
# Annual Report
# **2019**

## Management Report on the Bank's Business Results

## Annual Management Report ING Bank Czech Republic 2019

2019 was a year of challenges but also a year of great achievements. It is the year in which ING CZ introduced the new international retail platform to Czech Republic, enabling us to manage business around customer relationships rather than a traditional product-centric model.

We successfully transformed one third of our delivery part of the organization to the new agile way of working, moving away from an instruction based hierarchical structure to an ownership & empowerment model. This transformation will enable us to speed up delivery of customer and other innovations.

Our most important priority was to sharpen our non-financial risk management skills in order to continue to play their crucial role as gatekeepers ensuring that the financial system is better protected from fraud and other criminal activities.

Despite the challenges and extra effort to accomplish this transformation and deliver on priorities, last year brought the solid financial results. Our revised Wholesale Banking Growth Strategy keeps on going and despite the volatile markets and strong competitiveness held the similar level of lending assets as in previous year reaching CZK 37 billion. From the wholesale bank income perspective, the revised strategy laid the fundaments of solid underlying profit reaching CZK 446 million, it meant a 31% year-on-year increase. As our purpose in ING is to serve the clients, this was granted in December 2019 by J. P. Morgan, our USD correspondent bank, achieving The 2019 Elite Quality Recognition Award for Outstanding Achievement of Best-in Class in two categories.

At the same time, we are investing in our transformation to prepare for future challenges, product innovations and keeping our customers a step ahead in life and business.

In ING's retail business, I've seen significant success due to the combination of targeted product campaigns introducing the unique upsell campaign for existing and new clients accompanied by a fresh new advertising concept. The ING Savings Account attracted 14 thousand new clients and reached the final balance sheet total of CZK 87 billion. Despite a stable market, ING Mutual Funds balance sheet grew and increased by 5% up to CZK 5.6 billion. We attracted three thousand new Mutual Funds clients.

All the efforts above resulted in a net profit of CZK 296 million for ING in the Czech Republic.

From a global perspective, ING successfully continued to provide a distinguished experience in 2019 that was notably appreciated by our customers. We ranked number one in seven of our 14 retail markets in net promoter scores (NPS) and ING continued to attract new customers as the global customer base grew by 2% year-on-year.

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

Looking back at 2019, ING group delivered a year of solid commercial performance despite the challenging rate environment, geopolitical uncertainties and an increasingly complex and demanding regulatory environment.

We had a clear focus on keeping ING a safe and secure bank. This took the form of a continued focus in 2019 on the know your customer (KYC) enhancement programme. File enhancement and transaction monitoring look-back activities resulted in improved reporting of suspicious activities to authorities in various countries. Across ING we made progress raising awareness, improving the skills and behavior of our staff and resolving issues in executing KYC procedures. And we also started implementing structural solutions to build sustainable KYC operations and made promising strides in pilots where we apply artificial intelligence, machine learning and other technologies to increase the efficiency and effectiveness of compliance and anti-money laundering procedures. I am convinced that mastering these skills will be vital for maintaining trust in the digital bank of the future.

We in ING, feel responsible for both financial market and whole community where we are presented and active. Our strong focus on our key initiative KYC, helps us knowing who we do business with and protect our clients, ING and the financial system as a whole against serious economic crimes such as money laundering, tax evasion and financing terrorism. Mastering KYC is as important as mastering financial risk.

As a bank, we contribute to improving the global climate by committing to the Paris agreement to maximize the raise of the average temperature below 2 °C. We also help our clients in search of solutions to decrease our fossils dependency. But such complex challenges will not be solved by a single bank, non-profit organization or government. We must all work together. Therefore, ING is involved in UN environmental programs and initiatives or the World Economic Forum. At the same time, we believe that responsible business is the only right one.

Our contribution to the community in the Czech Republic is mainly driven by volunteering activities of ING employees, our strong collaboration with the Tereza Maxova Foundation, and being active promoter and role-model in sustainable behavior. Our strategic approach to corporate social responsibility as well as all our activities were acknowledged by Business for Society, awarding ING as one of 25 BpS TOP Large Responsible Companies for 2019 in the Czech Republic. Our working environment ranked ING among top five Sodexo Employer of the Year in category up to 500 employees.

In 2019, ING employees dedicated 2346 working hours of volunteering activities and charity. We continued in financial education at elementary and secondary schools and for the fifth time we've been partners of Teribear moves Prague sport-charity event, not only as a sponsor, but also as active participants. Almost 200 of our colleagues ran or walked 3730.5 km at the top of Vítkov hill to support children in need.

The past year was one in which we strengthened our fundaments necessary to ensure future success. I would like to express my appreciation to our customers for their loyalty, trust and patience, I wish to sincerely thank our employees for all their hard work and commitment in the past year. The first months of 2020 were marked by the spread of corona (COVID-19) virus-linked infections in and beyond China, negatively affecting Chinese manufacturing and trade, and posing the threat of significant disruption to global supply chains, global manufacturing, travel and tourism, investment and consumer spending. As we look to the future, trust and commitment are ING's greatest assets, and earning it every day is our most important measure of success. I believe, that will also help us get over all uncertainties and challenges raised by current corona virus pandemic.

**Isold Heemstra**
**CEO**

# General information

Annual report:

ING Bank N.V., branch

For the year ended 31 December 2019

The bank will continue in its activity. The bank has no branch and acquired no own shares in 2019.

Average number of employees, changes in average number of employees and related expenses are included within the notes to the financial statements which are an integral part of the annual report.

Human resources policy of ING Bank is in line with the strategy of the bank leading to effectiveness of provided services.

The bank did not incur expenses related to research, development and environment protection in 2019.

Subsequent events are disclosed in the notes to the financial statements which are an integral part of this annual report.

**Company name: ING Bank N.V., organizační složka**
Registered office: Českomoravská 2420/15, Libeň, 190 00 Praha 9
Identification number: 492 79 866
Business activity: Bank
Bank code: 3500
Date of preparation of the financial statements: 30 April 2020

**BALANCE SHEET**
**as at 31 December 2019**
(Translated from the Czech original)

| in million of CZK | | Note | 31/12/2019 | 31/12/2018* |
|---|---|---|---|---|
| | **ASSETS** | | | |
| 1 | Cash in hand and balances with central banks | | 339 | 3 404 |
| 2 | State zero coupon bonds and other securities eligible for refinancing with the central bank | 12 | 5 927 | 5 387 |
| | *of which: a) securities issued by government institutions* | | *5 927* | *5 387* |
| 3 | Receivables from banks and credit unions | 13 | 111 501 | *160 724* |
| | *of which: a) repayable on demand* | | *1 151* | *682* |
| | *b) other receivables* | | *110 350* | *160 042* |
| 4 | Receivables from customers – credit union members | 14 | 37 411 | 38 018* |
| | *of which: a) repayable on demand* | | *4 800* | *5 642* |
| | *b) other receivables* | | *32 611* | *32 376* |
| 5 | Debt securities | 15 | - | 0* |
| | *b) issued by other entities* | | - | *0** |
| 9 | Intangible fixed assets | 17 | 221 | 142 |
| 10 | Tangible fixed assets | 18 | 172 | 58 |
| 11 | Other assets | 19 | 2 913 | 2 960 |
| 13 | Prepaid expenses and accrued income | | 41 | 54 |
| **Total assets** | | | **158 525** | **210 747** |

* In accordance with the applicable business model, the Bank reclassified non-trading securities from Debt securities to Receivables from customers. This reclassification was made retrospectively to 31 December 2018. The reclassification does not change the valuation method, which remains at amortized cost. Reclassification is further described in the point 3(b) in the notes to the financial

| in million of CZK | | Note | 31/12/2019 | 31/12/2018 |
|---|---|---|---|---|
| | **LIABILITIES & EQUITY** | | | |
| 1 | Payables to banks and credit unions | 20 | 51 535 | 102 425 |
| | *of which: a) repayable on demand* | | *1 843* | *2 535* |
| | *b) other payables* | | *49 692* | *99 890* |
| 2 | Payables to customers – credit union members | 21 | 102 005 | 101 081 |
| | *of which: a) repayable on demand* | | *98 688* | *98 274* |
| | *b) other payables* | | *3 317* | *2 807* |
| 4 | Other liabilities | 23 | 3 355 | 3 247 |
| 5 | Deferred income and accrued expenses | | 40 | 49 |
| 6 | Provisions | 26 | 109 | 113 |
| | *c) other* | | *109* | *113* |
| 7 | Subordinated liabilities | 22 | - | 1 959 |
| | **Total liabilities** | | **157 044** | **208 874** |
| 12 | Capital funds | | - | 1 |
| 13 | Revaluation gains (losses) | 28 | 6 | (14) |
| | *of which: a) on assets and liabilities* | | *6* | *(14)* |
| 14 | Retained profits (or accumulated losses) | 27 | 1 179 | 1 179 |
| 15 | Profit (loss) for the accounting period | | 296 | 707 |
| | **Total equity** | | **1 481** | **1 873** |
| **Total liabilities and equity** | | | **158 525** | **210 747** |

| | in million of CZK | Note | 31/12/2019 | 31/12/2018 |
|---|---|---|---|---|
| | **OFF-BALANCE SHEET ITEMS** | | | |
| | **Off-balance sheet assets** | | | |
| 1 | Commitments and guarantees provided | 30 | 10 219 | 10 118 |
| 3 | Receivables from spot transactions | 30 | 251 | 229 |
| 4 | Receivables from fixed term transactions | 30 | 189 351 | 215 476 |
| | **Off-balance sheet liabilities** | | | |
| 9 | Commitments and guarantees received | 30 | 14 010 | 34 029 |
| 10 | Collaterals and pledges received | 30 | 84 032 | 128 137 |
| 11 | Liabilities from spot transactions | 30 | 252 | 229 |
| 12 | Liabilities from fixed term transactions | 30 | 188 429 | 214 969 |
| 14 | Values taken into custody, administration and deposit | 31 | 5 550 | 5 283 |

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# INCOME STATEMENT
## for the year ended 31 December 2019
(Translated from the Czech original)

| | in million of CZK | Note | 2019 | 2018 |
|---|---|---|---|---|
| 1 | Interest income and similar income | 4 | 4 717 | 3 631 |
| | *of which: interest on debt securities* | | *115* | *22* |
| 2 | Interest expense and similar expense | 4 | (1 464) | (1 033) |
| | *of which: interest on debt securities* | | *(115)* | *(134)* |
| 4 | Fee and commission income | 5 | 396 | 441 |
| 5 | Fee and commission expense | 5 | (27) | (27) |
| 6 | Gain or loss from financial operations | 6 | (1 222) | (447) |
| 7 | Other operating income | 7 | 4 | 1 |
| 8 | Other operating expenses | 7 | (171) | (112) |
| 9 | Administrative expenses | 8 | (1 752) | (1 548) |
| | *of which: a) employee expenses* | | *(587)* | *(504)* |
| | *ab) social and health insurance* | | *(130)* | *(110)* |
| | *b) other administrative expenses* | | *(1 165)* | *(1 044)* |
| 11 | Depreciation, additions and utilisation of provisions and adjustments to tangible and intangible fixed assets | 17, 18 | (107) | (42) |
| 12 | Release of loss allowances and provisions for receivables and guarantees, income from written-off receivables | 26 | 16 | 16 |
| 13 | Write-offs, additions and use of loss allowances and provisions for receivables and guarantees | 26 | (17) | (24) |
| 16 | Release of other provisions | 26 | 64 | 84 |
| 17 | Additions and use of other provisions | 26 | (61) | (52) |
| **19** | **Current year profit (loss) from ordinary activities before tax** | | **376** | **887** |
| 23 | Income tax | 29 | (80) | (180) |
| 24 | **Net profit (loss) for the period** | | **296** | **707** |

