zero coupon bonds and other securities	5,386,855	-	-	-	-	5,386,855
Receivables from banks	115,447,720	5,995,491	20,385,149	16,920,848	-	158,749,208
Subordinated receivable	-	1,975,040	-	-	-	1,975,040
Receivables from customers	10,350,448	4,419,309	15,111,934	6,116,227	-	35,997,918
Debt securities	-	-	2,020,427	-	-	2,020,427
Tangible and intangible fixed assets	-	-	-	-	199,690	199,690
Other assets	414,738	373,963	1,031,449	1,081,796	57,846	2,959,792
Prepaid expenses and accrued income	-	-	-	-	53,875	53,875
Total	**135,003,911**	**12,763,803**	**38,548,959**	**24,118,871**	**311,411**	**210,746,955**
Due to banks	95,977,211	101,841	6,345,619	-	-	102,424,671
Due to customers	33,953,078	16,823,000	25,104,908	25,200,000	-	101,080,986
Other liabilities	838,515	223,269	1,032,850	965,920	186,566	3,247,120
Deferred income and accrued expenses	141	6,456	18,026	23,324	943	48,890
Provisions	-	-	-	-	113,652	113,652
Subordinated liabilities	-	1,958,692	-	-	-	1,958,692
Equity	-	-	-	-	1,872,944	1,872,944
Total	**130,768,945**	**19,113,258**	**32,501,403**	**26,189,244**	**2,174,105**	**210,746,955**
Gap	**4,234,966**	**-6,349,455**	**6,047,556**	**-2,070,373**	**-1,862,694**	**-**
Cumulative gap	**4,234,966**	**-2,114,489**	**3,933,067**	**1,862,694**	**-**	**-**

In thousands of CZK	Up to 3 months.	3 months to 1 year	1 year to 5 years	Over 5 years	Not specified	Total
At 31 December 2017						
Cash and balances with CB	2,205,968	-	-	-	-	2,205,968
State zero coupon bonds and other securities	2,052,644	-	-	-	-	2,052,644
Receivables from banks	138,614,145	5,993,646	21,941,365	20,597,882	-	187,147,038
Subordinated receivable	-	-	1,945,360	-	-	1,945,360
Receivables from customers	6,697,332	5,315,050	12,441,885	1,708,884	-	26,163,151
Debt securities	-	-	-	2,020,013	-	2,020,013
Tangible and intangible fixed assets	-	-	-	-	89,039	89,039
Other assets	439,226	653,857	1,137,239	1,204,349	70,613	3,505,284
Prepaid expenses and accrued income	-	-	-	-	33,646	33,646
Total	**150,009,315**	**11,962,553**	**39,485,862**	**23,511,115**	**193,298**	**225,162,143**
Due to banks	111,588,506	-	869524	-	-	112,458,030
Due to customers	38,293,851	18,878,249	23863480	24,000,000	-	105,035,580
Other liabilities	1,654,530	387,929	816312	1,051,222	172,793	4,082,786
Deferred income and accrued expenses	-	3,504	18,779	13,210	1,886	37,379
Provisions	-	-	-	-	145,868	145,868
Subordinated liabilities	-	-	1,915,071	-	-	1,915,071
Equity	-	-	-	-	1,487,429	1,487,429
Total	**151,536,887**	**19,269,682**	**27,483,166**	**25,064,432**	**1,807,976**	**225,162,143**
Gap	**-1,527,572**	**-7,307,129**	**12,002,696**	**-1,553,317**	**-1,614,678**	**-**
Cumulative gap	**-1,527,572**	**-8,834,701**	**3,167,995**	**1,614,678**	**-**	**-**

Interest rate risk

The Bank is exposed to interest rate risk as its interest-bearing assets and liabilities have different maturity dates, periods of interest rate changes and volumes during these periods. In the case of variable interest rates, the Bank is exposed to basis risk due to the different mechanisms of setting the interest rate, such as PRIBOR, announced interest on deposits, etc. The Bank's interest rate risk management activities are aimed at optimizing net interest income in accordance with the Bank's strategy, approved by management.

The Bank’s interest rate sensitive assets have on average a longer duration or interest rate adjusting period than its liabilities. On average, the net interest income decreases as the interest rate rises. The Bank’s most important interest rate positions are in CZK and EUR. Part of the interest rate position is due to the basis point spread between income from interest rate swaps in EUR and interest rate swaps in CZK.

