



Annual  
Report 2017



## CONTENTS

2	MANAGEMENT'S REPORT ON THE BANK'S BUSINESS RESULTS
3	GENERAL INFORMATION
4 – 6	INDEPENDENT AUDITOR'S REPORT
7 – 46	FINANCIAL STATEMENTS
7 – 11	Annual statements
12	General information
13 – 17	Significant accounting policies
17	Changes in accounting policies
17	Net interest income
18	Commission and fee income and expense
18	Gain or loss from financial operations
19	Other operating income and expenses
20	Administrative expenses
20	Extraordinary income and expenses
21	Income and expense according to segments
22	Transactions with related parties
23	State zero coupon bonds and other securities eligible for re-financing with the central bank
23 – 24	Receivables from banks and cooperative savings associations
24 – 26	Receivables from customers other than credit institutions
26	Debt securities
26	Shares, mutual funds certificates and other investments
27	Intangible fixed assets
28	Tangible fixed assets
29	Other assets
29	Due to banks and cooperative savings associations
30	Due to customers and cooperative savings association's members
30	Payables from debt securities
31	Subordinated liabilities
31	Other liabilities
31	Registered capital
31	Bonuses tied to equity
32 – 33	Provisions and allowances
33	Retained earnings or accumulated losses from previous years, reserve funds and other funds created from profit
33	Gains (losses) from revaluation
34	Income tax and deferred tax asset / liability
35 – 37	Off-balance sheet items
37	Assets held in custody
38	Assets placed into administration and management
38 – 42	Financial instruments – market risk
42 – 45	Financial instruments – credit risk
46	Financial instruments – operational, legal and other risks
46	Material subsequent events



## Management Report on the Bank's Business Results

The Czech economy had a great year in 2017. GDP grew by 4.6%, the second fastest rate in the last ten years. The strong economic activity was broad-based, driven by renewed investment, solid household consumption and foreign demand. The unemployment rate fell below 2.4% in December 2017, a historic low and also the lowest among EU countries. The tight labor market has become the most important growth barrier for Czech companies, resulting in accelerating wages. Average wage growth reached 7%, the strongest rate in last ten years.

Looking back at 2017 in ING's retail business, I've seen significant success due to the combination of targeted product campaigns and the efforts of all of our colleagues from our branches, kiosks and call centers. ING Mutual Funds balance sheet increased by 31% up to CZK 5.1 billion. In terms of an increase in total clients, we added more than 13 thousand new clients. ING Saving Account attracted 21 thousand new clients with a final balance sheet total of CZK 87.6 billion. Our new Wholesale Banking Growth Strategy was implemented and led to ING reaching CZK 26 billion of lending assets. It means a 47% increase over the previous year. Focusing on the real estate market was an important step in helping our overall strategy to be effective. At the same time, we are investing in our transformation so we are prepared for future challenges, product innovations and keeping our customers step ahead in life and business.

All of the above-mentioned resulted in a net profit of CZK 318 million.

From a global perspective, ING had a successful year 2017. Our continued success comes from our commitment to doing things in new and innovative ways. That is why we attracted 1.6 million new customers last year. Constant innovation is just one way that we are preparing ING for the future. We are also transforming our businesses and building a globally standardized IT and operations foundation so that we can move to a platform business model.

ING has been named 'Best Bank in the World' for 2017 by Global Finance magazine. The jury selected the winners after consultations with corporate financial executives, analysts and bankers throughout the world. Global Finance's awards have become a trusted standard of excellence for the global financial community. It is appreciation of our hard work and also motivation for further improvement.

Next to providing the best service for our customers, we think about social responsibility. We supported the Terribear Moves Prague event not only as a sponsor, but as active participants. You could see our colleagues running at the top of Vitkov hill every day to support children from orphanages. Together we ran 1,954 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.

Finally, I would like to thank our clients for their trust in 2017 and wish them personal and business success in the next year and beyond. We will continue improving our products and services to help you with meeting your daily needs.

**Isold Heemstra**  
CEO

## **General Information**

Annual Report Entity:  
ING Bank N.V., organizační složka  
For the year ended 31 December 2017

The accounting unit will continue with 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 2017 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 2017, the Bank had no expenses on activities in the area of research, development and environmental protection.



**KPMG Česká republika Audit, s.r.o.**

Pobřežní 1a  
186 00 Prague 8  
Czech Republic  
+420 222 123 111  
www.kpmg.cz

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 2017, 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 2017, 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.

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***

Veronika Strolená is the statutory auditor responsible for the audit of the financial statements of ING Bank N.V., organizační složka as at 31 December 2017, based on which this independent auditor's report has been prepared.

Prague  
26 April 2018

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

  
Veronika Strolená  
Partner  
Registration number 2195

Name of the Bank: ING Bank N.V., organizační složka  
Registered Office: Českomoravská 2420/15, Praha 9  
Identification No.: 492 798 66  
Business: Bank  
Balance Sheet Date: 26th April 2018  
Code of the Bank: 3500

**BALANCE SHEET**  
**as at 31 December 2017**  
(Translated from the Czech original)

CZK 000	Note	2017	2016
<b>ASSETS</b>			
1 Cash in hand and balances with central banks		2,205,968	2,203,942
2 State zero coupon bonds and other securities eligible for refinancing with central bank	12	2,052,644	3,073,210
of which: a) securities issued by the government institutions		2,052,644	3,073,210
3 Receivables from banks and cooperative savings associations	13	189,092,398	128,324,245
of which: a) repayable on demand		109,985	47,312
b) other receivables		188,982,413	128,276,933
4 Receivables from clients other than credit institutions	14	26,163,151	17,755,756
of which: a) repayable on demand		5,679,541	3,557,982
b) other receivables		20,483,610	14,197,774
5 Debt securities	15	2,020,013	2,019,600
of which: a) issued by other entities		2,020,013	2,019,600
9 Intangible fixed assets	17	40,692	38,153
of which: a) software		40,692	38,153
10 Tangible fixed assets	18	48,347	34,248
11 Other assets	19	3,505,284	4,323,506
13 Prepaid expenses and accrued income		33,646	18,426
<b>Total Assets</b>		<b>225,162,143</b>	<b>157,791,086</b>

The notes set out on pages 12 to 46 form part of these financial statements.