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## STATEMENT OF CHANGES IN EQUITY
### for the year ended 31 December 2019
(Translated from the Czech original)

| in million of CZK | Registered capital | Own shares | Share premium | Reserve funds | Capital funds | Revaluation gains(losses) | Profit (loss) | **Total** |
|---|---|---|---|---|---|---|---|---|
| **Balance at 1/1/2018** | **-** | **-** | **-** | **-** | **-** | **(7)** | **1 494** | **1 487** |
| Net profit (loss) for the period | - | - | - | - | - | - | 707 | **707** |
| Other changes | - | - | - | - | 1 | (7) | (318) | **(324)** |
| **Balance at 31/12/2018** | **-** | **-** | **-** | **-** | **1** | **(14)** | **1 886** | **1 873** |
| **Balance at 1/1/2019** | **-** | **-** | **-** | **-** | **1** | **(14)** | **1 886** | **1 873** |
| Changes in accounting policies | - | - | - | - | - | - | - | **-** |
| Net profit (loss) for the period | - | - | - | - | - | - | 296 | **296** |
| Other changes | - | - | - | - | (1) | 20 | (707) | **(688)** |
| **Balance at 31/12/2019** | **-** | **-** | **-** | **-** | **-** | **6** | **1 475** | **1 481** |

## 1. GENERAL INFORMATION

### (a) Description of the Bank

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

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

***Identification number***
49279866

Activities of the Bank

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

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

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

**Statutory body**
The head of the Branch is the Bank´s statutory body. As at 31 December 2019 the head of the Branch was Isold Heemstra, who was appointed to the office by the Board of Directors ING Bank N.V. with effect from 1 September 2016. This fact was recorded in the Commercial Register on 1 September 2016. In 2019 there were no changes recorded in the Commercial Register.

### (b) Basis of preparation

The financial statements have been prepared on the basis of accounts maintained in accordance with:

- Act No. 563/1991, on Accounting, as amended;
- Decree No. 501/2002 issued by the Ministry of Finance of the Czech Republic, effective from 1 January 2018;
- Czech accounting standards for financial institutions, issued by the Ministry of Finance.

These financial statements have been prepared in accordance with Decree No. 501/2002, effective from 1 January 2018, which regulates the layout, designation and definition of the captions of the financial statements. In Section 4a (1), the Decree stipulates that for the purposes of financial instruments’ recognition, measurement and disclosures on them in the notes to the financial statements the entity shall proceed in accordance with the International Financial Reporting Standards stipulated by directly applicable regulations of the European Union on applying the international accounting standards ("international accounting standard" or "IFRS").

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.

The financial statements are based on the assumption that the Entity will continue as a going concern and that there is no circumstance that would restrict or prevent the Entity’s ability to continue as a going concern in the foreseeable future.

The reporting date of the financial statements is 31 December 2019. The current period is the period from 1 January 2019 to 31 December 2019. The prior period is the period from 1 January 2017 to 31 December 2018.

Unless otherwise indicated, all amounts are shown in millions of Czech crowns ("CZK million").

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

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

## 2. SIGNIFICANT ACCOUNTING POLICIES

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

### (a) Transaction date

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

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

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

### (b) Foreign currency translations

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

### (c) Financial assets and financial liabilities

#### (i) Recognition and initial measurement

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

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

#### (ii) Classification

*Financial assets*

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

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

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

- the asset is held within a business model whose objective is to hold assets to collect contractual cash flows; and

- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding (the so-called „SPPI test"). 

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

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

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

All other financial assets are classified as measured at FVTPL and subsequent changes in fair value are recognized in profit or loss (FVTPL).

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

*Business model assessment*

An entity's business model is determined at a level that reflects how groups of financial assets are managed together to achieve a particular business objective. Accordingly, this condition is not an instrument-by-instrument approach to classification and should be determined on a higher level of aggregation. The entity considers all relevant information and evidence which is available at the assessment date. The information considered includes:
- the stated policies and objectives for the portfolio and the operation of those policies in practice. In particular, whether management's strategy focuses on earning contractual interest revenue, maintaining a particular interest rate profile, matching the duration of the financial assets to the duration of the liabilities that are funding those assets or realising cash flows through the sale of the assets;
- how the performance of the portfolio and the financial assets held within this business model is evaluated and reported to the entity's key management personnel;
- the risks that affect the performance of the business model and financial assets held within this business model, and how those risks are managed;
- how managers of the entity are compensated – e.g. whether compensation is based on the fair value of the assets managed or the contractual cash flows collected; and
- the frequency, volume and timing of sales in prior periods, the reasons for such sales and its expectations about future sales activity. However, information about sales activity is not considered in isolation, but as part of an overal assessment of how the entity's stated objective for managing the financial assets is achieved and how cash flows are realised.

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

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

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

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

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

*Reclassification*

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

*Financial liabilities*

The entity classifies its financial liabilities, other than financial guarantees and loan commitments, as measured at:
- amortised cost; or
- fair value through profit or loss FVTPL.

**(iii) Derecognition**

*Financial assets*

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

On derecognition of a financial asset, the difference between
a) the carrying amount of the asset (or the carrying amount allocated to the portion of the asset derecognised) and
b) the sum of (i) the consideration received (including any new asset obtained less any new liability assumed) and (ii) any cumulative gain or loss that had been recognised in equity

is recognised in profit or loss.

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

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

*Financial liabilities*

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

**(iv) Modifications of financial assets and financial liabilities**

*Financial assets*

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

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

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

*Financial liabilities*

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

**(v) Offsetting and presentation in the net amount**

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

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

**(vi) Fair value measurement**

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

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

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

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

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

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

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

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

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

**Fair value hierarchy**

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

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

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

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

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

**(vii) Impairment of finacial assets**

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

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

No impairment loss is recognised on equity investments.

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

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

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

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

*Measurement of ECL*

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

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

The ING Group builds on existing regulatory capital models using Advanced Internal rating Based (AIRB) models for regulatory purposes. See also note 34.

*Restructured financial assets*

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

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

*Credit-impaired financial assets*

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

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

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

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

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

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

*Presentation of loss allowance for ECL in the balance sheet*

Loss allowances for ECL are presented in the balance sheet as follows:

- finacial assets measured at amortised cost: as a deduction from the gross carrying amount of the assets;
- loan commitments and finacial guarantee contracts: generally as a provision, except for the exception stated in the bullet point below;
- where a financial instrument includes both a drawn component (a financial asset) and an undrawn component (a loan commitment), and the entity cannot separately identify the expected credit losses on the loan commitment component from those on the financial asset component, the expected credit losses on the loan commitment should be recognised together with the loss allowance for the financial asset. To the extent that the combined expected credit losses exceed the gross carrying amount of the financial asset, the expected credit losses should be recognised as a provision.

- debt instruments measured at FVOCI: no loss allowance is recognised in assets in the balance sheet because these instruments are presented at their fair value in assets. However, the loss allowance is disclosed in the notes to the finacial statements and is recognised in "Revaluation gains (losses)" in equity.

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

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

*Tax loss allowances*

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

*Write-off*

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

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

**(d) Receivables from banks and clients**

Receivables are recognised in purchase prices less impairment losses. Accrued interest income is part of the carrying amount of these receivables.

*Accounting loss allowances*

Receivables are monitored for recoverability, which is the basis for determining the impairment loss in respect of individual receivables. Unless the entity directly writes off the portion of receivables corresponding to the impairment loss, a loss allowance is established for that portion of receivables. The method of calculating loss allowances is described in note 34 (a), (b) and (c). Loss allowances established by debiting expenses are reported in "Write-offs, additions and use of loss allowances and provisions for receivables and guarantees".

*Tax loss allowances*

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

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

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

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

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

**(e) Financial guarantees and loan commitments**

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

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

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

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

**(f) Debt securities**

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

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

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

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

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

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

*Derecognition of securities*

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

**(g) Securities transctions for customers**

Securities received by the Bank into custody, administration or deposit are recognised at their market prices and recorded in the off-balance sheet account “Values taken into custody, administration and deposit”. In the balance sheet, liabilities of the Bank are accounted for by the Bank in respect of clients, mainly due to cash received for the purchase of securities, cash to be returned to the client, etc.

**(h) Ownership interests with controlling or significant influence**

The Bank has no ownership interests with controlling or significant influence.

**(i) Financial derivatives**

A derivative is a financial instrument that meets the following conditions:

a) its fair value changes in response to the change in a specified interest rate, price of a security, commodity price, foreign exchange rate, price index, credit rating or credit index, or other variable ("underlying asset");
b) it requires a small or no initial net investment, compared with other types of contracts based on a similar response to changes in market factors; and
c) it is settled at a future date, with the period from the trade date to the settlement date exceeding that of a spot transaction.

Derivatives are recognised in the balance sheet at fair value. Positive fair values of derivatives are recognised in assets under "Other assets". Negative fair values of derivatives are recognised in liabilities under "Other liabilities".

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

In the off-balance sheet, derivatives are recorded at the non-discounted contractual value of the underlying instrument under "Receivables from fixed term transactions", "Receivables from options", "Liabilities from fixed term transactions", and "Liabilities from options".

*Trading derivatives*

Financial derivatives held for trading are recognised in the balance sheet at fair value. Gains and losses from changes in fair value are recorded in the income statement under "Gain or loss from financial operations". Interest income and expense from derivative financial instruments are recognized in the income statement under "Interest income and similar income" or "Interest expense and similar expense".

*Hedging derivatives*

The Bank uses the fair value hedge method to manage interest rate risk.

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

**(j) Hedging accounting**

*Fair value hedges*

Fair value hedges are used to minimize the variability in the fair value of a retail deposit portfolio because of a change in interest rates (hedged instrument) that affects profit or loss. Retail deposits are reported in the Bank's liabilities under "Amounts owed to customers - credit union members" and "payable on demand". Interest rate swaps (IRS) are selected as hedging instruments.

Due to fact that the hedged instrument is measured at cost, it adjusts the gain or loss on the fair value of the hedged instrument to the hedged risk of the carrying amount of the hedged instrument and is recognized in the income statement in the "Gain or loss from financial operations" category. In the balance sheet, such changes in the fair value of the hedged instrument reduce / increase the directly hedged instrument "Amounts due to customers - credit union members". The reporting of hedging derivatives is described in Note 2 (i).