Interest rate derivatives are generally used to manage the mismatch between interest rate sensitive assets and liabilities. These transactions are carried out in accordance with the Bank’s strategy for the management of assets and liabilities as approved by the management.

Equity risk

In October 2012, the Bank decided to terminate trading in equity markets. No position was in the Bank's portfolio at the year-end and the Bank was not exposed to any risk related to transactions with equity instruments.

Currency risk

Assets and liabilities denominated in foreign currency including off-balance sheet exposures represent the Bank's exposure to currency risks. Both realized and unrealized foreign exchange gains and losses are reported directly in the income statement.

(c) Risk management methods

The Bank's risk management concentrates on the total net exposure resulting from the Bank's structure of assets and liabilities. The Bank monitors interest rate risks by monitoring the excess of interest rate sensitive assets or liabilities in individual time periods.

Interest rate risk

The Bank uses the Basic Point Value (BPV) analysis (based on the duration) to measure the interest rate sensitivity of assets and liabilities that are not traded on a public market. The duration represents the average period during which the Bank collects the present value of cash flows from individual instruments; this represents the instrument sensitivity to interest rate risk. The BVP analysis is an approximation of the instrument's fair value when the relevant yield curve is shifted by one basis point and the sensitivity parameter of the shift is the duration.

The simulation and forecast of net interest income is a supporting tool used by the Bank to monitor the interest rate risk. The Bank measures the sensitivity of the net interest income in relation to a change in the interest rate of 0.01% on a daily basis. The Bank sets the interest rate limits in order to limit the variation of net interest income due to interest rate changes.

The limits comprise Historical Value at Risk (HVaR) limits, BPV limits, and overall position limits in relation to traded securities.

Currency risk

The Bank set limits for the currency risk based on the net position in individual currencies and the HVaR limits.

Currency risk sensitivity analysis

The Bank's foreign currency position in the most significant currencies is as follows:

In thousands of CZK	EUR	USD	CZK	Other	**Total**
At 31 December 2018					
Cash in hand and balances with central banks	-	-	3,404,150	-	**3,404,150**
State zero coupon bonds	-	-	5,386,855	-	**5,386,855**
Receivables from banks	53,772,586	473,679	106,028,192	449,791	**160,724,248**
Receivables from customers	17,443,072	4,752,108	13,266,785	535,953	**35,997,918**
Debt securities	-	-	2,020,427	-	**2,020,427**
Tanginble and intangible fixed assets	-	-	199,690	-	**199,690**
Other assets	615,175	75	2,344,521	21	**2,959,792**
Prepaid expenses and accrued income	7,238	6,980	39,651	6	**53,875**
Total	**71,838,071**	**5,232,842**	**132,690,271**	**985,771**	**210,746,955**
Payables to banks	91,961,684	3,798,431	5,945,634	718,922	**102,424,671**
Payables to customers	2,464,121	1,020,005	97,167,015	429,845	**101,080,986**
Other liabilities	650,061	85,531	2,497,057	14,471	**3,247,120**
Deferred income and accrued expenses	-	-	48,890	-	**48,890**
Provisions	104,574	-	9,078	-	**113,652**
Subordinated liabilities	-	-	1,958,692	-	**1,958,692**
Equity	-	-	1,872,944	-	**1,872,944**
Total	**95,180,440**	**4,903,967**	**109,499,310**	**1,163,238**	**210,746,955**
Long positions of off-balance sheet instruments	85,917,829	39,371	139,645,091	220,178	**225,822,470**
Short positions of off-balance sheet instruments	90,686,239	358,201	157,086,660	1,096,270	**249,227,370**
Net foreign currency position	**-28,110,779**	**10,045**	**5,749,392**	**-1,053,559**	**-23,404,900**