CZK 000		Note	2017	2016
<b>LIABILITIES</b>				
1	Due to banks and cooperative savings associations	20	112,458,030	48,717,332
	of which: a) repayable on demand		10,309,340	14,433,065
	b) other payables		102,148,690	34,284,267
2	Due to customers - cooperative savings association's members	21	105,035,580	101,628,160
	of which: a) repayable on demand		103,137,730	100,595,940
	b) other payables		1,897,850	1,032,220
4	Other liabilities	24	4,082,786	3,421,249
5	Deferred income and accrued expenses		37,379	41,017
6	Provisions		145,868	276,394
	of which: a) provision for taxes	30	-	164,807
	b) other	27	145,868	111,587
7	Subordinated liabilities	23	1,915,071	1,874,299
13	Gains (losses) from revaluation	29	-7,060	27,884
	of which: a) assets and liabilities		-7,060	27,884
14	Retained earnings (or accumulated losses) from previous years	28	1,176,352	1,123,338
15	Profit (loss) for the accounting period		318,137	681,413
<b>Total Liabilities</b>			<b>225,162,143</b>	<b>157,791,086</b>

The notes set out on pages 12 to 46 form part of these financial statements.

CZK 000		Note	2017	2016
<b>OFF-BALANCE SHEET</b>				
<b>Off-balance sheet assets</b>				
1	Commitments and guarantees granted	31	5,682,213	9,321,813
3	Receivables from spot transactions	31	388,945	351,875
4	Receivables from fixed term transactions	31	204,772,260	194,736,672
9	Commitments and guarantees received		29,346,535	26,174,210
10	Collaterals and pledges received	31	105,626,079	63,292,509
11	Payables from spot transactions	31	389,468	353,053
12	Payables from fixed term transactions	31	203,945,875	195,872,066
14	Values taken into custody, administration and deposit	32	5,077,531	3,871,553

The notes set out on pages 12 to 46 form part of these financial statements.

Name of the Bank: ING Bank N.V., organizační složka  
Registered Office: Českomoravská 2420/15, Praha 9  
Identification No.: 492 798 66  
Business: Bank  
Balance Sheet Date: 26th April 2018  
Code of the Bank: 3500

**INCOME STATEMENT**  
**for the year 2017**

(Translated from the Czech original)

CZK 000	Note	2017	2016
1 Interest income and similar income	4	2,735,856	2,367,557
of which interest income from debt securities		6,788	96,840
gain from hedging interest rate derivatives		311,314	312,275
2 Interest expense and similar expense	4	-983,685	-1,072,271
of which interest expense from debt securities		-131,546	-128,195
loss from hedging interest rate derivatives		-326	-30
4 Commission and fee income	5	427,538	353,322
5 Commission and fee expense	5	-32,772	-24,676
6 Gain or loss from financial operations	6	-439,452	276,352
of which gain/loss from hedge accounting		-88,822	-7,891
7 Other operating income	7	-	28
8 Other operating expenses	7	-98,905	-97,452
9 Administrative expenses	8	-1,140,951	-920,903
of which a) employee expenses		-389,211	-340,339
of which: aa) social and health insurance		-87,573	-76,656
b) other administrative expenses		-751,740	-580,564
11 Depreciation, creation and use of reserves and adjustments to tangible and intangible fixed assets		-35,226	-28,156
12 Release of adjustments and provisions for receivables and guarantees, income from written-off receivables		11,322	1,763
13 Write-offs, creation and use of adjustments and provisions for receivables and guarantees		-2,669	-9,797
16 Release of other provisions	27	23,247	22,238
17 Creation other provisions	27	-65,885	-25,562
19 <i>Current year profit (loss) from ordinary activities before tax</i>		<i>398,418</i>	<i>842,443</i>
20 Extraordinary income	9	-	135
22 <i>Current year profit (loss) from extraordinary activities before tax</i>		<i>-</i>	<i>135</i>
23 Income tax	30	-80,281	-161,165
24 <b>Net profit (loss) for the accounting period</b>		<b>318,137</b>	<b>681,413</b>

The notes set out on pages 12 to 46 form part of these financial statements.



Name of the Bank: ING Bank N.V., organizační složka  
Registered Office: Českomoravská 2420/15, Praha 9  
Identification No.: 492 798 66  
Business: Bank  
Balance Sheet Date: 26th April 2018  
Code of the Bank: 3500

**STATEMENT OF CHANGES IN EQUITY**  
**for the year 2017**

(Translated from the Czech original)

CZK 000	Registered capital	Own shares	Share premium	Reserve funds	Capital funds	Revaluation gains(losses)	Profit (loss)	Total
<b>Balance as at 1.1.2016</b>	-	-	-	-	-	<b>145,206</b>	<b>1,390,826</b>	<b>1,536,032</b>
Net profit (loss) for accounting period	-	-	-	-	-	0	681,413	681,413
Other changes	-	-	-	-	-	-117,322	-267,488	-384,810
<b>Balance as at 31.12.2016</b>	-	-	-	-	-	<b>27,884</b>	<b>1,804,751</b>	<b>1,832,635</b>
<b>Balance as at 1.1.2017</b>	-	-	-	-	-	<b>27,884</b>	<b>1,804,751</b>	<b>1,832,635</b>
Net profit (loss) for accounting period	-	-	-	-	-	0	318,137	318,137
Other changes	-	-	-	-	-	-34,944	-628,399	-663,343
<b>Balance as at 31.12.2017</b>	-	-	-	-	-	<b>-7,060</b>	<b>1,494,489</b>	<b>1,487,429</b>

The notes set out on pages 12 to 46 form part of these financial statements.

# ING Bank N.V., organizační složka

## Notes to the Financial Statements

For the year ended 31 December 2017

### 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.

Registered address of the Bank  
ING Bank N.V., organizační složka  
Českomoravská 2420/15  
190 00 Prague 9 - Libeň  
Czech Republic

Business registration 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.

#### Statutory body

The head of the Branch is the Bank's statutory body. As at 31 December 2017 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 31 December 2016.

#### (b) Basis for the preparation of the financial

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.

#### Explanation added for translation into English

These financial statements are presented on the basis of accounting principles and standards generally accepted in the Czech Republic. Certain accounting practices applied by the Company that conform with

# ING Bank N.V., organizační složka

## Notes to the Financial Statements

For the year ended 31 December 2017

generally accepted accounting principles and standards in the Czech Republic may not conform with generally accepted accounting principles in other countries.

## 2. SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies adopted in the preparation of the Bank's financial statements are set out below:

### (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) Debt securities

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

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

Premiums and 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 equally 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.



# ING Bank N.V., organizační složka

## Notes to the Financial Statements

For the year ended 31 December 2017

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".

### **(d) Transactions with securities 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.

### **(e) Shareholdings in subsidiaries and associates**

The Bank has no shareholdings in subsidiaries and associates.

### **(f) Receivables from banks and customers**

Receivables are carried net of adjustments. Accrued interest income is part of the carrying amount of these receivables.