Hedge accounting is applied only if:

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

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

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

**(k) Repo transactions, reverse repo transactions and short sales**

***Repo transactions***

Transactions where securities are sold under a repurchase agreement (repo transaction) at a predetermined price and accounted for as borrowings collateralised by the securities that are being sold and repurchased.

These borrowings are recognised in the balance sheet under "Payables to banks and credit unions" or "Payables to customers – credit union members".

The legal title to the respective securities is transferred to the lender. However, securities transferred under a repo transaction continue to be recognised either:

- in the balance sheet, provided that the repo transaction involves securities held and recognised in the balance sheet; or
- in the off-balance sheet under "Collaterals and pledges received", provided that the repo transaction involves securities acquired in a reverse repo transaction as collateral received.

Expenses arising from repo transactions as the difference between the selling and purchase price are accrued over the period of the transaction and recognised in the income statement in "Interest expense and similar expense".

Interest on debt securities transferred under a repo transaction is accrued.

***Reverse repo transactions***

Transactions where securities are purchased under a resale agreement (reverse repo transaction) at a predetermined price are accounted for as loans collateralised by the securities that are being purchased and resold.

These loans are recognised in the balance sheet under "Receivables from banks and credit unions" or "Receivables from customers – credit union members".

Securities received under reverse repo transactions are only recorded in the off-balance sheet under "Collaterals and pledges received".

Income arising from reverse repo transactions as the difference between the selling and purchase price is accrued over the period of the transaction and recognised in the income statement as "Interest income and similar income".

Interest on debt securities that serve as collateral in reverse repo transactions is not accrued.

***Short sale liabilities***

A short sale liability is a liability representing a debt which has arisen from the sale of a security that has been received in a repo transaction or that the entity has borrowed. Such a liability is measured at fair value. Liabilities arising from the short sale of debt securities are recognised under "Payables from debt securities". Liabilities arising from the short sale of equity securities are recognised under "Other liabilities".

Securities received in a reverse repo transaction that are sold short are derecognised from the off-balance sheet.

Changes in fair values are recognised in the income statement under “Gain or loss from financial operations”.

**(l) Deposits, debt securities issued and subordinated liabilities**

Deposits, debt securities issued and subordinated liabilities are initially measured at fair value minus incremental direct transaction costs, and subsequently measured at their amortised cost using the effective interest rate method, except where the entity designates liabilities at FVTPL (see note 2a(viii)).

Deposits received from customers are recognised in the balance sheet under “Payables to customers – credit union members”

Debt securities issues are recognised in “Payables from debt securities”.

Subordinated liabilities are recognised in “Subordinated liabilities”.

***(m)*** **Interest**

*Effective interest rate*

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

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

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

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

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

*Amortised cost and gross carrying amount*

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

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

*Calculation of interest income and interest expense*

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

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

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

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

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

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

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

**(n) Commission and fee income**

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

**(o) Provisions**

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

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

Provisioning is recognized in the relevant income statement. The use of the provision is recognized jointly with the costs or losses for which the reserves were created in the relevant income statement. The reversal of the provision for uselessness is recognized in the relevant income statement.

**(p) Tangible and intangible fixed assets**

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

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

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

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

**Leases - the entity acting as a lessee – policies effective from 1 January 2019**
The Entity applies the international financial reporting standard IFRS 16 – Leases from 1 January 2019. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange of consideration.

IFRS 16 brought changes in the recognition and disclosures for lessees. The Entity acting as a lessee recognizes a right-of-use asset and the related lease liability in the balance sheet with exceptions where:

- the lease term does not exceed 12 months
- or the underlying asset has a low value.

**Right-of-use asset**
At the commencement date, a right-of-use asset is measured at cost which comprises:

- the amount of the initial measurement of the lease liability,
- any lease payments made at or before the commencement date, less any lease incentives received,
- any initial direct costs incurred by the lessee,
- an estimate of costs to be incurred by the lessee in dismantling and removing the underlying asset.

A right-of-use asset is recognized in the balance sheet in the line „Tangible fixed assets“ and is lineary depreciated for the shorter of economic useful life of the underlying asset or the lease term. The related depreciation is recognized in the income statement in the line „Depreciation, additions and utilisation of provisions and adjustments to tangible and intangible fixed assets“.

***Lease liability***

At the commencement date, a lease liability is initially measured at the present value of the lease payments which that are not paid at that date. The lease payments are discounted using an interest rate which a lessee would have to pay, if a lessee borrowed cash to acquire the underlying asset taking into consideration the terms relating to a lease (i.e. lease/loan term, amount of loans, etc.).

Subsequently, the lease liability is remeasured when there is change in future lease payment (e.g. due to a change in an assessment whether and when it will exercise extension or termination option. When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset, or is recorded in the income statement if the carrying amount of the right-of-use asset has been reduced to zero.

The lease liability is recognized in the balance sheet and presented in the line „Other liabitilies“.

Interest expense on lease liability are recognized in the income statement and presented in the line „Interest expense and similar expense“ using the effective interest rate.

***Finance leases - the entity acting as a lessee – policies effective from 1 January 2019***
Assets held by the entity under leases that transfer to the entity substantially all of the risks and rewards of ownership are classified as finance leases.

From the point of view of the lessee, the tangible asset subject to the lease agreement is capitalised and a liability is recognised.

The leased asset and the relevant liability are initially measured at the amount equal to the lower of:

- the fair value of the leased asset; and
- the present value of the minimum lease payments (outstanding contractual cash flows).

Subsequent to initial recognition, the asset is recognised and depreciated in accordance with the accounting policies applicable to that asset.

Minimum lease payments made under finance leases are apportioned between:

- the finance expense recognised in the income statement under “Interest expense and similar expense”; and
- the reduction of the outstanding liability.

The finance expense is allocated to each period during the lease term to produce a constant periodic rate of interest on the remaining balance of the liability.

**(q) Recognition of revenues and expenses**

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

**(r) Taxation**

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

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

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

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

**(s) Prior period items and changes in accounting policies**

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

## 3. CHANGES IN ACCOUNTING POLICIES

**(a) Effect of changes in accounting policies**

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

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

**i) Initial application of IFRS 16 Leasings**

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

Since 1 January 2019, the application of IFRS 16 Leases has had a major impact on the Entity. See note 2(p) and 18.

**Definition of a lease**

The Entity applied a practical expedient of grandfathering the definition of a lease according to IAS 17 and IFRIC 4 as at the date of initial application of IFRS 16 for lease contracts beginning before 1 January 2019. This means that the Entity applied IFRS 16 to those contracts entered into before 1 January 2019 which met this definition and were identified as leases in accordance with IAS 17 and IFRIC 4 as at 31 December 2018.

**Comparative figures for the previous period**

The Entity selected a modified retrospective approach. Therefore, any cumulative adjustment arising from intial application of IFRS 16 is recognized as an adjustment to the opening balances of the line „Retained profits (or accumulated losses)“ in the equity, i.e. without restatement of the balances for the previous period.

**Lease liability**

Average weighted discount rate applied for a calculation of the lease liability as at 1 January 2019 is at 1 %.

A reconciliation and explanation of differences arising from future payments of operating leases as at 31 December 2018 and lease liabilities as at 1 Janauary 2019 is as follows:

| in millions of CZK | |
|---|---|
| Future payments from operating leases as at 31.12.2018 | 11 |
| Future payments from operating lease as at 31.12.2018 discounted as at 1.1.2019 | 11 |
| Finance lease liabilities recognised as at 31.12.2018 | 119 |
| Sub-total | 130 |
| **Lease liabilities recognised as at k 1.1.2019** | **130** |

**Right-of-use assets**

In terms of leases previously classified as an operating lease under IAS 17, the Entity chose to measure right-of-use assets at the date of intial application of IFRS 16 at an amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments recognised in the balance sheet immediately before the date of initial application, i.e. as follows:

| in millions of CZK | |
|---|---|
| Lease liabilities as at 1.1.2019 | 130 |
| Advances and accruals arising from leases as at 31.12.2018 | 0 |
| **Right-of-use assets as at k 1.1.2019** | **130** |

Due to this reason (i.e. due to the selected option how to measure right-of-use assets as at 1 January 2019), there is no impact on the equity in the line „Retained profits (or accumulated losses)“.

**(b) Reclassification of non-traded securities**

In accordance with the applicable business model, the Bank reclassified non-trading securities from Debt securities to Receivables from customers. This reclassification was made retrospectively to 31 December 2018. The reclassification does not change the valuation method, which remains at amortized cost.

The effect of the reclassification is as follows:

Presentation in Financial statements 2019:

| in millions of CZK | Estimated fair value | Book value |
|---|---|---|
| as at 31.12.2018 | | |
| Receivables from customers | | |
| Stage 1, credit rating 12 | 2 008 | 2 020 |

Presentation in Financial statements 2018:

| in millions of CZK | Estimated fair value | Book value |
|---|---|---|
| as at 31.12.2018 | | |
| Debt securities issued by non-financial institutions | | |
| Non-traded securities | 2 008 | 2 020 |

## 4. NET INTEREST INCOME

| CZK million | 2019 | 2018 |
|---|---|---|
| Interest income and similar income | | |
| from deposits | 2 414 | 1 926 |
| from loans | 1 042 | 672 |
| from financial assets for trading | 1 145 | 843 |
| from securities | 73 | 44 |
| from available-for-sale financial assets | 17 | 23 |
| other | 1 | 1 |
| gains on interest rate derivatives | 25 | 122 |
| Total | 4 717 | 3 631 |
| Interest expense and similar expense | | |
| from deposits | 718 | 388 |
| from financial liabilities for trading | 469 | 480 |
| other | 277 | 165 |
| Total | 1 464 | 1 033 |
| **Net interest income** | **3 253** | **2 598** |

Other expenses consist mainly of expenses from debt securities of MCZK 115 (2017: MCZK 134).
Interest income and interest expense are calculated using the effective interest rate method.