In thousands of CZK	EUR	USD	CZK	Other	**Total**
At 31 December 2017					
Cash in hand and balances with central banks	-	-	2,205,968	-	**2,205,968**
State zero coupon bonds	-	-	2,052,644	-	**2,052,644**
Receivables from banks	79,082,285	29,193	109,581,373	399,547	**189,092,398**
Receivables from customers	9,506,163	2,460,785	13,690,413	505,790	**26,163,151**
Debt securities	-	-	2,020,013	-	**2,020,013**
Tanginble and intangible fixed assets	-	-	89,039	-	**89,039**
Other assets	689,523	41	2,815,698	22	**3,505,284**
Prepaid expenses and accrued income	10,143	4,859	18,637	7	**33,646**
Total	**89,288,114**	**2,494,878**	**132,473,785**	**905,366**	**225,162,143**
Payables to banks	71,251,018	1,363,349	39,133,437	710,226	**112,458,030**
Payables to customers	1,977,221	893,382	101,988,314	176,663	**105,035,580**
Other liabilities	1,329,701	209,211	2,526,457	17,417	**4,082,786**
Deferred income and accrued expenses	-	-	37,379	-	**37,379**
Provisions	133,502	-	12,366	-	**145,868**
Subordinated liabilities	-	-	1,915,071	-	**1,915,071**
Equity	-	-	1,487,429	-	**1,487,429**
Total	**74,691,422**	**2,465,942**	**147,100,453**	**904,306**	**225,162,143**
Long positions of off-balance sheet instruments	64,654,396	34,970	145,889,246	264,807	**210,843,419**
Short positions of off-balance sheet instruments	103,074 505	33,564	129,452,401	1,121,407	**233,681,878**
Net foreign currency position	**-23,823,437**	**30,342**	**1,810,177**	**-855,540**	**- 22,838,459**

Value at Risk

Market risks arising from the Bank’s trading activities are managed using the HVaR method. VaR represents a potential loss arising from an unfavorable movement on the market within a certain time period at a certain confidence level. The Bank sets Value at Risk using the method of historical simulation based on an observation period of the last 360 days. The models are calculated at a confidence level of 99% and one-day holding period. The results are back-tested and compared with the actual results achieved onthefinancial markets on a daily basis. The HVaR was as follows:

In thousands of CZK	At 31 December 2018	At 31 December 2017
HVaR of interest rate instruments – liquidity management book	96,618	206,251
HVaR of currency instruments – liquidity management book	2,178	1,254

In thousands of CZK	Average 2018	Average 2017
HVaR of interest rate and currency instruments – liquidity management book	163,739	195,896

Stress testing

The Bank carries out daily stress testing of interest rate, currency and liquidity risks by applying historical scenarios of significant movements on the financial markets and internally defined improbable scenarios and simulates their impact on the Bank's financial results. The Bank has set limits for these stress scenarios on a consolidated level of ING the Group, which is part of the Bank's risk management process.

35. FINANCIAL INSTRUMENTS – CREDIT RISK

The Bank is exposed to credit risk as a result of its trading activities, providing loans, hedging transactions, investment and intermediation activities.
Credit risks associated with trading and investment activities are managed using the methods and instruments used to manage the Bank's credit and market risks.

(i) Settlement risk

The Entity's activities may give rise to risk at the time of settlement of transactions. Settlement risk is the risk of loss due to the failure of a counterparty to honour its obligations to deliver cash, securities or other assets as contractually agreed.

For certain types of transactions, the Entity mitigates this risk by conducting settlements through a settlement/clearing agent to ensure that a transaction is settled only when both parties have fulfilled their contractual settlement obligations. Settlement limits form part of the credit approval process and subsequent credit risk monitoring and assessment.

(ii) Management of credit risk

Credit Risk Management Department, reporting to the CRO („Chief Risk Officer“) of the Bank, is responsible for managing the credit risk, including the following:

- Formulating credit policies and implementation of group credit principles in consultation with individual departments, covering collateral requirements, creditworthiness assessment, credit ratings and reporting and compliance with regulatory and statutory requirements.
- Approval of new loans and borrowings and their regular monitoring as part of the approval mandates delegated by the Board of Directors of ING Bank N.V.
- Assessing credit risk: the Credit Risk Management Department assesses all credit exposures in excess of designated limits, before facilities are approved and committed to customers. Each receivable is subject to a regular review, focusing on assessing the debtor's ability to repay the claim and monitoring the quality of collateral.
- Limiting concentrations of exposure to counterparties, geographies and industries (for receivables, guarantees and similar exposures) and depending on issuers, credit rating, market liquidity and geography (for debt securities, shares, etc.) in accordance with the rules set at ING Bank N.V.