Receivables are reviewed for recoverability. Adjustments are created against specific receivables as considered appropriate. If the Bank does not directly write-off the portion of receivable corresponding to the impairment loss, an adjustment is created against this receivable portion. The methodology for the creation of adjustments in the appropriate accounting period is included in Note 35 (a), (b) and (c) of these notes. Adjustments created by debiting expenses are reported in "Write-offs, creation and use of adjustments and provisions for receivables and guarantees" in sub-ledgers used for the calculation of the income tax liability.

# ING Bank N.V., organizační složka

## Notes to the Financial Statements

For the year ended 31 December 2017

The tax-deductible portion of the period charge for the creation of adjustments for credit losses is calculated in accordance with the requirements of section 5 ("Banking reserves and adjustments") and section 8 ("Adjustments to receivables from debtors subject to bankruptcy or composition proceedings") of the Act on Reserves No. 593/1992 Coll., as amended.

The write off of receivables is under the responsibility of Global Credit Restructuring (part of Group Credit Risk) in Amsterdam.

The Bank also accrues for interest income from classified receivables. Adjustments to accrued interest income are established in accordance with the appropriate methodology of Group Credit Risk in Amsterdam.

The write off of unrecoverable receivables is accounted for as "Write-offs, creation and use of adjustments and provisions for receivables and guarantees" in the income statement. Adjustments and provisions are reduced in an equal amount to the amount written off on the same account in the income statement. Recoveries of loans previously written off are included in the income statement in "Release of adjustments and provisions for receivables and guarantees, income from written off receivables".

### (g) 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 exposures to interest rate risk.

Hedging derivatives are recognized at fair value and gains and losses from the revaluation are included in the income statement in "Interest income and similar income" or "Interest expense and similar expense" and "Gain or loss from financial operations".

#### *Fair value of derivatives*

The fair value of financial derivatives is determined as the present value of expected cash flows from these transactions, using valuation models generally accepted on the market, such as the 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 financial instruments, etc.

### (h) Hedge accounting

#### *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(g).

Hedge accounting is applied only if:

# ING Bank N.V., organizační složka

## Notes to the Financial Statements

For the year ended 31 December 2017

- the hedge is in compliance with the Bank's risk management strategy;
- there is formal documentation of a hedging relationship when a hedging transaction occurs;
- 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 hedging relationship effectiveness can be measured objectively;
- the hedging relationship is highly effective during 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".

### (i) **Creation of provisions**

A provision represents a probable cash outflow of uncertain timing and amount. Provisions are established if the following criteria are met:

- There is a present obligation (legal or constructive) as a result of a past event.
- It is likely that a performance requiring the outflow of funds representing economic benefits will take place, where "likely" means a probability above 50%.
- The making of an adequate estimate of such performance is feasible.

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



# ING Bank N.V., organizační složka

## Notes to the Financial Statements

For the year ended 31 December 2017

### (j) 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:

Furniture, fixtures and technical improvement of buildings	5 through 10 years
Machinery and equipment	3 through 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.

### (k) 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.

### (l) 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.

### (m) 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

In 2017, there were no changes in the accounting methods. In 2016, the Bank changed the method used for booking of assets, the assets were booked directly as one-off depreciation in previous year (under CZK 250 thousand). Since 1<sup>st</sup> of January 2016 these assets are booked directly to expenses (not on expense accounts for depreciation of assets).

# ING Bank N.V., organizační složka

## Notes to the Financial Statements

For the year ended 31 December 2017

### 4. NET INTEREST INCOME

(CZK 000)	2017	2016
Interest income and similar income		
from deposits	1,317,982	915,382
from loans	343,782	389,638
from financial assets for trading	754,921	652,569
from available-for-sale financial assets	6,788	96,840
other	1,069	853
gains on interest rate derivatives	311,314	312,275
<b>Total</b>	<b>2,735,856</b>	<b>2,367,557</b>
Interest expense and similar expense		
from deposits	293,526	404,812
from financial liabilities for trading	559,058	539,346
other	131,101	128,113
<b>Total</b>	<b>983,685</b>	<b>1 072,271</b>
<b>Net interest income</b>	<b>1,752,171</b>	<b>1 295,286</b>

Other expenses consist mainly of expenses from debt securities of CZK 130,771 thousand (2016: CZK 128,108 thousand).

### 5. COMMISSION AND FEE INCOME AND EXPENSE

(CZK 000)	2017	2016
Income from fees and commissions		
lending activities	50,635	66,113
payment processing	49,328	46,919
services for securities brokerage	47,005	37,972
guarantees issued	11,841	17,546
sale of financial instruments	194,060	167,620
other	74,669	17,152
<b>Total</b>	<b>427,538</b>	<b>353,322</b>
Commission and fee expense from		
securities transactions	1,397	319
management, administration, deposits and custody	6,647	5,132
payment processing	8,803	6,937
services for securities and other financial instruments brokerage	10,232	6,233
other	5,693	6,055
<b>Total</b>	<b>32,772</b>	<b>24,676</b>

# ING Bank N.V., organizační složka

## Notes to the Financial Statements

For the year ended 31 December 2017

### 6. GAIN OR (LOSS) FROM FINANCIAL OPERATIONS

(CZK 000)	2017	2016
Gain/(loss) from securities transactions	(15,295)	324
Gain/(loss) from derivative transactions	(195,106)	465,409
of which gain/(loss) from interest tools (incl. interest rate derivatives)	25,018	(33,812)
of which gain/(loss) from currency tools (incl. currency derivatives)	(220,124)	499,221
Gain/(loss) from hedge accounting	(88,822)	(7,891)
Gain/(loss) from foreign exchange transactions	90,040	81,317
Foreign exchange gain/(loss)	(230,269)	(262,807)
<b>Total</b>	<b>(439,452)</b>	<b>276,352</b>

### 7. OTHER OPERATING INCOME AND EXPENSES

(CZK 000)	2017	2016
Other operating income		
other	-	28
<b>Total</b>	<b>-</b>	<b>28</b>

(CZK 000)	2017	2016
Other operating expenses		
The deposit insurance Fund (DGS in the Netherlands)	93,456	90,646
losses from errors	732	708
returned penalties	(80)	869
insurance	4,259	3,392
other	538	1,837
<b>Total</b>	<b>98,905</b>	<b>97,452</b>

# ING Bank N.V., organizační složka

## Notes to the Financial Statements

For the year ended 31 December 2017

### 8. ADMINISTRATIVE EXPENSES

(CZK 000)	2017	2016
Personnel and related expenses		
Wages and salaries paid to employees	301,638	263,683
Thereof: Wages and salaries paid to management	34,713	37,356
Social security and health insurance	87,573	76,656
	389,211	340,339
Intercompany services	299,642	217,096
Other administrative expenses	452,098	363,468
Thereof: expense for audit, legal and tax advisory	27,568	3,402
Thereof: remuneration of the statutory auditor – statutory audit	2,357	2,458
	751,740	580,564
<b>Total</b>	<b>1,140,951</b>	<b>920,903</b>

The increase in other administrative expenses was caused by higher IT and marketing costs, which relate to the planned expansion of retail banking services.