## 5. COMMISSION AND FEE INCOME AND EXPENSE

| CZK million | 2019 | 2018 |
|---|---|---|
| Income from fees and commissions | | |
| lending activities | 91 | 53 |
| payment processing | 61 | 60 |
| services for securities brokerage | 51 | 52 |
| guarantees issued | 7 | 7 |
| sale of financial instruments | 162 | 231 |
| other | 24 | 38 |
| **Total** | **396** | **441** |
| Commission and fee expense from | | |
| securities transactions | 2 | 3 |
| management, administration, deposits and custody | 8 | 8 |
| payment processing | 12 | 12 |
| services for securities and other financial instruments brokerage | 0 | 1 |
| other | 5 | 3 |
| **Total** | **27** | **27** |

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

| CZK million | 2019 | 2018 |
|---|---|---|
| Gain/(loss) from securities transactions | 26 | -13 |
| Gain/(loss) from derivative transactions | -1 756 | -1 |
| of which gain/(loss) from interest tools (incl. interest rate derivatives) | 47 | 14 |
| of which gain/(loss) from currency tools (incl. currency derivatives) | -1 803 | -16 |
| Gain/(loss) from hedge accounting | -63 | -7 |
| Gain/(loss) from foreign exchange transactions | 105 | 101 |
| Foreign exchange gain/ (loss) | 466 | -525 |
| **Total** | **-1 222** | **-447** |

## 7. OTHER OPERATING INCOME AND EXPENSES

| CZK million | 2019 | 2018 |
|---|---|---|
| Other operating income | | |
| Income from transfer of tangible and intangible assets | - | 1 |
| Other | 4 | - |
| **Total** | **4** | **1** |

| CZK million | 2019 | 2018 |
|---|---|---|
| Other operating expenses | | |
| The deposit insurance Fund ( DGS in the Netherlands) | 170 | 103 |
| Losses from errors | 1 | 4 |
| Net carrying amount of tangible fixed assets sold | - | 1 |
| Other | - | 4 |
| **Total** | **171** | **112** |

## 8. ADMINISTRATIVE EXPENSES

| CZK million | 2019 | 2018 |
|---|---|---|
| Personnel and related expenses | | |
| Wages and salaries paid to employees | 457 | 394 |
| Thereof: Wages and salaries paid to management | 30 | 27 |
| Social security and health insurance | 130 | 110 |
| | 587 | 504 |
| Intercompany services | 528 | 440 |
| Other administrative expenses | 637 | 604 |
| Thereof: rent expense | 5 | 32 |
| Thereof: expense for audit, legal and tax advisory | 87 | 84 |
| Thereof: remuneration of the statutory auditor – statutory audit | 2 | 2 |
| | 1 165 | 1 044 |
| **Total** | **1 752** | **1 548** |

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

| | 2019 | 2018 |
|---|---|---|
| Employees | 340 | 307 |
| Management | 8 | 8 |

**Rent and other leases**

Decrease in the item Rent which represents a rent for banks’s headquarters and its branches is primarily due to the fact that from 1 January 2019 a new standard IFRS 16 was applied and the previous standard IAS 17 was abolished. Therefore, the banks as a lessee started to recognise a right-of-use assets (i.e. with exception where the lease term does not exceed 12 months or the underlying asset has a low value) in the line „Tangible fixed assets“. For this reason, the item Rent for 2018 contain expenses for rent of banks’s headquarter and its branches under operational leases in accordance with IAS 17. Whereas, for 2019, the related expenses were not booked, because the banks from 1 January 2019 recognises right-of-use assets, which are depreciated (see further note 18), and at the same time, lease liabilities attracting interest expenses.

As the banks do not recognise right-of-use assets in the balance sheet in the following cases:
- short-term leases
- or leases with low value

## 9. EXTRAORDINARY INCOME AND EXPENSES

In 2019 and 2018 the Bank had no extraordinary income or extraordinary costs.

## 10. INCOME AND EXPENSE ACCORDING TO SEGMENTS

### Geographical segments

| | Czech Republic | | European Union | | Other | | Total | |
|---|---|---|---|---|---|---|---|---|
| CZK million | 2019 | 2018 | 2019 | 2018 | 2019 | 2018 | 2019 | 2018 |
| Interest income and similar income | 2 021 | 1 650 | 2 688 | 1 956 | 8 | 26 | 4 717 | 3 631 |
| Interest expense and similar expense | -404 | -428 | -1 060 | -604 | - | - | -1 464 | -1 033 |
| Income from fees and commissions | 395 | 439 | 1 | 2 | - | - | 396 | 441 |
| Commission and fee expense from | -26 | -27 | -1 | - | - | - | -27 | -27 |
| Gain/(loss) from financial operations | 397 | -255 | -1 549 | -182 | -70 | -9 | -1 222 | -447 |
| Other operational income | - | 1 | - | - | - | - | - | 1 |
| Other operational expense | -167 | -112 | - | - | - | - | -167 | -112 |

## 11. TRANSACTIONS WITH RELATED PARTIES

| CZK million | 2019 | 2018 |
|---|---|---|
| **Receivables – total** | **45 540** | **51 762** |
| Receivables from banks and cooperative savings associations | 41 881 | 47 168 |
| due on demand | 1 066 | 600 |
| other receivables | 40 814 | 46 567 |
| Receivables from clients – members of cooperative savings associations | 1 019 | 1 914 |
| due on demand | - | - |
| other receivables | 1 019 | 1 914 |
| Other assets | 2 641 | 2 681 |
| **Payables – total** | **53 036** | **104 284** |
| Payables to banks and cooperative savings associations | 50 572 | 101 474 |
| due on demand | 1 045 | 1 825 |
| other liabilities | 49 497 | 99 649 |
| Payables to clients – members of cooperative savings associations | 301 | 519 |
| due on demand | 148 | 519 |
| other liabilities | 153 | - |
| Other liabilities | 2 193 | 2 291 |
| Net interest income | 1 017 | 1 203 |
| Net income from commissions and fees | 1 | - |
| Gain/(loss) from financial operations | -391 | 470 |
| Administrative expenses and other operating expenses | -536 | -455 |

The above schedule includes all transactions with related parties.

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

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

| CZK million | 2019 | 2018 |
|---|---|---|
| State bonds | 5 927 | 5 387 |
| **Net book value** | **5 927** | **5 387** |

### (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 millions | 2019 | 2018 |
|---|---|---|
| State zero coupon bonds and other securities FVOCI/FVTPL | 848 | 823 |
| State zero coupon bonds and other securities amortised costs | 5 079 | 4 564 |
| **Net book value** | **5 927** | **5 387** |

### (c) Repo and reverse repo transactions

As at 31 December 2019, under reverse repo transactions, the Bank has acquired state zero coupon bonds and other securities with a market value of MCZK 65 503 (31 December 2018: MCZK 110 876), which are recorded off-balance sheet in "Collaterals and pledges received".

## 13. RECEIVABLES FROM BANKS AND COOPERATIVE SAVINGS ASSOCIATIONS

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

| CZK million | 2019 | 2018 |
|---|---|---|
| Current accounts (nostro accounts) | 1 151 | 596 |
| Term deposits | 43 791 | 49 551 |
| Reverse repos with CNB | 64 382 | 93 260 |
| Reverse repos with other banks | 2 177 | 17 232 |
| Other | - | 87 |
| Total | 111 501 | 160 726 |
| Loss allowances for potential losses from receivables | - | -2 |
| **Net receivables from banks** | **111 501** | **160 724** |

In 2019 and 2018, the Bank did not restructure any receivables from banks.

All receivables from banks as at 31 December 2019 and 31 December 2018 are measured at amortised cost under IFRS 9. All receivables are classfied into Stage 1 with internal rating 4-13.

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

| CZK million | 2019 | 2018 |
|---|---|---|
| Securities | 65 503 | 110 866 |
| Bank guarantees | 240 | - |
| Unsecured | 45 758 | 49 858 |
| **Total** | **111 501** | **160 724** |

### (d) Subordinated receivables from banks

In 2019 and 2018, 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 1 959 million as at 31 December 2018. The nominal value of the receivable, which is due on 17 December 2019, is CZK 2,000 million. The receivable bears a fixed interest rate of 4.5% p.a.; interest income is payable every year in arrears on 17 December.

### (e) Receivables from banks written-off and recovered

In 2019, the Bank did not write-off any receivables from banks (as well as in 2018).

## 14. Receivables from customers – members of cooperative savings associations

### (a) Receivables from customers by type

| CZK million | 2019 | 2018 |
|---|---|---|
| Receivables from loans | 37 431 | 38 036 |
| Total | 37 431 | 38 036 |
| Loss allowances for potential losses from receivables | -20 | -18 |
| **Net receivables from customers** | **37 411** | **38 018** |

In 2019, the Bank did not restructure any receivables from customers (as well as in 2018).

### (b) Receivables from customers by measurement categories

All receivables from customers as at 31 December 2019 (as well as in 2018) are measured at amortised cost under IFRS 9.

**(c) Receivables from customers by credit risk rating grades**

| CZK million | 2019 | | | |
|---|---|---|---|---|
| | Stage 1 | Stage 2 | Stage 3 | Total |
| Grades 1-10 | 21 508 | 64 | - | 21 572 |
| Grades 11-17 | 15 569 | 290 | - | 15 859 |
| Grades 20-22 | - | - | - | - |
| Total | 37 077 | 354 | - | 37 431 |
| Loss allowances for potential losses from receivables | -20 | - | - | -20 |
| **Net receivables from customers** | **37 057** | **354** | **-** | **37 411** |

| CZK million | 2018 | | | |
|---|---|---|---|---|
| | Stage 1 | Stage 2 | Stage 3 | Total |
| Grades 1-10 | 27 623 | - | - | 27 623 |
| Grades 11-17 | 10 145 | 267 | - | 10 412 |
| Grades 20-22 | - | - | 1 | 1 |
| Total | 37 768 | 267 | 1 | 38 036 |
| Loss allowances for potential losses from receivables | -16 | -2 | - | -18 |
| **Net receivables from customers** | **37 752** | **265** | **1** | **38 018** |

**(d) Receivables from customers by type**

| In thousands of CZK | 2019 | 2018 |
|---|---|---|
| Residents, of which: | | |
| financial institutions | 4 675 | 6 440 |
| non-financial institutions | 23 951 | 22 809 |
| resident individuals | - | - |
| Non-residents | 8 805 | 8 787 |
| **Total** | **37 431** | **38 036** |

Receivables from customers by type are stated in gross value, i.e. without loss allowances for potential losses from receivables.

**(e) Subordinated receivables from banks**

In 2019 and 2018, the Bank did not provide subordinated loans to other banks.

**(f) Net receivables from customers written-off**

In 2019 and 2018, the Bank did not provide written-off receivables.

**(g) Syndicated loans**

As at 31 December 2019, 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 683 million (2018: CZK 858 million), of which the Bank's share was CZK 454 million (2018: CZK 570 million) and other syndicate members' share was CZK 229 million (2018: CZK 288 million).

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

In 2019 and 2018, the Bank had no commitments to employees.

In 2019 and 2018, the Bank did not provide any loans to members of managerial bodies.

## 15. DEBT SECURITIES

As at 31 December 2019, the Bank did not hold any debt securities except for those described in Note 12. (State zero coupon bonds and other securities eligible for refinancing with the central bank).

## 16. SHARES, UNITS AND OTHER INVESTMENTS

As at 31 December 2019 and 2018, 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 2019 and 2018.