- Approval of credit ratings of clients used to allocate exposures according to default risk. The current credit rating framework includes 22 categories reflecting different degrees of default risk. The final reconciliation of internal credit ratings and relevant rating models is centralized at ING Bank N.V.
- Reviewing compliance with agreed exposure limits, including those for selected industries, country risk and product types. Regular reports on the credit quality of local portfolio are provided to the Credit Risk Management Department, which may require appropriate corrective action to be taken. These include reports containing estimates of expected credit losses.
- Providing advice and sharing of specific skills for individual departments within the Entity.

Developing and maintaining processes and models for measuring ECL are provided centrally at ING Bank N.V.

(iii) Collateral

Before granting a loan, the Bank generally requires collateral of the provided loans from certain borrowers. For the purposes of calculating loss allowances, the Entity considers the following types of assets to be acceptable collateral reducing the gross credit exposure:

- Real estate
- Cash
- Securities
- First-class receivables
- Bank guarantees
- Guarantees provided by a reputable third party
- Machinery and equipment
- Inventory

The Bank’s assessment of the net realizable value of the collateral is based mainly on an expert appraisal. The net realizable value of the collateral is determined using this evaluation and a correction coefficient for individual types of collaterals, which reflects the Bank’s ability to realize the collateral if it becomes necessary. The Bank updates the value of the collateral and the correction coefficients in accordance with regulatory requirements and, where appropriate.

(iv) Debt recovery

The ING Bank N.V. Group has established a “Global Credit Restructuring” department that manages receivables whose recovery is uncertain. This department takes legal steps and restructures receivables to ensure maximum recovery, including realisation of the collateral and representing the Bank on creditors’ committees in the event that bankruptcy is imposed on a borrower.

(v) Expected credit losses – effective from 1 January 2018

IFRS 9 models

The IFRS 9 models determine expected credit loss (ECL) based on which provisions are determined. The IFRS 9 models leverage on the AIRB models (PD, LGD, EAD).
For this purpose, regulatory conservatism is removed from the ECL parameters (PD, LGD and EAD). The IFRS 9 models apply two types of adjustments to ECL parameters, namely 1) adjustment for economic outlook and 2) adjustment for lifetime horizon, the latter which is only applicable for Stage 2 and 3 assets. The IFRS 9 model parameters are estimated based on statistical technique and supprted by expert judgement.

Inputs, assumptions and techniques used for estimating impairment

Significant increase in credit risk

ING has developed a framework that takes into account both quantitative and qualitative indicators to identify and assess a significant increase in credit risk (SICR). This is used to determine the Stage to determine the expected loss calculation for each financial asset.
The main determinant of the SICR is a quantitative test in which the counterparty's lifetime risk is assessed at each balance sheet date against the risk of default at the date of initial recognition. If the difference is higher than the predefined absolute or relative default risk thresholds, the financial asset will move from Stage 1 to Stage 2. In these cases, the 12-month expected credit losses will cease to be reported for the assets and lifetime credit losses are reported. Assets are returned to Stage 1 if there is sufficient evidence that a significant credit risk reduction has occurred.

The ING Group monitors a number of qualitative indicators to identify and assess the SICR. These include, but are not limited to:

- Exposure with relief: Status „forbearance“;
- „Watch List“ status; monitored loans individually assessed as Stage 2;
- Internal rating;
- Days past due.

Credit risk assessment process

In principle all risk ratings are based on a Risk Rating (PD) Model that complies with the minimum requirements detailed in CRR/CRDIV, ECB Supervisory Rules and EBA guidelines. This concerns all borrower types and segments.
ING’s PD rating models are based on a 1-22 scale (1=highest rating; 22=lowest rating) referred to as the ‘Master scale’, which roughly corresponds to the same rating grades that are assigned by external rating agencies, such as Standard & Poor’s, Moody’s and Fitch. For example, an ING rating of 1 corresponds to an S&P/Fitch rating of AAA and a Moody’s rating of Aaa; an ING rating of 2 corresponds to an S&P/Fitch rating of AA+ and a Moody’s rating of Aa1, and so on.

The 22 grades are composed of the following categories:

- Investment grade (Internal Rating 1-10);
- Non-investment grade (Internal Rating 11-17);
- Doubtful (Internal Rating 18-19); and
- Failure (Internal Rating 20-22).