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

	2017	2016
Employees	251	219
Management	8	9

### 9. EXTRAORDINARY INCOME AND EXPENSES

In 2017, the Bank did not have any extraordinary expense or extraordinary income. In 2016, the Bank recognized revenue from extraordinary operation (inventory finding of Fixed assets) of CZK 135 thousand.

# ING Bank N.V., organizační složka

## Notes to the Financial Statements

For the year ended 31 December 2017

### 10. INCOME AND EXPENSE ACCORDING TO SEGMENTS

#### Geographical segments

(CZK 000)	Czech Republic		European Union		Central and Eastern Europe (non-EU)		Other		Total	
	2017	2016	2017	2016	2017	2016	2017	2016	2017	2016
Interest income and similar income	656,513	508,161	2,047,979	1,821,985	4,260	2,768	27,104	34,643	2,735,856	2,367,557
Interest expense and similar expense	(460,420)	(571,295)	(523,149)	(500,793)	(45)	(30)	(71)	(153)	(983,685)	(1,072,271)
Income from shares	-	-	-	-	-	-	-	-	-	-
Income from fees and commissions	427,538	342,858	-	5,918	-	-	-	4,546	427,538	353,322
Commission and fee expense	(32,721)	(24,542)	(25)	(134)	(5)	-	(21)	-	(32,772)	(24,676)
Gain/(loss) from financial operations	(254,981)	(281,101)	(166,261)	563,236	15	-	(18,225)	(5,783)	(439,452)	276,352
Other operational income	-	28	-	-	-	-	-	-	-	28
Other operational expense	(5,458)	(6,765)	(93,447)	(90,687)	-	-	-	-	(98,905)	(97,452)

# ING Bank N.V., organizační složka

## Notes to the Financial Statements

For the year ended 31 December 2017

### 11. TRANSACTIONS WITH RELATED PARTIES

(CZK 000)	2017	2016
<b>Receivables – total</b>	<b>85,024,808</b>	<b>62,923,533</b>
Receivables from banks and cooperative savings associations	79,516,106	59,788,670
due on demand	73,196	12,155
other receivables	79,442,910	59,776,515
Receivables from clients – members of cooperative savings associations	2,044,974	-
due on demand	1	-
other receivables	2,044,973	-
Other assets	3,463,728	3,134,863
<b>Payables – total</b>	<b>107,063,477</b>	<b>46,504,431</b>
Payables to banks and cooperative savings associations	104,438,392	43,918,040
due on demand	2,324,253	9,794,534
other liabilities	102,114,139	34,123,506
Payables to clients – members of cooperative savings associations	359,575	365,394
due on demand	359,575	365,394
Other liabilities	2,265,510	2,220,997
Net interest income	1,410,920	1,171,669
Net income from commissions and fees	360,178	611,489
Gain/(loss) from financial operations	(3,515,046)	(163,425)
Administrative expenses and other operating expenses	(315,010)	(240,379)

The above schedule includes all transactions with related parties.



# ING Bank N.V., organizační složka

## Notes to the Financial Statements

For the year ended 31 December 2017

### 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

(CZK 000)	2017	2016
State bonds	2,052,644	3,073,210
<b>Net book value</b>	<b>2,052,644</b>	<b>3,073,210</b>

#### (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

(CZK 000)	2017	2016
State zero coupon bonds and other securities available-for-sale	2,052,644	3,073,210
<b>Net book value</b>	<b>2,052,644</b>	<b>3,073,210</b>

#### (c) Repurchase and resale commitments

As at 31 December 2017, under resale commitments the Bank acquired state zero coupon bonds and other securities with a market value of CZK 90,935,000 thousand (2016: CZK 55,860,000 thousand), which are reported off-balance sheet in "Collaterals and pledges received".

### 13. RECEIVABLES FROM BANKS AND COOPERATIVE SAVINGS ASSOCIATIONS

#### (a) Classification of receivables from banks

(CZK 000)	2017	2016
Standard	189,092,475	128,324,495
Watched	-	-
Substandard	-	-
Doubtful	-	-
Loss	-	-
<b>Total</b>	<b>189,092,475</b>	<b>128,324,495</b>
Adjustments to potential losses from receivables	(77)	(250)
<b>Net receivables from banks</b>	<b>189,092,398</b>	<b>128,324,245</b>

In 2017 and 2016, the Bank did not restructure any receivables from banks.

# ING Bank N.V., organizační složka

## Notes to the Financial Statements

For the year ended 31 December 2017

**(b) Analysis of receivables from banks by type of security received**

(CZK 000)	2017	2016
Securities	90,935,000	55,860,000
Unsecured	98,157,398	72,464,245
<b>Total</b>	<b>189,092,398</b>	<b>128,324,245</b>

**(c) Subordinated receivables from banks**

In 2017 and 2016, 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 1,915,071 thousand as at 31 December 2017 (2016: CZK 1,874,299 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.

**(d) Receivables from banks written-off and recovered**

In 2017, the Bank did not write-off any receivables from banks (as well as in 2016).

## 14. RECEIVABLES FROM CUSTOMERS OTHER THAN CREDIT INSTITUTIONS

**(a) Classification of receivables from customers**

(CZK 000)	2017	2016
Standard	26,178,110	17,777,765
Watched	-	-
Substandard	-	-
Doubtful	-	-
Loss	-	-
<b>Total</b>	<b>26,178,110</b>	<b>17,777,765</b>
Adjustments to potential losses from receivables	(14,959)	(22,009)
<b>Net receivables from customers</b>	<b>26,163,151</b>	<b>17,755,756</b>

In 2017, the Bank did not restructure any receivables from customers (as well as in 2016).

# ING Bank N.V., organizační složka

## Notes to the Financial Statements

For the year ended 31 December 2017

### (b) Analysis of receivables from customers by sector

(CZK 000)	2017	2016
Residents, of which:		
financial institutions	5,278,813	1,472,549
non-financial institutions	14,451,853	10,063,581
resident individuals	53	302
Non-residents	6,447,391	6,241,333
<b>Total</b>	<b>26,178,110</b>	<b>17,777,765</b>

### (c) Subordinated receivables from banks

In 2017 and 2016, the Bank did not provide subordinated loans to other banks.