## 17. INTANGIBLE FIXED ASSETS

**Movements in intangible fixed assets**

| CZK million | Software | Acquisition of software | Other | Total |
|---|---|---|---|---|
| **Cost** | | | | |
| At 1 January 2018 | 141 | 15 | 11 | 167 |
| Additions | 102 | 18 | - | 120 |
| Disposals | -37 | -1 | - | -38 |
| At 31 December 2018 | 206 | 32 | 11 | 249 |
| At 1 January 2019 | 206 | 32 | 11 | 249 |
| Additions | 104 | 26 | - | 130 |
| Disposals | -1 | -17 | - | -18 |
| At 31 December 2019 | 309 | 41 | 11 | 361 |
| **Accumulated amortisation and allowances** | | | | |
| At 1 January 2018 | 118 | - | 9 | 127 |
| Charge for the year | 18 | - | 2 | 20 |
| Disposals | -39 | - | -1 | -40 |
| At 31 December 2018 | 97 | - | 10 | 107 |
| At 1 January 2019 | 97 | - | 10 | 107 |
| Charge for the year | 38 | - | 1 | 39 |
| Disposal | - | - | -6 | -6 |
| At 31 December 2019 | 135 | - | 5 | 140 |
| **Net book value** | | | | |
| At 31 December 2018 | **109** | **32** | **1** | **142** |
| At 31 December 2019 | **174** | **41** | **6** | **221** |

## 18. TANGIBLE FIXED ASSETS

**Movements in tangible fixed assets**

| CZK million | Technical improvement of buildings | Fixtures and fittings | Equipment | Tangible assets under construction | Total |
|---|---|---|---|---|---|
| **Cost** | | | | | |
| At 1 January 2018 | 11 | 22 | 135 | - | 168 |
| Additions | - | 14 | 25 | - | 39 |
| Disposals | -7 | -2 | -9 | - | -18 |
| At 31 December 2018 | 4 | 34 | 151 | - | 189 |
| At 1 January 2019 | 4 | 34 | 151 | - | 189 |
| Additions | - | 16 | 35 | - | 51 |
| Disposals | - | - | -7 | - | -7 |
| At 31 December 2019 | 4 | 50 | 179 | - | 233 |
| **Accumulated depreciation and allowances** | | | | | |
| At 1 January 2018 | 2 | 9 | 109 | - | 120 |
| Charge fot the year | 1 | 6 | 15 | - | 22 |
| Disposals | - | -1 | -9 | - | -10 |
| At 31 December 2018 | 3 | 14 | 115 | - | 132 |
| At 1 January 2019 | 3 | 14 | 115 | - | 132 |
| Charge fot the year | 1 | 9 | 20 | - | 30 |
| Disposals | - | - | -7 | - | -7 |
| At 31 December 2019 | 4 | 23 | 128 | - | 155 |
| **Net book value** | | | | | |
| At 31 December 2018 | **1** | **20** | **37** | **-** | **58** |
| At 31 December 2019 | **-** | **27** | **51** | **-** | **78** |

**Leases**

**From 1 January 2019 under IFRS 16**

From 1 January 2019 new standard IFRS 16 was applied and the previous standard IAS 17 was abolished. Therefore, the Bank as a lessee started to recognise a right-of-use assets (i.e. with exception where the lease term does not exceed 12 months or the underlying asset has a low value) in the line „Tangible fixed assets“ and the related lease liability in the line „Other liabilities“ in the balance sheet. See details in the following notes of the financial statements: 2(p) (Significant accounting policies), 3(a) (Changes in accounting policies) and 8 (Administrative expenses).

From 1 January 2019 the Bank as a lessee no longer distinguish between finance lease and operating lease for purposes of booking and presentation.

**Tangible fixed assets acquired under lease – from 1.1.2019 under IFRS 16**

| CZK million | Land and buildings | Vehicles | Total |
|---|---|---|---|
| **Cost** | | | |
| At 1 January 2019 | 119 | 11 | 130 |
| Additions | 2 | - | 2 |
| Other adjustments | - | - | - |
| Disposals | - | - | - |
| **At 31 December 2019** | **121** | **11** | **132** |
| **Accumulated depreciation and allowances** | | | |
| At 1 January 2019 | - | - | - |
| Charge for the year | 34 | 4 | 38 |
| Disposals | - | - | - |
| Allowances | - | - | - |
| **At 31 December 2019** | **34** | **4** | **38** |
| **Net book value** | | | |
| **At 1 January 2019** | **-** | **-** | **-** |
| **At 31 December 2019** | **87** | **7** | **94** |

**Land and buildings**

The bank leases land and buildings for purposes of its headquarter and branches. These leases typically run for a period of 3-5 years.

Some leases provide for additional rent payments that are based on a developement of inflation rate in the following years.

Some leases contain extension options exercisable a lessee up to 12 months before the end of lease term. The bank assesses at lease commencement whether it is reasonably certain to exercise the options and subsequently if there is a significant event or significant change in circumstances.

## 19. OTHER ASSETS

| CZK million | 2019 | 2018 |
|---|---|---|
| Positive fair value of derivatives | 2 661 | 2 825 |
| Receivables from unsettled payment transactions | 2 | 4 |
| Estimated receivables | 33 | 40 |
| Paid advances | 4 | 4 |
| Deferred tax asset (see Note 29) | 37 | 33 |
| Corporate income tax prepayments | 91 | 48 |
| Other debtors | 85 | 6 |
| **Total** | **2 913** | **2 960** |

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

In 2019, the Bank created a provision for corporate income tax in the amount of MCZK 84 (31 December 2018: MCZK 168) and paid MCZK 175 in prepayments (31 December 2018: MCZK 216). The result was a receivable for corporate income tax in the total amunt of MCZK 91 (31 December 2018: MCZK 48).

In 2019 and 2018, the Bank did not write off other assets.

In 2019 and 2018, the Bank did not create any allowances for receivables from Other debtors.

## 20. PAYABLES TO BANKS AND CREDIT UNIONS

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

| CZK million | 2019 | 2018 |
|---|---|---|
| Repayable on demand | 1 843 | 2 535 |
| Up to 3 months | 41 657 | 93 442 |
| 3 months to 1 year | 6 848 | 102 |
| 1 year to 5 years | 272 | 6 346 |
| More than 5 years | 915 | - |
| **Total** | **51 535** | **102 425** |

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

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

| CZK million | Repayable on demand | Term deposits with fixed maturity | Other | Total |
|---|---|---|---|---|
| **At 31 December 2019** | | | | |
| Residents, of which | | | | |
| Financial institutions | 607 | 203 | - | 810 |
| Non-financial institutions | 10 064 | 3 079 | - | 13 143 |
| Insurance institutions | 153 | - | - | 153 |
| Government sector | 5 | - | - | 5 |
| Non-profit organizations | - | - | - | - |
| Resident individuals | 85 048 | - | 35 | 85 083 |
| Non-residents | 2 545 | - | - | 2 545 |
| Changes of FV from Hedge accounting | 266 | - | - | 266 |
| **Total** | **98 688** | **3 282** | **35** | **102 005** |

| CZK million | Repayable on demand | Term deposits with fixed maturity | Other | Total |
|---|---|---|---|---|
| **At 31 December 2018** | | | | |
| Residents, of which | | | | |
| Financial institutions | 912 | 455 | - | 1 367 |
| Non-financial institutions | 9 280 | 1 636 | - | 10 916 |
| Insurance institutions | 170 | - | - | 170 |
| Non-profit organizations | 9 | - | - | 9 |
| Resident individuals | 86 310 | - | 25 | 86 335 |
| Non-residents | 2 491 | 691 | - | 3 182 |
| Changes of FV from Hedge accounting | -898 | - | - | -898 |
| **Total** | **98 274** | **2 782** | **25** | **101 081** |

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

In 2019, the Bank had no commitments to persons with a special relationship to it (as well as in 2018).

## 22. SUBORDINATED LIABILITIES

| CZK million | 2019 | 2018 |
|---|---|---|
| Subordinated bonds | - | 1 959 |
| **Total** | **-** | **1 959** |

On 17 December 1999, the Bank issued subordinated bonds amounting to CZK 2,000 million, 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 1 million CZK. The Bank repaid the bonds on the maturity date in 2019.

## 23. OTHER LIABILITIES

| In thousands of CZK | 2019 | 2018 |
|---|---|---|
| Negative fair values of derivatives | 2 401 | 2 460 |
| Clearing accounts – settlement of transactions with securities | 168 | 14 |
| Clearing accounts – settlement of payment transactions | 355 | 498 |
| Other payables | 39 | 89 |
| Lease and Rent liabilities- IFRS 16 | 94 | - |
| Estimated payables | 298 | 186 |
| Total | **3 355** | **3 247** |

As at 1 January 2019, the Bank recognized lease liabilities in the amount of MCZK 130. Interest expense on leasing was MCZK 3 and the amount of lease payments was MCZK 39 in 2019.

## 24. REGISTERED CAPITAL

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

## 25. EQUITY-BASED REMUNERATION

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

## 26. PROVISIONS AND ALLOWANCES

**(a) Allowances for credit losses**

| CZK million | |
|---|---|
| Balance at 1 January 2017 | 15 |
| Effect on IFRS 9 transition | -3 |
| Balance at 1 January 2018 | 12 |
| Additions during the year | 24 |
| Release of allowances no longer considered necessary | -16 |
| **Total allowances for credit losses at 31 December 2018** | **20** |
| | |
| Balance at 1 January 2019 | 20 |
| Additions during the year | 16 |
| Release of allowances no longer considered necessary | **-16** |
| **Total allowances for credit losses at 31 December 2019** | **20** |

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

| CZK million | |
|---|---|
| Balance at 1 January 2017 | 1 |
| Effect on IFRS 9 transition | -1 |
| Balance at 1 January 2018 | - |
| Additions during the year (guarantees) | - |
| Release of excess provisions | - |
| **Balance of tax non-deductible provisions for possible guarantee losses at 31 December 2018** | **-** |
| **Total provisions for possible guarantee losses at 31 December 2018** | **-** |
| | |
| Balance at 1 January 2019 | - |
| Additions during the year (guarantees) | - |
| Release of excess provisions | - |
| **Balance of tax non-deductible provisions for possible guarantee losses at 31 December 2019** | **-** |
| **Total provisions for possible guarantee losses at 31 December 2019** | **-** |

**(c) Other provisions**

| CZK million | Financial instruments | Restructuring | Other | Total |
|---|---|---|---|---|
| Balance at 1 January 2018 | 133 | 8 | 4 | 145 |
| Additions during the year | 52 | - | - | 52 |
| Release of excess provisions | - 81 | -2 | -1 | -84 |
| Foreign exchange gain/ (loss) | - | - | - | - |
| **Balance of other provisions at 31 December 2018** | **104** | **6** | **3** | **113** |
| Balance at 1 January 2019 | 104 | 6 | 3 | 113 |
| Additions during the year | 63 | - | 2 | 65 |
| Utilisation during the year | -63 | - | -1 | -64 |
| Release of excess provisions | - | -4 | - | -4 |
| Foreign exchange gain/ (loss) | -1 | - | - | -1 |
| **Balance of other provisions at 31 December 2019** | **103** | **2** | **4** | **109** |

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

In 2019, the Bank created a provision for corporate income tax in the amount of MCZK 84 (31 December 2018: MCZK 168) and paid MCZK 175 in prepayments (31 December 2018: MCZK 216). The result was a receivable for corporate income tax in the total amunt of MCZK 91 (31 December 2018: MCZK 48), described in Note 19.