The first three categories (1-19) are ratings for performing loans. Risk ratings for non-performing exposures (20-22) are set by the global or regional credit restructuring department.
Risk ratings assigned to clients and reviewed, at least annually with the performance of the underlying models monitored regularly.

Credit impaired financial assets (Stage 3)

Financial assets are assessed for impairment at each balance sheet date or, if applicable, for impairment, more often when circumstances require it. Evidence of impairment of a financial asset includes:

- any significant portion of the client's credit exposure is 90 days or more overdue,
- financial difficulties of the customer,
- breach of contractual terms by the customer,
- bankruptcy or restructuring.

The asset returns to Stage 2 if the reasons for Stage 3 are no longer present at the balance sheet date. A financial asset returns to Stage 1 if credit risk is no longer significantly increased compared to initial recognition. The definition of default coincides with the definition of default for risk management purposes and is consistent with the definition of a credit impaired asset.

Makroekonomic scenarios

ING updates the forward-looking macroeconomic scenarios and their weighted probabilities on a quarterly basis for ECL calculation purposes. The ING Group uses data predominantly from a leading data provider, enriched with an ING internal view.

The Bank is considering three different macroeconomic scenarios that are designed to reflect the undistorted and probability-weighted amount of expected credit losses.

The baseline scenario combines consensus forecasts for economic variables such as unemployment rates, GDP growth, home prices, commodity prices, and short-term interest rates. Applying market consensus in the baseline scenario provides objective estimates of expected credit losses.

Alternative scenarios are based on observed past forecast errors, adjusted for the risks that affect the economy today and in the future. Assigned probabilities are based on the probabilities of observing three scenarios and are derived from confidence intervals on probability distributions. Forecasts of economic variables are adjusted quarterly.
The alternative scenarios are based on the forecast errors ot the OEGEM (Oxford Economics’ Global Economic Model). To understand thebaseline level of uncertainty around any forecast, Oxford Economics keeps track of all its forecasterrors

of the past 20 years. The distribution of forecast errors for GDP, unemployment, house pricesand share prices is applied to the baseline forecast creating a broad range of alternative outcomes.

ECL measurement

The Bank uses a collective assessment method to measure ECL for performing assets (Stage 1), with a sign of a significant increase in credit risk (Stage 2). By default, for Stage 3 assets, the Bank uses individual assessment and, in exceptional cases, collective assessment.

Collectively assessed assets (Stage 1 to 3)

This is a model-based approach that calculates ECL in a formula that is expressed simplistically as PD x EAD x LGD, adjusted for the time value of money. Assets that are collectively assessed are grouped on the basis of similar credit risk characteristics, taking into account loan type, industry, geographic location, collateral type, past due status and other relevant factors. These characteristics are relevant to the estimation of future cash flows for groups of such assets by being indicative of the debtors' ability to pay all amounts due according to the contractual terms of the assets being evaluated.

For Stage 3 assets the PD equals 100% and the LGD and EAD represent a lifetime view of the losses based on characteristics of defaulted facilities.

To build the IFRS 9 models, ING Bank's expected loss models (PD, LGD, EAD) used for regulatory and capital purposes have been adjusted by:
- removing embedded prudential conservatism (such as floors)
- converted through-the-cycle estimates to point-in-time estimates to support the calculation of collective-assessment ECL under IFRS 9.

The models assess ECL on the basis of forward-looking macroeconomic forecasts and other inputs. For most financial assets, the expected life is limited to the remaining maturity. For overdrafts and certain revolving credit facilities, such as credit cards, the maturity is estimated based on historical data as these do not have a fixed term or repayment schedule.

Individually assessed assets (Stage 3)

ING Bank estimates individual impairment provisions for individually significant credit impaired financial assets within Stage 3. Individual provisions are calculated using the discounted expected future cash flow method. To determine expected future cash flows, one or more scenarios are used. Each scenario is analysed based on the probability of occurrence and including forward looking information.
In determining the scenarios, all relevant factors impacting the future cash flows are taken into account. These include expected developments in credit quality, business and economic forecasts, and estimates of if/when recoveries will occur and taking into account ING's restructuring/recovery strategy.

The best estimate of ECL is calculated as the weighted-average of the shortfall (gross carrying amount minus discounted expected future cash flow using the original EIR) per scenario, based on best estimates of expected future cash flows.