### (d) Analysis of receivables from customers by sector and type of security received

(CZK 000)	Personal guarantee	Mortgage	Zajištění v držení banky	Unsecured	Total
<b>At 31 December 2017</b>					
Residents, of which:					
financial institutions	-	1,253,422	89,429	3,935,962	5,278,813
non-financial institutions	5,438,719	3,569,834	-	5,443,300	14,451,853
resident individuals	53	-	-	-	53
Non-residents	832,144	17,725	-	5,597,522	6,447,391
<b>Total</b>	<b>6,270,916</b>	<b>4,840,981</b>	<b>89,429</b>	<b>14,976,784</b>	<b>26,178,110</b>
<b>At 31 December 2016</b>					
Residents, of which:					
financial institutions	238,624	-	-	1,233,925	1,472,549
non-financial institutions	5,313,638	1,177,057	-	3,572,886	10,063,581
resident individuals	301	-	-	-	301
Non-residents	988,835	17,112	-	5,235,387	6,241,334
<b>Total</b>	<b>6,541,398</b>	<b>1,194,169</b>	<b>-</b>	<b>10,042,198</b>	<b>17,777,765</b>

### (e) Net receivables from customers written-off

In 2017, the Bank did not write off any receivables from customers. In 2016, the Bank wrote off receivables from customers totaling to CZK 27,390 thousand.

### (f) Syndicated loans

As at 31 December 2017, 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 1,027,000 thousand (2016: CZK 1,191,000 thousand), of which the Bank's share was CZK 682,275 thousand (2016: CZK 791,227 thousand) and other syndicate members' share was CZK 344,725 thousand (2016: CZK 399,773 thousand).

# ING Bank N.V., organizační složka

## Notes to the Financial Statements

For the year ended 31 December 2017

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

In 2017 and 2016 the Bank had no commitments to persons with a special relationship to it.

In 2017 and 2016, the Bank did not provide any loans to members of managerial bodies.

### 15. DEBT SECURITIES

	Estimated fair value	Carrying amount
(CZK 000)		
At 31 December 2017		
Issued by non-financial institutions		
Unlisted securities held to maturity	2,027,690	2,020,013
At 31 December 2016		
Issued by non-financial institutions		
Unlisted securities held to maturity	2,027,750	2,019,600

As at 31 December 2017 and 2016, the Bank did not hold any debt securities except for those described in Note 12.

### 16. SHARES, MUTUAL FUNDS CERTIFICATES AND OTHER INVESTMENTS

As at 31 December 2017 and 2016, 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 2017 and 2016.

# ING Bank N.V., organizační složka

## Notes to the Financial Statements

For the year ended 31 December 2017

### 17. INTANGIBLE FIXED ASSETS

#### Movements in intangible fixed assets

(CZK 000)	Software	Acquisition of software	Other	Total
<b>Acquisition cost</b>				
At 1 January 2016	116,681	2,577	326	119,584
Additions	3,004	12,386	10,697	26,087
Disposals	-	-	-	-
At 31 December 2016	119,685	14,963	11,023	145,671
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
<b>Amortization and allowances</b>				
At 1 January 2016	92,606	-	163	92,769
Charge for the year	11,938	-	2,811	14,749
Disposals	-	-	-	-
At 31 December 2016	104,544	-	2,974	107,518
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
<b>Net book value</b>				
At 31 December 2016	<b>15,141</b>	<b>14,963</b>	<b>8,049</b>	<b>38,153</b>
At 31 December 2017	<b>23,418</b>	<b>15,354</b>	<b>1,920</b>	<b>40,692</b>

# ING Bank N.V., organizační složka

## Notes to the Financial Statements

For the year ended 31 December 2017

### 18. TANGIBLE FIXED ASSETS

#### Movements in tangible fixed assets

(CZK 000)	Technical improvement of buildings	Furniture and fixtures	Machinery and equipment	Tangible assets not in use	Total
<b>Acquisition cost</b>					
At 1 January 2016	3,854	8,132	111,712	-	123,698
Additions	-	7,334	13,035	272	20,641
Disposals	-	(371)	(3,988)	-	(4,359)
At 31 December 2016	3,854	15,095	120,759	272	139,980
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
<b>Depreciation and allowances</b>					
At 1 January 2016	838	3,139	92,707	-	96,684
Charge for the year	770	2,269	10,368	-	13,407
Disposals	-	(371)	(3,988)	-	(4,359)
At 31 December 2016	1,608	5,037	99,087	-	105,732
At 1 January 2017	1,608	5,037	99,087	-	105,732
Charge for 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
<b>Net book value</b>					
At 31 December 2016	2,246	10,058	21,672	272	34,248
At 31 December 2017	8,173	13,673	26,501	-	48,347



# ING Bank N.V., organizační složka

## Notes to the Financial Statements

For the year ended 31 December 2017

### 19. OTHER ASSETS

(CZK 000)	2017	2016
Positive fair value of derivatives	3,259,167	4,089,576
Receivables from unsettled securities transactions	-	20
Receivables from unsettled payment transactions	2,244	162
Estimated receivables	31,716	26,594
Paid advances	4,104	3,016
Deferred tax asset (see Note 30)	42,130	27,905
Corporate income tax prepayments	91,619	157,511
Other debtors	74,304	18,722
<b>Total</b>	<b>3,505,284</b>	<b>4,323,506</b>

Gain from hedging interest rate derivatives and loss on hedge accounting is disclosed in Note 6 to the financial statements. Contractual and fair values of hedging derivatives are disclosed in Note 31 to these financial statements.

In 2017 and 2016, the Bank did not write off other assets.

### 20. DUE TO BANKS AND COOPERATIVE SAVINGS ASSOCIATIONS

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

(CZK 000)	2017	2016
Repayable on demand	10,309,340	14,433,065
Up to 3 months	101,279,166	33,962,522
3 months to 1 year	-	38,039
1 year to 5 years	869,524	283,706
<b>Total</b>	<b>112,458,030</b>	<b>48,717,332</b>

# ING Bank N.V., organizační složka

## Notes to the Financial Statements

For the year ended 31 December 2017

### 21. DUE TO CUSTOMERS AND COOPERATIVE SAVINGS ASSOCIATION'S MEMBERS

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

(CZK 000)	Repayable on demand	Term deposits with fixed maturity	Other	Total
<b>At 31 December 2017</b>				
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)
<b>Total</b>	<b>103,137,730</b>	<b>1,851,535</b>	<b>46,315</b>	<b>105,035,580</b>

(CZK 000)	Repayable on demand	Term deposits with fixed maturity	Other	Total
<b>At 31 December 2016</b>				
Residents, of which				
Financial institutions	683,489	183,879	-	867,368
Non-financial institutions	8,905,481	628,192	-	9,533,673
Insurance institutions	169,984	-	-	169,984
Non-profit organizations	69	-	-	69
Resident individuals	88,481,586	81,702	60,970	88,624,258
Non-residents	1,398,396	77,477	-	1,475,873
Changes of FV from Hedge accounting	956,935	-	-	956,935
<b>Total</b>	<b>100,595,940</b>	<b>971,250</b>	<b>60,970</b>	<b>101,628,160</b>

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

In 2017, the Bank had no commitments to persons with a special relationship to it (as well as in 2016).