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

As at 30 April 2020, the Bank did not decide about the distribution of profit for 2019. Profit from 2018 in the amount of CZK 707 million was transferred to the parent company ING Bank N.V. in July 2019.

## 28. REVALUATION GAINS AND LOSSES

| CZK million | Available-for-sale securities (incl. deferred tax) | Total |
|---|---|---|
| Balance at 1 January 2018 | -7 | -7 |
| Decrease | -7 | -7 |
| **Balance at 31 December 2018** | **-14** | **-14** |
| Balance at 1 January 2019 | -14 | -14 |
| Increase | 20 | 20 |
| **Balance at 31 December 2019** | **6** | **6** |

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

### (a) Income tax payable

| CZK million | 2019 | 2018 |
|---|---|---|
| Current year profit before tax | 376 | 887 |
| Income not liable to tax | -19 | - 6 |
| Tax non-deductible expenses | 87 | 1 |
| Sub-total | 444 | 882 |
| **Income tax calculated using a tax rate of 19%** | **84** | **167** |
| Adjustment of tax from previous years | 5 | 2 |
| **Total income tax expense** | **89** | **169** |

### (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 2019 and 2018.

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

| CZK million | 2019 Deferred tax asset | 2019 Deferred tax liability | 2018 Deferred tax asset | 2018 Deferred tax liability |
|---|---|---|---|---|
| Allowances and provisions for loan losses | 4 | - | 2 | - |
| Other provisions | 21 | - | 21 | - |
| Estimates for bonuses and social security and health insurance from bonuses | 13 | - | 9 | - |
| Tangible and intangible fixed assets | 2 | - | - | 1 |
| Other items related to prior years | - | 2 | - | 2 |
| **Net deferred tax asset recorded in the Income statement** | **38** | | **29** | |
| Loss allowances and provisions for loans as at 1 January2018 | - | - | 1 | - |
| Valuation of securities | - | 1 | 3 | - |
| **Net deferred tax liability recorded in Equity** | **-** | **1** | **4** | **-** |
| **Total deferred tax asset/liability (see Notes 24 and 19)** | **37** | **-** | **33** | **-** |

In 2019, the Bank reported income as a result of deferred tax totaling CZK 9 millions in the income statement (in 2018 the Bank reported expense of CZK 11 millions as a result of deferred tax).

## 30. OFF-BALANCE SHEET ITEMS

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

| CZK million | 2019 | 2018 |
|---|---|---|
| **Banks** | | |
| Payables resulting from guarantees | 613 | 700 |
| **Total** | **613** | **700** |

| CZK million | 2019 | 2018 |
|---|---|---|
| **Customers** | | |
| Payables resulting from guarantees | 1 435 | 1 443 |
| Promises provided | 8 171 | 7 975 |
| **Total** | **9 606** | **9 418** |

Provisions for risks related to provided guarantees were created in an insignificant amount in 2019 and 2018.

### (b) Collaterals and pledges received

| CZK million | 2019 | 2018 |
|---|---|---|
| Collaterals received under resale commitments | 65 503 | 110 866 |
| Other securities received as pledges | 1 148 | 43 |
| Real estate received as collaterals | 10 764 | 10 162 |
| Received monetary collaterals | 24 | 28 |
| Other collaterals received | 6 593 | 7 038 |
| **Total** | **84 032** | **128 137** |

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

| CZK million | Contractual amounts 2019 | Contractual amounts 2018 | Fair value 2019 | Fair value 2018 |
|---|---|---|---|---|
| **Hedging instruments** | | | | |
| Interest rate swap contracts (IRS) | 37 700 | 34 510 | 188 | -749 |
| | | | | |
| **Trading instruments** | | | | |
| Spot currency transactions | | | -1 | -1 |
| Spot currency transactions (purchases) | 251 | 229 | - | - |
| Spot currency transactions (sales) | -252 | -229 | - | - |
| Forward foreign exchange contracts (FX) | | | -223 | -150 |
| Forward FX purchase contracts | 35 528 | 55 677 | - | - |
| Forward FX sale contracts | -35 786 | -55 984 | - | - |
| Interest rate cross currency swap contracts (IRCS) | | | 1 507 | 1 377 |
| IRCS purchase contracts | 58 680 | 62 955 | - | - |
| IRCS sale contracts | -57 500 | -62 140 | - | - |
| Interest rate swaps (IRS) | | | -1 211 | -112 |
| Interest rate swaps (purchases) | 57 443 | 62 334 | | |
| Interest rate swaps (sales) | -57 443 | -62 334 | | |

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

### (d) Residual maturity of financial derivatives

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

| CZK million | Up to 3 months | 3 months to 1 year | 1 year to 5 years | Over 5 years | Total |
|---|---|---|---|---|---|
| **At 31 December 2019** | | | | | |
| **Hedging instruments** | | | | | |
| Interest rate swap contracts (IRS) | - | - | 18 310 | 19 390 | 37 700 |
| **Trading instruments** | | | | | |
| Forward FX purchase contracts | 32 733 | 2 795 | - | - | 35 528 |
| Forward FX sale contracts | -32 897 | -2 889 | - | - | -35 786 |
| IRCS purchase contracts | 4 241 | 5 484 | 32 158 | 16 797 | 58 680 |
| IRCS sale contracts | -4 245 | -5 454 | -31 711 | -16 091 | -57 500 |
| Interest rate swaps (purchases) | 1 400 | 13 118 | 24 058 | 18 867 | 57 443 |
| Interest rate swaps (sales) | -1 400 | -13 118 | -24 058 | -18 867 | -57 443 |
| **At 31 December 2018** | | | | | |
| **Hedging instruments** | | | | | |
| Interest rate swap contracts (IRS) | 19 975 | 300 | 7 275 | 6 960 | 34 510 |
| **Trading instruments** | | | | | |
| Forward FX purchase contracts | 33 502 | 22 175 | - | - | 55 677 |
| Forward FX sale contracts | -33 662 | -22 322 | - | - | -55 984 |
| IRCS purchase contracts | 36 738 | 2 315 | 15 502 | 8 400 | 62 955 |
| IRCS sale contracts | -36 097 | -2 280 | -15 758 | -8 005 | -62 140 |
| Interest rate swaps (purchases) | 39 132 | 5 358 | 12 255 | 5 589 | 62 334 |
| Interest rate swaps (sales) | -39 132 | -5 358 | -12 255 | -5 589 | -62 334 |

## 31. ASSETS HELD IN CUSTODY

| CZK million | 2019 | 2018 |
|---|---|---|
| Other assets | 5 550 | 5 283 |
| **Total** | **5 550** | **5 283** |

Other assets consist mainly of mutual funds of CZK 5 550 millions (2018: CZK 5 283 millions).

## 32. ASSETS PLACED INTO ADMINISTRATION AND MANAGEMENT

In 2019 and 2018, the Bank did not place any assets into custody.

## 33. FINANCIAL INSTRUMENTS – MARKET RISK

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

### (a) Trading

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

The Bank manages the risks associated with its trading activities at the level of individual risks and individual types of financial instruments. The basic instruments used for risk management are the volume limits of individual transactions, stop-loss limits and Value at Risk (VaR) limits. The quantitative methods applied to risk management are included in "Risk management methods" in Note 33 (c).

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

### (b) Risk management

The selected risks to which the Bank is exposed as a result of its activities, management of the positions arising as a result of these activities and the Bank's approach to the management of these risks, are described below. More details on the procedures used by the Bank to measure and manage these risks are included in "Risk management methods" in Note 33 (c).

***Liquidity risk***

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

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

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

**Residual maturity of the Bank's assets and liabilities**

| CZK million | Up to 3 months | 3 months to 1 year | 1 year to 5 years | Over 5 years | Not specified | Total |
|---|---|---|---|---|---|---|
| **At 31 December 2019** | | | | | | |
| Cash and balances with CB | 339 | - | - | - | - | 339 |
| State zero coupon bonds and other securities | 5 927 | - | - | - | - | 5 927 |
| Receivables from banks | 73 034 | 2 700 | 20 275 | 15 492 | - | 111 501 |
| Receivables from customers | 11 241 | 2 136 | 16 117 | 7 917 | - | 37 411 |
| Tangible and intangible fixed assets | - | - | - | - | 393 | 393 |
| Other assets | 547 | 280 | 1 142 | 873 | 71 | 2 913 |
| Prepaid expenses and accrued income | - | - | - | - | 41 | 41 |
| **Total** | **91 088** | **5 116** | **37 534** | **24 282** | **505** | **158 525** |
| Due to banks | 43 500 | 6 848 | 272 | 915 | - | 51 535 |
| Due to customers | 40 803 | 9 937 | 25 663 | 25 602 | - | 102 005 |
| Other liabilities | 914 | 257 | 1 015 | 873 | 269 | 3 335 |
| Deferred income and accrued expenses | - | 2 | 27 | 11 | - | 40 |
| Provisions | - | - | - | - | 109 | 109 |
| Equity | - | - | - | - | 1 481 | 1 481 |
| **Total** | **85 217** | **17 044** | **26 977** | **27 401** | **1 886** | **158 525** |
| **Gap** | **5 871** | **-11 928** | **10 557** | **-3 119** | **-1 381** | **-** |
| **Cumulative gap** | **5 871** | **-6 057** | **4 500** | **1 381** | **-** | **-** |

| CZK million | Up to 3 months. | 3 months to 1 year | 1 year to 5 years | Over 5 years | Not specified | Total |
|---|---|---|---|---|---|---|
| **At 31 December 2018** | | | | | | |
| Cash and balances with CB | 3 404 | - | - | - | - | 3 404 |
| State zero coupon bonds and other securities | 5 387 | - | - | - | - | 5 387 |
| Receivables from banks | 115 448 | 5 995 | 20 385 | 16 921 | - | 158 749 |
| Subordinated receivable | - | 1 975 | - | - | - | 1 975 |
| Receivables from customers | 10 350 | 4 420 | 17 132 | 6 116 | - | 38 018 |
| Tangible and intangible fixed assets | - | - | - | - | 200 | 200 |
| Other assets | 415 | 374 | 1 032 | 1 082 | 57 | 2 960 |
| Prepaid expenses and accrued income | - | - | - | - | 54 | 54 |
| **Total** | **135 004** | **12 764** | **38 549** | **24 119** | **311** | **210 747** |
| Due to banks | 95 977 | 102 | 6 346 | - | - | 102 425 |
| Due to customers | 33 953 | 16 823 | 25 105 | 25 200 | - | 101 081 |
| Other liabilities | 839 | 223 | 1 032 | 966 | 187 | 3 247 |
| Deferred income and accrued expenses | 0 | 6 | 18 | 23 | 1 | 49 |
| Provisions | - | - | - | - | 114 | 114 |
| Subordinated liabilities | - | 1 959 | - | - | - | 1 959 |
| Equity | - | - | - | - | 1 873 | 1 873 |
| **Total** | **130 769** | **19 113** | **32 501** | **26 189** | **2 175** | **210 747** |
| **Gap** | **4 235** | **-6 349** | **6 048** | **-2 070** | **-1 864** | **-** |
| **Cumulative gap** | **4 235** | **-2 114** | **3 934** | **1 864** | **-** | **-** |