Recoveries can be from different sources including repayment of the loan, collateral recovery, asset sale etc. Cash flows from collateral and other credit enhancements are included in the measurement of the expected credit losses of the related financial asset when it is part of or integral to the contractual terms of the financial asset and the credit enhancement is not recognised separately. For the individual assessment, with granular (company or deal-specific) scenarios, specific factors can have a larger impact on the future cash flows than macroeconomic factors.

When a financial asset is credit-impaired, interest ceases to be recognised on the regular accrual basis, which accrues income based on the gross carrying amount of the asset. Rather, interest income is calculated by applying the original EIR to the AC of the asset, which is the gross carrying amount less the related loan loss provision.

Modification

In certain circumstances ING grants borrowers postponement and/or reduction of loan principal and/or interest payments for a temporary period of time to maximise collection opportunities, and if possible, avoid default, foreclosure, or repossession.

When such postponement and/or reduction of loan principal and/or interest payments is executed based on credit concerns it is also referred to as forbearance (refer to the Risk Management note for more details). In such cases, the net present value of the postponement and/or reduction of loan and/or interest payments is taken into account in the determination of the appropriate level of impairment loss. If the forbearance results in a substantial modification of the terms of the loan, the original loan is derecognised and a new loan is recognised at its fair value at the modification date. ING Bank determines whether there has been a substantial modification using both quantitative and qualitative factors.

During 2018, there were no significant movements between Stage for any of the categories of financial instruments. At the beginning and the end of 2018, the Bank records most of its financial instruments under Stage 1.

(vi) Loss allowances to losses from receivables - effective until 31 December 2017

(a) Classification of receivables

The Bank classifies receivables into individual categories and sub-categories in accordance with Decree No. 163/2014 Coll., stipulating the prudential rules for banks, credit unions and investment firms as follows:

Receivables without debtor’s default

The Bank classifies performing receivables into the following sub-categories:

a) standard receivables

A standard receivable is a receivable for which there is no doubt that it will be fully repaid unless the Bank decides to realize the collateral. Principal, interest and fees are consistently paid and are not more than 30 days overdue. None of the receivables from the debtor have been restructured in the last two years due to any deterioration in the debtor’s financial situation.

b) watched receivables

A watched receivable is a receivable which, given the financial and economic condition of the debtor, is likely to be fully repaid unless the Bank decides to realize the collateral. Principal, interest and fees are paid, with some delay, but are no more than 90 days overdue. None of the receivables from the debtor have been restructured in the last six months due to any deterioration in the debtor’s financial situation.

Receivables with debtor!s default

The receivables where the borrower has failed to pay his liabilities are considered non-performing receivables. The Bank classifies non-performing receivables into the following sub-categories:

a) sub-standard receivables

A sub-standard receivable is a receivable that, given the financial and economic condition of the borrower, might not be fully repaid, but is highly likely to be repaid in part without the Bank having to realise the collateral. A substandard receivable is also a receivable where the principal, interest and fees are paid with some difficulty but are no more than 180 days overdue.

b) doubtful receivables

A doubtful receivable is a receivable that, given the financial and economic condition of the borrower, is highly unlikely to be fully repaid, but may be, and is likely to be, repaid in part without the Bank having to realise the collateral. A doubtful receivable is also a receivable where the principal, interest and fees are paid with some difficulty but are no more than 360 days overdue.

c) loss receivables

A loss receivable is a receivable that, given the financial and economic condition of the borrower, cannot be fully repaid. The expectation is that such a receivable will not be recovered or will be recovered only in part and only in a very small amount without the Bank having to realise the collateral. A loss receivable is also a receivable where the principal, interest and fees are more than 360 days overdue. A receivable from a debtor, who has been declared bankrupt, except in the case of a receivable against the estate arising after the declaration of bankruptcy, is also considered to be loss receivable.

The Bank reviews the classification of receivables into the relevant categories and sub-categories every quarter and changes the classifications as appropriate in accordance with the results of its review.

The principal criteria for the classification of receivables are:

- the financial condition of the borrower and adherence to the agreed repayment schedule,
- the overall situation of the debtor's industry sector
- the overall development of the debtor's supplier-customer relationships
- provision by the borrower of the information requested by the Bank
- restructuring (or non-restructuring) of the receivable (including reorganization)
- declaration of bankruptcy in relation to the debtor!s assets

In addition, the Bank uses an internal rating system for receivables. The internal rating system assesses the overdue period as well as the quality of management, the market position of the borrower, the external environment, the collateral structure and financial indicators such as the balance sheet structure, operating cash flow, productivity, etc.