### 22. PAYABLES FROM DEBT SECURITIES

As at 31 December 2017 and 2016, the Bank had no liabilities from debt securities.

# ING Bank N.V., organizační složka

## Notes to the Financial Statements

For the year ended 31 December 2017

### 23. SUBORDINATED LIABILITIES

(CZK 000)	2017	2016
Subordinated bonds	1,915,071	1,874,299
<b>Total</b>	<b>1,915,071</b>	<b>1,874,299</b>

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.

### 24. OTHER LIABILITIES

(CZK 000)	2017	2016
Negative fair values of derivatives	2,613,511	2,744,213
Clearing accounts – settlement of transactions with securities	11,421	6,960
Clearing accounts – settlement of payment transactions	1,215,481	534,270
Other payables including current income tax liability	69,579	46,765
Estimated payables	172,794	89,041
<b>Total</b>	<b>4,082,786</b>	<b>3,421,249</b>

### 25. 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.

### 26. BONUSES TIED TO EQUITY

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

# ING Bank N.V., organizační složka

## Notes to the Financial Statements

For the year ended 31 December 2017

### 27. PROVISIONS AND ALLOWANCES

#### (a) Allowances for credit losses

(CZK 000)	
Balance at 1 January 2016	41,614
Creation during current year	9,797
Use during current year	(27,390)
Release of allowances no longer considered necessary	(1,763)
<b>Total allowances for credit losses at 31 December 2016</b>	<b>22,258</b>
Balance at 1 January 2017	22,258
Creation during current year	2,669
Release of allowances no longer considered necessary	(9,891)
<b>Total allowances for credit losses at 31 December 2017</b>	<b>15,036</b>

#### (b) Provisions for possible guarantee losses

(CZK 000)	
Balance at 1 January 2016	1,106
Creation during current year (guarantees)	1,180
Release of provisions no longer considered necessary	(294)
<b>Balance of tax non-deductible provisions for possible guarantee losses at 31 December 2016</b>	<b>1,992</b>
<b>Total provisions for possible guarantee losses at 31 December 2016</b>	<b>1,992</b>
Balance at 1 January 2017	1,992
Release of provisions no longer considered necessary	(1,431)
<b>Balance of tax non-deductible provisions for possible guarantee losses at 31 December 2017</b>	<b>561</b>
<b>Total provisions for possible guarantee losses at 31 December 2017</b>	<b>561</b>

# ING Bank N.V., organizační složka

## Notes to the Financial Statements

For the year ended 31 December 2017

### (c) Other provisions

(CZK 000)	Litigations	Financial instruments	Restructuring	Other	Total
Balance at 1 January 2016	-	97,959	800	8,419	107,178
Creation during current year	-	20,163	-	4,219	24,382
Use during current year	-	-	-	-	-
Release of provisions no longer considered necessary	-	(20,895)	(800)	(249)	(21,944)
Foreign exchange gain/ (loss)	-	(21)	-	-	(21)
<b>Balance of other provisions at 31 December 2016</b>	<b>-</b>	<b>97,206</b>	<b>-</b>	<b>12,389</b>	<b>109,595</b>
Balance at 1 January 2017	-	97,206	-	12,389	109,595
Creation during current year	-	62,485	8,100	-	70,585
Use during current year	-	-	-	(4,700)	(4,700)
Release of provisions no longer considered necessary	-	(19,262)	-	(3,985)	(23,247)
Foreign exchange gain/ (loss)	-	(6,926)	-	-	(6,926)
<b>Balance of other provisions at 31 December 2017</b>	<b>-</b>	<b>133,503</b>	<b>8,100</b>	<b>3,704</b>	<b>145,307</b>

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.

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

As at 26 April 2018, the Bank did not decide about the distribution of profit for 2017.

A portion of profit from 2016 amounting to CZK 53,014 thousand was left in the Bank's equity as retained earnings or accumulated losses from previous periods. A total of CZK 628,399 thousand was transferred to the parent company ING Bank N.V. in July 2017.

### 29. GAINS (LOSSES) FROM REVALUATION

(CZK 000)	Available-for-sale securities (incl. deferred tax)	Total
Balance at 1 January 2016	145,206	145,206
Decrease	(117,322)	(117,322)
<b>Balance at 31 December 2016</b>	<b>27,884</b>	<b>27,884</b>
Balance at 1 January 2017	27,884	27,884
Decrease	(34,944)	(34,944)
<b>Balance at 31 December 2017</b>	<b>(7,060)</b>	<b>(7,060)</b>

# ING Bank N.V., organizační složka

## Notes to the Financial Statements

For the year ended 31 December 2017

### 30. INCOME TAX AND DEFERRED TAX ASSET / LIABILITY

#### (a) Income tax payable

(CZK 000)	2017	2016
Current year profit before tax	398,418	842,579
Income not liable to tax	(2,142)	(16,080)
Tax non-deductible expenses	64,907	40,904
Sub-total	461,183	867,403
<b>Income tax calculated using a tax rate of 19%</b>	<b>87,625</b>	<b>164,807</b>
Adjustment of tax from previous years	(1,316)	(1,523)
<b>Total income tax expense</b>	<b>86,309</b>	<b>163,284</b>

#### (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 2017 and 2016.

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

(CZK 000)	2017		2016	
	Deferred tax asset	Deferred tax liability	Deferred tax asset	Deferred tax liability
Allowances and provisions for loan losses	2,958	-	4,560	-
Other provisions	27,608	-	20,823	-
Estimates for bonuses and social security and health insurance from bonuses	11,143	-	9,739	-
Tangible and intangible fixed assets	-	53	386	-
Other items related to prior years	-	1,182	-	1,062
<b>Net deferred tax asset recorded in the Income statement</b>	<b>40,474</b>	<b>-</b>	<b>34,446</b>	<b>-</b>
Valuation of securities	1,656	-	-	6,541
<b>Net deferred tax liability recorded in Equity</b>	<b>1,656</b>	<b>-</b>	<b>-</b>	<b>6,541</b>
<b>Total deferred tax asset/liability (see Note 19)</b>	<b>42,130</b>	<b>-</b>	<b>27,905</b>	<b>-</b>

In 2017, the Bank reported expense as a result of deferred tax totaling CZK 6,028 thousand in the income statement (in 2016 the Bank reported expense of CZK 2,119 thousand as a result of deferred tax).