The amounts in the tables above have been calculated and recognised as follows:

| **Type of financial instrument** | **Basis on which remaining contractual maturity is compiled** |
|---|---|
| Non-derivative financial instruments | Undiscounted cash flows, which include estimated interest payments. |
| Issued financial guarantees and unrecognised loan commitments | Earliest possible contractual maturity. For issued financial guarantees, the maximum amount of the guarantee is allocated to the earliest period in which the guarantee could be called. |
| Derivative financial instruments held for risk management purposes | Contractual undiscounted cash flows. The amounts shown are the gross nominal inflows and outflows for derivatives that have simultaneous gross settlement (e.g. forward exchange contracts, currency swaps, etc.) and the net nominal cash flows that are net settled. |
| Trading derivatives forming part of the portfolio that are expected to be closed out before contractual maturity | Fair values at the reporting date. This is because contractual maturities do not reflect the liquidity risk exposure arising from these positions, because there is a presumption that these derivatives will be closed out before contractual maturity. These fair values are disclosed in the 'Less than one month' column. |

| | |
|---|---|
| Trading derivatives that have been entered into by the Bank with its customers | Contractual undiscounted cash flows. This is because these derivatives are not usually closed out before contractual maturity and so the Bank believes that contractual maturities are essential for understanding the timing of cash flows associated with these derivative positions. |

The expected cash flows on some financial instruments may vary significantly from the contractual cash flows. The principal differences are as follows:
- deposits repayable on demand are expected, based on historical data experience of the Bank, to remain stable or increase;
- loan commitments are not expected, based on historical experience of the Bank, to be drawn down immediately.

**Liquidity provision**
As part of the management of liquidity risk arising from financial liabilities, the Entity holds a portion of assets in highly liquid instruments, such as:
- cash in hand;
- balances with the Czech National Bank;

Apart from the above, the Entity holds open loan commitments with the central bank and other banks.
In its liquidity provision, the Entity includes only financial assets that are not provided as collateral at the given moment for example in a reverse repo transaction, etc.

***Interest rate risk***

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

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

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

***Equity risk***

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

***Currency risk***

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

**(c) Risk management methods**

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

***Interest rate risk***

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

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

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

***Currency risk***

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

*Currency risk sensitivity analysis*

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

| million CZK | EUR | USD | CZK | Other | **Total** |
|---|---|---|---|---|---|
| **At 31 December 2019** | | | | | |
| Cash in hand and balances with central banks | - | - | 339 | - | 339 |
| State zero coupon bonds | - | - | 5 927 | - | 5 927 |
| Receivables from banks | 37 521 | 13 | 73 232 | 735 | 111 501 |
| Receivables from customers | 14 375 | 5 121 | 17 482 | 433 | 37 411 |
| Tangible and intangible fixed assets | - | - | 393 | - | 393 |
| Other assets | 364 | - | 2 549 | - | 2 913 |
| Prepaid expenses and accrued income | 10 | 4 | 27 | - | 41 |
| **Total** | **52 270** | **5 138** | **99 949** | **1 168** | **158 525** |
| Payables to banks | 43 362 | 5 036 | 2 734 | 403 | 51 535 |
| Payables to customers | 1 580 | 438 | 99 343 | 644 | 102 005 |

| | | | | | |
|---|---|---|---|---|---|
| Other liabilities | 658 | 10 | 2 469 | 213 | 3 355 |
| Deferred income and accrued expenses | - | - | 40 | - | 40 |
| Provisions | 103 | - | 6 | - | 109 |
| Equity | - | - | 1 481 | - | 1 481 |
| **Total** | **45 684** | **5 484** | **106 078** | **1 260** | **158 525** |
| | | | | | |
| Long positions of off-balance sheet instruments | **54 141** | **472** | **145 002** | **206** | **199 821** |
| Short positions of off-balance sheet instruments | **64 533** | **801** | **137 208** | **149** | **202 691** |
| | | | | | |
| **Net foreign currency position** | **-3 806** | **-675** | **1 645** | **-35** | **-2 870** |

| million CZK | EUR | USD | CZK | Other | **Total** |
|---|---|---|---|---|---|
| **At 31 December 2018** | | | | | |
| Cash in hand and balances with central banks | - | - | 3 404 | - | **3 404** |
| State zero coupon bonds | - | - | 5 387 | - | **5 387** |
| Receivables from banks | 53 773 | 474 | 106 027 | 450 | **160 724** |
| Receivables from customers | 17 443 | 4 752 | 15 287 | 536 | **38 018** |
| Tangible and intangible fixed assets | - | - | 200 | - | **200** |
| Other assets | 615 | - | 2 345 | - | **2 959 792** |
| Prepaid expenses and accrued income | 7 | 7 | 40 | - | **54** |
| **Total** | **71 838** | **5 233** | **132 690** | **986** | **210 747** |
| | | | | | |
| Payables to banks | 91 962 | 3 798 | 5 946 | 719 | **102 425** |
| Payables to customers | 2 464 | 1 020 | 97 167 | 430 | **101 081** |
| Other liabilities | 650 | 86 | 2 497 | 14 | **3 247** |
| Deferred income and accrued expenses | - | - | 49 | - | **49** |
| Provisions | 105 | - | 9 | - | **114** |
| Subordinated liabilities | - | - | 1 959 | - | **1 959** |
| Equity | - | - | 1 872 | - | **1 872** |
| **Total** | **95 181** | **4 904** | **109 499** | **1 163** | **210 747** |
| | | | | | |
| Long positions of off-balance sheet instruments | 85 918 | 39 | 139 645 | 220 | **225 822** |
| Short positions of off-balance sheet instruments | 90 686 | 358 | 157 087 | 1 096 | **249 227** |
| | | | | | |
| **Net foreign currency position** | **-28 111** | **10** | **5 749** | **-1 054** | **-23 405** |

***Value at Risk***

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

| CZK million | At 31 December 2019 | At 31 December 2018 |
|---|---|---|
| HVaR of interest rate instruments – liquidity management book | 93 | 97 |
| HVaR of currency instruments – liquidity management book | 1 | 2 |

| CZK million | Average 2019 | Average 2018 |
|---|---|---|
| HVaR of interest rate and currency instruments – liquidity management book | 131 | 164 |

***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.

## 34. FINANCIAL INSTRUMENTS – CREDIT RISK

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

### (i) Risk of settlement

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

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

### (ii) Management of credit risk

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

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

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

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

**(iii) Collateral**

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

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

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

**(iv) Debt recovery**

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

**(v) Expected credit losses**

***IFRS 9 models***

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

***Inputs, assumptions and techniques used for estimating impairment***

*Significant increase in credit risk*

ING has developed a framework that takes into account both quantitative and qualitative indicators to identify and assess a significant increase in credit risk (SICR). This is used to determine the Stage to determine the expected loss calculation for each financial asset.
The main determinant of the SICR is a quantitative test in which the counterparty's lifetime risk is assessed at each balance sheet date against the risk of default at the date of initial recognition of financial assets. If the difference is

higher than the predefined absolute or relative default risk thresholds, the financial asset will move from Stage 1 to Stage 2. In these cases, the 12-month expected credit losses will cease to be reported for the assets and lifetime credit losses are reported. Assets are returned to Stage 1 if there is sufficient evidence that a significant credit risk reduction has occurred.

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

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

*Credit risk assessment process*

Ratings for all types and segments of borrowers are based on the Risk Rating Model (PD), which meets the minimum requirements set out in CRR / CRDIV, ECB Supervisory Rules and EBA Guidelines.
The ING internal rating model (1 = highest rating; 22 = lowest rating) roughly corresponds to rating categories that are assigned by ECAIs such as Standard & Poor's, Moody's and Fitch. For example, ING rating 1 corresponds to the AAA rating of S&P / Fitch and Moody's Aaa rating; ING rating 2 corresponds to S&P / Fitch AA + and Moody's rating of Aa1 and so on.

22 degrees consists of the following categories:

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

The first three categories (1-19) are ratings for executive loans. Risk ratings for default exposures (20-22) are set by the global or regional credit restructuring department.
Clients' ratings are reviewed at least annually.

*Credit impaired financial assets (Stage 3)*

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

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

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

*Makroekonomic scenarios*

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

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

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

Alternative scenarios are based on observed past forecast errors, adjusted for the risks that affect the economy today and in the future. Assigned probabilities are based on the probabilities of observing three scenarios and are derived from confidence intervals on probability distributions. Forecasts of economic variables are adjusted quarterly.

Alternative scenarios are based on forecast errors in OEGEM (Oxford Economics' Global Economic Model). To understand the level of uncertainty of any forecast, Oxford Economics has been monitoring all its erroneous forecasts for the last 20 years. The allocation of errors distribution for GDP, unemployment, real estate prices and stock prices is applied to the primary forecast, which produces a wide range of alternative results.

***ECL measurement***

The Bank uses a collective assessment for executive assets without a sign of a significant credit risk increase (Stage 1), with a sign of a significant increase in credit risk (Stage 2). By default, for Stage 3 assets, the Bank uses individual assessment and, in exceptional cases, collective assessment.

*Collectively assessed assets (Stage 1 to 3)*

It is a model-based approach that calculates the ECL in a formula that is simply expressed as PD x EAD x LGD, adjusted for the time value of money. Assets that are collectively assessed are grouped on the basis of similar credit risk characteristics, taking into account the type of credit, sector, geographical location, type of collateral, days past due and other relevant factors. These characteristics are relevant to estimates of the future cash flows of the group of assets by indicating the ability of borrowers to repay all amounts due under the contractual terms of the assets under consideration.

For assets in Stage 3, PD is 100% and LGD and EAD are lifetime views of losses based on non-performing asset characteristics.

The Bank uses already developed prudential models that have been adapted to IFRS 9 to calculate IFRS 9 provisions:

- eliminating the conservatism required in regulatory models,
- adjusting macroeconomic parameters so models reflect point-in-time estimates instead of through-the-cycle.

Models count ECL based on forward-looking macroeconomic forecasts and other inputs. For most financial assets, the expected life equals the remaining maturity. For overdraft facilities and some revolving credit facilities, maturity is estimated on the basis of historical data because they do not have a fixed maturity or repayment schedule.

*Individually assessed assets (Stage 3)*

The Bank estimates provisions on an individual basis for individually significant impaired financial assets in Stage 3. Individual provisions are calculated using the discounted expected future cash flows method. One or more scenarios are used to determine the expected future cash flows and each scenario is analyzed based on the probability of occurrence and including prospective information.
When determining scenarios, all relevant factors affecting future cash flows are taken into account. These include expected credit quality developments, sectoral and economic forecasts and estimates of whether / when to be recovered as well as ING's restructuring strategy.

The ECL is calculated as the weighted average balance (gross carrying amount minus discounted expected future cash flows using the original effective interest rate) for each scenario, based on best estimates of expected future cash flows.