Where an external rating of the borrower is available from a reputable rating agency (Standard and Poor's, Moody's, Fitch), these rating results are also taken into account in assessing the borrower. However, this rating does not replace the Bank's internal rating system.

(b) Evaluation of collateral

Before granting a loan, the Bank generally requires collateral from certain borrowers. For the purposes of calculating loss allowances, the Bank considers the following types of assets to be acceptable collateral reducing the gross credit exposure:

- Cash
- Securities
- First-class receivables
- Bank guarantees
- Guarantees provided by a reputable third party
- Real estate
- Machinery and equipment
- Inventory

For the purposes of calculating loss allowances, the Bank determines the net realisable value of a collateral based on an expert appraisal. The net realisable value of the collateral is subsequently derived from this figure by applying a correction coefficient that reflects the Bank's ability to realise the collateral if required. The Bank reviews the value of the collateral and the correction coefficients on an annual basis at least.

(c) Impairment losses nad valuation adjustments

The Bank assesses individual receivables and portfolios of receivables with similar credit risk characteristics ("portfolios of homogenous receivables") for impairment (i.e. reduction in their carrying amounts). The Bank acts in accordance with the principles of Group Credit Risk in Amsterdam, which are compatible with the requirements of the International Accounting Standards and with the Czech National Bank Decree No. 163/2014 Coll.

Portfolio approach

The Bank applies the portfolio approach for receivables that were not identified as individually impaired. In this case, the Bank assesses whether a portfolio of homogenous individually unimpaired receivables is impaired.

The Bank determines the portfolio impairment loss based on the Basel II/III capital adequacy framework, which is followed by all ING Bank N.V. Group entities. The Bank uses its own customer-rating system, which quantifies the probability of default (PD), the loss given default (LGD) and the exposure at default (EAD). The Bank quantifies the amount of receivables portfolio impairment loss based on these indicators on a quarterly basis. The adequacy of the calculated loss is agreed with the Group Credit Risk in Amsterdam.

Individual approach

The Bank creates adjustments for individual receivables when they are impaired. The Bank creates an adjustment for the receivable, or the part of the receivable which corresponds to the impairment loss, unless this receivable or part of the receivable is written off.

The Bank reviews the established loss allowances for adequacy and reasonableness on a quarterly basis, and revises them accordingly.

The impairment loss from individually significant receivable is calculated as the difference between the receivable's book value and the present value of expected cash flows from the receivable, discounted by the original effective interest rate, determined at the initial recognition of the receivable.

The amount of the impairment loss for individual receivables is subject to quarterly approval at the Group Credit Risk in Amsterdam.

(d) Monitoring of receivables from debtor

The Bank has a Credit Risk Management Department. Each receivable is subject to a periodic review, focusing on assessing the debtor's ability to repay the claim and monitoring the quality of the collateral. The Bank follows the rules issued by ING Bank N.V.

(e) Securitization and use of credit derivatives

The Bank did not carry out any securitization of its receivables at the balance sheet date. The Bank does not actively trade credit derivatives.

(f) Quality of the credit portfolio

The quality of the credit portfolio is of a high level with only a small number of classified receivables. This results from the conservative strategy and unified risk management guidelines followed by all ING Bank N.V. branches.

(g) Concentration of credit risk

The concentration of credit risk arises as a result of the existence of loans with similar economic characteristics affecting the debtor's ability to meet his obligations.

The Bank sets limits towards a debtor, or a group of connected debtors, at the level of the ING Bank N.V. Head Office depending on the internal customer rating or rating of a group of related debtors. The Bank has created a system of internal limits for individual countries, industries and debtors in order to prevent significant concentration of credit risk.

Sector analysis

An analysis of the concentration of credit risk according to individual industries/sectors is included in Note 14 (e).

Analysis by geographical areas

In thousands of CZK	2018	2017
Czech Republic	27,210,729	19,715,760
Slovakia	401,048	352,113
Poland	340,456	356,269
Hungary	221,713	179,983
Netherlands	5,837,778	3,507,709
Luxembourg	1,720,165	1,720,323
Other	266,029	330,994
Total	**35,997,918**	**26,163,151**

35. FAIR VALUE

The fair value measurement technique is in note 2 (c (vi)).