# ING Bank N.V., organizační složka

## Notes to the Financial Statements

For the year ended 31 December 2017

### 31. OFF-BALANCE SHEET ITEMS

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

(CZK 000)	2017	2016
<b>Banks</b>		
Payables resulting from guarantees	824,498	830,098
<b>Total</b>	<b>824,498</b>	<b>830,098</b>
<b>Customers</b>		
Payables resulting from guarantees	1,070,430	1,633,687
Letters of credit and financial guarantees	-	161,171
Unused credit lines	3,787,285	6,696,857
<b>Total</b>	<b>4,857,715</b>	<b>8,491,715</b>

Provisions of CZK 561 thousand (2016: CZK 1,992 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

(CZK 000)	2017	2016
Collaterals received under resale commitments	90,935,000	55,860,000
Other securities received as pledges	156,393	83,409
Real estate received as collaterals	7,560,305	2,528,460
Received monetary collaterals	368,808	86,398
Other collaterals received	6,605,573	4,734,241
<b>Total</b>	<b>105,626,079</b>	<b>63,292,508</b>

# ING Bank N.V., organizační složka

## Notes to the Financial Statements

For the year ended 31 December 2017

### (c) Off-balance sheet financial instruments

(CZK 000)	Contractual amounts		Fair value	
	2017	2016	2017	2016
<b>Hedging instruments</b>				
Interest rate swap contracts (IRS)	37,240,000	36,865,000	(672,658)	1,333,257
<b>Trading instruments</b>				
Spot currency transactions	-	-	(719)	(1,177)
Spot currency transactions (purchases)	388,945	351,875	-	-
Spot currency transactions (sales)	(389,468)	(353,053)	-	-
Forward foreign exchange contracts (FX)			85,764	23,880
Forward FX purchase contracts	24,121,080	18,820,223	-	-
Forward FX sale contracts	(24,067,062)	(18,812,541)	-	-
Interest rate cross currency swap contracts (IRCS)	-	-	1,390,961	110,173
IRCS purchase contracts	65,006,255	62,468,048	-	-
IRCS sale contracts	(64,233,888)	(63,611,125)	-	-
Interest rate swap contracts (IRS)	78,404,925	76,583,400	(157,692)	(120,771)

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

# ING Bank N.V., organizační složka

## Notes to the Financial Statements

For the year ended 31 December 2017

### (d) Residual maturity of financial derivatives

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

(CZK 000)	Up to 3 months	3 months to 1 year	1 year to 5 years	Over 5 years	Total
<b>At 31 December 2017</b>					
<b>Hedging instruments</b>					
Interest rate swap contracts (IRS)	300,000	1,600,000	14,850,000	20,490,000	37,240,000
<b>Trading instruments</b>					
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 swap contracts (IRS)	3,300,000	36,236,946	30,345,122	8,522,857	78,404,925
<b>At 31 December 2016</b>					
<b>Hedging instruments</b>					
Interest rate swap contracts (IRS)	1,200,000	600,000	16,850,000	18,215,000	36,865,000
<b>Trading instruments</b>					
Forward FX purchase contracts	12,820,223	6,000,000	-	-	18,820,223
Forward FX sale contracts	(12,801,795)	(6,010,746)	-	-	(18,812,541)
IRCS purchase contracts	3,902,000	6,271,047	29,492,262	22,802,739	62,468,048
IRCS sale contracts	(3,926,073)	(6,323,889)	(30,398,180)	(22,962,983)	(63,611,125)
Interest rate swap contracts (IRS)	3,030,106	7,926,351	54,224,696	11,402,247	76,583,400

### 32. ASSETS HELD IN CUSTODY

(CZK 000)	2017	2016
Other assets	5,077,531	3,871,553
<b>Total</b>	<b>5,077,531</b>	<b>3,871,553</b>

Other assets consist mainly of mutual funds of CZK 5,077,531 thousand (2016: CZK 3,871,553 thousand).

# ING Bank N.V., organizační složka

## Notes to the Financial Statements

For the year ended 31 December 2017

### 33. ASSETS PLACED INTO ADMINISTRATION AND MANAGEMENT

In 2017 and 2016, the Bank did not place any assets into custody.

### 34. 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).

All 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 as a result of 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.

# ING Bank N.V., organizační složka

## Notes to the Financial Statements

### For the year ended 31 December 2017

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

(CZK 000)	Up to 3 months	3 months to 1 year	1 year to 5 years	Over 5 years	Not specified	Total
<b>At 31 December 2017</b>						
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
<b>Total</b>	<b>150,009,315</b>	<b>11,962,553</b>	<b>39,485,862</b>	<b>23,511,115</b>	<b>193,298</b>	<b>225,162,143</b>
Due to banks	111,588,506	-	869,524	-	-	112,458,030
Due to customers	38,293,851	18,878,249	23,863,480	24,000,000	-	105,035,580
Other liabilities	1,654,530	387,929	816,312	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
<b>Total</b>	<b>151,536,887</b>	<b>19,269,682</b>	<b>27,483,166</b>	<b>25,064,432</b>	<b>1,807,976</b>	<b>225,162,143</b>
<b>Gap</b>	<b>(1,527,572)</b>	<b>(7,307,129)</b>	<b>12,002,696</b>	<b>(1,553,317)</b>	<b>(1,614,678)</b>	<b>-</b>
<b>Cumulative gap</b>	<b>(1,527,572)</b>	<b>(8,834,701)</b>	<b>3,167,995</b>	<b>1,614,678</b>	<b>-</b>	<b>-</b>

# ING Bank N.V., organizační složka

## Notes to the Financial Statements

For the year ended 31 December 2017

(CZK 000)	Up to 3 months	3 months to 1 year	1 year to 5 years	Over 5 years	Not specified	Total
<b>At 31 December 2016</b>						
Cash and balances with CB	2,203,942	-	-	-	-	2,203,942
State zero coupon bonds and other securities	3,073,210	-	-	-	-	3,073,210
Receivables from banks	71,085,338	8,564,907	25,372,399	21,385,921	-	126,408,565
Subordinated receivable	-	-	1,915,680	-	-	1,915,680
Receivables from customers	7,506,238	4,532,126	3,336,535	2,380,857	-	17,755,756
Debt securities	-	-	-	2,019,600	-	2,019,600
Tangible and intangible fixed assets	-	-	-	-	72,401	72,401
Other assets	252,625	549,099	2,069,383	1,399,500	52,899	4,323,506
Prepaid expenses and accrued income	-	-	-	-	18,426	18,426
<b>Total</b>	<b>84,121,353</b>	<b>13,646,132</b>	<b>32,693,997</b>	<b>27,185,878</b>	<b>143,726</b>	<b>157,791,086</b>
Due to banks	48,395,587	38,039	283,706	-	-	48,717,332
Due to customers	35,967,371	18,226,844	24,233,945	23,200,000	-	101,628,160
Other liabilities	667,760	304,172	1,891,910	468,367	89,040	3,421,249
Deferred income and accrued expenses	-	8,639	11,392	18,158	2,828	41,017
Provisions	-	164,807	-	-	111,587	276,394
Subordinated liabilities	-	-	1,874,299	-	-	1,874,299
Equity	-	-	-	-	1,832,635	1,832,635
<b>Total</b>	<b>85,030,718</b>	<b>18,742,501</b>	<b>28,295,252</b>	<b>23,686,525</b>	<b>2,036,090</b>	<b>157,791,086</b>
<b>Gap</b>	<b>(909,365)</b>	<b>(5,096,369)</b>	<b>4,398,745</b>	<b>3,499,353</b>	<b>(1,892,364)</b>	<b>-</b>
<b>Cumulative gap</b>	<b>(909,365)</b>	<b>(6,005,734)</b>	<b>(1,606,989)</b>	<b>1,892,364</b>	<b>-</b>	<b>-</b>