Reimbursements may be from a variety of sources, including loan repayments, reinsurance recoveries, asset sales, etc. Collateral cash flows and other credit risk reductions are included in the valuation of expected credit losses on related financial assets if they are part of the contractual terms and other credit risk mitigation is not recognized separately. In individual assessment, with scenarios at entity or transaction level, specific factors may have a greater impact on future cash flows than macroeconomic factors.

If a financial asset is impaired, interest income is calculated by applying the effective interest rate to its net value, ie. the amortized cost less ECL.

During 2019 and 2018, there were no significant movements between the Stages for any of the categories of financial instruments. The Bank recognized most of its financial instruments in Stage 1 both at the beginning and at the end of 2019 and 2018. During 2019 and 2018, there were no significant changes in the amount of ECL due to newly provided financial assets, derecognition of financial assets or changes in risk parameters in the models.

***Modification***

In certain circumstances, ING grants debtors a deferral and / or a reduction in the principal of the loan and / or interest payment for a temporary period in order to maximize revenue and, if possible, avoid default, forced administration or collateral.

If such postponement and / or reduction of the loan principal and / or interest payment is based on credit concerns, it is also referred to as relief. In such cases, the net present value of deferrals and / or reductions in principal and / or interest payments shall be taken into account when determining the appropriate amount of the impairment loss. If the relief results in a substantial change in the terms of the loan, the original loan is derecognised and the new loan is recognized at fair value at the date of the change. The Bank determines whether there has been a material change using both quantitative and qualitative factors.

**(vi) Monitoring of receivables from debtor**

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

**(vii) 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.

**(viii) 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.

**(ix) Maximum exposure to credit risk**

| million CZK<br>**31 December 2019** | Balance sheet | Off-balance sheet | Total exposure to credit risk | Collateral provided * | Main type of collateral |
|---|---|---|---|---|---|
| Loans and receivables from banks | 111 501 | | 111 501 | 65 742 | Securities |
| Loans and receivables from customers | 37 411 | 8 171 | 45 582 | 31 526 | Guarantee |
| Total | 148 912 | 8 171 | 148 912 | 97 268 | |
| Issued guarantees and credit limits for guarantees | | 2 048 | 2 048 | - | Other |
| Total | | 2 048 | 2 048 | - | |

| million CZK<br>31 December 2018 | Balance sheet | Off-balance sheet | Total exposure to credit risk | Collateral provided * | Main type of collateral |
|---|---|---|---|---|---|
| Loans and receivables from banks | 160 724 | - | 160 724 | 110 866 | Securities |
| Loans and receivables from customers | 38 018 | 7 975 | 45 993 | 6 202 | Property |
| Total | 198 742 | 7 975 | 206 717 | 117 068 | |
| Issued guarantees and credit limits for guarantees | - | 2 143 | 2 143 | 311 | Other |
| Total | - | 2 143 | 2 143 | 311 | |

* Collateral provided means the realisable value of the collateral valid for each credit exposure. For the purposes of this overview, the realisable value of the collateral for receivables from customers is limited by the gross value of the receivable from customers in respect of individual receivables to which the relevant collateral relates. The realisable value of the collateral for guarantees and letters of credit is limited by the exposure amount reported in the "Off-balance sheet" column to which the relevant collateral relates.

**(x) Concentration of credit risk**

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

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

***Sector analysis***

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

***Analysis by geographical areas***

| CZK million | 2019 | 2018 |
|---|---|---|
| Czech Republic | 28 605 | 29 231 |
| Slovakia | 399 | 401 |
| Poland | 261 | 340 |
| Germany | 4 200 | - |
| Hungary | 205 | 222 |
| Netherlands | 2 828 | 5 838 |
| Luxembourg | 882 | 1 720 |
| Other | 31 | 266 |
| **Total** | **37 411** | **38 018** |

## 35. FAIR VALUE

Fair value valuation method is found in note 2 (c(vi)).

### a) Financial instruments not measured at fair value

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

| In millions of CZK | 31 December 2019 Carrying amount | 31 December 2019 Fair value |
|---|---|---|
| **FINANCIAL ASSETS** | | |
| Cash in hand and balances with central banks | 339 | 339 |
| State zero coupon bonds and other securities eligible for re-financing with the central bank | 5 079 | 5 200 |
| Receivables from banks and credit unions | 111 501 | 111 501 |
| Receivables from customers | 37 411 | 37 764 |
| Other financial assets | 90 | 90 |
| **FINANCIAL LIABILITIES** | | |
| Payables to banks and credit unions | 51 535 | 51 535 |
| Payables to customers | 102 005 | 102 005 |
| Other financial liabilities | 523 | 523 |

| In millions of CZK | 31 December 2018 Carrying amount | 31 December 2018 Fair value |
|---|---|---|
| **FINANCIAL ASSETS** | | |
| Cash in hand and balances with central banks | 3 404 | 3 404 |
| State zero coupon bonds and other securities eligible for re-financing with the central bank | 4 564 | 4 573 |
| Receivables from banks and credit unions | 160 724 | 160 724 |
| Receivables from customers | 38 018 | 37 994 |
| Other financial assets | 15 | 15 |
| **FINANCIAL LIABILITIES** | | |
| Payables to banks and credit unions | 102 425 | 102 425 |
| Payables to customers | 101 081 | 101 081 |
| Other financial liabilities | 512 | 512 |
| Subordinated liabilities | 1 959 | 1 959 |

To determine the fair value estimate, the Bank uses the inputs and techniques from note 2.

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

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

*State zero coupon bonds and other securities amortised costs*
Fair value is derived directly from market date.

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

*Receivables from customers – credit union members*
The estimated fair value of credits is based on discounted expected future cash flows, using an interest rate valid for credits connected with similar credit risk, interest rate risk, and similar maturity. In respect of impaired credits, the estimated fair value is based on the present value of expected future cash flows, including the expected income from the potential realisation of the collateral.

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

Due to the fact that almost all loans are tied to a variable interest rate and to the fact that the credit risk of vast majority of loans has not materially changed, the fair value of loans does not differ significantly from the carrying amount.

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

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

*Payables to customers – credit union members*
The fair value of deposits repayable on demand and term deposits that bear a variable interest rate equals the carrying amount of these deposits as at the reporting date.
These financial liabilities have been categorised as Level 3 in the fair value hierarchy.

## (a) Financial instruments measured at fair value

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

| In millions of CZK | 31 December 2019 | | |
|---|---|---|---|
| | Level 1 | Level 2 | Level 3 |
| **FINANCIAL ASSETS** | | | |
| State zero coupon bonds and other securities | 848 | - | - |
| Other assets – positive fair value of derivatives | - | 2 661 | - |
| **FINANCIAL LIABILITIES** | | | |
| Other liabilities – negative fair value of derivatives | - | 2 401 | - |

| In millions of CZK | 31 December 2018 | | |
|---|---|---|---|
| | Level 1 | Level 2 | Level 3 |
| **FINANCIAL ASSETS** | | | |
| State zero coupon bonds and other securities | 823 | - | - |
| Other assets – positive fair value of derivatives | - | 2 825 | - |
| **FINANCIAL LIABILITIES** | | | |
| Other liabilities – negative fair value of derivatives | - | 2 460 | - |

***Transfers between Level 1 and Level 2***

*No transfers were carried out between Level 1 and Level 2 in 2019 and 2018.*

**Valuation techniques and inputs used for Level 2**
To determine the fair value in Level 2, the Bank uses the following inputs and techniques:

Level 2 includes in particular financial derivatives.

In respect of derivatives, the fair value is determined based on the present value of cash flows arising from transactions with regard to market inputs, such as spot and forward exchange rates, reference interest rates, swap rates, etc.

There was no change in valuation technique in the current period.

## 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

On 11 March 2020 the World Health Organization declared the coronavirus outbreak a pandemic, and the Czech government declared a state of emergency on 12 March 2020. Responding to the potentially serious threat the COVID – 19 presents to public health, the Czech government authorities have taken measures to contain the outbreak, including introducing restrictions on the cross-borders movement of people, entry restrictions on foreign visitors and the 'lock-down' of certain industries, pending further developments. In particular, airlines and railways suspended international transport of people, schools, universities, restaurants, cinemas, theaters and museums and sport facilities, retailers excluding food retailers, grocery stores and pharmacies were closed. In addition, major manufacturers in the automotive industry decided to shut-down their operations in both Czech Republic and other European countries. Some businesses in Czech Republic have also instructed employees to remain at home and have curtailed or temporarily suspended business operations.

The wider economic impacts of these events include:

* Disruption to business operations and economic activity in Czech Republic, with a cascading impact on both upstream and downstream supply chains;

* Significant disruption to businesses in certain sectors, both within Czech Republic and in markets with high dependence on a foreign supply chain as well as export-oriented businesses with high reliance on foreign markets. The affected sectors include trade and transportation, travel and tourism, entertainment, manufacturing, construction, retail, insurance, education and the financial sector;

* Significant decrease in demand for non-essential goods and services;

* An increase in economic uncertainty, reflected in more volatile asset prices and currency exchange rates.

Over the last few weeks the Bank realized relatively stable sales and its operations including supplies were uninterrupted. Based on the publicly available information at the date these financial statements were prepared, management has considered the potential development of the outbreak and its expected impact on the Bank and economic environment, in which the Bank operates, including the measures already taken by the Czech government and governments in other countries, where the Bank's major business partners and customers are located.

In order to safeguard uninterrupted operating activities and the Bank's liquidity position, management has implement a number of measures, which notably include:

* implementation of work from home program on a rotational basis for a significant group of administrative employees as well as employees in sales and procurement departments;

* employees have been trained to adhere to very strict precautionary standards including social distancing;

* a reduction in capital expenditure commitments within the following 12 months.

Based on currently publicly available information, the Bank's current KPI's and in view of the actions initiated by management, we do not anticipate a direct immediate and significant adverse impact of the Covid – 19 outbreak on the Bank, its operations, financial position, operating results and going concern assumption applied for this annual report. We cannot however preclude the possibility that extended lock down periods, an escalation in the severity of such measures, or a consequential adverse impact of such measures on the economic environment we operate in will have an adverse effect on the Bank, and its financial position and operating results, in the medium and longer term. We continue to monitor the situations closely and will respond to mitigate the impact of such events and circumstances as they occur.

The Bank's management is not aware of any events that have occurred since the reporting date that would have any material impact on the financial statements as at 31 December 2019.

| Prepared on: | Signature of statutory body: | Person responsible for accounting (name and signature): | Person responsible for financial statements (name and signature): |
|---|---|---|---|
| 30 April 2020 | Isold Heemstra | Radek Mlčák | Martin Kočí |

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

# Independent Auditor's Report to the Shareholder 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 2019 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 2019, 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 and Supervisory Board 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***

Jindřich Vašina is the statutory auditor responsible for the audit of the financial statements of ING Bank N.V., organizační složka as at 31 December 2019 based on which this independent auditor's report has been prepared.

Prague
30 April 2020

KPMG Česká republika Audit

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

Jindřich Vašina
Partner
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