(a) Financial instruments not measured at fair value

The following table sets out carrying amounts and fair values of financial assets and financial liabilities not recognised at fair value in the Entity's balance sheet:

In thousands of CZK	31 December 2018 Carrying amount	31 December 2018 Fair value
FINANCIAL ASSETS		
Cash in hand and balances with central banks	3,404,150	3,404,150
Receivables from banks and credit unions	160,724,248	160,724,248
Receivables from customers – credit union members	35,997,918	35,997,918
Debt securities	2,020,427	2,008,166
Other financial assets	14,680	14,680
FINANCIAL LIABILITIES		
Payables to banks and credit unions	102,424,671	102,424,671
Payables to customers – credit union members	101,080,986	101,080,986
Other financial liabilities	511,685	511,685
Subordinated liabilities	1,958,692	1,958,692

The inputs and techniquies to determine the fair value estimate are in note 2.

To determine the fair value estimate, the Entity uses the following inputs and techniques:

Cash in hand and balances with central banks
The carrying amount equals the fair value. These financial assets have been categorised as Level 2 in the fair value hierarchy.

Receivables from banks and credit unions
Due to the short maturity of these receivables, the carrying amount approximates their fair value. These financial assets have been categorised as Level 2 in the fair value hierarchy.

Receivables from customers – credit union members
The estimated fair value of credits is based on discounted expected future cash flows, using an interest rate valid for credits connected with similar credit risk, interest rate risk, and similar maturity. I

In determining the estimated cash flows used for discounting, assumptions are used and the expected repayment course of a particular product or product group is considered. The discount rates used in discounting are based on the rates of the main competitors or other comparable rates for similar asset types.

The carrying amount does not significantly differentiate from the fair value as almost all loans have variable interest rate and no material change in the credit risk occured.

These financial assets have been categorised as Level 3 in the fair value hierarchy.

Debt securities
The difference between the fair value and the carrying amount is caused in particular by different market and effective interest rates of state bonds included in this portfolio. These financial assets have been categorised as Level 3 in the fair value hierarchy.

Payables to banks and credit unions
Due to the short maturity of these liabilities, the carrying amount approximates their fair value. These financial liabilities have been categorised as Level 2 in the fair value hierarchy.

Payables to customers – credit union members
The fair value of deposits repayable on demand and term deposits that bear a variable interest rate equals the carrying amount of these deposits as at the reporting date.

These financial liabilities have been categorised as Level 3 in the fair value hierarchy.

(b) Financial instruments measured at fair value

The following table sets out individual fair value levels of financial assets and financial liabilities recognised at fair value in the Entity's balance sheet:

In thousands of CZK	31 December 2018		
	Level 1	Level 2	Level 3
FINANCIAL ASSETS			
State zero coupon bonds and other securities	5,386,855	-	-
Other assets – positive fair value of derivatives	-	2,824,608	-
FINANCIAL LIABILITIES			
Other liabilities – negative fair value of derivatives	-	2,460,175	-

Transfer between Level 1 and Level 2

No transfers were carryied out between Level 1 and Level 2 in 2018.

36. FINANCIAL INSTRUMENTS – OPERATIONAL, LEGAL AND OTHER RISKS

The Bank has established an Operational Risk Management department. The Bank has also implemented guidelines for monitoring, management and quantification of operational risks. The Bank has an established Legal department to monitor and manage legal risks. The Compliance department identifies, assesses and monitors compliance risks the Bank faces and ensures their mitigation until a satisfactory solution dealing with the risks is implemented. The Compliance department further assists, supports and advises the Bank's management with carrying out their compliance-related responsibilities, investigates dubious transactions from the perspective of money-laundering attempts and also counsels the Bank's employees regarding their (personal) compliance duties.

37. MATERIAL SUBSEQUENT EVENTS

The Bank's management is not aware of any events subsequent to the balance sheet date that require adjustment of or disclosure in the financial statements or notes thereto.

Prepared on:	Signature of statutory body:	Person responsible for accounting (name and signature):	Person responsible for financial statements (name and signature):
29 April 2019	Mark Tornij	Radek Mlčák	Jiří Kupec