### 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.



# ING Bank N.V., organizační složka

## Notes to the Financial Statements

For the year ended 31 December 2017

### *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 BPV 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.

### *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 one year. 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 on the financial markets on a daily basis. The HVaR was as follows:

# ING Bank N.V., organizační složka

## Notes to the Financial Statements

For the year ended 31 December 2017

(CZK 000)	At 31 December 2017	Average 2017	At 31 December 2016	Average 2016
HVaR of interest rate and currency instruments – liquidity management book	205,231	195,896	141,240	146,271

### **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.

### **(a) Classification of receivables**

The Bank classifies receivables into individual categories in accordance with Decree No. 163/2014 Coll. issued on 30 July 2014, as amended on the prudential rules of banks, credit unions and investment firms. The categorization is as follows:

#### **Receivables without debtor's default**

The Bank classifies receivables without debtor's default 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.

# ING Bank N.V., organizační složka

## Notes to the Financial Statements

For the year ended 31 December 2017

### Receivables with debtor's default

Receivables with debtor's default are considered to be non-performing receivables. The Bank classifies them into the following sub-categories:

#### *a) Sub-standard receivables*

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

#### *b) Doubtful receivables*

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

#### *c) Loss receivables*

A loss receivable is a receivable which, given the financial and economic condition of the debtor, 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 unless the Bank decides to realize 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 result of its review.

The main criteria for classification are the following:

- the financial condition of the debtor and adherence to agreed upon repayment schedules
- the overall situation of the debtor's industry sector
- the overall development of the debtor's supplier-customer relationships
- the debtor provides the information requested by the Bank
- a restructuring (or non-restructuring) of the receivable (incl. reorganization)
- a declaration of bankruptcy proceedings over the debtor's assets

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

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

# ING Bank N.V., organizační složka

## Notes to the Financial Statements

For the year ended 31 December 2017

### (b) Evaluation of collateral

The Bank generally requires collateral for loans granted to certain debtors before the loans are provided. To reduce the gross credit exposure and for the purpose of calculating adjustments, the Bank considers the following types of collateral to be acceptable:

- Cash
- Securities
- First-class receivables
- Bank guarantee
- Guarantees provided by a reputable third party
- Real estate
- 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 on an annual basis at least.

### (c) Impairment loss and valuation adjustments

The Bank assesses whether the book value of an individual receivable has been impaired (i.e. an impairment loss has been recognized) or whether the book value of the portfolio of receivables with similar credit risk ("portfolio of homogenous receivables") has been impaired. 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 which were not assessed as individually impaired. In this case, the Bank assesses whether the 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 created adjustments for adequacy and validity on a quarterly basis, and adjusts their amount 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.

# ING Bank N.V., organizační složka

## Notes to the Financial Statements

For the year ended 31 December 2017

### (d) 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 Notes 14 (b) and 14 (d).

#### *Analysis by geographical areas*

(CZK 000)	2017	2016
Czech Republic	19,715,760	11,514,423
Slovakia	352,113	713,581
Poland	356,269	280,292
Hungary	179,983	144,816
Netherlands	3,507,709	3,112,698
Luxembourg	1,720,323	1,720,167
other	330,994	269,779
<b>Total</b>	<b>26,163,151</b>	<b>17,755,756</b>

### (e) Claiming of debtors' receivables

The Bank has established a Credit Risk Management department. Each receivable is subject to regular review, focusing on assessment of the debtor's ability to repay the receivable and collateral quality monitoring. The Bank acts in accordance with the rules issued by the ING Bank N.V. Head Office.

### (f) 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.

### (g) 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.

# ING Bank N.V., organizační složka

## Notes to the Financial Statements

For the year ended 31 December 2017

### 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

Amendment to Decree No. 501/2002 and presentation of financial instruments under IFRS as of 1 January 2018

Pursuant to Decree No. 501/2002 Coll., which was amended by Decree No. 442/2017 Coll. on 7 December 2017 with effect from 1 January 2018, as of 1 January 2018 the Bank shall recognise and measure financial instruments and provide related disclosures in the notes to the financial statements in accordance with International Financial Reporting Standards as adopted by the European Union ("IFRS").

The most significant impact of this change relevant to the Bank is the application of IFRS 9 Financial Instruments as of 1 January 2018, affecting the classification of receivables from clients and the measurement of credit losses (i.e. adjustments). The application of IFRS 9 has resulted in the transition from the 'incurred loss' model to the 'expected credit loss' model.

Under the new framework, the Bank classifies individual receivables from clients based on:

- the business model for managing financial assets (i.e. how the entity manages its financial assets to generate cash flows); and
- the characteristics of contractual cash flows arising from financial assets (i.e. whether the contractual terms of the financial asset specify the dates of cash flows that are primarily payments of principal and interest).

For the purposes of measuring credit losses (i.e. adjustments), the Bank uses quantitative and qualitative criteria to classify receivables from clients as receivables:

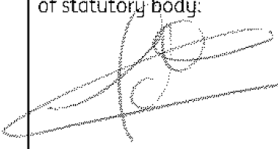


- without default ("stage 1");
- with increased credit risk ("stage 2"); or
- in default ("stage 3").

The key assumptions and judgements in measuring credit losses for receivables from clients include:

- determining the date of default;
- identifying a significant increase in credit risk;
- forecasts of selected macroeconomic indicators.

The Bank has analysed the impact of the above change and, in particular, quantified the expected impact on adjustments to receivables from clients as at 1 January 2018.

The above change had no impact on the financial statements as at 31 December 2017.

Prepared on:  26 April 2018	Signature of statutory body:  Isold Heemstra	Person responsible for accounting (name and signature):  Radek Mlčák	Person responsible for financial statements (name and signature):  Tomáš Andrlé
-----------------------------------	------------------------------------------------------------------------------------------------------------------------------------------	----------------------------------------------------------------------------------------------------------------------------------------------------------------------	----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------